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Cooperation and financing for Sustainable Development in the Mediterranean Region

By Georges CORM

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Foreword

The Mediterranean Commission for Sustainable Development (MCSD) was created in 1996 as a strategic think tank for the region by all riparian States and the European Commission within the framework of the Mediterranean Action Plan (MAP)/ Barcelona Convention. The work of the MCSD is finalized in the form of observations and proposals to be examined and perhaps adopted by the States and the European Commission.

The first tasks of the MCSD covered specific topics (water, coastal zones, free trade and the environment in the Euro-Mediterranean context) and relevant methodologies (sustainable development indicators). During its 7th meeting held in Antalya on March 13/16 2002, the MCSD decided to examine: «Cooperation and Financing Resources for Sustainable Development in the Mediterranean Region».

In its capacity as support center, monitoring has been entrusted to Blue Plan. The objective is to analyze the progress and novelties in the financing of sustainable development, to understand the obstacles and opportunities and to formulate useful recommendations.

The program was launched in June 2002, with the recruitment of a high-level international expert (Mr. Georges Corm, former Finance Minister for Lebanon) who has drafted a report on sustainable development in the Mediterranean.

In a second stage, a steering committee in charge of studies and recommendations was formed with international financial institutions and major European and international donors, civil society and beneficiary countries. During a meeting held at the Blue Plan in Sophia Antipolis on January 31, 2006, the committee decided to launch a regional study and two national studies (Croatia and Morocco) on the issue of sustainable development financing in the Mediterranean.

In this context, Mr. Georges CORM was appointed by the Blue Plan to draft the regional report.

In a third stage, in accordance with the MCSD's decision at the last Meeting of the Contracting Parties, and to assist the committee members in formulating their observations and in highlighting potential recommendations, the Blue Plan organized a regional workshop on February 3 and 4, 2006 in Sophia Antipolis (Nice, France).

The conclusions of the regional study were used extensively to present and discuss the results of the last stage with the Mediterranean Commission for Sustainable Development. The members of the Commission unanimously agreed on the interest, quality and importance of Mr. Corm's report.

The quality of the regional study justifies widespread circulation. The French version of the report has been published in the MAP technical reports series (n°161, 2005), and Blue Plan has now decided to publish the English version.

Guillaume BENOIT

Director of Blue Plan

General Introduction

Modifying expenditures and increasing resources

The implementation of sustainable development principles requires fundamental changes in the channels and mechanisms of financing the economy, both for the local or external funding resources at the disposal of the Mediterranean countries.

As discussed herein, the financial vulnerability of the developing Mediterranean countries is more or less significant according to the country. In spite of the considerable external resources, available in the form of subsidies or migrant workers' remittances, the countries have failed to earmark these resources for the more useful areas of sustainable development, such as employment creation, environmental protection, particularly for the Mediterranean coasts, poverty reduction, urban planning and preservation of rural areas.

In fact, the availability of additional financial resources is probably not missing. It is however necessary to change the way in which such resources are put to use and to more efficiently and usefully gear investments by local or international, private or public resources towards other fields, truly favorable to sustainable development.

Certainly, this solution requires significant institutional changes in both private and public sectors, as well as changes in the mechanisms of cooperation and external funding. Such changes will not occur unless further progress is made in terms of raising the awareness of decision makers and stakeholders as regards the requirements of sustainable development. In fact, remarkable efforts have been made worldwide over the past ten years, to enhance global awareness for the principles and mechanisms of sustainable development. Extensive progress has been achieved since the Earth Summit in Rio in 1992, as demonstrated by the Millennium Summit and more recently by the Johannesburg Summit. The fact that many civil societies' entities and large multinational corporations now attend these summits is in itself proof of the importance now granted to sustainable development issues.

Cooperation mechanisms for environmental protection have been developed in the Mediterranean region, but have not been endowed with the adequate financial backing. In some countries, the implementation of sustainable development has been included in national development plans. In the Mediterranean region, several cooperation mechanisms were set up for environmental protection but were not given the appropriate financial means. These principles which have to apply to cooperation are moreover incorporated in DAC Guidelines for Cooperation, for both donors and beneficiary countries.

However, the gearing of financial resources has not yet made the progress observed for the heightened awareness to sustainable development requirements, and for the identification of specific issues on both the international and Mediterranean scales. It is true that the financial resources available internationally are in demand globally, particularly for peacekeeping and humanitarian operations, rendered necessary by the multiplication of conflicts worldwide, and particularly in Africa. There is also a global trend towards the reduction of public aid in favor of the greater involvement of the private sector. However, Mediterranean countries do not attract much of these external private capital investment flows.

Mediterranean countries still do not have the local financial structures and mechanisms to attract local or emigrant savings in investments for sustainable development. Taxation is not adapted to the new requirements of economic development and environmental protection. As regards regional Mediterranean cooperation, the EU dedicates significant funds to its partners in the free-trade zone, but there is little funding available for regional actions in the global protection of Mediterranean coasts, air quality, and water pollution control.

If the existing situation is to be improved, sustained efforts are required and will need heightened awareness on the part of all stakeholders in regional economic management. Our study will describe the mechanisms which can change existing frameworks for pooling and allocating human and financial resources, and thus gradually change the current state of things.

Part I - Sustainable development issues in the Mediterranean Region

Several questions relating to the issues of sustainable development in the Mediterranean Region will be examined and discussed in this first general part.

What is the current status of reflection and progress in sustainable development worldwide, and more specifically in the Mediterranean region?

There is no doubt that the reflection on sustainable development is making fast and steady progress worldwide. The goals of the Millennium and the Johannesburg Summit have largely contributed to raising awareness among decision-makers. In the Mediterranean region, the Mediterranean Commission for Sustainable Development (MCSD) has considerably enhanced both the analysis and the reflections on the strategy and vision for sustainable development in the region.

Do the characteristics of the Mediterranean region require specific policies for sustainable development?

The Blue Plan and the MCSD have clearly revealed the specificities of the Mediterranean region. The vulnerability of the Mediterranean ecosystem calls for stronger regional cooperation and increased vigilance in countries where environmental considerations and poverty reduction are not fully integrated into macroeconomic policies and their elaboration process. However, the Mediterranean region faces other global issues, such as the lack of dynamic economies and of innovation capabilities, the brain drain, the increasing conflicts, the insufficient efforts to mobilize savings, the ineffective management of rare resources such as water, forests, energy or of transport system and of mass tourism, the insufficient protection of the archeological and cultural heritage, the lack of proper management of coastal zones and of land planning in general.

The heterogeneity of the Mediterranean region.

The development and implementation of sustainable development policies in the Mediterranean region should not be hindered by the variety of Mediterranean countries and their specific historic and cultural heritages. The same is true of different level of development in Mediterranean subregions, which should not constitute an obstacle to the efficiency of global policies.

The geographical Mediterranean region is not recognized as such in the mappings of large international development organizations.

This is how we observe that the Mediterranean region is not a basic geographical unit in international statistics directories (World Bank, IMF, UNDP, UNCTAD). In fact, these Directories conform to the geographical divisions applied to the Middle East and North Africa region (MENA), and which exclude Turkey and the Mediterranean Balkan countries, to include them in the highly heterogeneous group of countries called “Europe and Central Asia”. In fact, the Mediterranean countries are subdivided and partitioned within different geographical regions defined by international statistics directories.

The European Union publishes a non-exhaustive bi-annual statistics yearbook on Mediterranean countries, which includes the non-Mediterranean countries of the European Union, and excludes the Balkan countries[1].

Furthermore, it seems illogical that the European Union separates support programs to the Mediterranean Balkan countries (PHARE) from those dedicated to other countries under MEDA.

Which measures must be implemented to change the situation in international organizations such as the European Union?

The highly negative impact of conflicts devastating the Mediterranean region

Many armed conflicts have or are still devastating many Mediterranean countries (Cyprus, Lebanon, Algeria, Palestinian Territories, Former Yugoslavia) or areas close to the Mediterranean region such as the East of Turkey and Iraq, the former Spanish Sahara and the Basque country. These conflicts have severely affected the local and neighboring natural and material resources, and have led to the continuous and brutal decline in standards of living and to the slowdown in economic growth.

Moreover, the economic sanctions imposed on Serbia and Libya have directly impacted standards of living, while the sanctions on Iraq have limited trade with neighboring Mediterranean countries (Syria, Lebanon and Turkey). Such economic sanctions have not only negatively impacted standards of living, child mortality and life expectancy; they have also triggered serious economic distortions and the accumulation of private criminal wealth, resulting from smuggling and violation of economic sanctions.

It must be observed that reconstruction policies may have very negative environmental impacts if sustainable development principles are not applied, and if real estate speculation and anarchic use of natural resources are not curtailed.

The number and intensity of conflicts in the Mediterranean region are major obstacles to the implementation of sustainable development which must be overcome. The efficient framework for collective security developed by the EU (Barcelona process) must imperatively be implemented, to fulfill its mission.

The high number of organizations involved in regional Mediterranean development

[1] Euro-Mediterranean statistics, Eurostat, European Commission, Brussels.

There are several important issues in this area that this study will attempt to clarify.

Is the existing cooperation between Mediterranean countries and the rich EU Member States or other OECD countries at the adequate level to address efficiently these issues? Are available financial resources sufficient? Are cooperation objectives appropriate for sustainable development?

Is cooperation in the Mediterranean region focused on the protection and management of natural resources, such as coasts, deep sea beds, biodiversity, air quality, preservation of water resources, etc.? Is available funding used consistently, can it ensure proper management of natural resources, and is it sufficient for the vulnerability of the Mediterranean ecosystem?

Is wider cooperation between poorer countries a determining factor as regards sustainable development in the Mediterranean? Or should national efforts and bilateral cooperation be emphasized, with the support of EU subsidies?

Is there a need for new funding instruments dedicated to aiding the Mediterranean region (such as the long-standing project for a Mediterranean Development Bank)? Should such instruments be added to the existing regional institutions which extend beyond the Mediterranean region (BEI, BERD, Arab Development Funds – FADES and national funds – and the Islamic Development Bank, or on the contrary, should new forms of consultation, coordination, and even centralization of available resources be created for the Mediterranean region?

I. The concept of sustainable development: the international and Mediterranean levels

A. Genesis of the sustainable development concept

The concept of sustainable development is recent in the literature on economic issues of developing countries. It began to appear consistently last century, in the 70s, with the work of the Club of Rome. At the time, the main objective was to heighten awareness in industrialized countries as to the patterns of economic growth based on wastage of natural resources and disregarding environmental constraints. However, following the decrease in oil and raw material prices and the electronic revolution, the concerns expressed by the founders of the Club of Rome became secondary.

The United Nations organized a series of summits to discuss environmental issues, which included:

- The Rio Summit in 1992 entitled "The Earth Summit" lead to the adoption of Agenda 21 and to the creation of the United Nations Commission for Sustainable Development, in charge of pursuing the implementation of Summit recommendations;

- Conference on Population and Development of Cairo in 1994
- Conference on Women, held in Beijing in 1995
- The Social Development Summit of Copenhagen in 1995
- Habitat II Summit of Istanbul in 1996
- Kyoto Summit on the Environment in 1997
- UN Millennium Summit in 2000
- Johannesburg Summit in 2002

Simultaneously, the United Nations Development Program (UNDP) remarkably contributed to heightening awareness regarding the human factor and the social capital involved in development processes. The UNDP human development indicators changed the narrow vision of an economic growth exclusively based on GDP per capita. In the annual reports of the World Bank on development, more consideration has been given to the human aspects of development, associated with the need for a market economy and for less State involvement in local economies.

More recently, the indicators of the first UNDP regional report on human development in the Arab world take into account such political factors as the extent of political freedom, governance and the prevention of corruption[2]. The report shows that when these indicators are applied, the level of human development drops in most Arab countries.

The OECD actively promotes the concept of sustainable development and governance, and strives in favor of stronger local authorities and local partnerships between administrations, the private sector and NGOs, in particular to fight unemployment. A recent publication by the Development Assistance Committee underscores that the achievement of sustainable development requires "overcoming major obstacles and undertaking in-depth structural changes in the manner in which societies deal with socio-economic and environmental issues"[3]. This statement applies to all Mediterranean countries where the private sector in particular is still bogged down by the fact that its role is largely ignored, while its stakeholders are to be made aware of their responsibilities towards sustainable development. And the local authorities are not systematically prepared to become central to development.

In the Mediterranean region, several group initiatives have been undertaken:

- In 1975, the Mediterranean Action Plan (MAP) was created under the impulse of the United Nations Environment Program (UNEP). Its initial objective was to protect the marine environment. The basic charter is the Barcelona Convention which was signed by riparian countries in

[2] *Arab Human Development Report 2002. Creating Opportunities for Future Generations, UNDP and the socio-economic development Arab Fund, United Nations, New York, 2002.*
[3] *The DAC Guidelines. Sustainable development strategies, OECD, 2001, Paris, page 16.*

1976; six further protocols were later added, to enlarge the scope to include all aspects of environmental and Mediterranean cultural and archeological heritage protection.

- The creation of Blue Plan, Mediterranean Action Plan, gave rise to the first economic scenarios related to the impact of modern growth patterns on the Mediterranean basin. This study, entitled "Future of the Mediterranean Basin", was conducted by Michel GRENON and Michel BATISSE in 1989. It greatly contributed to heightening awareness to the specific issues of riparian Mediterranean countries.
- In 1996, the Mediterranean Commission for Sustainable Development (MCSD) was created as the advisory body of MAP, comprised of representatives of local authorities, socio-economic stakeholders and NGOs. In 2001, the MCSD produced "A strategic report on sustainable development in the Mediterranean region", a major document highlighting all environmental issues and the measures applied to date. The lucid approach of the report extends the scope of environmental issues to include the requirement for an institutional and macroeconomic framework for sustainable development adapted to the economic conditions of the Mediterranean[4]. However, no fundamental changes were observed as a result of these policies.
- In Arab countries, as of 1995, similar efforts were observed in favor of the inclusion of sustainable development in national policies. A ministerial meeting on the environment and development was held which adopted the "Arab declaration on the environment, development and future perspectives". It is to be remembered that 8 Arab countries have extensive costal areas bordering the Mediterranean sea, out of the 19 riparian countries and the islands of Cyprus and Malta.

B. The complexity of the concept of sustainable development: priority objective and obstacles

The concept of sustainable development is very complex.

It covers **concepts related to different fields of action** which are closely linked:

The environment and its protection :

- The preservation of natural resources and proper land management.
- The maintenance, proper management and growth of physical resources.
- The conservation of the archeological, historic and cultural heritage.

[4] The report reads: "However, the simple ecological concern related to the environment pollution, to waste management, to the secure use of dangerous materials as well as the evaluation of the impact on environment, do not call into question the grounds of the socio-economic system but only retard the breaking points between the society and its living framework. Thus, the sustainable development will be really tackled when all human activities are marked by the environmental approach" (page 10).

- The reduction of poverty through the involvement of the marginalized and underprivileged members of the population in the economic development process.

The objective of such initiatives is not limited to increasing the well-being and standards of living of the present generation, but also to preserve and enrich the heritage to be passed on to future generations. It is unacceptable that the present generation should enhance its well-being and standards of living at the expense of future generations, which may be the case if intensive over-use of natural resources is allowed, and if the appropriate levels of investment are not applied to the maintenance and growth of physical and human resources. Macroeconomic policies are not sustainable if they result in the degradation of cultural and archeological heritage, natural resources and rural or urban infrastructures, or if they lead to debt accumulation that exceeds the reimbursement capacity of present generations. Such policies must be amended quickly.

As discussed below, the implementation of sustainable development policies is obstructed by **the state of inertia and the vested interests.** Both are obstacles to the implementation of more effective alternative scenarios for the environment, natural resources, physical infrastructures or to debt policies which could encourage consumption at the expense of investment, or lead to excess capital remuneration due to high interest rates.

Recently, the meeting of the Development Assistance Committee[5] (DAC), within the framework of the triennial OECD initiative for sustainable development (launched in 1998 at the request of the Committee of Ministers representing the member states), prepared directives for its members regarding the inclusion in aid programs of:

- Sustainable development strategies,[6]
- Poverty reduction,[7]
- Provisions of the RIO Convention.[8]

The minutes of an expert seminar held at OECD on the framework of indicators to measure sustainable development are also currently available.[9]

In fact, sustainable development should not be regarded as a luxury affordable only by developed countries. It is on the contrary, an absolute requirement for developing countries deprived of the financial and technical means to curb the damage caused to the environment or to mitigate the poverty and exclusion which may result from economic growth and business cycles. Moreover poverty in developing countries results in severe environmental degradation. As a consequence, these countries could be faced with increasing economic costs, if rural or urban poverty zones are maintained or allowed to spread.

[5] *The DAC regroups official development assistance (ODA) donors countries*
[6] *Sustainable development strategies, op. cit.*
[7] *The DAC Guidelines. Poverty reduction, OECD, Paris, 2001.*
[8] *The DAC Guidelines. Integrating RIO Convention into Development Cooperation, OECD, Paris, 2002.*
[9] *Frameworks to Measure Sustainable Development. OECD, Paris, 2000.*

This explains why economic strategies based on the requirements of sustainable development could result in more stable and higher rates of economic growth. In fact, the basis for these strategies covers all the stakeholders of development and their accountability, as well as the establishment of institutional links between stakeholders and the implementation of socio-economic policies, and the need for diversified and appropriate instruments to reach the desired objectives. These strategies should first and foremost protect the chances of a better future for the next generation. The OECD publications on sustainable development attempt to show that the inclusion of environmental protection and reduction of poverty in economic policies lays the ground work for a **win-win situation** for all countries involved.

In fact, these sustainable development requirements apply to such fields as:

- Education, technological capacity and proper labor market operations,
- Management of public financial resources,
- Levels of involvement of citizens and civil society entities in the management of public affairs,
- Style of economic growth and its regulation patterns, as well as the capacity to adapt to constraints and to globalization opportunities,
- Social protection instruments and tools to combat poverty and exclusion,
- Governance and transparency in the management of public affairs,
- Transparency, competitiveness and environmental protection on the part of the private sector and its effective participation in the acquisition of national technological capacities.

C. Success Factors: participative processes and institutional culture of change

The success of sustainable development is dependent on several elements:

A coordinated set of participative processes: the OECD has adopted a definition for sustainable development, which it describes as "a coordinated set of participative processes to continually improve analytical ability, debate, capacity building, resource planning and pooling to reconcile the socio-economic and environmental objectives of society or to provide arbitrage, if necessary". According to the OECD, the principles that should guide the achievement of sustainable development should "emphasize the ownership of strategic processes by local partners, as well as their effective participation at all levels and the existence of a high level political resolve".[10]

These participative processes should overcome the inertia of vested interests. We should not underestimate the strong resistance that can be opposed to change and that might stand in the way of the success of such participative

[10] *Sustainable development strategies, op. cit., pp.16 and 17.*

processes. The latter aims at shifting from development patterns based on the intensive exploitation of mining or energy resources, water, forests or even low-cost human resources which can also be exported instead of usefully involved in the local process of growth, to development patterns that are relevant to the criteria and objectives of sustainable development. The networks of vested interests which are source of rent profits can largely influence the shaping of local economic policies or of regional and international cooperation. They can often paralyze the implementation of regulations that may conflict with their interests.

It is necessary to establish and practice an institutional culture of change and improvement

Therefore, it is self-evident that the implementation of efficient processes to facilitate the participation of society as a whole in the economic decision to pave the way for sustainable development, will inevitably lead to a change in the way revenues and wealth are distributed. When participative processes are themselves a source of better information and of adequately targeted debates, they can gradually help to overcome obstacles, particularly if growth rates rise and become more sustainable, to include the segments of the population that have hitherto been excluded from development and its direct advantages.

The aforementioned DAC study on the reduction of poverty describes the need for an **"institutional culture of change and improvement",** in order to encourage development institutions to "review their management patterns to comply with the principles of partnership, local ownership and accountability".[11]

This institutional culture of change presupposes new forms of management and regulation in all areas of development. As a consequence, many changes will be brought to:

- Legislation
- Modus Operandi of institutions
- Civic education and involvement,
- Improved financial organization and mechanisms for saving mobilization, financial regulations, and transparent and efficient tax collection
- Explicit economic and social policies with clear measurable objectives, making progress accomplished measurable and allowing the involvement of all those in charge of its definition and implementation
- Training policies for national technological capacity building, involvement of the educational sector in the development and implementation of human capital management and its promotion
- Private sector behavior and its accountability in all fields.

[11] *The DAC Guidelines. Poverty reduction, op. cit., p.36.*

D. Specific requirements of sustainable development in the Mediterranean region

The objective of this study is to discuss the issues linking the different areas of sustainable development to the different components of this development in the case of the diverse and contrasted context of the Mediterranean countries.

The Mediterranean region undoubtedly is an **ecosystem threatened by growth patterns and subjected to strong pressures from the global economy or from internal factors.** These pressures include:

- The increase of tourist flows and the pressures they exert on water resources and urban infrastructures.
- The development of urban concentrations along the Mediterranean coasts.
- The depletion of water resources.
- The lack of financial and institutional means dedicated to the fight against pollution.
- The increase in marine traffic and in toxic waste in the Mediterranean Sea.
- The constantly insufficient population growth in the European Mediterranean countries versus very high growth in the African and Asian Mediterranean countries.
- The agricultural protectionism applied by the European Union.
- The very high unemployment rates in many Mediterranean countries.
- The insufficient public funds to meet the needs of sustainable development.
- The capital and brain drains and the foreign trade deficit.
- The low investment rates.
- The countries that are considered as strategic benefit from more aid than others.
- The reverse financial flows, stemming from repayments on external debt.

As stated earlier, the "Strategic report for the sustainable development of the Mediterranean region" published by the MCSD, has precisely analyzed the issues specific to the environment while drawing attention to the larger issue of the macro-economic policies of the Mediterranean countries.

Therefore, this study will not cover specific environmental issues (i.e. the marine pollution, deforestation, waste water, soil salinity, waste treatment, etc.) already widely covered in other studies. The study will however focus on the structures, behaviors and socio-economic and financial policies, which hinder or weaken the growth of the Mediterranean region, to the point that States and private companies are prevented from acquiring the tools required to face the costs and technological and financial constraints imposed by active policies for environment protection and proper management of natural, physical and human capital.

More financial and technological tools are available to the rich Mediterranean countries to develop policies countering the negative impact on their territories of the growth patterns of the last half-century. But the poorer countries, as discussed hereunder, are faced with unsolvable issues due to the insufficient technical and financial resources existing in their present macro-economic context.

Moreover, as mentioned earlier, the inertia and the weight of vested interests are very strong in most Mediterranean countries and the relations between the private sector and the State are not based on clear and explicit sustainable development objectives. Most often, these policies are implicit due to the absence of positive initiatives in establishing the accountability of the main sustainable development stakeholders; these policies encourage the uncontrolled depletion of natural resources, the inefficient use of energy, the under-utilization of human resources and the inappropriate management of the natural and physical wealth in both urban and rural areas.

Therefore, cooperation and the associated resources are not supported by a framework facilitating resource optimization for sustainable development, despite OECD directives to donor countries. This situation emphasizes several important issues which will be discussed later in this study: in one case, the issue involves the methods to improve saving mobilization capacities, and in the other, the institutional mechanisms to be developed for the appropriate use of said resources.

We will later see that the local or international financial resources available to sustainable development are clearly insufficient to counter the different pressures exerted on national ecosystems. These resources are indeed required to mitigate the impact on the environment of the different types of demographic pressures (maintained high in population growth rates, rural exodus towards urban areas, intensive marine and road traffic, increased water and energy consumption); the impact of ageing urban infrastructures subjected to the pressures of ever-increasing populations, the impact of insufficient social and educational infrastructures, and the impact of the preservation of the Mediterranean heritage and culture. In the last part of this report, we will examine how to ensure a wider, national, regional and international pooling of financial resources required by Mediterranean countries to cover their most urgent needs.

Does this context not warrant the promotion of the concept of the **preservation of the global Mediterranean public goods,** which would be the responsibility of all riparian countries, pro rata with their financial means and wealth? In fact, it is necessary to examine the reasons that prevent DAC directives on sustainable development, environment and poverty reduction from being better transposed in existing aid and funding channels, with the DAC countries, large development institutions such as the EIB, the European Union, the World Bank, the UNDP and other relevant organizations. Is the absence of regional Mediterranean institutions an obstacle to better pooling of financial resources? The last part of this report will describe different proposals for the regional pooling of funds. To answer these questions and to tackle these issues, it is first necessary to undertake the in-depth analysis of the situation in non-EU Mediterranean countries. We will show that country classification is difficult, and we will begin our analysis with regional sub-groups.

II. The sustainable development challenges and stakeholders in the Mediterranean: Diagnosis and definition of the issues in developing Mediterranean countries

It appears that the issue of sustainable development in the Mediterranean is still not yet properly appraised. While regional awareness is growing as to the environmental issues and the vulnerability of the Mediterranean eco-region, it seems that the relations between macroeconomic policies and traditional savings and funding pooling mechanisms on one hand, and the environmental issues, lack of economic and entrepreneurial drive and the timid policies to combat poverty on the other, are not well understood or accepted. This would require that the three major elements defining the equation of sustainable development (i.e., (i) the description of challenges, (ii) the identification of stakeholders to be involved and held accountable, (iii) the tools to implement) are clearly perceived and accepted by public opinion and decision-makers.

As regards the challenges, there is no clear definition of the challenges of sustainable development in the Mediterranean region, where sustainable development should preserve the chances of future generations. This requires that the present generation ensure (i) the preservation, proper management and growth of the natural and physical capital to face the increase in populations; (ii) improve and enlarge employment opportunities and secure decent living conditions for the new generation, so as to prevent (iii) higher level of indebtedness and insufficient productivity level which would prevent future generations from repaying the debt.

As regards stakeholders, we will show that some major stakeholders are not fully integrated or held accountable in the implementation of sustainable development mechanisms. These include the following:

- Employers' professional associations and private sector companies,
- Trade unions,
- Universities and higher education and technical institutes,
- Local bodies.

Finally, not all sustainable development tools are put to use:

- Taxation instruments (directly through taxation of polluters and over-exploitation of natural resources or physical capital, or through indirect tax incentive policies)
- Financial instruments, still little or poorly used in most Mediterranean countries (pooling of savings, better use of external resources, stimulation of local financial markets)
- Land management techniques (land planning) for rural or urban areas, deserts, coastlines, as well as fluvial planning
- Water management, recovery of waste water or sea water desalinization techniques
- Management techniques for growing energy consumption to enhance proper use of energy sources, and the share of renewable and non polluting energies (solar, wind)
- Enhancement techniques for industrial sectors and applied research development (R&D) in the private sector and universities

A- National State Policies

It is necessary to acknowledge that no bilateral or multilateral cooperation policies can succeed if national State policies do not take into account the requirements of sustainable development. The accrued conditions for the grant of official development assistance (ODA) that donors sometimes impose on the funding of their operations may complicate, slow down or even freeze aid grant payments, particularly if the local institutions have not included the new requirements as regards the environment and poverty reduction. Therefore, the DAC and World Bank directives quite rightly emphasize the need for beneficiary countries to own the concept of sustainable development and to develop the clear and explicit strategies required to solve their specific issues.

In the Mediterranean many developing countries seem to share similar positions as regards their exclusive dependence on the State and public sector to secure economic growth and appropriate development. We have learnt, through the experience of South-East Asian countries, that the State alone cannot be held accountable for the success or failure of development. Other essential stakeholders must also be held accountable, such as the private sector, capable of predatory behavior in the absence of balanced and transparent relations with political decision-makers and civil society. Simple sponsorship activities for cultural or charity events do not take the place of reflection and action regarding the severe issues of environmental and physical capital protection, or the appropriate use of human resources.

In fact, the basic issue in the Mediterranean countries revolves around the respective roles of the public and private sector in the

implementation of sustainable development policies and processes, and around the insufficient availability of national taxation measures. The core of the issue is the limited involvement and accountability of the key stakeholders of sustainable development.

1. The missing stakeholders in the sustainable development process

All too often until now, there has been almost exclusive emphasis placed on the role of the State as central to development policies. There are, in fact, three major stakeholders who warrant attention, in view of their key role in all development processes: (i) local collectivities, (ii) private sector companies, and (iii) educational institutions, universities and higher education or technical and vocational training institutes.

a. Local collectivities cannot assume their share in the development process without effective and democratic management.

In fact, the central State can not alone supervise, encourage and efficiently control the implementation of environmental policies, fight against poverty, and for education and social protection. Local collectivities in all countries should take part in the development of the policies, to take into account specific regional characteristics, but they are sometimes not in a position to do so.

As we will cover extensively in the second part of this report, there are very few efficient local taxation systems and many cities and municipalities do not have the financial resources to upgrade their infrastructures. They are, then, totally dependent on the State and its funding availabilities. In some Mediterranean countries, local collectivities are so destitute that they do not have the capability to modernize and upgrade their services.

Such financial weakness leads to technical deficiencies, as the local collectivities can not afford to recruit the competent technical and financial staff required.

Local taxation is therefore a significant future source for funding sustainable development, which requires efficient local bodies. In fact, while taxpayers are reluctant to pay direct taxes to the central State, often considered as corrupt and responsible for wasting of resources, the increase of local taxation and the partial decentralization of direct taxes to local collectivities would stimulate more democracy and allow more stringent control over the collected funds. Village or city inhabitants would feel more involved and necessarily more prepared to contribute to the enhancement of their environment and standards of living.

To our knowledge, the local collectivities are not financial heavyweights in developing Mediterranean countries. This is not the case in developed countries, where cities, associations or federations of local bodies are regular borrowers on the local and international financial markets. The situation in developing countries must change to bring additional resources and to contribute to enlarging and deepening of local financial markets.

Indeed, in States where corruption is already widespread, it is legitimate to fear wider decentralization may bring further corruption. And there is also fear that local leaders may use decentralization as a way to increase their own power over the local collectivities and reap undue profits from local budgets not protected by central control. But it is also legitimate to believe that if a population is not capable locally of abating corruption and fighting the pernicious influence of local "feudalities", then they will not be more capable of doing so at national level. In fact, involvement and democratization should emerge locally and spread to the national level while the reverse seems improbable.

However, as regards the need for stronger decentralization and for the establishment of pilot projects that could be initiated and generalized if successful, there exist examples of best practices in creating efficient local partnerships in some OECD countries,.

Finally, all decentralization policies require specific legislation and clear regulations from the central State, if more dangerous impacts on cultural heritage and physical capital are to be avoided.

b. The position of private sector companies and relations between large business groups and the State.

We often tend to idealize the position of private sector companies, particularly in many Mediterranean countries where large State owned enterprises have dominated the market. This phenomenon is largely the result of the neo-liberal ideology which inspires most economic studies and policy recommendations. On the other hand, private companies working in developing countries are not aware of their social responsibilities towards environment protection, employment or improved productivity and socio-economic creativity. In fact, there are no or little business ethics in most economic areas of the Mediterranean countries; ethical principles have not as yet been integrated in the behavior of public or private business stakeholders. History and patrimonial State traditions still weigh heavily on this region, where the Ottoman State was followed by the colonial State and the monopolies established to the benefit of European companies, followed in turn by socialist policies of nationalizing colonial land and enterprises after independence.

Furthermore, the very structure of the private sector in developing Mediterranean countries is not favorable to business transparency or governance. In fact, the private sector is characterized by a dual structure:

- Some large companies are owned by closed family groups that are very influential in political circles. These companies are very rarely submitted to legal and regulatory obligations.

- Thousands of small-scale companies essentially do business on the informal economic market and can not be controlled by laws and regulations.

The focus of these two categories of companies is not the rational management of natural resources which they deem to be accessible without restriction. In developing Mediterranean countries, as in most developing countries, private companies exploit natural resources freely (such as water, stone, sand, coastlines) and are only charged symbolic taxes by the States. In States where adequate legislation exists, proper implementation remains difficult, due to corruption and political leverage of private groups allowing them to escape control and sanctions. Furthermore, public opinion in developing countries tends to view environmental issues, as important as they may be, as a luxury affordable by rich countries, and as the sole responsibility of the State. The essential role of the private sector and of local bodies is rarely perceived as associated with environment preservation.

For family-owned companies, growing technological know-how is never an issue: they rarely invest in Research and Development, in training of executives and specialized staff, in better cost analysis and improved productivity. Their main strategy targets horizontal diversification in areas which generate high profits. Therefore, profits are rarely reinvested in the same technological sector, which excludes the possibility of accumulating and mastering technological capacity. Diversification is very often focused on real estate (deluxe residences and hotels or commercial malls). Large parts of profits are exported abroad, instead of being reinvested in acquisitions which could serve local businesses, but rather to acquire deluxe real estate or financial asset.

Long-term investments are not favored for several reasons:

- Investors feel insecure because of the fragile stability of political regimes, which are authoritarian or semi-authoritarian.
- In countries where there are conflicts, investors are even more reluctant to commit capital, as they have no visibility regarding the outcome of these conflicts.
- However, as strange as it may seem, savings are invested in real estate (luxury hotels and apartments, commercial malls) as these investments are considered to be secure and transmissible to descendents. This type of investment endow families with the prestige that is so important in the competition between large family groups.
- Investments in the industrial sector are viewed as “risky” and time-consuming when they need a long-term period to generate profit and are not quick profit yielding projects.

In developing Mediterranean countries, businesses have no policies to upgrade technology or technological development capacities, have not been aggressive in seeking outsourcing contracts with large multinationals, have not purchased patents and have not patented products locally. Neither have they developed outsourcing potential with small local family businesses, to increase productivity and competitiveness, as in any successful development process.

The private sector in developing Mediterranean countries has never shown an interest in the vast investment opportunities and acute needs in such areas as water and energy savings, renewable energies (solar energy in particular), anti-pollution facilities and water recycling and waste treatment equipment, health (generic medication, plant-based medication, equipment) and eco-housing. Resources stemming from business profits are only exceptionally invested in R&D projects for these areas.

Financial statements are seldom transparent and profits are often minimized to avoid corporate income taxes.

The management of these large family owned Business groups maintain close ties with political leaders and are often influential in economic decision-making, limiting competition on local markets. They also represent large multinational firms on the domestic market and lobby in their favor to gain State contracts or cheap ownership of State owned entities to be privatized, which also distorts local competition. They also hold strongly influential positions in the banking system, to which they are best large clients.

In most Mediterranean countries, the banking sector monopolizes formal savings and is rarely competitive. A few large banks, government-owned or belonging to large business groups, dominate the local markets; their procedures are still influenced by old fashioned commercial banking practices, and loans are granted only against strong real estate collateral and on a very short-term basis. Loan applications are not examined on the basis of their economic merit, but are rather assessed on the strength of real estate guarantees or personal guarantees of project developers. Young entrepreneurial talents do not find the funding resources they require. Venture capital is still unknown and micro-credit products are just beginning to develop.

Few countries have enacted legislation and regulations to prevent:

- Embezzlement of corporate funds;
- Unlawful competition or dominant market positions.

All too often judicial courts are deprived of efficient capacity needed to implement rules and regulations, are often deprived of independence versus interest groups, and are not trained in modern business techniques and laws.

c. Academic and technical training institutions

Whether they are public or private, these institutions do not play their role in enhancing the human capital entrusted to them for training and education.

They all too often simply seek to increase their student population and examination success rates.

Too little attention and very limited financial resources are available for the integration of students on the local employment market. There is little or no contact between these institutions and business associations, trade unions, professional organizations, to jointly forecast requirements in qualified labor, corporate executives and applied technology research. There are no long-term contacts with the world of academic and technical education to stimulate the local private sector as regards employment, productivity enhancement, upgraded product and service quality.

The situation is almost the same between educational institutions and multinational companies that could have an interest in developing local R & D laboratories or that could be persuaded to establish such laboratories.

Most often their contacts with foreign universities are aimed at acquiring a quality label which can allow their students to pursue their studies abroad and find employment more easily in their host countries. Migration is regarded as a necessary evil, in view of the sluggishness of local private sectors or as a vital necessity to sustain local standards of living through the flow of external transfers.

These observations highlight the missing link within the participative processes required to implement sustainable development principles.

2. State impoverishment and increased private wealth

The situation described above has enabled the accumulation of significant private wealth over the past 20 years at the expense of the financial resources of the States. States have become weak in their role as regulators and in their responsibilities towards social protection and sustainable development.

The economic reforms conducted, as recommended by international funding institutions and by the European Union, have focused on limiting the role of the State, on trade liberalization, on the elimination of subsidies and on privatizing State enterprises. **The objectives of these reforms have never been the enhancement of private sector performance and competitiveness, the cleansing of private sector relations with the State in terms of corruption, or the need for a stronger private sector social role and responsibility in successful sustainable development efforts.**[12]

Furthermore, private companies, and indeed wealthy individuals, can often avoid direct taxation, through the many investment codes exempting their profits, or through tax evasion. The bulk of these taxes is generally supported by workers and employees and by a few large corporations. In many countries, State utilities working in the field of energy and raw materials for instance, are big contributors to direct taxation.

[12] *Refer to G. Corm, "Structural Adjustment of the Private Sector in the Arab World: Taxation, Social Justice and Economic Efficiency", The Economy of the Middle East in a Peace Perspective, op. cit.*

In most countries, no special taxation is levied on the very wealthy and there is no way to tax wealthy individuals who do not have visible and taxable business activities on the basis of external signs of wealth. Some countries, such as Lebanon, totally exempted capital revenues from income taxes (banking interests or financial and real estate capital gains) until 2004 when a 5% withholding tax was introduced on interest received.

For international lending institutions, it is conventionally considered that in developing countries, (i) direct taxes should be reduced to encourage investments; (ii) the taxation levels on the economy should remain moderate, as opposed to taxation in industrialized countries.

However, a real market economy functioning properly requires (i) sufficient tax burden to allow the State to fulfill its functions, and (ii) a fair distribution of taxes among sectors of the economy and social classes. Some EU countries have undergone periods of high growth and significant improvement in their standards of living, despite considerable increases in tax rates. For instance, in Italy tax revenues have grown from 26.2% in 1965 to 42.7% in 1998; in Belgium, from 31.1% in 1965 to 46.3% in 1985; in Greece, from 21% in 1975 to 37% in 1999; in Spain, from 14.7% in 1965 to 35.1% in 1999 and in Turkey, from 10.6% in 1965 to 31.8% in 1995.[13]

Thus, it is necessary to review this conventional wisdom and to increase public opinion and decision-makers awareness as regards the issue of financial resources in Mediterranean countries, which suffer from financial vulnerability and sometimes distress. The next section of this study will examine the extent of the financial issues faced by Mediterranean countries.

A recent study prepared by experts of the International Monetary Fund demonstrates the vulnerability of the revenue structure in Mediterranean Arab States, particularly as regards the inevitable reduction of the share of customs duties in the total tax revenues. The introduction of VAT will not always offset the impact of this reduction.[14]

3. The vicious cycle of disparities and sluggish economy in the Mediterranean basin: illustration by an analysis of foreign trade

In conclusion, we can say that the Mediterranean region is trapped in a vicious cycle which needs to be broken. The macroeconomic analysis highlights the severe disparities in standards of living, foreign trade and investments between the two Mediterranean shores. The annexed tables present the statistics of these disparities.

[13] *Refer to "The international evolution of taxes and the determining factors", Economic problems, 19 June 2002, No.2 766, French documentation, Paris.*

[14] *Refer to Karim NASHASHIBI, Fiscal Revenues in South Mediterranean Arab Countries: Vulnerabilities and Growth Potential, IMF Working Paper (WP/02/67), 2002, Washington D.C. Also refer to G. Corm, "Structural adjustment of the private sector in the Arab world: Taxation, social justice and economic efficiency", Study published in The economy of the Middle East in a peace perspective, collective work under the supervision of L. BLIN and Ph. FARGUES, Maisonneuve and Larose, Paris, 1995.*

In fact, the Mediterranean region is still in a stage of economic decline which began in the 17th century. Only the North Mediterranean countries have been able to keep up with the standards of living of Western Europe, thanks to the massive financial flows from these States, and to the substantial aids granted by the European Union to Spain and Greece. The migrant workers' transfers and the development of intensive tourism have also contributed to adjusting standards of living.

This is not the case for the Eastern Mediterranean (Al Mashrek) and the Maghreb where severe disparities are still widespread (excluding Israel, Cyprus and Malta) and where economic dynamics and innovation are not up to the challenges implied by the targeted convergence between Mediterranean Basin regions. In fact, the Mediterranean region is facing a double challenge:

- Convergence as the pre-requisite for the success of the Euro-Mediterranean free trade zone and for the even distribution of its benefits;
- Sluggish economies, lack of innovation and of competition on national markets for local companies, all of which are factors which prevents the mobilization of the formidable human potential in these countries in view of overcoming the existing socio-economic gaps and implementing the principles of human development.

The fact that emigration seems so attractive to local populations is in itself proof of the existence of the vicious circle. In the poor classes, candidates for emigration often risk their lives by crossing the sea in the worst possible conditions. Members of the middle class and the elite of university graduates turn to Canada and the United States when the doors to Europe remain closed.

In fact, the desire to emigrate reflects the sluggishness of the local economies which does not allow human resources to engage in the sustainable development process. Therefore, the vicious circle fueled by economic sluggishness and the ensuing lack of human and social mobilization must be stopped, if disparities are to be reduced, as they are the cause of emigration.

The annex to this section clearly shows the extent of existing disparities between the different geographic sub-regions (the Mediterranean countries of the EU, the Maghreb countries, the Mashrek countries, the Balkan countries and "other countries" including Israel, Turkey, Malta and Cyprus). The disparities are not only visible between the Mediterranean countries of the EU and other countries, but also appear between the Balkan, Maghreb and Mashrek sub-groups on one hand, and the "other countries" on the other. In Slovenia, one of the Balkan group countries, standards of living are similar to those of the EU. But, in Turkey, one of the "other countries", the GDP per capita remains much lower than in the other countries of the same group. These disparities are further analyzed in sections II and III.

The sluggishness of the economies and the disparities between countries are highlighted in the analysis of foreign trade in Mediterranean countries in 2001, as shown in the table 1.

The table shows that throughout the Mediterranean Basin, only the four countries of the EU account for 81% of imports and 84% of exports. The share of the other countries is extremely small (4% and 5.5% for the Maghreb; 2.8% and 1.3% for Mashrek ; 2.7% and 1.9% for the Balkan countries), with the exception of the "other countries" (Israel, Turkey, Cyprus and Malta) which account for 9.3% and 7.8% of total imports and exports in the region. The Maghreb share of exports is increased by the oil and gas exported by Algeria and Libya.

Moreover, 73% of all Mediterranean imports originate from OECD countries which consume 74% of Mediterranean exports; 21.3% of imports come from non-Mediterranean and non-OECD countries which consume 20% of exports.

The table also highlights that the share of intra-Mediterranean trade (231 billion USD in exports and 222 billion in imports) in the total trade of the region (816 billion of exports and 902 billion of imports) only represents 28% of exports and 25% of imports. Nevertheless, four EU members account for 80% of intra-Mediterranean exports and for 77% of imports. If trade between these countries is removed, intra-Mediterranean trade will only represent 90 billion in exports and 92 billion in imports. As regards trade among the other sub-groups of the region, excluding the exchanges with the EU Mediterranean countries, it accounts for 11.3 billion in exports and 10.6 billion in imports, i.e. 1.4% and 1.2% of the total trade in the region.

The following graph clearly shows the disparities in Mediterranean foreign trade.

Table 1. Distribution of Mediterranean foreign trade 2001 - In billions USD

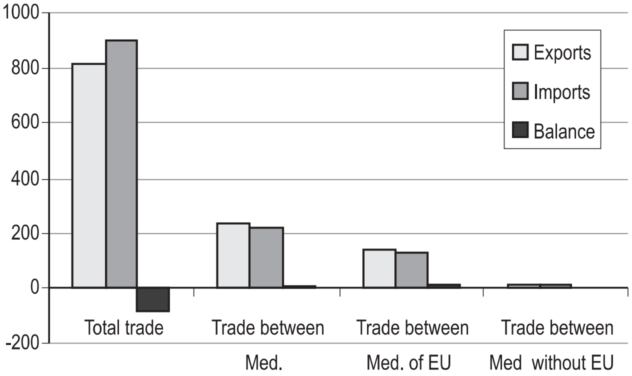
IMPORTS	Industrialized countries	Maghreb	Mashrek	Balkans	Other Medit. countries	Total Mdit.	Total %
Industrialized countries	546.5	26.5	13.3	16.8	54.7	657.8	72.9%
Maghreb	23.9	1.2	0.2	0.3	2.1	27.7	3.1%
Machrek	3.7	0.3	0.5	0.1	0.8	5.4	0.6%
Balkans	4.1	0.1	0.2	1.1	0.2	5.7	0.6%
Other medit. countries	9.5	0.9	0.9	0.4	1.5	13.1	1.5%
Other countries	144.3	7.5	10.4	5.6	24.2	192.1	21.3%
Total imports	**732**	**36.5**	**25.5**	**2.3**	**83.5**	**901.8**	**100%**
Total %	*81.2%*	*4.0%*	*2.8%*	*2.7%*	*9.3%*	*100%*	

EXPORTS	Industrialized countries	Maghreb	Mashrek	Balkans	Other Medit. countries	Total Mdit.	Total %
Industrialized countries	506.2	37.4	5.7	10	42.2	601.5	73.7%
Maghreb	13.5	1.1	0.2	0.1	0.6	15.7	1.9%
Machrek	5.2	0.1	0.5	0.1	1.1	7	0.9%
Balkans	7.3	0.3	0.1	2.2	0.3	10.2	1.2%
Other medit. countries	13.7	1.9	0.9	0.1	1.6	18.2	2.2%
Other countries	136.4	3.7	3.1	2.7	17.6	163.5	20.0%
Total exports	**682.3**	**44.5**	**10.5**	**15.2**	**63.4**	**816.1**	**100%**
Total %	*83.6%*	*5.5%*	*1.3%*	*1.9%*	*7.8%*	*100%*	

BALANCE	Industrialized countries	Maghreb	Mashrek	Balkans	Other Medit. countries	Total Mdit.	Total %
Industrialized countries	-40.3	10.9	-7.6	-6.8	-12.5	-56.3	65.5%
Maghreb	-10.4	-0.1	0	-0.2	-1.5	-12.2	14.2%
Machrek	1.5	-0.2	0	0	0.3	1.6	-1.9%
Balkans	3.2	0.1	0.2	1.1	0.2	5.7	-5.2%
Other medit. countries	4.2	1	0	-0.3	0.1	5	-5.8%
Other countries	-7.9	-3.8	-7.3	-2.9	-6.6	-28.5	33.2%
Total imports	**-49.7**	**8**	**-15**	**-9.1**	**-20.1**	**-85.9**	**100%**
Total %	*57.9%*	*-9.3%*	*17.5%*	*10.6%*	*23.4%*	*100%*	

Source : Direction of Trade Statistics, March 2003, IMF, Washington D.C.

Graph 1. Distribution of the external trade of Mediterranean countries 2001 (In billion USD)



Source: Table 1.

Furthermore the Mediterranean region suffers from constantly high levels of foreign trade deficit. The negative balance reaches 86 billion, 50 billion of which stem from the industrialized Mediterranean countries deficit, i.e. 58% of the balance. However, all other sub-regions show a deficit in their foreign trade, except Maghreb countries, exporting energy. The figures also highlight the significant negative balance of Mashrek (15 billion, i.e. 59% of total imports) and "other countries" (20 billion, i.e. 24% of the total imports).

The data confirm the sluggishness of Mediterranean economies and the deep-rooted disparities in the levels of economic activities, and clearly point to the strenuous efforts required to turn around the existing situation.

In fact, the developing Mediterranean countries, excluding Israel and its electronics industry, have never embarked on pro-active policy to acquire technological mastery of the most modern industrial clusters, as was the case in the countries of South-East Asia. Joint cooperation and coordination efforts have not been encouraged between the private and public sectors and local banks, to endow countries with the building self autonomy needed for industrial development and international competition. This explains why private investment flows have remained marginal in the region, despite the attempts of the EU to stimulate the establishment of partnerships between Mediterranean and European firms. The European business world has chosen Central and Eastern European countries (Poland, Hungary, Czech Republic) where industrial traditions offer skilled labor at sometimes lower salaries than in the Mediterranean.

This situation considerably impairs the implementation of sustainable development policies in the Mediterranean region where illiteracy is still widespread in many countries (Morocco and Egypt in particular).

The upgrading of legal institutions, an essential factor for the development of market economies, has not yet been undertaken in the Mediterranean countries. As a general rule, the basic economic institutions, such as market regulation, the fight against monopolies, consumer protection, standards and specifications, the organization of professions and of industrial or economic sectors, have still not really been upgraded or strengthened.

Cooperation initiatives should take these areas into more thorough consideration. Top priority should be given to full-fledged industrial development. Indeed, as we will see below, the European Commission has awarded particular attention to the issues of industrial upgrading in its programs to ensure that Mediterranean partner countries benefit from the free trade agreements. It has earmarked funds for the direct upgrading of companies or for the reinforcement of essential economic institutions such as standards and specifications institutes. However, the immediate impact of these programs is limited by slow disbursement procedures.

Conditionality in respect to institutional capacity strengthening should be further reinforced in MEDA programs and in the lending activities of other regional institutions (such as the Arab funds, the Islamic development Bank or the African Bank for development for Maghreb countries) and international institutions (such as the World Bank).

In this respect, and regardless of their importance, the issues of privatization and exemption from customs duties should no longer be the exclusive concern as regards conditions for the enhancement of the local private sector as described above. If local private investments are not stimulated in quantity and quality, no cooperation and partnership initiative will achieve the desired goals. This institutional economic modernization should be equated with the fight against corruption and the development of more democratic and liberal forms of political power in the majority of concerned countries.

The last DAC report is rather cautious in its approach to the benefits accrued from membership in the World Trade Organization and from customs duties reduction required from developing countries. According to the report, "rapid liberalization of trade in all developing countries and in all sectors may lead to the marginalization of some of these countries, reliant only on basic products for their exports… Being satisfied with giving developing countries only five or ten more years to abide by WTO agreements and putting at their disposal meager resources in technical aid, is a proposition doomed to failure.[15]

In order to pool the Mediterranean potential and put an end to the vicious cycle trapping the regional economy, several prerequisites should be established:

The GDP growth rates in developing Mediterranean countries should be much higher to increase the still weak intra-Mediterranean trade and stimulate employment.

[15] *Cooperation for development. 2000 Report, OECD, 2001, Volume 2, No.1, pages 82-83.*

This implies much higher levels of productive investments from local entrepreneurs, local private sector companies, emigrant entrepreneurs and European companies.

An increase in investments should curtail the brain drain in a large number of countries in the region, thereby increasing the productivity and management quality of their economies, and contributing to stronger GDP growth and to the reduction of the existing regional disparities.

Therefore, a virtuous circle must succeed in replacing the current vicious circle, with, at its core, the capacity for innovation and entrepreneurial spirit that will stimulate recovery in the Mediterranean economies. In fact, the vicious circle is the result of the lack of incentives to encourage entrepreneurial spirit and industrial and economic innovation. This situation stems from the historic decline of the Mediterranean region. The sluggish state of the economy leads to a permanent lack of the financial resources required to protect the environment, to stimulate innovation and research, and to protect and enlarge the cultural and archeological heritage which is a major asset for the Mediterranean region.

Changing the present rigid patterns of production and consumption requires the adequate pooling of the financial resources in the Mediterranean region. All resources, whether external or internal, should be geared to sustainable development initiatives. The lack of resources, although important as we will see, is not the exclusive issue: it is critical to make better use of these resources to put an end to the aforementioned vicious circle, and to reduce the current disparities by paving a quicker way to sustainable development.

The last section of the report will focus on the means to be implemented to ensure the optimal pooling of funds for sustainable development. An annexed diagram explains how the vicious circle can be broken (See "The sustainable development in the Mediterranean region: Breaking the vicious circle). The relevant measures are discussed in the fourth section of this report and summarized in an annexed matrix.

B- Cooperation and development aid policies

The cooperation and aid policies in the Mediterranean region, as well as the flow of external financial resources allotted to developing countries, are based on five main pillars.

1. The main international funding institutions

The policy of international funding institutions is essentially defined by the IMF and the World Bank. We have already described their policies above. However, the table below shows that the net resource contributions from the World Bank were negative.

Table 2. Net lending from World Bank and the IFC to Mediterranean Countries 1995-1999 In million USD -

World Bank	1995	1996	1997	1998	1999	Total
Egypt	-156	-152	-123	-67	-74	-571
Lebanon	47	27	32	38	36	181
Syria	-13		-262	-22	-21	-318
Total	*-121*	*-125*	*-354*	*-50*	*-59*	*-709*
Bosnia		-25				-25
Croatia	29	89	100	92	67	377
Slovenia	14	-19	-2			-7
Former Yugo. Unspec.	0					0
Turkey	-460	-326	-426	-365	-233	-1 810
Total Balkan & Turkey	*-415*	*-294*	*-315*	*-234*	*-158*	*-1 466*
Algeria	294	34	17	-152	-137	56
Morocco	78	39	-153	-8	102	58
Tunisia	-65	15	-46	-37	44	-89
Total Maghreb	*307*	*88*	*-182*	*-196*	*9*	*26*
Total Mediterranean	**-230**	**-331**	**-851**	**-481**	**-208**	**-2 149**
International Finance Corporation (IFC)	**1995**	**1996**	**1997**	**1998**	**1999**	**Total**
Egypt	4	22	-2	21	24	69
Lebanon	42	4	10	47	-4	98
Palestinian territories			1	2	8	11
Total Mashrek	*45*	*26*	*9*	*70*	*27*	*177*
Albania	1			1		2
Bosnia-Herzegovina			3	8	10	20
Croatia				18	9	27
Cyprus	-1	0	-1	-1	-1	-4
Slovenia	-4	-7	-7	-1		-18
Turkey	-5	47	45	83	59	229
Total Balkan & Turkey & Cyprus	*-32*	*30*	*39*	*137*	*79*	*256*
Algeria		-1	-1	-1	-1	-5
Morocco	-71	-31	-17	-1	-7	-127
Tunisia	-2	-16	-1	-1	-1	-19
Total Maghreb	*-72*	*-48*	*-20*	*-3*	*-9*	*-152*
Total Mediterranean	**-59**	**8**	**28**	**203**	**97**	**282**

Source : Electronic database, OECD/DAC

Thus, between 1995 and 1999, the net transfer of resources was negative by USD 2.1 billion due to the fact that loan reimbursements was higher than drawings on standing or new loans, except for Croatia (377 million), Jordan (265 million) and Lebanon (181 million).

Turkey incurred the strongest negative flow of resources (-1810 million) followed by Egypt (-571 million) and Syria (-318 million) which settled a share of its outstanding payments. The International Finance Corporation, sister organization to the Bank, in charge of funding the private sector, showed positive contributions of 245 million USD during that period, but the flows with Maghreb countries were negative.

2. The Mediterranean policy of the European Union and the funding policy of the European Investment Bank: the achievements of MEDA programs

a. The Barcelona Declaration and the creation of the Euro-Mediterranean free trade zone

MEDA program activities defined by the Barcelona process are now the central feature of Mediterranean partnerships. Euro-Mediterranean partnerships are characterized by a vast range of activities. Loyal to the spirit of the Barcelona Declaration geared at establishing peace, stability, security, democracy and economic growth, MEDA programs include economic aid initiatives, infrastructure funding operations and the funding of activities in favor of democracy, human rights, cultural development and the media.

The main objective of the Barcelona Declaration and the derived economic aid programs is the creation of a free trade zone. For the EU countries, the prosperity and growth of Mediterranean countries should be ensured by their participation to the Mediterranean free trade zone. The programs also comprise operations to encourage mutual understanding among different cultures, to establish contacts between the civil societies of the EU and the Mediterranean countries, and to support the development of democracy and governance.

The MEDA programs have bilateral and regional components: the bilateral component is aimed at concluding free trade and Association agreements between the EU and every Mediterranean country. The multilateral component is aimed at encouraging regional cooperation in all economic, social, political and cultural fields. The regional operations are aimed at achieving a rapprochement between Israel and the Arab countries.

In fact, the Barcelona process was more ambitious and precise than the American-Israeli project for a zone of prosperity and free trade in the Middle East which was a by-product of the Madrid peace process and Oslo Agreements (1991-1993) to be discussed later.

In 1995, the Barcelona Process and the MEDA programs could be considered as having contributed to reduce the severe economic consequences of failed American attempts to settle one of the fiercest conflicts in the Middle East, attempts which never achieved their goal of establishing prosperity and security within the Mediterranean region. In fact, a large portion of the available aid is composed of humanitarian and emergency aid that contributes to alleviate the sufferings of populations who have endured the violence of conflicts in the region. But this aid do not really constitute the flow of resources needed to be directly allocated to productive investment and development.

b. Complexity of procedures and slow disbursements

Due to complex procedures and to slow processes, the disbursements on the engaged amounts remain limited. Thus, for Program MEDA I (1995/1999), the total amount of credits committed reached 3 435 million Euros, while the disbursed credits were limited to only 890 million Euros, i.e. an average consumption rate of committed funds of 26%. It is to be noted however that the ratio of disbursements against commitments in bilateral cooperation is only of 22.3%, whereas it reaches 48% for regional cooperation which is allocated 15% of the amounts made available to MEDA bilateral programs. One should note that The ratio of funding committed vs. available funding is very high standing at 99.9%. In some countries, funds allocated to reform activities were never disbursed, which is a very damageable. By contrast, the World Bank is far more responsive and flexible than the EU in its technical assistance to member states.

The MEDA report for 1999 acknowledges the serious delays in the disbursement of programs: "The presence of complex and rigid decision-making procedures explains the late implementation of the program. The revision of MEDA regulations that is currently negotiated at the Council should allow important time gains in the decision-making process. Moreover, it should allow more strategic aid programs to make sure that MEDA interventions are coherent with the national strategies of reform."

The rate of disbursement against commitments is marginal in some countries, particularly in Syria (0%), Lebanon (0.5%) and Turkey (4%). It is however high in the Palestinian Territories (48.6%) and Jordan (42.5%). Nevertheless, three countries receive approximately 60% of the bilateral credits committed: Morocco (656 million Euros), Tunisia (428 million Euros) and Egypt (686 million Euros). The same countries receive more than 68% of the amounts disbursed in the bilateral framework.

c. The content of MEDA programs

Bilateral cooperation covers the following areas:

- Facilities for structural adjustment (15% of commitments for MEDA I, i.e. 520 million Euros) benefiting five countries (Morocco, Algeria, Tunisia, Jordan, Lebanon),
- Support for economic transition to develop sector competitiveness and venture capital funding operations (30% i.e. 1040 million Euros) benefiting six countries (Morocco, Tunisia, Jordan, Egypt, Turkey, Palestinian Territories),
- Support for socio-economic transition to create social funds and health-related actions (29% of commitments),
- Environmentally-oriented actions (7% of commitments),
- Rural development (4.5%).

Regarding regional cooperation, disbursements are all that much faster that they involve joint programs between European and Mediterranean institutions. The actions undertaken are highly interesting, in that they include cooperation between foreign policy institutes (EuroMeSCo network) and the training of diplomats; cooperation between civil protection services;

cooperation between institutes for economic studies (FEMISE network) and between statistics institutes (MEDSTAT), as well as cooperation for the audiovisual sector (Euro-Med Audiovisual), for youth gatherings (Euro-Med Youth) and for the protection of cultural heritage (Euro-Med Heritage).

d. The operations of the European Investment Bank and the Euro-Mediterranean Facility for Investments and Partnerships

While bureaucratic complications hinder the disbursement of aid by the European Commission and often reduce its efficiency, loans granted by the European Investment Bank have become an important element in the flow of resources to Mediterranean countries. Thus, from 1996 to 2000, over 4.5 billion Euros in loans were granted to Mediterranean countries by the Bank, i.e. a yearly average of over a billion Euros. Funding from the European Investment Bank essentially involve loans to the water sector (1.4 billion Euros), to the energy sector (0.9 billion), to the communications sector (0.9 billion) and to industrial services (0.7 billion). Turkey (1 billion Euros), Egypt (783 million), Morocco (694 million), Algeria (623 million) and Tunisia (607 million) were the main beneficiaries of such loans. Lebanon, Jordan and the Palestinian Territories received nearly 1 billion Euros.

Recently, the 6th ministerial conference of the Euro-Mediterranean Partnership was held in Naples. This was an important step in the Barcelona process, as the enlarged European Union is prepared to launch an ambitious neighborhood policy which will extend to the Mediterranean region. This conference should allow the launching of three essential projects namely: the creation of a Euro-Mediterranean Parliamentary Assembly, a Euro-Mediterranean Foundation for the dialogue between cultures, and more accessible European Investment Bank facility for the Mediterranean region.

These proposals aim at providing more active support for reforms in the Mediterranean region and at promoting a partnership-based, rather than assistance-based approach. To this end, on 25 November 2003, the Council of Ministers of the EU decided to upgrade the Euro-Mediterranean Facility for Investment and Partnership, and to strengthen its position within the European Investment Bank, in view of the experience of the Facility and after discussion with Mediterranean partners. In the context of the "strengthened" Euro-Mediterranean Facility for Investment and Partnership, up to 200 million Euros in EIB reserves would serve to extend the sharing of risks for operations up to 1 billion Euros. A trust fund with an initial amount of 20 to 40 million Euros could be created for investments regarding such priority projects as water, transport, electricity and human capital. Moreover, the Committee for political dialogue and coordination could become a ministerial Committee of Finance Ministers. In addition, the Council decided to transfer the "supplement margin" remaining on European Investment Bank loans, in the amount of 2.18 billion Euros, to the Mediterranean Partners. These additional amounts represent a considerable complementary contribution to the funds provided to the developing Mediterranean countries through their cooperation with the EU. From now on, the Mediterranean branch of the European Investment Bank will play a more active role in the regional funding policies.

3. The policy of regional and international powers

Through the bilateral aids and grants, the international and even regional powers have real influence over the development process. The strategic presence of the United States in particular in the Mediterranean region is massive. They play a central role in the distribution of aid and in the settlement of conflicts in the Middle-East or the Balkans.

From an economic standpoint, the Madrid process established after the 1991 Gulf War was followed by several economic summits open to the private sector, held in Casablanca (1994), Amman (1995), Cairo (1996) and Qatar (1997) with a strong American and Israeli participation. The United States attempted to promote the creation of a development bank for the Middle East. This project was opposed by the European Union and by several Arab countries, mainly the Arabian Peninsula countries where since the 70s, many development aid institutions have been created. Their importance has been described above.

It is to be remembered that the Madrid process had instituted a series of multilateral commissions for negotiation and cooperation between Israel and the Arab countries as regards water, refugees, disarmament and security, environment and economic cooperation.[17] These commissions only held a few meetings in 1992, which Lebanon and Syria did not attend. Several Western countries, as well as Japan and Russia, contributed to the work of the commissions. However, the political resolve of the Madrid process and the Oslo Agreements faltered as of 1996, halting the progress of economic cooperation, despite the vivid hopes for a strong economic recovery of the Mediterranean Middle East, expected as the result of the end of Israeli-Arab conflicts.

As a consequence, the Barcelona process today seems more central and more solid than the economic ambitions of the Madrid process which were never achieved. However, it is clear that in both cases, the political failure to solve the Israeli-Arab conflict, central to the Mediterranean region, has washed away hopes for an economic recovery based on significant transfers of funds in favor of countries involved in the conflict. Neither the ratification of the Oslo Agreements nor the Jordanian-Israeli peace treaty have spurred new socio-economic dynamics in Palestine or Jordan.

In fact, only Egypt and Israel have continued to benefit from large transfers of resources from the United States. Israel has been the recipient of these

[17] *In fact, since the end of the 1980s, working groups of renowned economists have met in the United States to prepare plans for regional economic development to be implemented during the establishment of peace between Israel and its Arab neighbors including Palestinians. The work of these groups was used as the basis for the creation of the economic commissions of the Madrid Process. The World Bank itself had prepared development programs for the Palestinian Territories occupied by Israel.*

transfers since its creation in 1948. Egypt has benefited from the substantial and permanent American aid since the signing of the Camp David Agreements in 1978, aid which was increased significantly during the Gulf War, after Egypt decided to join the Western coalition against Iraq. The aid consisted in a substantial cancellation of part of the external debt by approximately one third, thus alleviating Egypt's financial obligations.

On the other hand, the sanctions against Iraq have had a catastrophic impact on the Iraqi population, on neighboring Arab countries (particularly Jordan, Lebanon and Egypt) and on Turkey, where economic relations with Iraq were active. These relations were not limited to trade but were further enhanced by the presence of many Egyptian or Jordanian workers and entrepreneurs in Iraq, who fled the country during the invasion of Kuwait. In this regard, it is to be remembered that many Jordanian and Palestinian workers were expelled from the State of Kuwait, which weighed heavily on the standards of living of these two populations, both highly dependent on their workers emigrants' remittances in the Arab Peninsula. The economic sanctions against Serbia also triggered serious economic consequences for the neighboring countries and encouraged fraud and black markets.

In the Balkans, the Dayton Agreements succeeded in establishing a fragile peace broken by the ensuing Kosovo conflict. Despite massive EU aid to the Balkan countries prey to conflict, the standards of living and the vibrant economy which prevailed before the partition of former Yugoslavia, have still not been restored in this Mediterranean sub-region.

In addition, we must point out that the Arab and Islamic funding organizations are also a source of funds and aid to the Mediterranean countries, as indicated in the table below.

Table 3. Flow of resources from Arab countries 1995-1999 - In million USD-

	1995	1996	1997	1998	1999	Total
Algeria	(12)	7	12	19	31	**56**
Morocco	19	26	31	29	29	**134**
Tunisia	(23)	(38)	(20)	(32)	(18)	**(132)**
Total Maghreb	**(15)**	**(6)**	**22**	**16**	**41**	**58**
Egypt	117	54	97	211	71	**549**
Lebanon	57	83	102	39	46	**327**
Palestinian Territories	52	28	27	22	17	**145**
Syria	115	98	62	27	21	**325**
Total Mashrek	**341**	**263**	**287**	**300**	**155**	**1 346**
Bosnia-Herzegovina	26	36	49	14	3	**128**
Cyprus	2	(1)	(1)	1	(5)	**(5)**
Turkey	140	168	(10)	7	33	**337**
Total other countries	**167**	**203**	**38**	**22**	**31**	**461**
Total Mediterranean	**493**	**460**	**348**	**338**	**227**	**1 865**

Source : Electronic Database, OECD/DAC

Furthermore, it is interesting to note that in 1997, the Arab League member states established a free trade zone aiming at full eradication of customs duties within ten years in their territories, and that Lebanon and Syria signed a free trade agreement for the same purpose, but within a five year period. The EU now encourages the Mediterranean countries with which it signs or negotiates a free trade treaty, to accelerate the suppression of customs duties, to build a wider and a more attractive basis for direct European investments in the region.

4. The policies of the UN Specialized Bodies

These organizations, UNEP, GEF, FAO, UNDP, UNICEF and WHO play an important role in the Mediterranean region.

Table 4. Flow of resources from the UN Specialized Bodies - In million USD-

	1995	1996	1997	1998	1999	Total
AfDF	12	20	31	23	21	107
EBRD	5	7	6	11	2	31
IFAD	2	13	4	7	19	45
Other UN	31	35	4	4	3	77
UNDP	18	22	24	21	23	107
UNFPA	17	16	13	14	12	71
UNHCR	195	25	24	22	22	287
UNICEF	46	43	21	22	15	147
UNRWA	326	237	264	298	286	1 410
UNTA	26	15	20	16	22	98
WFP	135	50	-11	18	20	212
Total	**813**	**482**	**397**	**454**	**445**	**2 591**

Source : Electronic Database , OECD/DAC

Their financial contributions, as calculated by DAC, reached 2.6 billion USD for the period 1995-1999, including 1.4 billion contributed by UNRWA, the organization dedicated to Palestinian refugees. Other funds, i.e. 1.2 billion USD, were disbursed by the UN specialized agencies: 295 million USD by the High Commission for Refugees (UNHCR), followed by the World Food Program (WFP) with 212 million, UNICEF (147 million), UNDP (109 million), the regular program for technical assistance (UNTA) with 99 million, UNFPA (Population Fund) with 71 million and 77 million contributed by other agencies.

The other organizations and institutions specialized in the protection of the environment (UNEPMAP, MEDPOL, PAP/RAC, etc.) must also be mentioned. They are listed in the report of the Mediterranean Commission for Sustainable Development (MCSD) mentioned above, which analyses their functions and describes their initiatives. However, these institutions have limited financial resources, which over the last four years did not exceed 6.5 to 7 million USD.

5. The flows of private funds

These flows include direct or portfolio investments and the loans other than those provided by an official bilateral source of DAC countries. Their amount reached 60 billion USD for the period 1995-2000. They will be analyzed in Section III of this report.

As it will be shown external official resources are highly concentrated on several strategic countries, which, in addition to official aid, attract private capital in the form of loans or investments. Furthermore, aid specifically tied to sustainable development actions has increased remarkably over recent years but remain marginal when compared with the aid massively awarded to fund military or traditional projects (such as hydraulics, telecommunications, heavy industries, etc.). The multiplication of conflicts in the Mediterranean region has required that most of the available resources be allocated to humanitarian aid. An in-depth analysis of this aspect, based on available figures, will be conducted in Section III of this report.

C- Annex: Analysis and classification Methodology for Mediterranean countries

The Mediterranean region is composed of several geographical sub-groups, which may sometimes include internal seas such as the Adriatic Sea or the Aegean Sea. The Mediterranean Sea also opens out onto the Atlantic Ocean and the adjacent Black Sea. Two Mediterranean countries have coastal areas not only along the Mediterranean sea: Morocco (Atlantic facade) and Turkey (facade on the Black Sea); the Nile River closely links Egypt to Sudan, and the Balkan countries are linked to Central Europe by the Danube.

Varying levels of standards of living and wealth exist in the region. In addition, rich countries in the region create a polarization effect on the less developed neighboring countries, such as in the case of France, Italy and Spain for the Maghreb countries).

Countries which do not have direct access to the Mediterranean Sea are highly dependent on the intensive trade with directly Mediterranean neighboring countries (for Mashrek, Jordan and Iraq; for Maghreb, Mauritania; for Western Europe, Portugal; for South East Europe, Bulgaria, Macedonia, Rumania).

The role of Germany and Austria, as well as of France, Italy and Spain, is vital for Mediterranean trade, particularly for the East Mediterranean countries.

Population movements are also important, and Arabian Peninsula countries attract a varied workforce of technicians, free-lance professionals and corporate executives from several Mediterranean countries (such as Egypt, Lebanon and Syria) or from neighboring Mediterranean countries (such as Jordan).

1. Classification of Mediterranean countries by geographical sub-groups

Classification of Mediterranean countries into geographical sub-groups leads to the following classification (cf. Table 5):

- **Group 1** includes Eastern and South Eastern Mediterranean countries (Turkey, Albania, Former Yugoslavia, Bosnia Herzegovina, Croatia and Greece). This group is the most densely populated of the four, with a population of 99.3 million inhabitants, with 64.4 million in Turkey representing over two thirds of the population of this group. The per capita income ranges from a minimum of $2 804 in Albania to a maximum of $ 14 293 in Slovenia, demonstrating the significantly heterogeneous standards of living in this group.[18]
- **Group 2** includes Israel and the two Mediterranean islands, Cyprus and Malta, and represents approximately 7.3 million inhabitants including 6 million in Israel. This group shows the highest standards of living at $ 17 482 per capita in Cyprus, followed by Israel with $ 17 301 and Malta with $ 16 447.
- **Group 3** includes the Maghreb countries (Morocco, Algeria, Tunisia and Libya), with 73.1 million inhabitants, and major oil and gas resources in Algeria and Libya. The per capita income is three to five times lower than in group 2 with a minimum of $ 3 305 in Morocco and a maximum of $ 6 697 in Libya.

[18] All statistics mentioned here are extracted from the yearbook World Development indicators 2001 of the World Bank or the Human Development Report 2000, UNDP. Some complementary statistics were taken from the electronic database of OECD (for Malta, Cyprus and Israel).

Table 5. Characteristics of the population of Mediterranean Countries

BALANCE	Population -Total- 1999 (in million)	Urban Population - % from total	Arable Land- % from total (1998)	Average annual rate of growth 80-99	Average annual rate of growth 99-2015	% of the dependants to the working population	Average annual rate of growth of labor force 99-2010	% of women in labor force 1999
East Mediterranean Zone								
Albania	3.4	39	21.1	1.2	1	0.6	1.5	41.2
Bosnia	3.9	43	9.8	-0.3	0.6	0.4	0.9	38.1
Croatia	4.5	57	26.1	-0.1	0.2	0.4	-0.2	44.1
Greece	10.5	38	22.1	0.5	-0.1	0.5	0.1	37.6
Slovenia	2	50	12.1	0.2	-0.2	0.4	-0.3	46.5
Turkey	64.4	74	31.8	1.9	1.2	0.5	1.8	37.3
Former Yugoslavia	10.6	52	-	0.4	0.1	0.5	1.9	44.9
Total	*99.3*	*64*						
Israel and the two islands								
Israel	6.1		17	2.4	1.6	0.6	2.6	40.9
Cyprus	0.8							
Malta	0.4							
Total	*7.2*							
Maghreb Countries								
Algeria	30	60	3.1	2.5	1.7	0.7	3.5	27
Libya	5.4	87	1	3	2	0.7	2.4	22.6
Morocco	28.2	55	20.2	2	1.4	0.6	2.5	34.7
Tunisia	9.5	65	18.7	2.1	1.2	0.6	2.3	31.4
Total	*73.1*	*60.7*						
Machrek Countries								
Palestinians Territories	2.8				3.5	1		
Egypt	62.7	45	2.8	2.2	1.5	0.7	2.7	30.1
Lebanon	4.3	89	17.6	1.9	1.2	0.6	2.6	29.3
Syria	15.7	54	25.6	3.1	2.1	0.8	3.8	26.7
Total	*85.5*	*49.0*						
TOTAL MEDITERRANEAN	**265**	**174**						

Source: World Development Indicators 2001; The World Bank, Washington D.C.

- **Group 4** includes the Mashrek countries (Egypt, Palestinian Territories, Lebanon and Syria), with a population of 85.5 million inhabitants with 63 million for Egypt. Egypt and Syria have middle sized energy production, but also have considerable agricultural resources. This group has the lowest per capita income, ranging from a minimum of $2 892 in Syria to a maximum of $4 326 for Lebanon. However, with $3 120 per capita, Egypt, when compared with Syria, seems to show figures inflated by growth rates that are remarkably high for the region and which cannot be justified by any specific economic policy.

Table 5 displays the characteristics of these four groups of countries on the basis of the main human development indicators. The following observations can be made:

With the exception of Group 2 including Cyprus, Malta and Israel, there is no real homogeneity in the groups. The group of East Mediterranean countries comprises Albania and Turkey where development indicators are different from indicators in Greece, Slovenia and, to a lesser extent, Croatia where they are closer to the indicators of industrialized Mediterranean countries (France, Italy and Spain).

However, on the scale of human development indicator (HDI), all Mediterranean countries belong to the group of countries with high or middle rank scores. The countries in groups 1 (excluding Albania, Turkey and Croatia) and 2 are part of the high HDI group of countries, while HDI is in the middle rank for countries of groups 3 and 4. However, level of per capita income is very heterogeneous in each group. And, Egypt and Morocco show very high rates of illiteracy that stand out against the average rates of the other countries.

There are no Mediterranean countries in the category of countries with low HDI. However, we should take into account the considerable difference in the standards of living within the countries. The GINI indices and the consumption distribution among social categories do not seem reliable. In fact, the surveys were not conducted on a homogeneous basis, and consumption figures for the poor populations are inflated by the emigrants' remittances which play a very important role in the economy of most Mediterranean countries.

Regarding the status of women, the Mediterranean countries (except for Slovenia, Croatia and Israel) have a very low ratio, when the factor of women's participation to public life is included in the composition of the indicator (refer to Table 1).

Since 1975, all Mediterranean countries have shown poor macroeconomic performance, notably as compared with the performances of South-East Asian countries. Only Cyprus, Malta and, to a lesser extent, Israel have posted performances comparable to the Asian Tigers; performance of economic growth in Turkey, Greece and Tunisia has been well sustained, although it must be remembered that the European Union contributed significant levels of aid to Greece . In Lebanon, annual growth rates for the period 1990-98 are inflated by normal recovery following the steep fall of GDP during the war which ended in 1990 and further inflated by a high deficit in public finance. As stated earlier, basis for the calculation of the growth rate in the Egyptian economy appears unrealistic.

2. Classification as per vulnerability levels and sub-regions

In terms of "sustainable development", the observations above regarding the weaknesses of Mediterranean countries should result in a different non-geographical classification.

Greece and Turkey could be removed from the first group for the sake of homogeneity between Balkan countries. The Maghreb and Mashrek are two sub-groups within the homogeneous group of Mediterranean Arab countries. Lastly, Turkey, Israel, Cyprus and Malta could form a new category named "other Mediterranean countries". Accordingly, Table 6 presents the basic data for non-industrialized Mediterranean countries and a reminder of the data for the Mediterranean countries of the EU. The following observations can be made:

- ➢ The Balkan countries represent only 9.4% of the total population of the Mediterranean region and 3.7% of its size. Their share in GNP is 8.5% of the region is equivalent to their demographic weight. The disparities in per capita incomes are significant within this group. The impact of the wars that broke out at the time of the partition of former Yugoslavia was highly destructive for Bosnia Herzegovina and the Federation of Yugoslavia.
- ➢ Arab countries represent 63.4% of the population of the region and 85.1% of its size, but despite their wealth in oil, their share in GNP represents only 40.8%. The per capita GDP in this group of countries is relatively homogeneous, although some of these countries have no energy resources. The large deserts of Algeria, Libya and Egypt explain the vast size this group of countries; but, in fact, the arable and inhabited lands only represent 3 to 4% of the total surface.

With the exception of Egypt and Syria, the major part of the population in this group of countries is massively concentrated on the Mediterranean coast.

Table 6. Basic Data of Mediterranean countries 1999

	Popula-tion (million)	% from total	Area (1 000 km2)	% from total	Density inhab / km2	Gross National Income (million $)	% from total	GRI per capita	Per capita GDP (PPP) $	IDH	Sex-Related IDH	Gender empower-ment measure
Balkan Countries												
Albania	3.4	1.3%	29	0.0%	123	3 100	0.5%	3 240	2 804	0.713	0.708	-
Bosnia	3.9	1.5%	51	0.7%	76	4 700	0.8%	-	1 210			
Croatia	4.5	1.8%	57	0.8%	69	20 200	3.5%	7 260	6 749	0.795	0.79	0.517
Slovenia	2	0.8%	20	0.3%	99	19 900	3.5%	16 050	14 293	0.861	0.857	0.519
Yugoslavia	10.5	4.1%	102	1.5%								
Total	***24.3***	***9.6%***	***230***	***3.3%***		***47 900***	***8.4%***					
Arab Countries												
Maghreb												
Algeria	30	11.8%	2 382	34.2%	13	46 500	8.2%	4 840	4 792	0.683	0.661	
Libya	5	2.0%	1 760	25.2%	3				6 697	0.76	0.738	
Morocco	28	11.0%	447	6.4%	63	33 700	5.9%	3 320	3 305	0.589	0.57	
Tunisia	9	3.6%	164	2.4%	61	19 800	3.5%	5 700	5 404	0.703	0.688	0.398
Sub-total	*72*	*28.4%*	*4 753*	*68.1%*		*100 000*	*17.6%*					
Mashrek												
Egypt	63	24.9%	1 001	14.4%	63	86 500	15.2%	3 460	3 120	0.623	0.604	0.274
Lebanon	4	1.6%	10	0.1%	418	15 800	2.8%		4 326	0.735	0.74	
Palestine	3	1.2%		0.0%		5 100	0.9%					
Syria	16	6.3%	185	2.7%	85	15 200	2.7%	3 450	2 892	0.66	0.636	0.315
Sub-total	*86*	*33.9%*	*1 196*	*17.1%*		*122 600*	*21.5%*					
Total Arab Countries	***158***	***62.3%***	***5 949***	***85.3%***		***222 600***	***39.1%***					
Other Mediterranean countries												
Cyprus	0.8	0.3%				3617	0.6%		17 482	0.886	0.877	
Israel	6	2.4%	21	0.3%	296	99 600	17.5%	18 070	17 301	0.883	0.877	0.555
Malta	0.4	0.1%				9 067	1.6%		16 447	0.865	0.848	
Turkey	64	25.3%	775	11.1%	84	186 500	32.8%	6 440	6 422	0.732	0.68	0.321
Sub-total	*71*	*28.1%*	*796*	*11.4%*		*298 784*	*52.5%*					
TOTAL MEDITERRANEENS COUNTRIES	253.4	100%	6 975	100%		569 284	100%					
For the record												
France	59	23.3%	552	7.9%	107	1 453 200	255%	23 020	21 175	0.917	0.914	
Italy	58	22.9%	301	4.3%	196	1 163 000	204%	22 000	20 585	0.903	0.895	0.524
Spain	39	15.4%	506	7.3%	79	583 100	102%	17 850	16 212	0.889	0.891	0.615
Greece	11	4.3%	132	1.9%	127.6	127 600	22%	15 800	13 943	0.875	0.869	0.456
Total developed Mediterranean countries	**167**	**65.9%**	**1 491**	**21.4%**		**3 326 900**	**584%**					

Source: World Development Indicators, 2001;The World Bank (for Cyprus and Malta, OECD)

- The group of other Mediterranean countries represents 27.2% of the population and 11.2% of the surface, but their GNP share is 50.7% despite the lack of natural resources. There is in fact a considerable difference between the GDP per capita in Turkey, with a population representing

90% of the group's total population, and the GDP levels of the other three countries in the group, almost three times higher.

- The population of the Mediterranean EU countries only represents 64.9% of the total population of non EU countries, but their cumulated GDP is six times higher; all human development indicators are higher than those of the other groups of Mediterranean countries, except for Israel, Cyprus, Malta and Slovenia.

The Mediterranean region is therefore an unbalanced geographical region in terms of arable and inhabited lands and in terms of spread of wealth and economic activities. The energy and mining resources of Mediterranean Arab countries did not serve to catalyze or support the development process which could have triggered a "virtuous" circle, supplying the adequate number of job opportunities to satisfy the needs of the young generation coming onto the labor market.

As we have seen earlier, in the majority of Mediterranean countries, emigration became the preferred choice, since the emigrants' financial transfers helped to maintain and even to increase the levels of consumption. The States spared no efforts in health and education, which can explain the difference between the high levels of human development indicators vs. the levels of income.

However, these high levels of spending was not accompanied by increased economic dynamism, sustained by the massive creation of job opportunities and by the development of a more productive private sector. This is the reason for which these countries today, although not facing a major financial crisis, are suffering from financial distress and are unable to maintain the efforts made to date.

In fact, among the 18 States presented in Table 6, 11 are experiencing critical socio-economic and financial situations. If we remove from the list of States, those which have reached the levels of EU countries, namely Slovenia, Cyprus, Israel and Malta, we realize that out of the fourteen remaining states, six are facing very hard times (Albania, Bosnia Herzegovina, the Palestinian Territories, Lebanon, Algeria and the Federation of Former Yugoslavia which have gone through wars and economic sanctions), two States show exceptionally high rates of illiteracy (Egypt and Morocco) and unemployment. Turkey is facing a serious financial crisis (as is the case for Egypt). Jordan is also very vulnerable. Syria has not yet solved the issue of the liberalization of its economy, and the per capita income remains very low despite its diversified resources. The development process is only sustained in Tunisia, but without political liberalization. Libya is still by far a closed economy.

Thus, the countries can be categorized on the basis of their greater or lesser vulnerability and distress, according to such essential criteria as:

- Illiteracy, status of women and unemployment

- ➢ Financial and social vulnerability
- ➢ Post-conflict situations
- ➢ Rigid or semi-democratic political regimes
- ➢ Centralized economic regime without a clear program of economic liberalization

In some countries, development is at a standstill or is unsustainable in respect to several criteria, as shown in Table 6.

Thus, every country in the list is confronted with more than one source of vulnerability or distress, except for Turkey exposed only to financial and social vulnerability. Out of the thirteen countries mentioned in the Table, we find that:

- ➢ Ten countries suffer from financial vulnerability
- ➢ Seven countries suffer from rigid or semi-democratic political regimes
- ➢ Nine countries have a per capita GDP of less than $ 5 000
- ➢ Three countries still have structures of centralized economies without clear liberalization programs
- ➢ Eleven countries suffer from issues related to illiteracy, status of women or unemployment
- ➢ Five countries suffer from conflicts or post-conflict situations.

Therefore, the acute issues facing the Mediterranean region require a new approach to the internal policies of States and to cooperation policies, which should be more clearly targeted and shared between the countries impacted by severe issues in their development process.

3. Considerable macroeconomic vulnerability, in particular in the area of finance

The Mediterranean economies are all characterized by acute macroeconomic vulnerability particularly as regards the balancing of their accounts, and all suffer from major structural weaknesses in their public funding and external accounts.

With the exception of Croatia and Israel, the level of tax revenues vs. GNP and public expenditures is abnormally low, leading to the considerable deficit in public accounts, even when grants are included (cf. Table B). In particular, direct taxation is very limited, except in countries with a large public sector where profits, notably from mining and oil companies, increase the share of direct taxation in total taxation receipts (Algeria and Syria). The deficit level has very strong negative impact on the amount of national savings which are insufficient to allow the required level of investment funding. Indebtedness is high and in some countries, the reimbursement of this debt absorbs from 40% to 85% of the State's current revenues (Albania, Greece, Turkey and Lebanon). Future perspectives are rather dark in view of the fact that partnership agreements with the European Union, membership to

WTO and the free trade agreements among Arab countries will decrease the revenues from customs duties in several States where these revenues are a major component of public revenues.[19]

Table 7. Financial indicators of Mediterranean Countries

BALANCE	Net current transfers (million US $) 1999	Balance of Trade & services (million US $) 1999	Maturity terms 1990-1998 (1995=100)	Current account balance (million US $) 1999	Debt & interest payment (% current revenues) 1998	Budget deficit, donations included (% of the GDP) 1998	Income, profit & capital gain taxes (% of current revenues) 1998	Total external debt (million US $) 1999
East Mediterranean Zone								
Albania	326	557		(155)	40.3	-8.5	7	975
Bosnia								1 962
Croatia	500	(1 673)		(1 522)	3.2	0.6		9 433
Greece	7 510	(10 738)	92-90	(4 860)	38.4	1.5	39	
Slovenia	123	(881)		(782)	3.2	-0.8	15	
Turkey	5 175	(3 002)	104-102	(1 364)	49.9	-8.4	40	101 796
Yugoslavia								12 949
Total	***13 634***	***(15 737)***		***(8 683)***				***127 115***
Israel and the two islands								
Israel	6 324	(4 925)	97-107	(1 881)	14.3	-1.4	36	
Cyprus								
Malta								
Maghreb Countries								
Algeria		3 341	126-117		14.3	-3.6	60	28 015
Libya	(219)	2 044	145-101	2 136				
Morocco	2 154	(1 336)	101-103	(167)				19 060
Tunisia	902	(456)	103-101	(443)	11.6	-0.4	19	11 872
Total	***2 837***	***3 593***		***1 526***				***58 947***
Machrek Countries								
Palestinians Territories								
Egypt	4 869	(7 572)	86-84	(1 708)	23	-2	22	30 404
Jordan	2 004	(1 459)	85-108	390	13.3	-5.8	10	8 947
Lebanon	2 689	(6 900)	105-117	(3 888)	75.3	-15.1	13	2 657
Syria	489	255	131-90	201		-0.7	34	22 369
Total	***10 051***	***(15 676)***		***(5 005)***				***64 377***
TOTAL MEDITERRANEAN	**32 846**	**(32 745)**		**(14 043)**				**250 439**

Source : World Development Indicators 2001; The World Bank, Washington D.C.

The situation is further worsened by the deficit of external accounts, reaching 33 billion USD in 1999 for the balance of goods and services. Despite the massive transfers of Mediterranean emigrant workers ($ 33 billion), the

[19] A recent study reveals the vulnerability in the structure of revenues in Mediterranean Arab States; refer to Karim NASHASHIBI, Fiscal Revenues in South Mediterranean Arab Countries: Vulnerabilities and Growth Potential, IMF Working Paper (WP/02/67), 2002, Washington D.C. Also refer to G. Corm, "The structural adjustment of the private sector in the Arab world: Taxation, social justice and economic efficiency", study published in L'économie du Proche-Orient dans une perspective de paix (The Economy of the Middle East in a peace perspective), collective work under the supervision of L. BLIN and Ph. FARGUES, Mainsonneuve and Larose, Paris, 1995.

balance of external current accounts remains negative at - 14 billion USD in 1999 (cf. Table 7). The external debt of Mediterranean countries amount to 250 billion USD, excluding the debts of Israel and Greece. If domestic debt would be added, the total amount of indebtedness would be even much higher, as it is the case for Lebanon. When national currencies are easily convertible, there is in fact no difference between external and internal debt. The internal debt weighs heavily on the currency-based cash-flow of the indebted country.

Consumption levels in Mediterranean countries are therefore artificially maintained by very high deficits in external accounts, despite the significant transfers of migrant workers. We will see that for some countries, net transfers of external resources from industrialized countries (Balkan countries, Jordan, Egypt) are very high, which further increases the vulnerability of their economy.

In the case of the economy of information and knowledge, except for Greece, Slovenia and the countries of group 2, the indicators for the number of computers and Internet connections per 1000 inhabitants are very low (cf. Table 8), thus confirming the extent of marginalization of the local economies in the global worldwide economy. These low indicator scores are in strong contrast to the high ratio of university students pursuing scientific education; this may lead us to infer that the quality or the content of education in technology and applied sciences leaves something to be desired.

This short analysis highlights the fact that most economies in the Mediterranean region are not built on sustainable foundations. Even when national performance is strong, such as in Israel and Greece, the high level of external aid should not be overlooked.

Table 8. Health, education and telecommunication indicators in the Mediterranean countries

	Health Indices			Education Indices 1995-97		Communication 1996-98			
	Doctors per 100 000 (1992-95)	Nurses per 100 000 (1992-95)	Public health expenditures (% of GNP) 1996-98	Public expenditures on Education (% of GNP)	High students of sciences (% in total)	Personal Computers per 1 000	Internet Connection per 1 000	Phone lines per 1 000	Public phones per 1 000
East Mediterranean Zone									
Greece	387	278	5.3	3.1	30	52	4.71	522	5.9
Slovenia	219	686	6.8	5.7	29	251	11.51	375	1.7
Croatia	201	470	8.1	5.3	38	112	2.12	348	2.6
Turkey	103	151	2.9	2.2	22	23	0.73	254	1.2
Albania	141	423	2.7	3.1	22		0.05	37	0.1
Israel and the two islands									
Cyprus	231	425		4.5	17		7.94	585	2.9
Israel	459	671	7	7.6	27	217	19.15	471	6.9
Malta	250	1 189		5.1	13	260	4.79	499	4.5
Maghreb Countries									
Libya	219	334						84	0.1
Tunisia	67	283	3	7.7	27	15		81	1.5
Algeria	83		3.3		21	4		53	0.2
Morocco	34	94	1.3	5.3	29	3	0.07	54	1.1
Mashrek Countries									
Lebanon	191	122	3	4	22	39	0.74	194	
Syria	109	212		3.1	31	2		95	0.2
Egypt	202	222	1.8	4.8	15	9	0.04	60	0.1

Source: Human Development Report 2000, UNDP.
Note: This data is related to the available data for the most recent year of the period mentioned in the column concerned. The above data stem from the last available year statistics for the period covered in the relevant column.

PART II - Mobilization of domestic financial Resources

Introduction: The mobilization of domestic resources in the Mediterranean Region.

There are three kinds of savings in the Mediterranean region:

- Compulsory savings from taxation and quasi-taxation
- Voluntary savings deposited in the appropriate institutions (banks, insurance companies, pension funds, investment funds and stock exchanges)
- Emigrant remittances

The level of savings depends on the wealth generated by economic agents productive activities: if it is limited, it is impossible for financial circuits to be dynamic or to attract significant flows of savings. As analyzed in the preceding section, the economy in Mediterranean countries is still very much rent-based and innovation and industrial development capacities are weak. Financial systems are not very elaborate and available savings are usually almost exclusively managed by commercial banks.

In the Mediterranean region, emigrant remittances help to fill the economic productivity gap, by providing the complement required for household financial resources. These complements are most often dedicated to consumption, housing and home appliances, and their impact on the development of the financial sector remains limited, although it can sometimes represent a considerable source of banking income in such countries as Lebanon and Turkey, through the commissions on bank transfers from abroad.

We are not aware of any financial products which could serve as incentives to emigrants to increase the amounts transferred to their home countries. It would however be easy to imagine cooperation between banks and governments in countries from where transfers originate and beneficiary countries, to manage these savings and channel them to areas useful to sustainable development (cf. below). Even in more traditional sectors, such as housing-related savings, there are no mechanisms which provide such possibilities to emigrants.

In some Mediterranean countries with foreign exchange control mechanisms and currency black markets or where banking systems are ineffective, emigrant remittances are subject to clearing between residents requiring currency abroad and emigrants needing local currency, or through the black market for imported foreign currency. In such cases, foreign transfers are not absorbed by local financial circuits or beneficial to the balance of payments. This applies to a number of countries, where banking systems are still dominated by State Banks, and where the black market for currency is active.

There are considerable amounts at stake, and we will show below that gearing of emigrant savings to sustainable development objectives represents strong potential for action.

I. Taxes and compulsory savings in the Mediterranean Region

There are three essential deficiencies in the resources collected from citizens through the tax and quasi-tax system of States, local bodies and social security systems:

- Tax receipt level is lower in the Mediterranean region, except for the Northern Rim countries, as compared to what it is in developed or emerging countries that have successfully integrated the globalization process.
- The fact that direct taxation does not constitute a large share of total tax receipts points to a regression in the system, severely impacting under-privileged parts of the population through the prevalence of indirect taxation.
- Taxation is not organized as an efficient tool for sustainable development and does not cover its relevant requirements.

As regards public finances in developing Mediterranean countries, the high proportion of non fiscal receipts in the global receipts of States must be taken into account, since it impacts financial management and reform potential as a whole.

A. Taxation burden

The table below summarizes the level of tax receipts to GDP, in the second half of the 1990s.

Table 9. Compared tax burden in the Mediterranean countries (Average of recent available years)*

Maghreb	**Algeria**	**Morocco**	**Tunisia**	
Total tax revenue/GDP	38.6%	24.6%	24.9%	
Direct taxes/GDP	20.1%	8.1%	9.8%	
Machrek	**Egypt**	**Jordan**	**Lebanon**	**Syria**
Total tax revenue/GDP	19.1%	21%	13%	17.5%
Direct taxes/GDP	7.9%	4.7%	2.9%	6.3%
Others	**Cyprus**	**Israel**	**Malta**	**Turkey**
Total tax revenue/GDP	25.3%	35.5%	27.8%	14.8%
Direct taxes/GDP	11.7%	21.5%	15.4%	6.1%
UE Countries	**France**	**Greece**	**Italy**	**Spain**
Total tax revenue/GDP	38.4%	19.7%	4%	28.5%
Direct taxes/GDP	26.5%	8.5%	28.9%	21.4%

Source : Government Financial Statistics, IMF, Washington D.C.

The level of tax burden ranges between a minimum of 13% for Lebanon and a maximum of 25% for most developing Mediterranean countries. In reality, tax revenue levels are clearly lower than shown in this table, particularly for Algeria (and Syria to a lesser extent) where oil taxes considerably inflate the share of tax receipts.

The share of direct taxes in these countries is also very small. This topic will be addressed later.

On the other hand, it can be observed that France, Italy and Israel post tax revenues that are twice those of other countries. Among EU Member States, only Greece, and to a lesser extent Spain, post low taxation levels, a fact which can be explained by the significant EU transfers these countries have enjoyed.

If available income, including emigrant remittances, is used rather than GDP as basis for the calculation of the tax receipt ratio, the actual tax burden would be much lower in countries benefiting from such transfers.

B. Distribution of State receipts

The table below shows the percentage of different tax receipts to total State receipts. The respective weight of these tax receipts are analyzed hereunder:

Indirect taxes constitute the most important source of tax revenues in non-EU Mediterranean countries, ranging between a minimum of 26.6% for Egypt and a maximum of 55.8% for Morocco.

In some countries, customs duties still represent a significant share of total taxes (Lebanon, Jordan and Tunisia); in Lebanon for example, this share reaches 45%. As a general rule, custom tariff protection levels in Mediterranean countries remain high, and with the exception of Morocco, few countries have made progress in this area over the past years. Nevertheless, a substantial decrease in customs tariffs in the Mediterranean region is expected to result from partnership agreements with the EU, membership to WTO, agreements for the creation of a free trade zone among Arab countries and free trade agreements currently negotiated between the United States and some Mediterranean countries.

Table 10. Composition of the State revenues in Mediterranean countries (Average of recent available years)

	Tax on income and profits	Total direct taxes	Custom duties	Total indirect taxes	Total tax revenues	Public entrepen. & property income	Tolal non tax revenues
Maghreb							
Algeria*	64.5%	64.5%	16.9%	27.9%	93.6%	6.4%	6.4%
Morocco	20.6%	28%	16.3%	55.8%	85%	6.4%	15%
Tunisia	15.5%	32.2%	27.1%	47.5%	82%	14.7%	18%
Machrek							
Egypt	19.8%	25.4%	11.6%	26.6%	62.1%	16.2%	37.9%
Jordan	11.8%	17.1%	25.8%	53.8%	75.3%	18.1%	24.7%
Lebanon	7.9%	17%	45.1%	51.1%	75.5%	8.4%	24.5%
Syria*	24.6%	28.9%	12.3%	42.9%	74.8%	21.3%	25.6%
Others							
Cyprus	19.4%	37.6%	7.3%	34.9%	80.1%	12.6%	19.9%
Israel	36.9%	52.7%	0.4%	33.1%	86.1%	6.5%	13.9%
Turkey	33.1%	35.1%	2.9%	44.3%	81.7%	2.1%	18.3%
Balkan Countries							
Albania	8.1%	25.8%	16.4%	53.6%	79.6%	14.8%	20.4%
Croatia	11.4%	44.5%	7.7%	49.5%	95.1%	1.5%	4.9%
UE & USA							
France	18.3%	64.6%	0%	28.4%	93.7%	1.5%	6.3%
Greece	32.7%	39%	0.1%	59.6%	90.7%	5.3%	9.9%
Italy	32.5%	67.1%	0.1%	22.6%	93.7%	2.6%	7.4%
United State	54.5%	88.2%	1.2%	4.7%	92.9%	3.9%	7.1%

Source : same as previous table

The share of direct taxes, except in specific cases (Algeria and Morocco), remains low in most countries (except Turkey and Israel), whereas it is three or four times greater in developed countries.

In fact, the share of direct taxes in the total receipts of Mediterranean States, as highlighted in the Table below, shows that individual or corporate income tax is minimal in most countries, regardless of the amount of individual local wealth (Lebanon, Morocco and Jordan). Adversely, the table shows that in some cases, the quasi-tax contributions towards social security are not included in the statistics, thereby distorting comparisons. However, in general, the levels of such contributions remain limited, in view of modest payrolls and low remuneration levels.

Table 11. Ratio of Direct Taxes to Total State Revenues

Average ratio % of total State revenues	Tax on income, profits and capital gains	Indi-viduals	Enter-prises	Others	Taxes on proper-ties	Contri-bution to social security	Taxes on salaries	Total ratio of direct taxes	Total ratio of indirect taxes	Other taxes	Ratio of tax rev-enues
Algeria	64.5%	4.9%	4.1%	55.6%				64.5%	27.9%	1.2%	93.6%
Morocco	20.6%	10.1%	8.1%	2.5%	2%	5.4%		28%	55.8%	1.2%	85%
Tunisia	15.5%	7.6%	5.7%	2.2%	1.2%	14.3%	1.3%	32.2%	47.5%	2.3%	82%
Egypt	19.8%	2%	15.8%	2%	0.7%	9.9%		25.4%	26.6%	10.1%	62.1%
Jordan	11.8%	3.8%	7.7%	0.4%	4.7%		0.5%	17.1%	53.8%	4.5%	75.3%
Lebanon	7.9%				9.1%			17%	51.1%	7.5%	75.5%
Syria	24.6%				1.1%		3.3%	28.9%	42.9%	2.9%	74.8%
Albania	8.1%	1.4%	6.8%		0.7%	16.9%		25.8%	53.6%	0.3%	79.6%
Croatia	11.4%	7.8%	3.6%		0.4%	32.6%		44.5%	49.5%	1.1%	95.1%
Cyprus	19.4%	12%	6.4%	1%	1.9%	14.8%	1.6%	37.6%	34.9%	7.6%	80.1%
Israel	36.9%	26.5%	7.6%	2.8%	0.9%	12.2%	2.7%	52.7%	33.1%	0.5%	86.1%
Malta	25.2%	13.8%	9.4%	2%	2.9%	17.5%		45.6%	36.1%	0.3%	82%
Turkey	33.1%	24.9%	7.7%	2%	2%			35.1%	44.3%	2.4%	81.7%
France	18.3%	13.9%	4.3%	0.1%	1.9%	43.1%	1.3%	64.6%	28.4%	0.7%	93.7%
Greece	32.7%	16.8%	9.4%	6.4%	4.2%	2.2%		39%	59.6%	3.6%	90.7%
Italy	32.5%				2.1%	32.4%		67.1%	25.6%	1.1%	93.7%
Spain	30.2%	24.3%	5.7%	0.2%	0.4%	39%		69.6%	23%		92.6%
United States	54.5%	43.6%	10.9%		1.2%	32.5%		88.2%	4.7%		92.9%

Source : same source as previous table

Whereas the share of non-tax receipts in total State receipts remains low in the EU countries (except for Greece) and in the United States, it ranges from a minimum of 4.9% in Croatia and a maximum of 37.9% in Egypt; in several countries, the non-tax share levels off at 25% of total revenues.

As mentioned in the first part of this study, private firms largely escape taxation in many Mediterranean countries, either through tax exemption for new investment, or through tax evasion. The same is true for personal wealth. Most taxes are paid by salaried employees and by large corporations from the public or the private sector. In many countries, State-owned companies, particularly in the sectors of energy and raw materials, are strong contributors to direct taxes.

C. Local taxation

In Southern and Eastern Mediterranean countries, local taxation remains limited, whereas the system has improved in France, Italy and Spain, where active regional decentralization and autonomy policies have been implemented. Nevertheless, except for Spain which has a very active decentralization policy, the share of local expenditures in these three countries remains by far lower than the share of local expenditures in Scandinavian countries, as shown in the table below.

Table 12. Local bodies' expenditures and receipts in some European countries

	Expenditures (against GDP)	Categories of Revenues (against the total)			
		Taxes	Allocation From Central budget	Receipts from Exploitation	Borrowing
Denmark	33%	48%	18%	19%	2%
Suede	28.7%	59%	15%	19%	2%
Finland	23%	45%	23%	17%	2%
France	9.2%	52%	23%	9%	10%
Italy	13.7%	21%	62%	4%	3%
Spain	19.2%	35%	51%	1.5%	12%
Greece	2.1%		63%	35%	2%

Source : Les finances locales dans les quinze pays de l'Union Européenne, DEXIA, 1997.

As indicated in this table, Greece, France and Spain post a very high share of State allocations to local collectivities.

A recent publication of the OECD shows that revenues collected by local bodies reach 8.4% of GDP in Austria, 5.8% in Belgium, 10.1% in Switzerland and 7.3% in Germany, all Federal States. In the United States, this ratio is 6.4%[21], to which must be added receipts collected by the State in favor of decentralized units. These receipts account for 10.4% of GDP in Austria, 10.6% in Belgium, 14.4% in Switzerland and 11.6% in Germany. The same publication states that the share of local public bodies as a percentage of GDP is limited to 10% in France, 0.4% in Greece, 12.8% in Italy and 15.7% in Spain. In Turkey, this ratio is 4.4%. In Scandinavian countries, percentages reach 31% in Denmark, 18.5% in Finland and 21.1% in Sweden[22].

Data is not available for local bodies' expenditures and receipts in Southern and Eastern Mediterranean countries. Except for Federal States, local finances are not taken into account by the International Monetary Fund in its publications on the public finances of Member States. However, as shown in the Table below, the statistics available for many Mediterranean countries include the amounts transferred by States to local collectivities, to cover operating budgets and capital expenditures.

[21] *Source: Statistics of public revenues, 1965-2000, OECD, 2001, Paris.*
[22] *Ibidem*

Table 13. Percentage of Central budget appropriations allocated to Local bodies
% of the average of the total expenditures of the past three years

	Operating Expenditures	Capital Expenditures	Total
Algeria	8%		8%
Tunisia	2%	5%	7%
Morocco		5%	5%
Syria	2%	0.04%	2%
Turkey	1%	1%	2%
Israel	5%	1%	6%
Cyprus	0.4%	2%	3%
Albania	20%		20%
Croatia	1%	0.2%	1%
Slovenia	2%	1%	3%
Greece	5%	5%	10%
Italy	14%	2%	16%
France	6%	1%	8%
Spain	22%	1%	23%

Source: Government Finance Statistics Yearbook, 2002,IMF,Washington DC

As highlighted in the table above, and with the exception of Albania, no significant allocations are made by Southern or Eastern Mediterranean countries to local collectivities; it is however difficult to infer definitive conclusions from this table, in the absence of available local tax data for these countries. Tax decentralization is underway in countries like Tunisia and Morocco and it is possible to assume that local bodies own resources are on the increase.

More generally, municipalities and regions (in the rare cases of fully independent financial status) are not tooled to efficiently benefit from the trend to financial decentralization. In most cases, public finance regulations maintain strict control by Ministries of the Interior on local bodies' expenditures. While many Southern and Eastern Mediterranean States incur regular debts on local and international markets, this is not the case for their local bodies.

The World Bank has recently developed funding programs in favor of cities or municipalities to promote financial decentralization and to boost the capacity of local bodies to identify, plan and implement infrastructural and local development projects.

As regards receipts, local bodies are still largely dependent on State transfers, and their taxes remain based on ad hoc basis such as specific duties on posters and advertisement banners, quarries, rents or housing taxes for homeowners, entry fees to recreational premises, such as restaurants, movie theaters, festive events, etc.. In some countries such as Lebanon, the State adds surtaxes in favor of municipalities for telephone, electricity and water services, or earmarks for allocation to municipalities a share of its tax revenues from customs duties or income tax. However, the allocations earmarked for municipalities are not always disbursed promptly by the Public Treasury, due to budgetary constraints and to the high level of fiscal deficit: in Lebanon, for instance, the Treasury owes municipalities over 500 million USD in cumulated arrears. In some cases, and under the supervision of the Ministry of the Interior, specific financial institutions are in charge of distributing the share of State revenues assigned to local collectivities, and may adjust the distribution of resources transferred by the State budget according to the level of population of each municipality and/or the level of its own resource.

As we will see in the last section of this report, local bodies have a major role to play in funding sustainable development. In the introduction to this report, emphasis was placed on the importance of local development partnerships between stakeholders for the fight against poverty, environmental protection, land and urban planning and preservation of rural and urban areas. It is not surprising that the resources collected for or allocated to local bodies are highest in Scandinavian countries, where sustainable development is most advanced. In the Mediterranean, Spain and Italy are leaders in financial decentralization. Although Greece seems to allocate the least resources to its local collectivities, the country in fact receives massive transfers from EU community structural funds, allocated to its poorest regions. Spain and Portugal have also largely benefited from these EU resources.

New policies aimed at funding sustainable development, including its domestic aspects and the required external cooperation, should take into consideration the need to increase local communities' resources. This will require significant efforts in developing the institutional capacities of local bodies, which remain clearly insufficient in many countries. For urban and rural communities alike, the appropriate technical capacities will have to be provided. For all these reasons, taxation must be modified to reduce the dependence of local bodies on transfers from State budgets.

D. Adapting taxation to the principles of sustainable development

To our knowledge, there are no current efforts being undertaken to adapt State or local taxation to the specific issues of sustainable development in the Mediterranean region, which could be better managed at both the local and national levels. The issues include the fight against population concentration along coastal areas, uncontrolled urban sprawl, waste treatment, water management, incentives for research in agriculture, solar energy, etc. Many countries are nonetheless beginning to devote efforts to allocate a portion of tax revenues to the protection of the environment, and to attract the support of national, regional and international donors; however, studies show that the amounts collected through these channels remain modest[23]. In Egypt,

[23] *For Croatia, see the report of Sanja Tisma, Cooperation and the pooling of financial resources for sustainable development in the Mediterranean, July 2003, and for Egypt, the report prepared for Blue Plan by Environics, Environmental Taxes in SEMC. The case of Egypt, February 2003.*

governmental measures have been applied to urge polluting industries, such as the cement industry, to abide by international standards.

A recent study inventories the means to rationalize the use of tax receipts in environment and natural resources protection, such as fisheries, forests, water and energy[24]. The study suggests complete reshaping of taxation and subsidies in the following areas:

- Systematic increase of taxes on the use of natural resources;
- Suppression of subsidies, particularly in the case of hazardous products such as pesticides, or pollutants, such as oil,
- Special taxation for pollutants, where consumers pay the negative impact of these products;
- Well modulated "user charges" for consumers of public goods and services (water, electricity, waste treatment, etc.),
- Taxation of all polluting activities, such as CO2 or other gas emissions, water pollution and any other source of pollution.

The study also recommends modifying indirect taxation to comply with the principles of environmental protection and of access to natural resources. However, in its recommendations, the study recognizes that changes in the use of the taxation systems will require major changes in the behavior of economic stakeholders and the establishment of constructive exchanges between the tax authorities and the main economic stakeholders and the social groups impacted by these changes.

As shown in the analysis of the taxation components, particular emphasis is placed on indirect taxes. These taxes are highly profitable for the State, particularly taxes and duties on individual transport which often represent a major source of tax income (customs duties on cars and spare parts, registration duties for purchased vehicles, road taxes, stamps or annual taxes for vehicle owners, and finally petrol excise). However, these heavy taxes do not deter individuals from preferring private vehicles to public transportation, as, in many Southern and Eastern Mediterranean countries, the quality of public transport in cities, rural areas and between cities and villages is poor. If subsidies to the public transportation sector are cut within the framework of structural adjustment programs, users may be furthered discouraged and turn to secondhand and highly polluting vehicles.

Taxation policies are still only marginally applied to sustainable development. Greater financial decentralization in favor of local bodies should lead to changes in taxation structures to the benefit of sustainable development initiatives.

[24] *See Fiscal Reform: Linking Poverty Reduction and Environmental sustainability. From what should be done to the politics of how to achieve it (Extended draft for inter-agency paper), Development Assistance Committee, OECD, Paris, 2-3 October 2003.*

E. Public pension funds and social security contributions

Unfortunately, no statistical data is available on this type of forced savings in Southern and Eastern Mediterranean countries. In countries where socialist state structures still exist, as in Syria, the institutions collecting mandatory contributions from public and private sector wage earners, manage considerable funds which are most often invested in local Treasury bonds. The same is true in countries with liberal structures, where employers must pay into gratuity schemes, and where forced savings are almost exclusively invested in State bonds.

It is therefore the State that generally benefits from the surplus funds collected by social protection institutions. Because populations in Southern and Eastern Mediterranean countries are young, these institutions have not posted deficits and are in fact endowed with surplus funds.

However, the prosperity of pension systems is declining with the gradual ageing of the population, particularly in countries with an ageing public sector workforce. Budgetary restrictions have not allowed filling the vacant civil-servant positions left by retirees, and in view of the high unemployment rate among young populations, the current surplus funds in private and public sector pension schemes will continue to decline.

The economic reforms recently undertaken under the aegis of the World Bank are pushing States to privatize their pension systems, at least for private sector employees; but private insurers themselves are often bound by rigid legal constraints in the investment of their savings, and real estate and State bonds are usually the only possibility.

Savings originating from social security taxes and dues are rarely invested in areas which could contribute to sustainable development. These savings benefit the public sector and are used to fund Central government deficits. More marginally, these funds are invested in luxury residential real estate in large cities, considered to be a safe investment.

Conclusion

In conclusion, there is no doubt that the tax and social security compulsory contribution systems in most Southern and Eastern Mediterranean countries have not been adapted to the requirements of sustainable development.

II. The use of tax resources

Sustainable development is not yet a priority for the use of tax resources. In fact, an important share of public expenditures is allocated to the traditional sovereign functions of the State, as shown in the following table.

Tableau 14. Comparison of Public expenditure Structure in the Mediterranean countries (%of GDP –average of the last three years)

	Sovereignty	Education, health and social security	Housing & communities development	Recreation, culture and related issues	Agriculture, forestry, fisheries	Energy mining,. Ind. & construction	Transport & communication	Other economic affairs	Other expenditures	Of which interest on public debt	Total expenditures as % of GDP
Maghreb											
Morocco	9.6%	9.2%	0.1%	0.3%	1.3%	0.1%	1.1%	0.3%	9.5%	5.0%	31.4%
Tunisia	6.9%	13.5%	1.5%	0.9%	2.5%	0.2%	0.8%	2.0%	3.5%	3.4%	31.9%
Machrek											
Lebanon	9.6%	6.1%	0.6%	0.3%	0.2%	2.5%	1.4%	1.5%	15.5%	14.5%	37.6%
Egypt	5.5%	6.9%	1.6%	2.5%	1.5%	0.2%	1.4%	0.1%	12.5%	6.7%	32.2%
Syria	6.6%	4.0%	0.4%	0.4%	2.1%	2.9%	0.8%	4.5%	2.1%		23.7%
Other Countries											
Turkey	6.0%	8.4%	0.9%	0.4%	1.2%	0.6%	1.0%	0.8%	24.6%	19.8%	43.9%
Israel	10.7%	25.2%	1.4%	0.4%	0.4%	1%	1.0%	0.4%	5.9%	5.4%	46.3%
Cyprus	5.7%	15.4%	1.5%	0.6%	2.1%		1.8%	0.9%	5.7%	5.5%	36.3%
Malta	6.1%	23.2%	3.9%	0.8%	0.5%	1.6%	1.9%	1.1%	2.6%	2.6%	41.8%
Balkan countries											
Croatia	7.6%	30.0%	1.8%	0.6%	1.0%	0.4%	2.9%	0.5%	2.5%	1.8%	47.3%
Slovenia	6.0%	27.7%	0.4%	0.6%	0.9%	0.3%	2.0%	1.0%	1.5%	1.5%	40.3%
UE countries											
France	5.7%	30.5%	0.5%	0.3%	0.2%	0.2%	0.7%	1.6%	5.5%	2.5%	45.3%
Greece	4.7%	11.2%	0.7%	0.4%	1.1%	0.7%	1.6%	0.3%	11.7%	10.1%	32.3%
Spain	3.1%	17.0%	0.1%	0.2%	0.2%	0.12%	0.9%	0.6%	12.7%	4.3%	35.1%

Principal source used : Government Finance Statistics Yearbook,1999, 2002 ; IMF; Washington DC GDP data : International Financial Statistics Yearbook,1998; IMF; Washington DC Lebanon GDP data: Web site Ministry of Finance; Morocco 1997-1999; Cyprus 1996-1998; Tunisia 1998-2000; Malta 1996-1998; Lebanon 1997-1999; Croatia 1999-2001; Egypt 1995-1997; Slovenia 1999-2001; Syria 1997-1999; France 1990-1993; Turkey 1999-2001; Greece 1996-1998; Israel 1999-2001; Spain 1995-1997

The weight of public expenditure versus GDP highlighted in the table separates countries into 2 groups. In the first group (Balkan countries, France, Malta, Israel and Turkey), expenditures are equal to or greater than 40% of GDP; in the second, expenditures vary between a minimum of 24% of GDP in Syria (despite its centralized economy) and a maximum of 38% (countries with liberal economies, but where public debt weighs heavily on expenditures). It can also be observed that in countries with large public sectors, such as Egypt, Morocco and Tunisia, the public expenditure ratio to GDP remains modest.

The table also shows that the ratio of expenditures dedicated to healthcare, education and social protection to GDP varies between countries: the ratio is lowest in Lebanon and Syria (respectively 6% and 4%); and highest in France and Croatia (30%) as well as in Slovenia (28%), Israel and Malta (respectively 25% and 23%), and finally in Cyprus (15%) and Tunisia (14%). The remaining countries allocate less than 10% of GDP to these expenditures[25].

[25] However, it has to be remembered that social expenditures can be under-estimated when social protection organizations have an independent status and when their accounts are not consolidated with the State budget.

Furthermore, expenditure is lowest in the areas which are essential to sustainable development, namely housing and community development as well as agriculture, forests and fisheries. As regards housing and community development, expenditures account for 0.1 to 2% of GDP (with the exception of Malta, at 4%), and the other areas combined show expenditures of 2% of GDP in Tunisia, Egypt and Cyprus.

Table 15 shows that some countries can not afford to increase sustainable development expenditures: these are countries where sovereignty expenditures and public debt service account for almost half of public spending, if not more. This is the case for Morocco, Lebanon, Turkey and Greece. Sovereignty spending (including defense and security) is very high in Morocco (30.7%), Lebanon (25.6%), Syria (27.7%) and Israel (23%). In other countries these expenditures vary between a minimum of 8.7% in Spain and a maximum of 21.8% in Tunisia. Other countries post sovereignty spending levels between 12 and 16% of total spending. Lebanon (38.5%), Turkey (45.2%) and Greece (31.2%) are the three countries most impacted by the weight of public debt on their total budget.

Table 15. Distribution of the Different Types of Public Expenditures As a percentage of Total Budget Expenditures (Average of the last three years)

	Sovereignty functions	Education, health and social security	Housing & communities Development	Recreation, culture and related issues	Agriculture, forestry, fisheries	Energy mining,. Ind. & construction	Transport & communication	Other economic affairs	Other expenditures	Of which interest on public debt	Total expenditures
Maghreb											
Morocco	30.7%	29.2%	0.4%	0.8%	4.1%	0.4%	3.5%	0.9%	30.3%	15.9%	100%
Tunisia	21.8%	42.5%	4.7%	2.9%	7.7%	0.7%	2.4%	6.4%	11.0%	10.5%	100%
Machrek											
Lebanon	25.6%	16.3%	1.6%	0.7%	0.4%	6.5%	3.6%	3.9%	41.3%	38.5%	100%
Egypt	17.0%	21.6%	4.9%	7.7%	4.7%	0.5%	4.3%	0.4%	38.9%	20.9%	100%
Syria	27.7%	16.7%	1.5%	1.6%	8.7%	12.4%	3.4%	19.0%	9.1%	0.0%	100%
Other countries											
Turkey	13.7%	19.2%	2.0%	0.9%	2.7%	1.3%	2.3%	1.7%	56.2%	45.2%	100%
Israel	23.0%	54.4%	3.1%	0.9%	0.8%	2.2%	2.2%	0.8%	12.6%	11.6%	100%
Cyprus	15.6%	42.4%	4.0%	1.6%	5.8%	0.0%	4.9%	2.6%	15.7%	15.0%	100%
Malta	14.6%	55.5%	9.4%	1.9%	1.3%	3.8%	4.6%	2.7%	6.3%	6.2%	100%
Balkan countries											
Albania	15.2%	29.3%	2.4%	1.0%	4.0%	1.5%	4.4%	1.0%	41.1%	19.9%	100%
Croatia	16.0%	63.5%	3.8%	1.2%	2.1%	0.9%	6.2%	1.0%	5.3%	3.8%	100%
Slovenia	15.0%	68.6%	1.0%	1.6%	2.1%	0.6%	4.9%	2.4%	3.7%	3.7%	100%
Pays UE											
France	12.7%	67.4%	1.2%	0.6%	0.4%	0.4%	1.5%	3.6%	12.2%	5.6%	100%
Greece	14.6%	34.6%	2.1%	1.2%	3.4%	2.3%	4.8%	0.9%	36.2%	31.2%	100%
Spain	8.7%	48.5%	0.4%	0.6%	0.6%	0.5%	2.6%	1.8%	36.2%	12.3%	100%

Main source: Government Finance Statistics Yearbook,1999,2002 ; IMF; Washington DC
Morocco 1997-1999; Tunisia 1998-2000; Malta 1996-1998; Lebanon 1997-1999; Albania 1996-1998; Egypt 1995-1997; Croatia 1999-2001; Syria 1997-1999; Slovenia 1999-2001; Turkey 1999-2001; France 1990-1993; Israel 1999-2001; Greece 1996-1998; Cyprus 1996-1998; Spain 1995-1997

III. Voluntary savings and efficiency of funding channels

Voluntary savings are either collected by banks or invested on the stock market in shares or bonds, or in life insurance premiums.

Southern and Eastern Mediterranean countries are characterized by the quasi-monopoly of banks in the management of such savings, which remains very traditional. Bank loans are only granted to wealthy clients against real estate or personal collateral. These clients often prefer earmarking a portion of their liquid wealth in deposits which they use as a collateral to the credits granted to them by banks. Banks remain favorable to over-indebtedness of corporate clients, as long as their main shareholders maintain sufficient collateral.

It is therefore not surprising that financial intermediation on the part of Mediterranean banking systems remains limited. There are two essential weaknesses:

- A large portion of collected savings is channeled in subscribing to State bonds considered as the safest form of placement, requiring no in-depth risk or profitability assessment.
- The share of savings allocated to the private sector in the form of loans remains limited and is often allocated to well-established, large family business groups offering sufficient real estate collateral.

No data is available as regards the distribution of banking credit to different economic sector. However, in many countries, the largest share of credits goes to the services industry, in particular trade, tourism and real estate. A recent survey on the labor market and on the causes of emigration in Lebanon, which enjoys the most advanced banking system in the region, reveals that only 3.5% of young people entering active economic life has been granted business start-up loans[26]. Consolidated monetary and banking data in the main countries reveal the weaknesses of the existing financial systems. The following table compares the share of bank credits awarded to the private and public sectors in relation to GDP, and the percentage of credits allocated to the private sector to total banking credits. The figures highlight the following weak points:

- Credits to the private sector in Arab countries (Maghreb and Mashrek) are lesser than in other Mediterranean countries, which signifies that the share of local savings channeled by the banking system is insufficient to fund the economy. The share of loans to the private sector versus total bank loans is limited in many countries (Algeria, Libya, Morocco, Egypt, Lebanon, Syria, Albania and Turkey).
- Adversely, while economic reform programs are showing a clear trend towards reduced loans to the State and to the public sector in these

[26] *See L'entrée des jeunes dans la vie active et l'émigration, under the supervision of Churig KASPARIAN, Publications of Saint Joseph University, 3 volumes, Beirut, 2003.*

countries, Egypt (38%), Lebanon (91%), Turkey (49%) and Greece (47%) are still subjected to the grip of the State and the public sector on savings. In France, contrary to the general trend, the share of banking resources allocated to State funding is increasing.

- The ratio of private sector loans to GDP is lowest in Syria (9%), followed by Libya (23%) and Turkey (20%).

Table 16. Distribution of credits between the public and private sectors in the banking systems of the Mediterranean countries

	Credits to the state and public sector (% of GDP)			Credits to the private sector (% of GDP)			% of private sector credits to total credits
	1981-85	1991-95	2001	1981-85	1991-95	2001	
Maghreb							
Algeria		45%	25%	56%	50%	60%	19%
Libya		75%	31%	23%	32%	23%	40%
Morocco	29%	24%	20%	20%	28%	55%	65%
Tunisia	7%	4%	6%	49%	54%	61%	91%
Machrek							
Egypt	71%	51%	38%	26%	26%	54%	58%
Jordan	20%	23%	13%	54%	62%	75%	84%
Lebanon*		49%	91%		69%	92%	50%
Syria	79%	43%	18%	7%	10%	9%	33%
Balkan countries**							
Bosnia		2%	1%		58%	32%	101%
Croatia		10%	10%		36%	43%	80%
Slovenia		8%	8%		27%	40%	81%
Albania							13%
Other countries							
Cyprus	10%	21%	22%	53%	74%	109%	82%
Israel	113%	21%	-1%	65%	65%	93%	101%
Malta	-6%	15%	29%	36%	75%	121%	81%
Turkey***	1%	8%	49%	16%	16%	20%	28%
UE countries							
France		10%	18%		92%	90%	83%
Italy		39%	20%		60%	80%	80%
Spain		26%	19%		81%	106%	85%
Greece		66%	47%		33%	68%	61%

Source: International Financial Statistics Yearbook, 1998, 2001, April 2003, IMF, Washington D.C.
** years 1995-98*
*** 97/98 for Bosnia; 96/98 for Croatia; 93/97 for Slovenia*
**** 87/90*

The following table shows other weaknesses in banking systems and indicates the levels of savings in Mediterranean countries.

Table 17. Indicators of Saving levels in the Mediterranean countries

Average 1999/2001	% of deposits to GDP	% of credits to the private sector to total liabilities	% of total consolidated balance sheet to GDP	% of net foreign currency holding to GDP	% of net foreign currency holding to total balance sheet	% credits of monetary authorities to the total balance sheet	% Gross national saving to GDP	% Gross national saving to GNP
Maghreb countries								
Algeria	28%	15%	55%	-2%	0%	19%	41%	
Libya	42%	35%	73%	-4%	5%	2%	33%	
Morocco	37%	46%	63%	3%	24%	1%	19%	28%
Tunisia	45%	84%	69%	-9%	5%	4%	23%	25%
Machrek countries								
Egypt	66%	51%	109%	3%	7%	3%	10%	15%
Jordan	87%	38%	199%	17%	32%	0%	1%	24%
Lebanon	175%	30%	260%	4%	18%	1%	-12%	-5%
Syria	34%	10%	89%	46%	52%	43%	29%	29%
Balkan countries								
Bosnia	21%	70%	65%	-13%	21%	0%	-13%	
Croatia	44%	53%	84%	0%	18%	0%	18%	20%
Slovenia	47%	48%	95%	6%	17%	5%	24%	25%
Albania							-3%	14%
Rep. Fed. of Yugoslavia							-9%	8%
Other countries								
Cyprus	105%	55%	214%	-23%	28%	0%		
Israel	90%	33%	121%	40%	36%	33%	12%	15%
Malta	99%	34%	72%	33%	48%	0%		
Turkey	50%	31%	69%	-1%	14%	7%	19%	17%

Source : International Financial Statistics, op.cit. for banking indicators and World Development Report, 2003, The World Bank, Washington D.C. for saving indicators

As indicated in the table, the ratio of bank deposits to GDP is under 50% in Maghreb Countries, Syria and Balkan Countries, with three countries posting a ratio under 35%: Algeria, Syria and Bosnia Herzegovina. Furthermore, the ratio of loans to the private sector to total consolidated balance sheets remains under 50% in Algeria, Libya, Morocco, Jordan, Lebanon, Syria, Slovenia and Turkey, confirming the preceding figures. In some countries, the share of credit to the private sector is under 35% of the total bank's balance sheet (Algeria with 15%, Syria with 10%, Lebanon with 30% and Turkey with 31%).

In some countries, the size of banking systems does not correspond to the volume of the economy, and the consolidated banking balance sheet is much higher than GDP, as in the case of Lebanon (260%), Jordan (199%), Cyprus (214%) and Israel (121%). Some countries, such as Lebanon, Jordan and Israel, benefit from emigrant savings or have off-shore zones or off-shore companies (Cyprus has attracted considerable Russian funds). By contrast, some banking systems are inadequately sized in countries benefiting from significant external flows of remittances provided by their emigrants. This is particularly the case for Algeria (55%), Syria (89%, from which the foreign currency assets should be deducted as it belongs to the State), Turkey and Tunisia (69%) as well as Morocco (63%).

Some banking systems are still dependent on the financial resources provided by monetary authorities (Algeria, Syria and Israel), while others enjoys an accumulation of substantial foreign assets in their balance sheet (Morocco, Jordan, Syria, Israel and Malta). However, some banking systems suffer from negative net foreign assets (gross foreign currency assets minus foreign currency liabilities to foreign banks) which are negative versus GDP. This is the case for Algeria (-2%), Libya (-4%), Tunisia (-9%), Bosnia Herzegovina (-13%), Cyprus (-23%) and Turkey (-1%). This means that the funding of these banking systems is dependent on resources supplied by foreign banks.

Furthermore, in-depth analysis of banking balance sheets highlights the lack of monetary instruments and confirms the absence of short-term capital markets where banks could find the required funding. Moreover, there is practically no funding available for the banking business itself through the issuance of long-term bonds.

The table below reveals other deficiencies:

- Some countries, where significant external flows are provided by emigrants, show negative gross savings ratios to GDP. This is the case for Lebanon (-12%), Albania (-3%), the Federal Republic of Yugoslavia (-9%) and Bosnia Herzegovina (-13%). Savings levels in Jordan are very limited (1%), due to the high level of fiscal which turns global national savings negative or very small.
- Oil-exporting countries post high savings rates (Algeria and Libya with 41% and 33% respectively) thanks to the budget surpluses resulting from oil taxation.
- As a general rule, savings ratios increase when compared with Gross National Income (figures including income of nationals living abroad), and can, in some countries yield considerable differences, which limits the use of savings for investment purposes, as in Jordan, Morocco, Egypt and Albania.

The analysis of these indicators clearly shows that Mediterranean banking systems are not as proactively involved in the funding of sustainable development initiatives as could be expected, and that other funding channels are not readily available.

IV. Emigrant remittances

Emigrant remittances are by far the most significant foreign flow of resource in the Mediterranean region, far above the contributions provided by new net foreign loans or investments, or grants and other ODA. As shown in the table below, these resources are much more significant in the Mediterranean region than in more densely populated countries

Table 18. Emigrant's remittances in Mediterranean countries

1990-2000 (in millions of US $)	Emigrants' remittances	Annual average	% of GDP
Algeria (91/00)	8 432	937	2.0%
Tunisia	6 437	644	3.9%
Morocco	20 100	2 010	6.5%
Total Maghreb	34 969	3 591	3.9%
Lebanon (90/98)	17 532	1 753	21.1%
Egypt	37 006	5 287	5.6%
Jordan	12 971	1 297	22.3%
Syria			
Total Machrek	67 509	8 337	7.1%
Turkey	37 311	3 731	2.1%
Albania (92/00)	3 180	353	14.4%
Croatia (93/00)	3 691	461	2.6%
Bosnia			
Yugoslavia			
Total Balkan countries	6 871	815	3.8%
Total Mediterranean Region	146 660	16 473	4.6%
East Asia & Pacific	21 465	2 147	0.1%
Latin America	117 142	11 714	7.0%
Europe & central Asia	44 750	4 475	4.0%
South Asia	125 358	12 536	2.4%
Sub Saharan Africa	15 427	1 543	2.4%

Source : Global Development Finance, 2002, The World Bank, Washington D.C.

This situation can be explained by the fact that emigration has been substantial in the region since the 19th century. Following the emigration from Spain, Italy and Greece to France and Northern Europe, the Southern and Eastern Mediterranean countries are today's labor exporters.

However, the official figures published by the World Bank and shown in the table above, do not fully cover actual transfer amounts. The World Bank figures do not include for example the amounts received by Malta, Cyprus, Syria, Serbia, Montenegro and Israel. Moreover, it must be underscored that in countries with foreign exchange controls or where banking systems are not developed or reliable, a large share of emigrant remittances does not transit through formal banking channels. This only serves only serve to feed the black market, on the basis of the clearing mechanism, and emigrants are paid in the currency of their country of residence in exchange for remitting their foreign savings to informal intermediaries.

Therefore, it can be assumed that the amount of emigrant remittances registered in balance of payment figures is largely under-estimated. These figures would be much higher if the inflows to countries not included in the World Bank data were added to the estimates of 146.7 billion USD in remittance flows for the 1990-2000 decade. Emigrant remittances would total 183 billion USD if World Bank figures were increased by 25%.

These considerable resources should be more efficiently pooled to fund sustainable development, while the inflows actually only serve to maintain the current standards of living of the poor, unemployed and illiterate parts of the population. In some cases, these flows are used for home improvements, to fund the education of family members, to open a grocery store or a repairs shop in underprivileged villages or urban neighborhoods. In middle and high social classes, savings accumulated during emigration serve to fund the purchase of apartments or the construction of private villas.

Wealthy businessmen who have immigrated to Europe, to the Arab peninsula, to Canada or to the United States sometimes invest in their national economy. However, these investments are often specifically earmarked for luxurious real estate and large commercial malls. Emigrant remittances are only rarely invested in the use and spread of new high value added technologies, and are not invested in areas which could benefit sustainable development, such as water recycling, renewable energies, waste treatment, biodiversity in medical applications, construction of antipollution facilities, energy and water saving equipments in housing, agriculture and industry.

It is true that the domestic market in most countries is not suitable to such investments (insufficient R & D, lack of technological knowledge, absence of tax incentives, and difficulties in finding the required funding, and safer and quicker financial returns from investments in real estate and trade).

A wide-scope action plan is required to succeed in channeling a share of emigrant remittances for sustainable development. Awareness campaigns should also target emigrant communities.

V. Savings and Investments

In fact, it does not appear that Mediterranean countries are lacking resources to invest, as demonstrated in the table hereunder.

Table 19. Savings and Investments in the Mediterranean countries -2001

	Gross domestic savings (% of GDP)	Gross capital formation (% of GDP)	Gross national savings (% GNI)	Consumption of fixed capital (% of GNI)	Net national savings (% of GNI)	Adjusted net savings* (% of GNI)	Adjusted net national saving minus net national savings (% GNI)	Budget surplus or deficit (% of GDP)
Albania	-3	19	13.9	9.2	4.7	6.1	1.4	8.5
Bosnia	-13	21		8.9				
Croatia	18	24	20.4	11.4	9.0			-4.9
Slovenia	24	28	24.8	12.0	12.8	17.3	4.5	-1.3
Yugoslavia	-9	13	8.0	9.2	-1.2			
Algeria	41	26		11.0				9.9
Libya	33							
Morocco	19	25	27.7	9.6	18.1	21.6	3.5	-2.5
Tunisia	23	28	24.6	10.0	14.6	16.0	1.4	-2.6
Egypt	10	15	15.4	9.6	5.8	3.3	-2.5	-0.7
Lebanon	-12	19	-4.9	10.3	-15.2	-13.9	1.3	-16.2
Palestine	-24	33		8.5				
Syria	29	21	28.5	9.7	18.8	-9.9	-28.7	0.7
Cyprus								
Israel	12	19	14.9	13.2	1.7	7.9	6.2	0.9
Malta								
Turkey	19	16	16.7	7.0	9.7	9.4	-0.3	-11.4
Greece	15	23	17.9	8.7	9.2	10.9	1.7	-4.4
France	22	20	21.3	12.6	8.7	14.1	5.4	
Italy	21		20.5	13.6	6.9	11.0	4.1	-1.6
Spain	24	25	22.8	12.9	9.9	13.8	3.9	

Source : World Development Indicators, 2003, The World Bank, Washington D.C.
** Adjusted savings represents net national savings plus current expenditures on education (investment spending excluded) and minus environment costs (energy, mineral and forest consumption) and also minus damages from carbon dioxide emissions and other pollution factors. Fixed capital consumption represents the capital amortized during the year.*

The table shows that, with the exception of Lebanon and the Federal Republic of Yugoslavia, in all Mediterranean countries where data is available, the net national savings are positive (i.e. amounts remaining after deduction of annual amortization of fixed capital). The situation is different for gross domestic savings (excluding foreign currency transfers, i.e., emigrant workers transfers). Deficits posted in savings by Albania, Bosnia Herzegovina, Yugoslavia, the Palestinian Territories and Lebanon range between 3% and 24%, and confirm the important role of emigrant remittances in the macro-economic equilibrium of Southern and Eastern Mediterranean countries. In Lebanon, the issue is the very high amount of fiscal deficit and balance of payments deficit; in the Palestinian Territories, despite humanitarian aid and emigrant, remittances; in Bosnia Herzegovina, the issue is the extreme poverty of the population.

In reality, the issue lies in the ratio of investment flows. to Gross National Income (GNI). Fixed capital renewal is very limited in developing economies and rarely exceed 12% (13.2% in Israel), leveling off at 9% or 10%. As regards gross fixed capital formation, figures are high for Croatia and Slovenia (24% and 28%) and for the Maghreb countries (between 25% and 28%) where active policies for infrastructure development exist. However, these figures are much lower in the other countries, with the exception of the Palestinian Territories where foreign aid remain the main source of funding.

In fact, the sluggishness of Mediterranean economies and their dependence on external funding, including emigrant remittances, is responsible for the current levels of savings and investments. In many Mediterranean countries, the standards of living are sustained by the inflow of external resources and do not always properly reflect the level of the domestic economic activities.

PART III - Flows of external resources in the Mediterranean

The flows of external resources include three main components:

- ➤ official development aid
- ➤ financial flows originating from foreign indebtedness or foreign investment
- ➤ emigrant remittances that could be looked upon in two ways as on hand they contribute to funding of domestic activities thanks to the close ties maintained by emigrants with their country of origin, and on the other hand they are an important source of considered as foreign currency resources. These flows have been analyzed in the preceding Part II of this report devoted the issue of domestic savings mobilization.

I. Global flows of external financial resources according to the statistics of the OECD Development Assistance Committee (DAC) and of the World Bank

According to OECD estimates, global flows are composed of:

- ➤ flows related to external debt
- ➤ flows related to foreign investments
- ➤ flows related to Official Development Assistance (ODA).

These statistics also cover all Mediterranean countries regardless of the level of their development or legal status (Palestinian Territories).

However, the data of the World Bank, that we will used later as basis for the analysis of external debts, private investments and ODA extended to beneficiary countries, do not include high income countries, such as Israel, Libya, Malta and Cyprus, and do not take into account the inflows to the West Bank or Gaza.

The geographical coverage and methodology are different in these two data series, but they nonetheless remain useful and lead to similar conclusions.

A. Analysis of OECD statistics

OECD statistics cover total net resources, i.e. ODA disbursements by DAC countries to beneficiary countries minus foreign debt repayments to DAC countries, and minus repatriated capital and profits from foreign investments. Moreover, the data is useful in identifying the share of resources coming from the EU and the member states and the share of resources from multilateral funding agencies.

As shown in the table of OECD statistics below, flows of total external resources are highly concentrated on a number of strategic countries, such as Egypt, Israel and Turkey accounting for almost two thirds of total available external resources (61.5%).

Table 20. Geographical distribution of the total net external resources (in million USD)

	1995	1996	1997	1998	1999	2000	Total	% from Total
Maghreb								
Algeria	548	1 876	(392)	193	(934)	(441)	849	0.8%
Tunisia	1 511	650	522	496	601	621	4 401	4.1%
Morocco	616	812	548	871	579	578	4 004	3.7%
Libya	90	115	52	64	(275)	(929)	(885)	-0.8%
Total	**2 765**	**3 453**	**730**	**1 624**	**(29)**	**(172)**	**8 370**	**7.8%**
Mashrek								
Lebanon	498	342	129	609	309	43	1 930	1.8%
Egypt	2 423	2 736	2 912	4 104	1 769	3 106	17 049	15.8%
Syria	209	93	(37)	166	283	415	1 127	1.0%
Gaza & West Bank	498	554	609	617	557	694	3 529	3.3%
Total	**3 628**	**3 725**	**3 613**	**5 495**	**2 918**	**4 257**	**23 636**	**21.9%**
Other								
Israel	1 989	5 687	5 118	3 401	3 618	5 295	25 108	23.3%
Turkey	106	4 319	4 646	3 757	3 006	8 678	24 513	22.7%
Malta	92	375	661	572	716	916	3 332	3.1%
Cyprus	364	258	449	716	602	729	3 119	2.9%
Total	**2 551**	**10 639**	**10 875**	**8 447**	**7 943**	**15 617**	**56 071**	**51.9%**
Balkans								
Albania	221	281	174	245	504	234	1 659	1.5%
Bosnia	890	823	883	891	1 127	917	5 531	5.1%
Croatia	209	516	1 158	910	1 601	1 344	5 739	5.3%
Slovenia	245	335	594	790	540	356	2 861	2.7%
Yugoslavia	63	(150)	342	(232)	1 094	1 124	2 242	2.1%
Ex-Yugoslavia (unsp.)	475	181	483	81	313	298	1 830	1.7%
Total	**2 103**	**1 987**	**3 634**	**2 686**	**5 179**	**4 274**	**19 862**	**18.4%**
Total Mediterranean	**11 047**	**19 803**	**18 851**	**18 252**	**16 011**	**23 976**	**107 939**	**100%**
South America	26 144	24 584	49 608	49 766	64 284	50 005	264 392	
Far East	57 189	58 052	50 607	44 229	41 454	6 927	258 458	
South and Central Asia	8 723	10 990	12 958	11 950	9 511	7 526	61 659	
Sub Saharan Africa	21 238	19 291	21 086	16 727	18 524	10 927	107 793	
Ex-USSR and Central Europe	20 854	17 909	22 157	33 758	26 604	23 112	144 394	

Source : Geographical Distribution of Financial Flows to Aid Recipients ,OECD, 2002

However, the next table (Table 21) shows that these countries of strategic importance are not only beneficiaries of official aid but also attract private capital flows in the form of loans or investments:

- Between 1995 and 2000, Turkey was the recipient of 24 billion USD in private capital inflow; 18.6 billion USD for Israel and 3.6 billion USD for Egypt. Inflow was also significant in Croatia (4.7 billion), Cyprus (2.9 billion), Malta (3.1 billion) and Slovenia (2.2 billion). These countries are small, moderately populated and major players in the tourism industry, and yet they have attracted a considerable flow of external resources.
- The table shows that the group of countries including Israel, Turkey and the two islands received 82.5% of the net private flows dedicated to the Mediterranean: 6% in Egypt and 12.7% in the Balkan countries, of which 50% for Croatia.
- In other countries, however, private external resource flows are negative: Algeria (-3.2 billion), Libya (-936 billion), Syria (-117 million) and Albania (-15 million). In other cases, the amounts received are very limited and do not correspond to the local needs or capacity of absorption. As we will see below, the statistics of the World Bank show significant negative transfers of both private and public flows of external resources.

Table 21. Distribution of private flows of external resources to Mediterranean countries (in millions USD)

	1995	1996	1997	1998	1999	2000	Total	% from Total
Maghreb								
Algeria	(1 456)	(1 474)	1 355	(427)	(828)	(363)	(3 193)	-5.3%
Tunisia	586	400	289	394	185	414	2 269	3.8%
Morocco	128	34	491	359	(194)	300	1 117	1.9%
Libya	84	107	45	57	(283)	(945)	(936)	-1.6%
Total	**(658)**	**(933)**	**2 180**	**383**	**(1 120)**	**351**	**(742)**	**-1.3%**
Mashrek								
Lebanon	188	35	(275)	263	50	(222)	38	0.1%
Egypt	(230)	(65)	318	1851	(4)	1 736	3 608	6.1%
Syria	(112)	(114)	36	47	97	(72)	(117)	-0.2%
Gaza & WestBank		4	9	9	28	12	62	0.1%
Total	**(154)**	**(139)**	**88**	**2 170**	**170**	**1 455**	**3 591**	**6.0%**
Other								
Israel	1 672	3 481	3 867	2 402	2 718	4 499	18 639	31.4%
Turkey	446	4 196	4 666	3 735	3 595	7 584	24 222	40.8%
Malta	19	316	641	553	711	896	3 135	5.3%
Cyprus	406	215	401	689	559	683	2 952	5.0%
Total	**2 542**	**8 208**	**9 575**	**7 379**	**7 583**	**13 662**	**48 949**	**82.5%**
Albania	12	28	13	(13)	29	(83)	(15)	0.0%
Bosnia	(34)	4	16	(27)	(24)	142	77	0.1%
Croatia	109	194	857	706	1 602	1 190	4 657	7.8%
Slovenia	77	288	534	723	382	239	2 242	3.8%
Yugoslavia	(9)	(208)	247	(337)	456	(9)	141	0.2%
Ex-Yugoslavia (unsp.)	82	(55)	461	14	(49)	(1)	451	0.8%
Total Balkan Countries	**236**	**251**	**2 128**	**1 065**	**2 395**	**1 478**	**7 553**	**12.5%**
Total Mediterranean	**1 967**	**7 387**	**13 970**	**10 997**	**9 029**	**16 001**	**59 350**	**100%**
South America	22 363	21 659	43 958	41 114	54 576	42 523	226 193	
Far East	41 645	48 007	32 257	17 939	15 908	843	156 599	
Southand Central Asia	1 100	2 928	5 859	3 798	1 779	1 244	16 708	
Sub Saharan Africa	2 608	3 407	7 060	3 496	6 292	(881)	21 982	
Ex-URSS & Central Europe	3 032	8 501	12 508	19 437	16 460	14 141	74 080	

Source : idem

The OECD data summarized in table 22 shows that the actual disbursements of public development aid for the period 1995-2000 amount to 28.5 billion USD and shows the following:

- In this case also, concentration of inflow is high: Egypt have benefited from 31.7% of total ODA disbursed to Mediterranean countries, equivalent to over 75% of the ODA granted to the Arab countries in the region, while Israel has received approximately 23% of total ODA. In fact, 92% of the total ODA from Germany mainly concerns these two countries, and the U.S. contribution account for 40.4% of the total ODA granted by DAC countries (total U.S. contribution account for 44% of total ODA).

➤ Humanitarian aid provided to Bosnia (3.6 billion USD, i.e. 12.8% of total ODA and 57% of ODA to Balkan countries) and to the Palestinian territories (1.7 billion USD, i.e. 6.3%) is invested in the relief of human suffering and in the prevention of further social degradation. But these amounts are clearly inferior to those allocated to strategic countries.

➤ For the remaining countries, excluding Morocco with 6.7% of total ODA, net amounts disbursed are very limited.

Table 22. Official Assistance of DAC countries to Mediterranean countries as per main donors 1995-2000

In millions USD	United States	France	United Kingdom	Germany	Japan	Total	Other donors	General Total	% from total
Algeria	0.1	809	1	29	(7)	833	99	932	3.3%
Tunisia	(116)	492	2	(43)	131	466	52	518	1.8%
Morocco	(68)	1 217	3	46	300	1 498	333	1 832	6.4%
Libya		4		7	0	12	2	14	0.0%
Total Maghreb	**(183)**	**2 519**	**6**	**32**	**423**	**2 809**	**486**	**3 295**	**11.6%**
Lebanon	54	223	3	44	6	330	129	459	1.6%
Egypt	4 690	1 838	45	1 190	873	8 635	393	9 029	31.7%
Syria		75	1	95	474	644	31	676	2.4%
Palestinian Territories	317	71	57	155	220	820	919	1 740	6.1%
Total Mashrek	**5 061**	**2 207**	**105**	**1 328**	**1 574**	**10 430**	**1 473**	**11 903**	**41.8%**
Total Arab Countries	**4 878**	**4 725**	**111**	**1 361**	**1 997**	**13 239**	**1 959**	**15 198**	**53.3%**
Turkey	(267)	132	8	93	83	49	67	116	0.4%
Israel	6 820	21	46	249	4	7 140	(649)	6 491	22.8%
Cyprus	31	4	2	(2)	0	35	172	207	0.7%
Malta	-	1	1	(4)	2	0	166	166	0.6%
Total non-Arab countries	**6 584**	**158**	**56**	**336**	**89**	**7 224**	**(244)**	**6 980**	**24.5%**
Albania	24	13	32	147	43	259	538	798	2.8%
Bosnia	907	156	20	608	177	1 868	1 773	3 641	12.8%
Croatia	44	12	6	103	3	168	120	288	1.0%
Slovenia	2	5	5	8	(0)	20	28	47	0.2%
Yugoslavia	151	25	30	366	5	577	979	1 556	5.5%
Total Balkan Countries	**1 129**	**209**	**94**	**1 233**	**227**	**2 892**	**3 437**	**6 330**	**22.2%**
General Total	**12 591**	**5 093**	**261**	**2 930**	**2 314**	**23 355**	**5 153**	**28 507**	**100%**
Central, South and North America	7 444	1 244	1 272	3 145	5 009	18 115	8 472	26 586	
Far East	980	1 492	804	3 965	21 467	28 706	6 379	35 085	
South and Central Asia	2 090	303	2 154	1 671	8 805	15 023	4 569	19 592	
Sub Saharan Africa	5 282	11 438	4 585	6 104	6 137	33 546	19 756	53 302	
Ex-USSR and Central Europe	9 799	2 125	705	6 153	487	19 268	5 054	24 321	
Total PDA	37 711	28 099	12 574	22 443	53 975	154 802	66 483	221 285	

Source: Geographical Distribution of Financial Flows to Aid Recipients ,OECD, 2001,2002

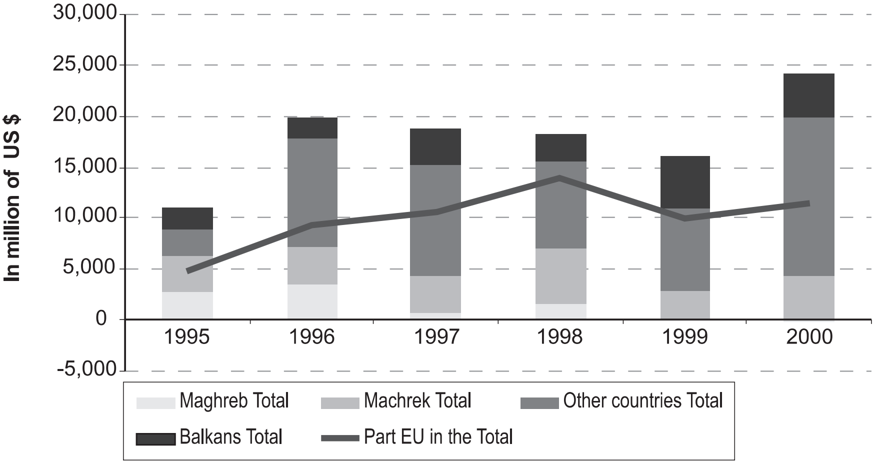
Regarding the financial contributions of multilateral funding agencies, net resource flows provided by the World Bank are negative by 1.8 billion, since reimbursements have by far exceeded disbursements from new loans, particularly in Turkey, Egypt, Syria and Tunisia.

DAC data for the period shows that ODA from Arab countries to the Mediterranean countries amounted to 1.9 billion.

If we deduct the U.S. "strategic" assistance to Egypt and Israel, and the humanitarian aid to Bosnia and to the Palestinian Territories, the actual amount of DAC aid between 1995 and 2000 levels off at 11.7 billion USD rather than at 28.5 billion.

The analysis of OECD data on net inflow shows an increase in the share of the EU, as highlighted in the graph hereunder.

Graph 2.Evolution of flows of resources from EU



Source: Geographical Distribution of Financial Flows to Aid Recipients, OCDE, 2002.

The EU share increased from 41% in 1995 to 80% in 1998, dropping to 63% in 1999 and to 46% in 2000. Over the period 1995-2000, this contribution accounted for 56% (i.e. 61 billion USD) of the total net inflow of 108 billion USD, as shown in the following table.

Table 23. Composition of the flows of external resources of Mediterranean Countries 1995-2000 - in millions USD and in %

	DAC Countries (all flows)	From which the EU (total flows)	% of total flow	From which Multilateral flows	% from total flows	From which PDA	% of total flows	From which private flows	% of total flows	From which Arab Countries	% of total flows
Maghreb	8 370	3 831	45.8%	3 885	46.4%	3 295	39.4%	(721)	-8.6%	151	1.8%
Mashrek	23 636	9 312	39.4%	3 442	14.6%	11 903	50.4%	3 591	15.2%	1 543	6.5%
Other	56 071	31 431	56.1%	(316)	-0.6%	6 980	12.4%	48 949	87.3%	353	0.6%
Balkan Countries	19 862	15 648	78.8%	5 325	26.8%	6 330	31.9%	7 553	38.0%	161	0.8%
Total	**107 939**	**60 221**	**55.8%**	**12 336**	**11.4%**	**28 508**	**26.4%**	**59 372**	**55.0%**	**2 208**	**2.0%**
Central, South and North America	431 627	193 235	44.8%	37 715	8.7%	26 586	6.2%	365 999	84.8%		
Far East	258 458	66 989	25.9%	35 985	13.9%	35 085	13.6%	156 599	60.6%		
South and Central Asia	61 659	17 242	28.0%	21 390	34.7%	19 592	31.8%	16 708	27.1%		
Sub Saharan Africa	107 793	63 450	58.9%	30 161	28.0%	53 302	49.4%	21 982	20.4%		
Ex-USSR and Central Europe	144 394			28 830	20.0%	24 321	16.8%	74 080	51.3%		
Total Developing Countries	**1 081 291**	**477 708**	**44.2%**	**150 075**	**13.9%**	**221 285**	**20.5%**	**659 726**	**61.0%**		
DC + Ex-USSR & Central Europe	1 225 685	477 708	39.0%	178 905	14.6%	245 606	20.0%	733 806	59.9%		

Source: Geographical Distribution of Financial Flows to Aid Recipients, OCDE, 2002.

Using OECD statistics for the period 1995-1999 to show the distribution of cumulated ODA commitments per economic sector and per type of aid in the Mediterranean region and comparing it to the distribution of overall ODA to all beneficiary countries, the following observations can be made:

- ODA to production sectors only account for 6.8% of total ODA To the region while it stands at 11% for the other countries.
- ODA to economic infrastructures and services account for 16.7% of total including 5.7% for transport and communications, and 5.2% for the energy sector, whereas for other countries, the share of ODA to these areas accounts for 24.5% including 13.3% for transport and telecommunications and 8.9% for energy.
- ODA to social infrastructures (education, health, water…) account for 31.8% of total on a par with other countries (31.3%). Multi-sector aid, often benefiting social initiatives, stands at 3.4% and 5.7% in the other countries.
- The Mediterranean region posts the highest ODA ratio for “program assistance” (essentially military aid) or emergency funds. .
- Funds from programs account for 17.9% of total ODA in the Mediterranean region while it accounts for 5.7% only in other countries; However it is to be noted that 89.5% of this type of ODA is allocated to Israel (76.4%) and Egypt (13.1%).
- Emergency funds account for 15.3% of total ODA, in the region against 6.8% in other countries, with special focus on Israel (20.6%) and the Balkan countries (66.8%).

Table 24. Distribution of the ODA granted to Mediterranean countries according to sectors and objectives 1995-1999 - in millions USD

	Social Infrastructure & services (Edu., Health, Water)	Economic Infrastructure & Services	Production Sectors	Multi-sector	Program Assistance	Action related to debt	Emergency Assistance	Unallocated/ Unspecified	Total	% of total countries
Algeria	143	31	24	4	34	246	31	33	545	1.6%
Tunisia	552	286	608	242	95	7	3	60	1 854	5.6%
Morocco	945	642	486	76	106	141	2	41	2 439	7.3%
Libya	10						1	1	11	0.0%
Total Maghreb	**1 650**	**959**	**1 118**	**322**	**235**	**394**	**38**	**135**	**4 849**	**14.6%**
Lebanon	386	65	18	17	2		41	8	537	1.6%
Egypt	2 382	2 084	691	524	781	1 452	8	99	8 020	24.2%
Syria	164	555	61	6	11		21	9	825	2.5%
Palestinian Territories	1 039	249	71	69	23	0	116	59	1 626	4.9%
Total Mashrek	**3 971**	**2 953**	**841**	**615**	**817**	**1 452**	**186**	**175**	**11 009**	**33.2%**
Total Arab Countries	**5 621**	**3 911**	**1 959**	**937**	**1 051**	**1 846**	**223**	**310**	**15 858**	**47.8%**
Turkey	1 518	709	147	49	58	0	417	50	2 949	8.9%
Israel	1 546	1	3	4	4 549		1 048	10	7 161	21.6%
Cyprus	26	1	0	9	0	0	0	1	37	0.1%
Malta	9	1	6	1	13	1	0	1	31	0.1%
Total non-Arab Countries	**3 099**	**712**	**156**	**63**	**4 620**	**1**	**1 465**	**61**	**10 178**	**30.7%**
Albania	290	211	59	23	55	0	201	14	853	2.6%
Bosnia	1 002	548	56	100	157	197	1 206	68	3 335	10.0%
Croatia	126	21	11	10	6	83	71	13	341	1.0%
Slovenia	43	8	3	1	0	32	2	9	97	0.3%
Yugoslavia (Fed.Rep)	242	75	11	2	20	5	755	11	1 121	3.4%
Ex-Yugoslavia (unsp.)	141	51	3	7	40	0	1 158	13	1 413	4.3%
Total Balkan Countries	**1 843**	**915**	**143**	**141**	**278**	**317**	**3 394**	**128**	**7 160**	**21.6%**
General Total	**10 563**	**5 539**	**2 258**	**1 141**	**5 949**	**2 164**	**5 082**	**499**	**33 196**	**100%**
% of total ODA	***32,4%***	***17,0%***	***6,9%***	***3,5%***	***18,3%***	***6,6%***	***15,6%***	***1,5%***	***100%***	
Other ODA's	**57 174**	**44 704**	**20 186**	**9 791**	**10 488**	**12 673**	**12 504**	**12 494**	**182 674**	
% of total ODA	***31,2%***	***24,4%***	***11,0%***	***5,3%***	***5,7%***	***6,9%***	***6,8%***	***6,8%***	***100%***	
Total ODA	**67 737**	**50 242**	**22 444**	**10 932**	**16 437**	**14 837**	**17 586**	**12 993**	**215 870**	
% of Med. Countries										
from total PDA	*15,6%*	*11,0%*	*10,1%*	*10,4%*	*36,2%*	*14,6%*	*28,9%*	*3,8%*		

Source : Geographical Distribution of Financial Flows to Aid Recipients, OECD, 2001,2002

The distribution of ODA per geographical Mediterranean sub-region is also imbalanced:

- Although global ODA to Arab Mediterranean countries total 47.8%, only 14.6% is allocated to the Maghreb countries against 33.2% to the Mashrek countries.
- In Balkan countries, 50% of the 21.6% of ODA has been allocated to Bosnia and 47.3% of dedicated to emergency assistance.
- Non Arab and Non Balkan countries accounted for 30.7% of ODA granted to Mediterranean countries, of which over 70% went to Israel (21.6% of total ODA to this region).
- The discrepancies in the distribution of resources per geographical sub-region and by sector or form of assistance disappear when Israel is removed from total ODA statistics to this region. In this case, the following can be observed:
- ODA to Mediterranean countries, excluding Israel, remain slightly higher for social infrastructures (35.3% vs. 30.8% in other countries) than for economic infrastructures (20.7% against 23.7%) or the productive sectors (8.6% vs. 10.7%);
- From the geographical standpoint, ODA to Arab countries account for 63.7%, with 17.3% to the Maghreb countries and 46.4% to the Mashrek countries where figures remain inflated by program assistance to Egypt). ODA to non-Arab and non-Balkan countries (excluding Israel) account for 10.7% while Balkan countries accounted for 25.5% .

B- Analysis based on World Bank data

The World Bank data for the period 1990-2000 (excluding 1991), shown in the table below, highlights the following:

- The Maghreb countries (excluding Libya) were impacted by negative public and private net transfer of resources of approximately 22.5 billion USD. In this group of countries, only Tunisia benefited from positive transfers (2.2 billion). Algeria suffered net outflows of 8.9 billion in favor of donor countries and in Morocco, outflows totaled 5.9 billion.

Table 25. Net transfers of resources to Mediterranean countries 1990-2000 - (in millions USD)

	Net Transfers on Debt	Net investment flows	Donations	Total	Technical Assistance	Reduction and Cancellation of Debt	Total
Algeria	(19 148)	(1 300)	683	(19 765)	877	14	(18 874)
Tunisia	(1 380)	1 762	1 045	1 427	795	9	2 231
Morocco	(13 500)	2 976	2 834	(7 690)	1 744	36	(5 910)
Total Maghreb	**(34 028)**	**3 438**	**4 562**	**(26 028)**	**3 416**	**59**	**(22 553)**
Lebanon	5 832	1 436	930	8 198	591		8 789
Egypt	(11 256)	12 473	14 987	16 204	5 628	10 869	32 701
Syria	(1 599)	1 049	1 200	650	475	398	1 523
Total Mashrek	**(7 023)**	**14 958**	**17 117**	**25 052**	**6 694**	**11 267**	**43 013**
Turkey	5 734	11 334	2 879	19 947	1 392		21 339
Albania	575	568	1 404	2 547	211	124	2 882
Croatia	3 939	5 002	297	9 238	99		9 337
Bosnia	318		4 509	4 827	469		5 296
Yugoslavia	(3 976)	156	2 538	(1 282)	1 255		(27)
Total Balkan Countries	**856**	**5 726**	**8 748**	**15 330**	**2 034**	**124**	**17 488**
Total Mediterranean Region	**(35 157)**	**37 060**	**36 044**	**37 947**	**14 420**	**12 926**	**65 293**
East Asia and Pacific	(19 426)	542 295	24 387	547 256	23 957	1 390	572 603
Latin America	(84 772)	419 623	28 269	363 120	19 035	42 412	424 567
Europe & Central Asia	(5 455)	190 290	64 947	249 782	25 242	16 259	291 283
South Asia	(10 098)	48 845	23 449	62 196	11 397	11	73 604
Sub-Saharan Africa	(14 335)	18 354	106 386	110 405	37 700	19 505	167 610

Source: Global Development Finance 2000, World Bank, Washington D.C.

The figures of Bosnia are available only since 1994.

- The group of Mashrek countries benefited from relatively high positive transfers, at 43 billion. However, this amount should be deflated to deduct the significant debt amounts raised by Lebanon through Eurobonds, heavily subscribed by Lebanese banks and not by foreign banks. Furthermore, it is clear that 67% of ODA granted this sub-region were disbursed to Egypt, who suffered high negative net debt flows (11.3 billion) that, however, were offset by a large amount of grants (15 billion) and by net positive investment flows (12.5 billion). In addition, Egypt enjoyed a substantial debt reduction of 10.9 billion following the country's participation in the 1991 Gulf War.
- The table below also shows net negative transfer flows relative to the debt during the period, in all developing Mediterranean countries, except for Bosnia, Croatia and Albania. These negative flows totaled over 35 billion USD, a level never before observed anywhere, except in Latin America. This is therefore a central issue for sustainable development in Mediterranean countries. This amount can be broken down as follows: 88.1 billion of interest payments (negative flows) and 52.9 billion in net

positive long-term debts flows (being the difference between reimbursements of old loans and drawings on existing or new loans). Interest paid represented a burden of 2.1% on the GNP of the countries concerned, and represented 8.6% of the total exports of goods and services.

➤ In the Mediterranean region, grants hold an astonishingly larger share of the flow of resources (except Sub Saharan Africa and Eastern Europe); grants to the region was allocated to Egypt. Moreover, Egypt accounted for 84% of total debt reduction and cancellation in the region.

➤ Although net investment flows are positive in the region their amount remains very limited standing at 37.1 billion USD over the period, essentially benefiting Egypt and Turkey (24 billion, i.e. 64.7% of total). By excluding the 36 billion USD in grants, the net resource transfers from external debt and foreign investment stands at only 1.9 billion USD.

Table 26. Net flows of external resources to Mediterranean countries - In million USD -

	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
Net flows on long-term debt	1 150	4 068	5 652	1 344	2 639	8 183	13 124	(111)	8 168	8 731	52 947
Interest on long-term debt	(8 834)	(9 882)	(8 018)	(8 088)	(8 718)	(8 944)	(8 416)	(8 522)	(9 164)	(9 518)	(88 104)
Total Net transfers on debt	(7 684)	(5 814)	(2 367)	(6 744)	(6 079)	(761)	4 708	(8 633)	(996)	(787)	(35 157)
Net foreign Investment	1 841	2 392	2 524	3 292	2 163	2 765	4 247	4 501	4 227	5 025	32 977
Portfolio equity flows	35	-	534	1 138	828	2 517	2 800	1 953	1 458	3 487	14 750
Minus Profit remittances repatriation	(542)	(1 085)	(922)	(930)	(983)	(1 115)	(1 201)	(1 280)	(1 315)	(1 372)	(10 745)
Total Net Investment flows	1 334	1 307	2 136	3 500	2 008	4 167	5 846	5 174	4 370	7 140	36 982
Donations (excluding technical cooperation)	7 212	3 606	2 193	3 055	3 001	3 151	2 808	3 072	3 945	4 001	36 044
Total Net Flow of Resources (NFR)	**862**	**(902)**	**1 963**	**(188)**	**(1 070)**	**6 557**	**13 362**	**(387)**	**7 319**	**10 354**	**37 869**
Gross National Product	**-**	**-**	**352 891**	**312 796**	**377 234**	**409 843**	**428 371**	**456 297**	**456 346**	**480 154**	**3 273 932**
% of NFR to PNB	-	-	0.6%	-0.1%	-0.3%	1.6%	3.1%	-0.1%	1.6%	2.2%	1.2%
Exports of goods and services	**66 641**	**73 261**	**81 344**	**84 815**	**101 880**	**117 288**	**126 532**	**124 572**	**116 549**	**136 542**	**1 029 424**
% of NFR aux exportations	1.3%	-1.2%	2.4%	-0.2%	-1.1%	5.6%	10.6%	-0.3%	6.3%	7.6%	3.7%
Migrants Remittances	**12 216**	**13 269**	**15 541**	**13 294**	**15 076**	**15 436**	**16 140**	**17 198**	**14 417**	**14 075**	**146 660**
% NFR to remittances	7%	-7%	13%	-1%	-7%	42%	83%	-2%	51%	74%	26%

Source: Global Development Finance, 2002, The World Bank, Washington D.C.

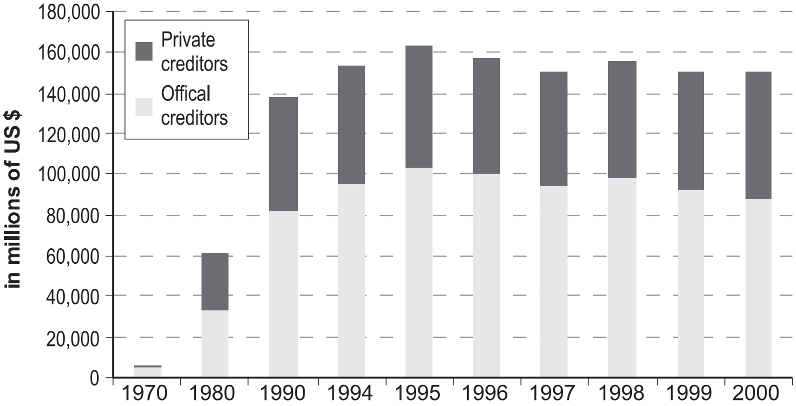
II. External debt of Mediterranean countries

It has been observed, on the basis of World Bank data shown in table 26 above, that the transfers of resources relative to external debt were negative despite the considerable debt cancellation benefiting to Egypt.

A. Evolution over time of long-term debt and total debt

The long-term debt of Mediterranean countries has grown from 5.8 billion USD in 1970 to 60.7 billion in 1980 and to 138 billion in 1990. In the 1990s, a maximum level was reached in 1995, at 163.4 billion, but the level dropped to 150 billion in 2000, as shown in the graph below.

Graph 3. Evolution of the external debt of Mediterranean countries



Source: Global Development Finance, 2002, The World Bank, Washington D.C.

If short-term credits, drawings from IMF and non-guaranteed private loans are added to the long-term debt, the increase of total external debt in Mediterranean countries ranges from 6.7 billion in 1970 to 64.8 billion in 1980 and from 148.5 billion in 1990 to 211.2 billion in 2000. This debt excludes the foreign debt of Israel, Malta and Cyprus not included in the World Bank data for developing countries.

These changes present several striking features, as shown in table 27:

- Debts owed to official bilateral and multilateral sources of loans have shown a relative decrease from 80% of total long-term external debt in 1970 to 58% in 2000, while debts owed to financial markets (private sources) increased from 20% to 42% of the total over the same period. In this respect, it is to be noted that debts raised on international financial markets are more costly in terms of interest rate and less advantageous in duration than debt contracted to DAC countries or multilateral and regional funding institutions.
- The distribution of total bilateral and multilateral official debt has also changed. Whereas bilateral loans accounted for 88% of this debt in 1970, they have only represented 70% to 74% since the beginning of the 1990s.
- Regarding debt to private sources, bond issues on international markets, which only accounted for 3% of total debt in 1980, totaled 46% in 2000, equivalent to debt levels with commercial banks. The ratio has ranged between 39% and 46% over the past ten years (42% in 2000).

Table 27. Distribution of public and guaranteed external debt of Mediterranean countries as per category of creditors - in millions USD -

	1970	1980	1990	1995	2000
I. Official creditors					
Multilateral	546	6 603	22 991	30 677	24 143
Bilateral	4 124	26 939	58 196	72 827	63 593
Total	**4 670**	**33 542**	**81 187**	**103 504**	**87 736**
Multilateral	12%	20%	28%	30%	28%
Bilateral	88%	80%	72%	70%	72%
Total	***100%***	***100%***	***100%***	***100%***	***100%***
II. Private Creditors					
Bonds	59	785	6 396	14 881	28 864
Commercial Banks	64	12 778	23 811	25 189	26 299
Other private	1 056	13 623	26 560	19 850	7 360
Total	**1 179**	**27186**	**56 767**	**59 920**	**62 523**
Bonds	5%	3%	11%	25%	46%
Commercial Banks	5%	47%	42%	42%	42%
Other private	90%	50%	47%	33%	12%
Total	***100%***	***100%***	***100%***	***100%***	***100%***
TOTAL I + II	**5 849**	**60 728**	**137 954**	**163 424**	**150 259**
Official / Private to Total					
Official to total	80%	55%	59%	63%	58%
Private to total	20%	45%	41%	37%	42%
Total	***100%***	***100%***	***100%***	***100%***	***100%***
Long-term debt	5 849	60 728	137 954	163 424	150 259
Drawings on the FMI	74	1 054	0	685	4 176
Short-term debt	784	2 502	9 500	15 701	28 912
Private nonguaranteed	42	535	1 054	7 079	27 828
TOTAL	**6 749**	**64 819**	**148 508**	**186 889**	**211 175**

Source: Global Development Finance 2002, The World Bank, Washington D.C.

B. Geographical distribution of debts

The analysis per country and per geographical sub-region of the external debt distribution reveals that in 2000 Turkey's long-term external debt amounted to 55.3 billion USD and to 116 billion for total foreign indebtedness, an amount which is higher than foreign indebtedness of any Mediterranean sub-regions. In Maghreb and Mashrek countries, long-term debt amounted to 47.7 billion USD and 47.2 billion USD respectively. The Balkan countries, with fewer inhabitants, display a moderate level of long-term debt (17 billion). The long-term debt of Turkey account for 33% of total long term Mediterranean external debt; Maghreb countries long term debt totaled 28.5%, Mashrek countries 28.2%, while of Balkan countries' debt represented only 10.1%.

However, in terms of total debt, the share of Turkey is more significant as it accounts for 47% of total aggregate Mediterranean debt. This is due to the fact that 69% of Mediterranean country drawings from IMF are made by Turkey vs. 29% by Maghreb countries and only 1% by the Balkan countries. The Mashrek countries do not use IMF resources.

Furthermore, as regards short-term debt and debt to non-guaranteed private sources, the share of Turkey amounts to 68% and 87% respectively. The Balkan countries apparently do not use these two sources of funds. The Mashrek countries use short-term loans significantly (12.4 billion USD, i.e. 29% of total short term loans).

Table 28. Distribution of the debt in Mediterranean countries as per sub-regions- Year 2000

USD million	Maghreb	% to total	Mashrek	% to total	Balkans	% to total	Turkey	% to total	Total	% to total
I. Official creditors										
Multilateral	13 380	48.1%	5 065	18.2%	3 684	13.2%	5 698	20.5%	27 827	100%
Bilateral	21 861	32.2%	34 585	50.9%	4 303	6.3%	7 147	10.5%	67 896	100%
Total	**35 241**	**36.8%**	**39 650**	**41.4%**	**7 987**	**8.3%**	**12 845**	**13.4%**	**95 723**	**100%**
Multilateral	38%		13%		46%		44%		29%	
Bilateral	62%		87%		54%		56%		71%	
Total	**100%**		**100%**		**100%**		**100%**		**100%**	
II. Private Creditors										
Bonds	1 479	4.8%	4 602	14.8%	2 217	7.1%	22 783	73.3%	31 081	100%
Commercial Banks	6 501	20.0%	1 682	5.2%	6 234	19.2%	18 116	55.7%	32 533	100%
Other private	4 502	57.0%	1 309	16.6%	535	6.8%	1 549	19.6%	7 895	100%
Total	**12 482**	**17.5%**	**7 593**	**10.6%**	**8 986**	**12.6%**	**42 448**	**59.4%**	**71 509**	**100%**
Bonds	12%		61%		25%		54%		43%	
Commercial Banks	52%		22%		69%		43%		45%	
Other private	36%		17%		6%		4%		11%	
Total	**100%**		**100%**		**100%**		**100%**		**100%**	
TOTAL I + II	**47 723**	**28.5%**	**47 243**	**28.2%**	**16 973**	**10.1%**	**55 293**	**33.1%**	**167 232**	**100%**
Official / Private to total										
Official to total	74%		84%		47%		23%		57%	
Private to total	26%		16%		53%		77%		43%	
Total	**100%**		**100%**		**100%**		**100%**		**100%**	
Long-term debt	47 723	29%	47 243	28%	16 973	10%	55 293	33%	167 232	100%
Drawings on the FMI	1 750	29%	0	0%	87.9	1%	4 176	69%	6 014	100%
Short-term debt	1 387	3%	12 373	29%	37	0%	28 912	68%	42 709	100%
Private nonguaranteed	2 696	8%	1 309	4%	14.9	0%	27 828	87%	31 848	100%
TOTAL	**53 556**	**22%**	**60 925**	**25%**	**17 113**	**7%**	**116 209**	**47%**	**247 803**	**100%**

Source: Global Development Finance 2002, The World Bank, Washington D.C.

C. Distribution of debt per creditor countries and currency

There are no available statistics for debt distribution according to creditor countries, but World Bank data shows long term debt distribution per currency, and thus gives an indication of the distribution of this type of debt by lending countries.

However, as shown in table 28 above, debts owed to EU countries are difficult to individualize, since the only individualized European currencies are the French Franc, the deutsche mark and the U.K. pound. Therefore, the share of European currencies in the long-term external debt of Mediterranean countries is not predominant, as opposed to the debt in US dollars, which increased from 40% in 1990 to 55.2% in 2000. It is quite probable that a share of European country loans are denominated in dollars. It is also impossible to identify whether the loans which can be issued in different currencies were issued in European currencies. Fluctuating exchange rates also weigh heavily on the share of individual currencies in the total debt expressed in dollars.

In this table we have attempted to estimate the full share of debt owed to EU countries by applying a ratio of 80% to the "other currencies" column. This yields a result of 30% in European currencies, an amount equivalent to 50.8 billion USD in 2000. However, it is possible that the share of EU countries in the total debt exceeds this figure: if multilateral loans are removed from total long-term debt, the ratio reaches 36%.

Table 29. Distribution of Mediterranean debts per currency

	Balkan Countries											
Amount in million USD	**Croatia**			**Bosnia**			**Yugoslavia**			**Albania**		
Currencies %	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**
Public and guaranteed debt		1 860	7 686			2 569	12 941	6 827	6 074	36	330	644
Deutshe mark		22	13.4			8.8	8.5	10.1	7.7	100	14.4	8.7
French Franc		7.2	0.8			0	4.4	7.9	5.8		0.2	0
Japanese Yen		3.7	7.6			0	1	2.2	2		2.5	4.5
Sterling Pound		3.3	0.5			0	0.4	0.6	0.5		0	0
Swiss Franc		2.7	1.5			1.3	1.8	3.6	2.8		0	0
U.S. Dollar		30.2	47.3			46.6	17.3	20.3	23.3		60.9	65.2
Miscellaneous Currencies		6.3	3.3			22.1	56.5	46.7	49.9		0	0
Other currencies		24.6	25.6			21.2	10.1	8.6	8		22	20.3
Total (%)		**35**	**16**			**10**	**15**	**22**	**17**	**100**	**15**	**9**
Corresponding amount of debt		655	1 245			259	1 954	1 516	1 020	36	48	56
% of Total European Currencies												
(+ 80% of other currencies)		55	37			27	23	29	23	100	32	25
Long term debt in European Currencies		**1 021**	**2 819**			**695**	**3 000**	**1 985**	**1 409**	**36**	**106**	**161**

	Maghreb								
Amount in million USD	**Tunisia**			**Algeria**			**Morocco**		
Currencies %	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**
Public and guaranteed debt	6 662	11 025	8 870	26 416	31 033	23 062	23 101	22 086	15 791
Deutshe mark	11	7.2	5.6	10.5	7.2	5.5	5.4	7.8	5.7
French Franc	13.6	13.6	10.7	16.8	16.2	12.6	23.3	21.2	17.4
Japanese Yen	8.6	13.5	21.6	15.2	13.2	13.7	2.3	3.9	3.7
Sterling Pound	0.1	0	0.5	1.5	1	1	0.1	0	0.1
Swiss Franc	0.6	0.2	0.6	0.8	0.7	0.5	0.2	0.1	0.2
U.S. Dollar	21.8	17.5	30.4	33.8	38.3	45.2	41	28.2	39.9
Miscellaneous Currencies	22.7	24.9	5.8	4.9	8	2	15.8	23.8	10.4
Other currencies	21.3	22.9	24.6	16.5	15.5	19.5	11.8	14.6	22.4
Total (%)	**25**	**21**	**17**	**30**	**25**	**20**	**29**	**29**	**23**
Corresponding amount of debt	1 685	2 315	1 543	7 819	7 758	4 520	6 699	6 471	3 695
% of Total European Currencies									
(+ 80% of other currencies)	42	39	37	43	37	35	38	41	41
Long term debt in European Currencies	**2 821**	**4 335**	**3 289**	**11 306**	**11 606**	**8 118**	**8 880**	**9 051**	**6 525**

Amount in million USD	Mashrek								
	Egypt			Lebanon			Syria		
Currencies %	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**
Public and guaranteed debt	27 439	30 549	24 279	358	1 551	7 034	15 108	16 853	15 930
Deutshe mark	12.3	11.2	9.9	5.3	1.1	2.2	2.1	2.4	1.7
French Franc	14	20.5	15.7	31.7	8.2	15.8	0.8	0.8	0.6
Japanese Yen	8.2	13.2	13.8	0.5	0	0.8	1.8	3.5	3.1
Sterling Pound	2.5	2	1.2	0.7	0	0	0.6	1	0.6
Swiss Franc	3	2.7	2.1	0.5	0	0	0	0	0
U.S. Dollar	41.8	34.1	39.8	41	69.2	60.6	86.2	81.9	86.1
Miscellaneous Currencies	8.4	7.4	6.4	9.4	7.4	3.6	3.3	2.7	0.3
Other currencies	9.2	9.4	10.8	10.9	14	16.9	5.2	7.7	7.6
Total (%)	**32**	**36**	**29**	**38**	**9**	**18**	**4**	**4**	**3**
Corresponding amount of debt	8 726	10 967	7 017	137	146	1 266	529	708	462
% of Total European Currencies									
(+ 80% of other currencies)	39	43	38	47	21	32	8	10	9
Long term debt in European Currencies	**10 745**	**13 264**	**9 114**	**168**	**320**	**2 217**	**1 157**	**1 746**	**1 431**

Amount in million USD	Turkey			Total Medit (in millions USD)		
Currencies %	**1990**	**1995**	**2000**	**1990**	**1995**	**2000**
Public and guaranteed debt	38 870	50 327	55 293	150 931	172 441	167 232
Deutshe mark	17.4	16.7	14.6			
French Franc	1.6	1.6	1			
Japanese Yen	12.1	23.3	12.9			
Sterling Pound	0.8	1	0.6			
Swiss Franc	5.2	2.9	0.3			
U.S. Dollar	40	38.3	55.2			
Miscellaneous Currencies	18.9	13.3	2			
Other currencies	4	3	13.4			
Total (%)	**25**	**22**	**17**	**25%**	**24%**	**18%**
Corresponding amount of debt	9 718	11 122	9 123	37 302	41 706	30 208
% of Total European Currencies						
(+ 80% of other currencies)	28	25	27	33%	32%	30%
Long term debt in European Currencies	**10 961**	**12 330**	**15 051**	**49 074**	**55 764**	**50 829**

Source : Global Development Finance 2002, The World Bank, Washington D.C

D. Changes in the net annual flows of external debt

We have already seen that annual debt flows are negative, except for Turkey, Lebanon and the Balkan countries. The table below displays net flows per geographical sub-region including short-term loans and IMF drawings.

Table 30. Distribution of external debt flows in Mediterranean countries

Million USD	Maghreb		Mashrek		Balkans		Turkey		Total	
	1980	2000	1980	2000	1980	2000	1980	2000	1980	2000
I. Reimbursements										
Long-term debt	3 378	6 404	575	2 381	2 381	1 904	595	14 192	6 929	24 881
IMF	119	133	103	0	70	122	155	87	447	342
Short-term debt	54	658	0	794	0	0	1 106	0	1 160	1 452
Total	**3 551**	**7 195**	**678**	**3 175**	**2 451**	**2 026**	**1 856**	**14 279**	**8 536**	**26 675**
II. Disbursements										
Long-term debt	5 994	4 056	3 947	3 596	4 589	3 378	2 475	22 639	17 005	33 669
IMF	278	0	63	0	441	190	640	3 459	1 422	3 649
Short-term debt	432	27	609	339	351	22	0	5 440	1 392	5 828
Total	**6 704**	**4 083**	**4 619**	**3 935**	**5 381**	**3 590**	**3 115**	**31 538**	**19 819**	**43 146**
III. Net flows on debt										
Long-term debt	2 616	-2 348	3 372	1 215	2 208	1 474	1 880	8 447	10 076	8 788
IMF	159	-133	-40	0	371	68	485	3 372	975	3 307
Short-term debt	378	-631	609	-455	351	22	-1 106	5 440	232	4 376
Total	**3 153**	**-3 112**	**3 941**	**760**	**2 930**	**1 564**	**1 259**	**17 259**	**11 283**	**16 471**
IV. Interest Payments										
Long-term debt	2 319	2 988	433	1 232	1 077	767	507	5 005	4 336	9 992
IMF	13	95	18	0	32	43	51	52	114	190
Short-term debt	247	79	541	365	177	112	299	1 800	1 264	2 356
Total	**2 579**	**3 162**	**992**	**1 597**	**1 286**	**922**	**857**	**6 857**	**5 714**	**12 538**
Total debt service										
Long-term debt	5 697	9 392	1 008	3 613	3 458	2 671	1 102	19 197	11 265	34 873
IMF	132	228	121	0	102	165	206	139	561	532
Short-term debt	301	737	541	1 159	177	112	1 405	1 800	2 424	3 808
Total	**6 130**	**10 357**	**1 670**	**4 772**	**3 737**	**2 948**	**2 713**	**21 136**	**14 250**	**39 213**
Total net debt flows										
Long-term debt	297	-5 336	2 939	-17	1 131	707	1 373	3 442	5 740	-1 204
IMF	146	-228	-58	0	339	25	434	3 320	861	3 117
Short-term debt	131	-710	68	-820	174	-90	-1 405	3 640	-1 032	2 020
Total	**574**	**-6 274**	**2 949**	**-837**	**1 644**	**642**	**402**	**10 402**	**5 569**	**3 933**

Source : Global Development Finance 2002, The World Bank, Washington D.C.

Even accounting for the significant positive net flows provided for Turkey in 2000, the net flow on long-term debt remains negative for all countries (-1.2 billion USD vs. -7.8 in 1990). But the negative flow is offset by IMF drawings and by new short-term loans granted to Turkey. Obviously the situation had improved remarkably in 2000 vs. 1990 for all sub-regions, except for the Maghreb where negative flows increased by 3 billion to reach 6.2 billion USD in year 2000. In 1990, the situation was in fact worse than today since total negative debt flow reached -7.7 billion vs. a positive flow of 3.9 billion in 2000. This explains why the main debt indicators for the period have improved (ratio of total debt to exports of goods and services, GNP or foreign exchange reserves; ratio of interest payments to GNP). The improvement of these ratios also stems from the increase in oil prices which have considerably relieved tension around the external payments of Algeria, including debt repayments, and from the significant debt cancellation for Egypt in 1991-92.

Nevertheless, it must be underscored that the debt service burden in absolute value has considerably increased from 14.2 billion USD in 1980 to 31.4 billion in 1990 and to 39.2 billion in 2000.

In conclusion, it appears that external resource flows to Mediterranean countries remain modest, if we exclude the strategic aid granted to Israel, for instance, or the humanitarian aid granted to Bosnia Herzegovina or the Palestinian Territories. The assessment of these flows leads to the following conclusions:

- Net flows of external resources, as shown in OECD statistics, are significant, particularly when compared to other regions.
- Nevertheless, this observation may stem from the fact that global flows are highly concentrated on strategic countries (Israel, Egypt and Turkey) which account for two thirds of these resources.
- The analysis of ODA distribution to different sectors has shown that only limited resources are allocated to productive sectors. This observation will be further confirmed below in the detailed analysis of the projects funded by DAC countries within the framework of the ODA.
- At best, the external resources to the Mediterranean region help preventîng further degradation or to maintain current standards of living and consumption patterns, which are not necessarily justified by the productivity levels of local economies.
- The same can be said of the significant emigrant transfers, examined in the section on domestic resources, which are an integral part of the subsidizing mechanism benefiting the Mediterranean economies, confronted with a lack of productivity and investments and pooling of domestic resources, particularly those of the private sector.
- Compared to other regions of the world, the Mediterranean region is underprivileged as regards net transfers of resources, as shown in the table below.

Table 31. Ratio of the net transfer of external resources
- % of GNP or exports of goods and services -

	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Transfer to GNP											
Maghreb	-1.2%	-2.8%	-2.6%	-1.2%	-1.7%	-1.8%	-2.5%	-3.9%	-4.8%	-4.6%	-2.8%
Mashrek	8.2%	2.6%	0.8%	2.8%	1.5%	2.6%	3.8%	2.9%	2.2%	3.0%	2.9%
Turkey	-0.2%	0.4%	1.9%	-1.8%	-1.4%	1.9%	4.3%	-1.2%	2.5%	3.3%	1.1%
Balkan Countries			3.5%	2.3%	4.0%	9.3%	12.0%	7.6%	12.0%	11.9%	8.9%
Total			**0.6%**	**-0.1%**	**-0.3%**	**1.6%**	**3.1%**	**-0.1%**	**1.6%**	**2.2%**	**1.2%**
East Asia & Pacific	1.1%	5.1%	4.6%	4.6%	4.9%	4.8%	2.8%	2.5%	1.7%	0.5%	3.2%
Latin America	-0.2%	1.0%	2.0%	2.1%	3.1%	3.4%	4.3%	3.7%	1.7%	0.3%	2.2%
Europe & Central Asia	0.2%	2.5%	1.6%	2.5%	3.1%	3.9%	4.3%	2.0%	3.5%	0.8%	2.4%
South Asia	1.1%	2.0%	2.2%	0.8%	1.6%	1.3%	1.1%	0.8%	1.3%	0.4%	1.2%
Sub-Saharan Africa	3.3%	3.7%	4.4%	5.1%	2.8%	4.0%	2.1%	2.9%	3.5%	5.4%	3.7%
Transfer to exports											
Maghreb	-4.5%	-9.7%	-9.5%	-4.2%	-5.3%	-5.6%	-7.4%	-12.9%	-14.5%	-11.2%	-8.7%
Mashrek	25.8%	7.6%	2.6%	10.5%	5.5%	9.6%	14.7%	14.1%	11.6%	14.7%	11.5%
Turkey	-1.1%	2.4%	12.4%	-7.6%	-6.1%	7.5%	15.6%	-4.1%	9.6%	12.3%	5.0%
Balkan Countries			6.0%	4.6%	10.3%	22.7%	29.2%	18.6%	43.4%	37.2%	22.8%
Total	**1.3%**	**-1.2%**	**2.4%**	**-0.2%**	**-1.1%**	**5.6%**	**10.6%**	**-0.3%**	**6.3%**	**7.6%**	**3.7%**
East Asia & Pacific	4.0%	16.9%	14.9%	14.2%	15.5%	13.8%	7.3%	6.7%	4.0%	1.4%	9.2%
Latin America	-1.1%	6.6%	12.3%	11.9%	17.2%	18.1%	23.1%	10.9%	7.3%	1.1%	11.1%
Europe & Central Asia	0.0%	11.7%	5.7%	8.0%	10.1%	12.3%	12.1%	6.6%	8.0%	1.8%	8.4%
South Asia	12.6%	16.8%	19.1%	6.4%	12.9%	10.3%	8.3%	5.4%	8.4%	2.7%	9.2%
Sub-Saharan Africa	11.0%	13.2%	14.7%	16.1%	8.3%	12.5%	7.1%	8.7%	8.8%	13.7%	11.3%
Migrants remittances to GNP											
Maghreb	3.0%	4.0%	3.5%	4.2%	4.5%	4.0%	3.8%	3.9%	3.7%	2.8%	3.9%
Mashrek	10.0%	10.3%	12.6%	7.9%	7.3%	6.7%	6.7%	5.7%	4.2%	4.0%	7.1%
Turkey	2.1%	1.9%	1.6%	2.0%	1.9%	1.9%	2.2%	2.6%	2.4%	2.3%	2.1%
Balkan Countries			4.1%	3.7%	3.9%	4.4%	3.1%	3.3%	2.1%	3.0%	3.8%
Total			**4.4%**	**4.2%**	**4.0%**	**3.8%**	**3.8%**	**3.8%**	**3.2%**	**2.9%**	**4.6%**
East Asia & Pacific	0.1%	0.1%	0.1%	0.1%	0.2%	0.3%	0.1%	0.0%	0.1%	0.1%	0.1%
Latin America	0.4%	0.5%	0.6%	0.7%	0.6%	0.6%	0.7%	1.2%	0.9%	0.9%	0.7%
Europe & Central Asia				0.5%	0.5%	0.5%	0.7%	0.7%	0.7%	0.7%	0.4%
South Asia	1.2%	2.0%	2.5%	2.3%	2.9%	2.8%	2.4%	2.4%	2.6%	2.5%	2.4%
Sub-Saharan Africa	1.2%	2.0%	2.5%	2.3%	2.9%	2.8%	2.4%	2.4%	2.6%	2.5%	2.4%

Source: Global Development Finance 2002, World Bank, Washington D.C.

- To design the appropriate cooperation mechanism for sustainable development, it will be necessary to innovate and to stimulate behavior changes among development stakeholders in the Mediterranean region:
    - The resources supplied by IMF and World Bank structural adjustment programs have enabled partial financial adjustments, but have excluded such areas as productivity, the behavior of the private sector, the support mechanisms for innovation and for the acquisition of tech-

nological know-how. These areas are the enablers of high growth sustainable development process, as demonstrated in South-East Asian countries. Too little consideration was given to such requirements as the establishment of the suitable institutional framework in respect to capacity upgrading of such key elements as the legal and tax system, professional trade unions, employers' associations, research centers, incentives for universities and technical education institutes to endow graduates with research laboratories, links with the private sector.

- European Union assistance is more diversified in this respect, particularly as regards venture capital funds made available to beneficiary countries by the European Investment Bank (EIB) or as regards programs for "industrial upgrades". However, this assistance is bogged down by constraints and disbursements are often slow and local expertise is not fully mobilized in implementing modernization programs . Approximately 80% of technical assistance is spent on European experts and on companies which bill high contract management fees.
- Loans guaranteed by OECD countries are another form of harmful assistance, as they disregard the accountability of the OECD country exporter or banking institution who has no incentive to check the quality of the project requiring equipment exports, or to assess its capacity in generating the necessary cash-flow for reimbursement, as loans are guaranteed.
- There is no need to recall here the disastrous impact of armed conflicts on development in the Mediterranean region. The situation of the Balkan and Mashrek countries, victims of the Israeli-Palestinian conflict and of the economic sanctions imposed on outlawed Iraq, is responsible for the economic stagnation of both regions. The private sector in neighboring countries is also reluctant to inject long-term capital in a region of political and military instability

III. Official Development Aid: Exploitation of the detailed DAC data base covering the period 1973-2000

A. Preliminary observations

The exploitation of the OECD Development Assistance Committee (DAC) data base gives an accurate idea of the areas and type of ODA projects allocated to Mediterranean countries by OECD countries.

The data base covers the period 1973-2000 and includes over 28 000 lines, for each aid program in the form of loans or grants to the beneficiary countries. Each project is briefly described. While this does not always allow to understand the details of the assistance program, descriptions help to identify the area of operation.

The major drawback of the data base is its heterogeneity, particularly as regards irregular donor countries' declarations, sometimes totally absent or only declared for certain years, as in the case of the European Commission aid.

Another drawback is that the classification of projects by items supposedly dedicated to specific fields of action but that may in fact include very different projects. This is particularly the case for items related to "management" or "planning" of key sectors of the economy of a beneficiary, which might also include infrastructural projects for other sectors. Project are sometimes erroneously included in an item that do not correspond to the its nature. As shown below, when the amounts are considerable, erroneous classification contributes to the distortion of the global figures per area of assistance. Whenever possible, this report highlights cases of erroneous classification.

Nevertheless, the data base covers 27 years and identifies for each project the donor country (and disbursing national agency) and the beneficiary country. Its contents are sufficiently exhaustive to collect information on the nature and quality of assistance.

It can be observed that the projects' amounts in the data base are amounts "committed" and not "disbursed"; this means that some projects might be canceled or partially implemented and later stopped. Therefore, amounts are only to be considered indicative.

As the data base was made available in 2002, projects for 2001 were excluded from the analysis as feedback was insufficient at the time.

B. Analysis of the main aggregates

1. Total commitments for the period

- The commitments for projects and assistance operations amounted to $123.4 billion over the period, i.e. 27 years.
- It can be assessed that such a high amount should have contributed to inverting the trend towards degradation in developing Mediterranean countries and to reducing the disparities between the North Western European Mediterranean region (Italy, France, and Spain) and the Balkan, Asian and African Mediterranean region.
- The analysis of available data will help to understand why 28 000 projects and actions did not have more impact on the economies of beneficiary countries.

2. Major donors

- The first observations show that European countries are not the main providers of aid and projects to Mediterranean countries.

- In fact, only 40.8 billion, i.e. 33.1%, of the 124 billion USD listed in the data base, are provided by European donors. The fact that the European Commission and of the European Investment Bank assistance has not been identified as such in the data base since 1985, might explain the limited share of EU assistance in the total amount.
- In the group of European countries, Germany is the largest donor with 43.1% of total assistance granted by European countries (14.3% of total of all donors). It is followed by France (22.4% of the group total and 7.4% of total of all donors) and Italy (11.5% and 3.8% respectively).
- The United States are leaders by far, in terms of assistance granted by DAC countries to Mediterranean countries. Over the period, U.S. commitments amounted to 62.8 billion USD i.e. 59.9% of total commitments and 79.8% of commitments of Non-European Union OECD countries. However, the report will show that the United States owe their leading position to the considerable assistance they provide to the State of Israel and to Egypt.
- Japan has made considerable contributions, in the amount of 12.1 billion USD, i.e. 9.8% of the total and 15.4% of the contributions of Non-EU OECD countries.

The following table summarizes the distribution per OECD country donor countries of the commitments for the period 1973-2000.

Table 32. Distribution of total ODA commitments per donor

(in thousands USD)

Donor's name	Grand Total		
AUSTRIA	1 504 900	3.7%	1.2%
AUSTRIA	83 917	0.2%	0.1%
BELGIUM	515 396	1.3%	0.4%
BELGIUM	46 974	0.1%	0.0%
CEC (EDF)	1 084 298	2.7%	0.9%
DANEMARK	528 155	1.3%	0.4%
DANEMARK	37 224	0.1%	0.0%
FINLAND	401 867	1.0%	0.3%
ITALY	4 686 521	11.5%	3.8%
FRANCE	9 138 786	22.4%	7.4%
GERMANY	17 596 126	43.1%	14.3%
NETHERLANDS	1 717 112	4.2%	1.4%
PORTUGAL	17 443	0.0%	0.0%
SPAIN	1 315 828	3.2%	1.1%
SWEEDEN	853 150	2.1%	0.7%
UNITED KINGDOM	1 323 072	3.2%	1.1%
IRELAND	9 081	0.0%	0.0%
Total EU	**40 859 850**	**100%**	**33.1%**
IBRD	87 000		0.1%
IDA	2 236 690		1.8%
IDA	587 800		0.5%
IFAD	459 988		0.4%
IFAD	25 000		0.0%
AFD F	335 138		0.3%
UNDP	24 583		0.0%
UNICEF	1 812		0.0%
Total Multilateral	**3 758 010**		**3.0%**
AUSTRALIA	213 317	0.3%	0.2%
JAPAN	12 148 073	15.4%	9.8%
NEW ZELAND	297	0.0%	0.0%
NOWAY	823 432	1.0%	0.7%
SWITZERLAND	889 887	1.1%	0.7%
CANADA	1 875 192	2.4%	1.5%
UNITED STATES	62 836 225	79.8%	50.9%
Total Other OECD	**78 786 424**	**100%**	**63.8%**
Grand Total	**123 404 284**		**100%**

Source: OECD, electronic database of DAC

- In fact, assistance is highly concentrated in the Mediterranean region. The commitments of four countries, the United States, Germany, Japan and France accounted for 82.4% of its total, and reached 85%, if of international organizations' projects listed in the data base are excluded.

While the United States and France continue to exert political influence over the Mediterranean which could justify their considerable, if uneven, share, this is not the case for contributions from Germany and Japan, which are due to the strength of their economies and to their large trade relations with the Mediterranean region.

3. Main beneficiaries

The distribution of projects and programs among beneficiary countries is also very concentrated.

Egypt received 49 billion USD, i.e. 39.7% of total commitments over the period, followed by Israel with 28.8 billion USD, i.e. 23.4% of the total, both countries jointly accounting for 63.1% of OECD countries' assistance . If the other three main beneficiaries are added, Turkey (9.7%), Morocco (6.8%) and Tunisia (5.1%), these five countries account for 84.7% of total.

Table 33. Distribution of ODA commitments per aid recipients

(in millions USD)	Grand Total	% group	% total
ALBANIA	1 746 732	18.3%	1.4%
BOSNIA-HERZEGOVINA	3 230 939	33.9%	2.6%
CROATIA	359 922	3.8%	0.3%
FRY-SERBIA & MONTENEGRO	1 244 250	13.0%	1.0%
KOSOVO	1 127 250	11.8%	0.9%
SLOVENIA	95 940	1.0%	0.1%
MONTENEGRO	759	0.0%	0.0%
STS EX-YUGOSLAVIE unsp.	1 735 831	18.2%	1.4%
Total Balkans	**9 541 623**	**100%**	**7.7%**
ALGERIA	2 769 333	15.8%	2.2%
MOROCCO	8 400 108	48.0%	6.8%
TUNISIA	6 317 596	36.1%	5.1%
LIBYA	22 492	0.1%	0.0%
Total Maghreb	**17 509 530**	**100%**	**14.2%**
EGYPT	49 000 712	88.9%	39.7%
LEBANON	1 251 223	2.3%	1.0%
PALESTINIAN TERRITORIES	2 137 426	3.9%	1.7%
SYRIA	2 721 641	4.9%	2.2%
Total Mashrek	**55 111 001**	**100%**	**44.7%**
ISRAEL	28 817 151	69.9%	23.4%
CYPRUS	353 500	0.9%	0.3%
MALTA	132 678	0.3%	0.1%
TURKEY	11 938 801	28.9%	9.7%
Total non-Arab Countries	**41 242 131**	**100%**	**33.4%**
Grand Total	**123 404 284**		**100%**

Source: OECD, electronic database of DAC

As highlighted in the table, the distribution of assistance as per beneficiary sub-region is also uneven.

- Only 7.7% of commitments were granted to the Mediterranean Balkan countries but only in the aftermath of the collapse of former Yugoslavia.
- The Maghreb countries, despite their privileged commercial ties with the Mediterranean EU countries, received only 14.2% of available assistance.
- 44.7% of total assistance was granted to Mashrek countries, and Egypt accounted for 89% of assistance granted to this sub-group of countries.
- Lastly, in the group of non-Arab countries, 69.9% of assistance granted to the group were allocated to Israel and 28.9% to Turkey, the joint share of both countries amounting to 33% of total assistance.
- The distribution of assistance to beneficiaries differs between EU countries and the other OECD countries.
- Assistance granted by the United States was largely concentrated on Egypt and Israel. This is why the Mashrek countries (47.7% of total U.S. commitments) and the non-Arab countries (46.5%) accounted for 84.2% of U.S. assistance.
- Distribution of assistance is more balanced in the EU, with 36.9% to Mashrek countries, 30% to Maghreb countries, 21.2% to non-Arab countries and 11.9% to the Balkan countries.
- It is easy to see that, in the group of EU countries, assistance from France and Germany focus on the Maghreb (55.1% for France and 16.9% for Germany) and Mashrek countries (36.3% for France and 39.2% for Germany), while the other European countries grant assistance to Balkan countries, particularly Ireland (89%), Portugal (66.9%) and the Netherlands (44.6%, as well as 42% to Mashrek countries), Sweden (41.1%) and the United Kingdom (37.5%).
- Italy grants equal assistance to Maghreb and Mashrek countries (35.2% and 36.8% respectively) while assistance from Spain mainly benefits Maghreb countries (72.2%).

Table 34. Distribution of total ODA commitments

Donor's name	Total Balkan Countries	Total Maghreb	Total Mashrek	Total non-Arab Countries	Grand Total
AUSTRIA	32.5%	44.0%	11.9%	11.7%	100%
AUSTRIA	0.3%	53.7%	38.5%	7.5%	100%
BELGIUM	8.5%	47.1%	29.4%	14.9%	100%
BELGIUM	0.0%	23.7%	23.4%	52.8%	100%
CEC (EDF)	0.0%	20.3%	41.3%	38.4%	100%
DANEMARK	3.9%	9.0%	86.6%	0.6%	100%
DANEMARK	0.0%	8.9%	91.1%	0.0%	100%
FINLANDE	23.7%	1.6%	68.7%	6.0%	100%
FRANCE	2.1%	55.1%	36.3%	6.4%	100%
GERMANY	7.6%	16.9%	39.2%	36.3%	100%
IRLANDE	80.9%	0.0%	19.1%	0.0%	100%
ITALY	18.8%	35.2%	36.8%	9.1%	100%
PORTUGAL	66.9%	9.0%	24.0%	0.0%	100%
SPAIN	13.6%	72.2%	10.7%	3.5%	100%
NETHERLAND	44.6%	8.3%	42.0%	5.0%	100%
SWEEDEN	41.1%	24.9%	31.2%	2.8%	100%
UNITED KINGDOM	37.5%	4.7%	29.9%	27.9%	100%
Total EU	**11.9%**	**30.0%**	**36.9%**	**21.2%**	**100%**
AUSTRALIA	24.1%	0.1%	70.7%	5.2%	100%
JAPAN	2.8%	19.9%	52.4%	24.9%	100%
CANADA	11.3%	38.0%	40.4%	10.4%	100%
NEW ZELAND	77.2%	0.0%	22.8%	0.0%	100%
NORWAY	67.7%	1.3%	30.2%	0.9%	100%
UNITED STATES	3.0%	2.8%	47.7%	46.5%	100%
SWITZERLAND	52.4%	5.5%	33.4%	8.7%	100%
Total Other OECD	**4.4%**	**6.3%**	**47.9%**	**41.3%**	**100%**
General Total	**7.7%**	**14.2%**	**44.7%**	**33.4%**	**100%**

Source: OECD, electronic database of DAC

4. Fields of action and projects

The data base includes 198 items to classify the ODA. For the purpose of analysis and they should be regrouped by type of action and sectors. In this report, the 198 categories have been regrouped under 24 fields of action.

These items can also be regrouped as follows: (see table 35).

Table 35. Distribution of different types of aid (1973-2000) - In millions USD -

Intervention in the economic sector	Amount	% in the category	% in total
Water	9 424,4	22.0%	7.6%
Energy	9 004,0	21.1%	7.3%
Agriculture	7 492,4	17.5%	6.1%
Transportation	5 060,7	11.8%	4.1%
Industry	4 273,7	10.0%	3.5%
Finance	3 639,5	8.5%	2.9%
Trade	2 036,8	4.8%	1.6%
Telecommunications	1 788,8	4.2%	1.4%
Tourism	53,2	0.1%	0.0%
Total	**42 773,5**	**100%**	**34.6%**
Intervention in the other fields			
Humanitarian aid	5 287,7	23.8%	4.3%
Institutional support	4 504,5	20.2%	3.6%
Education	3 227,2	14.5%	2.6%
Multi-sector projects	2 069,8	9.3%	1.7%
Environment	1 600,6	7.2%	1.3%
Social	1 515,2	6.8%	1.2%
Promotion of democracy	1 442,5	6.5%	1.2%
Health	1 060,8	4.8%	0.9%
Research & vocational training	747,0	3.4%	0.6%
Culture and leisure	357,2	1.6%	0.3%
Small and medium-sized enterprises	220,7	1.0%	0.2%
Labor	206,7	0.9%	0.2%
Crafts	3,9	0.0%	0.0%
Fight against drugs	0,8	0.0%	0.0%
Total	**22 244,6**	**100%**	**18.0%**
Macro-economic support	**57 485,7**		**46.5%**
Unallocated / Unspecified	**1 234,6**		**1.0%**
Administrative costs	**14,5**		**0.0%**
General Total	**123 752,9**		**100%**

Source : OECD, electronic database of DAC

As shown in this table, a large part of ODA (46.5%) was allocated to assistance to overall macroeconomic support (balance of payments support, budgetary support, and debt relief and restructuring). The different economic sectors account for one third of the assistance (34.6%), while sustainable development only represents 18% of the total amount allocated.

Assistance is highly concentrated on a few domains and the following items (see table 36) account for 50% of aid commitments.

Table 36. The first eight types of aid Years 1973-2000

	Amount (in Thousands USD)	% to total	Cumulated %
Budget support	16 419 791	13.27%	
Debt Restructuring and relief	10 770 215	8.70%	22%
Support to the balance of payments	7 970 206	6.44%	28.4%
Imports support (raw material)	7 496 942	6.06%	34.5%
Food aid	6 092 997	4.92%	39.4%
Water feeding (large systems)	5 149 945	4. 16%	43.6%
Imports support (equipments)	4 843 864	3.91%	47.5%
Support to financial systems	3 195 560	2.58%	50.1%
Total	**61 939 520**	**50.1%**	

Source: OECD, electronic database of DAC

As could be seen no actions in favor of sustainable development are included in these items. The financial resources allocated are earmarked for sustaining current standards of living in beneficiary countries, and do not have an impact on mechanisms for growth so as to direct them towards sustainable development.

In addition, inside each category/item of type of assistance there is a strong concentration on a few large projects. For instance, the largest project in the data base involves an electric 600 MW power station in Syria, funded by Japan in 1995, for an amount of 485 million USD. In Turkey, the supply of water to Istanbul funded by Japan represented 389 million USD in 1996. In Syria, Japan funded a gas-powered plant for an amount of 384 million USD in 1991. In 1989, Japan allocated 255 million USD to the Agricultural Development Bank in Turkey. Germany funded a chemical fertilizer plant in Egypt in the amount of 221.5 million USD in 1988. Austria supported Algeria by funding the railway network with 219 million USD in 1982. The other important amounts are allocated to projects for water and sewage, sales of water tankers (to Israel), electricity, roads, irrigation and telecommunications.

In fact, only 269 projects on more than 20 800 projects registered in the data base account for 56% of the amounts (69.3 billion USD), all in excess of 70 million USD each. 1 564 lines are related to projects ranging between 10 million and 70 million USD. Therefore, 1 826 project lines out of 20 855 in the DAC data base, i.e. less than 10% of total number of projects, account for 86% of assistance, i.e. 106.4 billion USD out of 123.7 billion USD. Of course, a considerable share of the 269 project lines in excess of 70 million USD covers various forms of macroeconomic assistance, amounting between one billion and 2.5 billion USD for Egypt and Israel. 999 lines cover projects ranging between 5 and 10 million USD; 848 lines projects ranging between 3 and 5 million USD; 2 422 lines projects ranging between 1 and 3 million USD. The remaining 14 762 lines cover projects of less than one million USD. This data is summarized in the following table.

Table 37. Distribution of aid as per number and amount of actions and projects- 1973-2000

	Actions and projects number	% of total	Amount In billion of U.S $	% of total
Over 70 million US $	269	1.3%	69.3	56.0%
between 50 and 70 million $	142	0.7%	8.1	6.5%
Between 30 and 50 million $	264	1.3%	9.9	8.0%
Between 10 and 30 million $	1 149	5.5%	19.1	15.4%
Between 10 and 5 millions	999	4.8%	7	5.7%
Between 3 and 5 millions	848	4.1%	3.3	2.7%
Between 1 and 3 millions	2 422	11.6%	4.2	3.4%
Below one million	14 762	70.8%	2.8	2.3%
Total	**20 855**	**100%**	**123.7**	**100%**

Source : OCDE, Electronic Data base of DAC

Assistance and projects in excess of 70 million USD, amounting to 69.3 billion USD, are highly concentrated in respect to both donors and beneficiaries, as shown in the table below.

Table 38. Aid concentration for amounts above $ 70 millions (1973-2000)
- in billion of USD -

	Egypt	Israel	Turkey	Total of the three countries	Others beneficiaries	Total	% au total
United States	20.7	26.2	2	48.9	0.8	49.7	71.7%
Japan	3	0	2.7	5.7	2.3	8	11.5%
Germany	3.3	0.8	1.6	5.7	1	6.7	9.7%
Total of the three donors	**27**	**27**	**6.3**	**60.3**	**4.1**	**64.4**	**92.9%**
Other donors	2.8	0	0.3	3.1	1.8	4.9	7.1%
Total assistance & projects	**29.8**	**27**	**6.6**	**63.4**	**5.9**	**69.3**	**100%**
% of total	***43.0%***	***39.0%***	***9.5%***	***91.5%***	***8.5%***	***100%***	

Source : OCDE, electronic data base of DAC

The importance of some assistance has diminished over time, such as most programs dedicated to what this report has called “macroeconomic support”.

a. Macroeconomic support

- In this category we find the amount of debts rescheduled. Egypt has been the largest beneficiary between 1991 and 1994. (9.4 billion USD out of 10.5 billion) as a reward for its participation in the first Gulf War. Before 1990, the only significant amount (203 million USD) was allocated in 1981 to Turkey, in the midst of an external payment crisis.
- Debt relief amounted to 2.3 billion USD, and mainly benefited Egypt, with 1.8 billion USD (i.e. 78.7% of the total) and Bosnia, with 330 million USD (i.e. 14.2% of the total).

- Food aid (common practice for the United States) covered 6.1 billion USD and were mainly allocated to Egypt (71.5% of total), to Morocco (13.5% of total) and to Tunisia (6.1%). Food aid was stopped in the 1990s.
- Balance of payments support amounted to 8 billion USD, and dropped sharply during the 80s when Turkey and Israel were the quasi-exclusive beneficiaries, to reappear in the 1990s, exclusively in favor of Israel. In fact, over the period, Israel accounted for 81.4% of the total of this category of aid and Turkey for 14.4%.[27]
- Import support (raw materials and equipment) have dropped, particularly in recent years. In the past, this type of assistance amounted to 7.5 billion USD for imports of raw materials (commodities) and to 4.8 billion USD for imports of equipment, i.e. a total of 12.3 billion USD. Regarding the import of raw materials, the main beneficiaries were Egypt (40.9% of total), Turkey (20.1%) and Israel (13.5%) between 1975 and 1977. Support for import of equipment stopped in 1993: 55.4 % of this type of assistance went to Egypt and 24.8% to Israel. This trend applies to all assistance for which export guarantees and bilateral financial protocols are disappearing, in compliance with the general policy of DAC countries.
- Privatization support is a category of assistance which first became available in 1996. Financial commitments amounted to 807 million USD, with 756 million in 2000. Egypt (with 50% of assistance), Serbia (with 26%) and Bosnia (with 12%) are the main beneficiaries.
- Structural adjustment support amounted to 419 million USD only, mainly allocated to Morocco (23.6%), Tunisia (47.5%) and Turkey (15.8%).
- The other categories are not significant due to the modest amounts committed. It is noteworthy that debt swaps into development actions only represented 17.5 million USD. This item includes only three swap operations by Spain, two in favor of Morocco (9 million USD) and one for Egypt (8.7 million USD), in 1997 and in 2000.

b. Support to sectors

- Initiatives impacting sustainable development

- Agriculture (forest, livestock, fishing, rural development, financial and other services for agriculture, agro-industries, hydraulic resources for agriculture, research and management, etc.). There are 31 items in this sector, some very similar in nature. Commitments amounted to 7.5 billion USD, i.e. 6.1% of the total. Only 646 million USD were committed, to forests, fishing and breeding, with half of the amount allocated to fishing. More significant amounts are allocated to “rural development”

[27] *In practice, support relative to the balance of payments and granted these two countries amount to much more, if we include the erroneous allocations of balance of payment support to both countries, described hereunder, in excess of 3.5 billion USD.*

(726 million USD), "agricultural development" (726 million USD), to financial services for agriculture (802 millions USD) and to irrigation (1.7 billion USD).

- ➤ Education (all levels: 14 items). Commitments amounted to 3.2 billion USD, i.e. 2.6% of the total.
- ➤ Healthcare (the items also include support for medical research and professional training). Commitments amounted to 1.3 billion USD, i.e. 1.1% of the total.
- ➤ Social (the eight items include family planning, low-cost constructions, social services and nutrition). Commitments amounted to 1.5 billion USD, i.e. 1.2% of the total. If support to employment (206.7 million USD) is included, the share of social services increases to 1.4%. Consideration should also be given "multi-sector aid" amounts (see below) often allocated to social projects.
- ➤ Environment (12 items, including different types of renewable energy, research, management support, actions related to protection, and urban development). Commitments only reached 1.5 billion USD, i.e. 1.2% of the total. The most important item in this sector is urban development (683.6 million USD, i.e. approximately 40% of the total) followed by support to environmental policies (341 million USD) where assistance appeared in the 1990s, and then by protection of the biosphere (221.8 million USD, of which 213.2 million for Egypt), wind energy (128.1 million, of which 118.2 million for Egypt and the rest to Morocco and Tunisia), lastly, waste treatment (112.3 million USD shared between 13 countries). Amounts were much more limited for other items (site conservation, solar energy, biomass, environmental research and education, etc).
- ➤ Multi-sector assistance: these are most often social initiatives (funding of social funds, community projects, assistance to SMEs, micro-credits, etc.), which represent 2.1 billion USD, i.e. 1.7% of total commitments. As is often the case in other areas, there are projects which require high levels of funding: for example, in 2000, the United States allocated 221 million USD to Egypt. In 1990, Spain allocated 125 million USD to Algeria while France allocated 106 million USD to the same country in 1989. If assistance for social initiatives are combined with multi-sector assistance, commitments amount to 3.6 billion USD, i.e. approximately 3% of total commitments, which remains quite low.

In all, these different types of support to areas related to sustainable development represent 17.3 billion USD, including support to SMEs (220.7 million USD) and the craft industry (3.9 million USD), i.e. 14% of the total commitments over the period.

- Assistance to traditional sectors

- Energy (17 items related to energy generation and distribution and to the different types of power plants – coal-fired, fuel, gas or hydraulic power plants). In fact, energy projects are mostly allocated to financing electric power plants. Total commitments amounted to 9 billion USD, including 4.2 billion for the construction of electric power plants (1.6 billion USD for hydroelectric power plants, 2.1 billion USD for liquid fuel power plants and 607 million USD for gas power plants), and 3 billion USD for the electricity transmission and distribution. Commitments account for 7.3% of the total.
- Water (7 items including large and small systems, water transport, and management and administrative support). Total commitments amounted to 9.5 billion USD, i.e. 7.7% of commitments, with 5.1 billion USD for large systems and 500 million USD for small systems, 1.5 billion USD for water distribution and 2 billion USD for management and administrative support, essentially composed of works to supply drinking water to such large cities as Istanbul, Cairo and Ankara.
- Transport (5 items including air, rail and road transport, assistance to the manufacture of transport equipment and to sectoral polices and management). Total commitments reached 5.1 billion USD, i.e. 4.1% of the total, shared equally between railway (41% of the total) and road transport (40.8%). However, in both cases, assistance is highly concentrated to a few beneficiaries : thus, in railways, Egypt accounted for 38.2% of commitments, Turkey 28% and Tunisia 16%. For roads, 43.1% of commitments went to Turkey, 15.7% to Israel and 14.1% to Morocco. The loans supporting sectoral policies and management are even more highly concentrated, with 70.1% for Algeria and 8% for Albania.
- Industry (19 items with different types of industries, storage, industrial development and assistance to sectoral policies and management). In this sector, commitments reached 4.3 billion USD, i.e. 3.5% of total commitments. It is noteworthy that the most assisted industries are highly polluting industries such as the cement industry (817 million USD) and the production of chemical fertilizers (432 million USD). The “industrial development” category covers 1.7 billion USD, i.e. 39% of total commitments to the industrial sector, and includes credit lines granted to the industrial development banks of beneficiary countries. Egypt received 29% in this category and Israel 31 % (between 1973 and 1986); Turkey (13%) and Tunisia (11%) are the other main beneficiaries. The “support to industrial policies and management” represents 266 million USD and also includes the funding of industrial projects. Egypt is still the main beneficiary in this category with 60.8% of total commitments, followed by Tunisia and Turkey, each with 8%.
- The financial sector (4 items including assistance to sectoral policies and management, official financial intermediaries, monetary institutions and informal financial intermediaries). The total reached 3.6 billion USD, i.e. 2.9% of total commitments. 87% of assistance was allocated

to sectoral management support. The amounts allocated to this sector are massively concentrated on two beneficiaries: Egypt (49%) and Israel (38%), followed by two other main beneficiaries: Turkey (6.3%) and Bosnia (3.5%). These four countries received 96.5% of the assistance allocated to this sector. The main item covers a wide array of assistance: "cash" transfers to Israel, Egypt and Turkey, assistance granted the private sector via credit lines, support to the development of stock market institutions and privatization.

- Trade (4 items including availability of services for the development of the private sector, called "business services", promotion of exports, commercial policy and wholesale or retail trade). The amounts allocated to this sector reached 2 billion USD, i.e. 1.6% of total commitments. The support to the private sector accounted for 94.4% of commitments in this sector . The first financial commitment in this category date back to 1991. The main beneficiaries are Egypt (66.4%), Bosnia (12%) and Turkey (8%). This category includes privatization assistance, the creation of "business centers", loans to SMEs and the funding of reforms to stimulate the private sector.
- Telecommunications (without itemization): 1.5 billion USD, i.e. 1.2% of total. This is limited to the procurement of telecommunication equipment, most often via loans. The concentration of beneficiaries is high as in the other areas: Egypt (56%), Tunisia (19%), Morocco (9%) and Israel (5.1%) are the main beneficiaries.

These sectoral actions accounted for 42.4 billion USD, i.e. 35% of total commitments. However, the balance remaining for other countries, after removal of assistance to Egypt, Israel, Turkey and Bosnia, is considerably reduced.

c. Institutional support

There are eight important categories:

- Planning and Support to development policy amounted to 2.3 billion USD or 50.4% of total commitments to institutional support. This category, as the one below, is artificially inflated by the erroneous attribution to Israel of cash transfers in the amount of 1.2 billion USD. An identical amount was identified in the financial category, under "general sectoral support". Without this amount, financial commitments only amount to 1.1 billion USD, with 72.4% to Egypt and 16.1% to Bosnia. The commitments in this category began in 1985 with the implementation of structural adjustment programs at the request of the World Bank and of the International Monetary Fund.
- Support Services to public administration which amounted to 1.6 billion USD, i.e. 36.4% of the total. This item includes an array of projects, such as payment of police wages in the Palestinian Territories, reform of civil servant status, aid to civil society, IT-enabling of administrations, etc. Er-

rors also appear in this area, and artificially inflate commitments, with the attribution of cash transfers to Israel in the amount of 1.2 billion USD. By deducting this amount, the total commitments of this type of aid will be of 400 million USD only. Besides, it is worth mentioning that, in 1995, Turkey received as per this category, the amount of 165.7 million USD in a project line entitled “Political/Security assistance”.

- General administration: 248 million USD, representing 5.5 % of the total amount of assistance to institutional support, but more than 10% if we add the amounts granted to Israel and Turkey mentioned before but which do not correspond really correspond to the nature of assistance related to institutional support. This category includes various actions for different types of assistance to public administrations (computer equipment, training, governance, etc.). Albania (20.7%), Egypt (23.7%) and the Palestinian Territories (29.9%) are the main beneficiaries of this category, followed by Lebanon (6.9%) and Bosnia (7.1%).
- The other items, including some which could have been incorporated into the different sectors (advance technical and management training, communication policy and construction policy). However, these categories are not statistically significant. We notice, for instance, that the support to statistic organizations is of 2.5 million USD only, but it is possible that the other items of support to public administrations include projects that are in fact allocated to statistics organizations.

d. Humanitarian operations

The amount of these operations is considerable, accounting for 5.3 billion USD, i.e. 4.3% of total commitments, including 2.2 billion USD (42%) for emergency situations and 1.1 billion USD for refugees (22%) in their own countries and 533 million USD (10%) for refugees in host countries. The level of these operations considerably increased with the Balkan conflict and with the earthquake in Turkey in 1999 where Japan offered a financial contribution of 250.4 million USD. The Balkan countries received emergency assistance of 65.1% and the remaining assistance went to Lebanon (7.2%), to the Palestinian Territories (5%) and to Turkey (13%).

This assistance is also related to the strengthening of institutions aimed at consolidating peace after conflicts.

e. Cultural and democracy-related operations

The data base contains an item entitled “culture and recreation” (357.2 million USD) where amounts allocated to projects became considerable in 1994, ranging between 40 and 50 million USD per year. Distribution to beneficiaries is better than for other categories - the most privileged country being Morocco with 18.4% of commitments.

The promotion of democracy and of civil society spreads over 11 items including support to local NGOs, assistance for the organization of democratic elections, assistance for the development of information and promotion of human rights. The amount allocated to all these items totals 1.4 billion USD. However, it is noteworthy that amounts allocated to the "support to NGOs" category (294 million USD including 277 million USD for Egypt) stopped after 1993. It is probable that support projects were later incorporated under the "support to civil society" category (771 million USD of which 72.7% for Egypt), but data shows that since 1973, projects have been listed in one of the two items for a total of 1.1 billion USD.

C. Distribution of aid per period

As shown in the table below, assistance to Mediterranean countries did not decrease over time. The considerable increase in the 1990s is in fact due to the 9.3 billion USD allocated to Egypt for debt restructuring between 1990 and 1995. For 1991 alone, commitments amounted to 12 billion USD, of which 10.5 billion USD were allocated to debt restructuring. Furthermore, since 1990, humanitarian assistance to Balkan countries accounted for a large share of total assistance, which was not the case in the past.

Table 39. Distribution of DAC aid over time
In millions of USD

In millions of USD	73-80		81-90		91-00		Total
EU	6 092	37.8%	12 230	29.2%	22 538	34.5%	40 861
USA	7 962	49.3%	25 530	60.9%	29 343	44.9%	62 836
Other OECD	1 091	6.8%	3 780	9.0%	11 081	17.0%	15 952
Int. Institutions	990	6.1%	372	0.9%	2 396	3.7%	3 758
Total	**16 135**	**100%**	**41 912**	**100%**	**65 358**	**100%**	**123 407**

Source : OCDE, electronic data base of DAC

The table above shows the fluctuations of U.S. contributions to the Mediterranean region. In fact, U.S. aid increased from 49.3% in 1973-1980 to 60.9% in the following ten years, where massive aid was granted to Egypt. For the period 1991-2000, its contributions decreased to 44.9% due to the increase of EU aid (from 29.2% in 81-90 to 34.5% in the 1990s), but also due to the considerable increase in the assistance of other OECD countries to the region, from 3.8 billion USD to 11.1 billion from decade to decade.

As regards assistance directly allocated to sustainable development, there is no doubt that they have considerably increased over the last thirty years, although the amounts are still largely insufficient. In fact, table 9 below clearly shows that in many areas where projects are directly linked to sustainable development, only very limited amounts were allocated between 1980 and 1990, which explains the sharp increase in the following decade. This is particularly the case of operations in favor of culture, SMEs, environment and urban development. On the other hand, amounts allocated to democracy-related operations have dropped sharply from one decade to another (-30.3%).

Operations in favor of healthcare, education and agriculture have not increased on a par with other sectors. Furthermore, as described above, the “capacity building”, category, posting remarkable increases over the past twenty years, includes an array of operations in favor of sectors that do not always directly impact sustainable development.

It must be stressed that the commitments in 2000 only showed an increase of 1.9% vs. the average of the last three years of the 1990s, which points to stagnation in contrast to the prevailing trend in previous decades. However, in the areas of education, social affairs and urban development, amounts committed have clearly increased, while in agriculture, water, capacity building, culture, democracy and environment, commitments in the year 2000 remained below the average for 1997-1999.

Some sectors like agriculture, energy and social affairs show a slight increase for the period 1980-1990, whereas commitments to democracy-related operations have dropped.

Table 40. Evolution of DAC countries' assistance in sectors related to sustainable development In millions of US $

In millions of US $	73-79	80-89	90-99	2000	Total	Average 97-99	Increase between 80-89 and 90-99	Increase between 2000 and average of 97-99
Agriculture	383.6	2 264.2	2 697.3	213.5	5 558.6	218.8	19.1%	-2.4%
Capacity building*	760.3	1 696.3	6 556.2	252.4	9 265.2	496.7	286.5%	-49.2%
Culture	11.1	58.3	318.3	40.1	427.8	42.6	446.0%	-5.9%
Democracy	0.0	597.1	416.2	75.3	1 088.6	63.2	-30.3%	19.1%
Water	742.7	2 321.0	5 082.8	414.3	8 560.8	494.4	119.0%	-16.2%
Education	19.1	741.7	1 567.3	324.0	2 652.1	197.7	111.3%	63.9%
Energy	750.5	3 160.7	3 887.0	47.1	7 845.3	205.9	23.0%	-77.1%
Environment	0.0	23.9	497.0	37.7	558.6	45.6	1979.5%	-17.3%
SME	0.0	0.5	148.9	74.2	223.6	37.7	29680.0%	96.8%
Health	13.2	481.5	810.9	124.4	1 430.0	97.7	68.4%	27.3%
Social	99.8	622.5	910.6	336.6	1 969.5	62.3	46.3%	440.3%
Urbanism	0.0	71.7	398.5	147.3	617.5	84.9	455.8%	73.5%
Total	**2 780.3**	**12 039.4**	**23 291.0**	**2 086.9**	**40 197.6**	**2 047.5**	**93.5%**	**1.9%**

Source : OCDE, electronic data base of DAC
** Assistance of strategic nature to the State of Israel has been deducted from these items.*

IV. Conclusions of the analysis

The detailed analysis of assistance and cooperation projects in the Mediterranean region confirms the highly strategic nature of the region.

Assistance is essentially composed of politically motivated macroeconomic support to countries having strategic importance for OECD donors.

United States assistance to Israel and Egypt in particular play an important role in maintaining the politically motivated nature of cooperation in the Mediterranean region. In fact, these two countries, as shown above, accounted for 63.1% of total OECD commitments in the Mediterranean. If Turkey is included, with 9.7% of commitments, these three countries account for 72.8% of commitments. In view of Israel GDP high level the question may be whether it is normal that U.S. assistance to this country should be included in the DAC data base as part of OECD support to the development of third world countries.

The concerns of the other main donors, Japan and Germany, are more trade-related, as they have no political leverage in the Mediterranean region. In fact, their assistance is focused on large projects involving sales of equipment.

Humanitarian assistance have grown significantly in the aftermath of the conflicts in the Mediterranean region, and are focused more on repairing damages and relieving suffering than on generating development.

Amounts dedicated to cooperation would seem even lower, if macroeconomic assistance that is today massively concentrated on the three aforesaid countries and the humanitarian assistance were not taken into account.

In fact, the actual amounts of assistance to the Mediterranean region is very limited, after deduction of strategic assistance to Israel, Egypt and Turkey and of humanitarian aid to the regions affected by conflicts, but also after deduction of macroeconomic support, such as budget support and the support to the balance of payment or to imports. In this case, the amount of assistance directly earmarked for development has not exceeded the following amounts:

- 1973-1979: 5.1 billion USD
- 1980-1989: 14.6 billion USD
- 1990-2000: 28.6 billion USD

These amounts cover all categories of assistance commitments to economic sectors, social affairs, education, health, culture and the promotion of democracy. Nevertheless, and as stated above, the analysis of actions and projects allocated to sectors related to development shows that many projects were allocated considerable funding in favor of such countries as Egypt or Turkey. Furthermore, some projects negatively impact development when financial resources are allocated to polluting industries, road network funding, large hydraulic power plants or liquid fuel power plants.

Part IV - Financial tools in the sustainable development process

I. Financial tools in the sustainable development process

The implementation of sustainable development requires major if not revolutionary changes in funding channels and mechanisms, to design new tools for the mobilization and distribution of available financial resources. However, there is an obvious discrepancy between the positive progress achieved in disseminating ideas and in defining policies to implement sustainable development processes, and the slowness of implementing such processes and inciting development stakeholders in changing or renewing their traditional financial behavior.

This part of the report will cover the theoretical and practical assessment of the use of financial tools in applying economic policies suited to the requirements of sustainable development. This assessment shows that although a few new procedures have gradually been implemented, there is still little sign of the global changes required in financial behavior to implement the principles of sustainable development in national economies or in international, multilateral or private financial mechanisms.

A. Still timid financial innovations

Three areas of change have been tackled over the past fifteen years.

1. The development of micro-lending mechanisms

After the success of the Grammin Bank in Bangladesh (or the examples of "tontines" in Africa), many micro-lending mechanisms have been tested, even by developed countries (particularly as assistance to the unemployed and underprivileged). For several years, multilateral or bilateral funding institutions have allocated aid to developing countries interested in promoting such type of funding. More recently, commercial banks have shown an interest for micro-loans as repayment rates are much higher than for traditional lending to well established companies . Poor people have good credit scores: this is a major discovery in our financial world, where thousands and millions of dollars are squandered every year, either in the resounding bankruptcies of national and multinational companies, or in the collapse of stock market prices.

The world of finance has not yet inferred all the consequences of this discovery. Only specialists in the field are aware of the importance of opening an access to poor people to micro-loans and to legal ownership of a home and working tools. However, there is still a long way to go before all forms of micro-loans are generalized (NGO, village or municipal funds, specialized micro-credits windows in commercial banks and institution of

Social Funds). The micro-credit growth driver is the reduction of poverty, emphasized today by all development assistance institutions. However, the financial sector itself should be more proactive in this regard and accept to change its practices and business approach.

Private financial institutions should not limit their new interest to the poor. In most developing countries, including in Mediterranean countries, loans are not easily granted to professional and skilled young people deprived of personal wealth (or unable to offer sufficient financial or real estate collateral) and who would like to to patent new inventions and industrial innovation and to carry out applied research or create new businesses.

Generally speaking, financial systems in these countries are not at all geared to funding innovation. In most developing countries, formal savings are monopolized by the banking sector which is rarely competitive. A few large banks hold dominant positions on local markets, and are either state-owned or members of the same family business groups. Their procedures are still influenced by conventional commercial banking, and loans are granted against collateral and are very short-term. Credit applications are not examined on their own merit but on the basis of the strength of the real estate or personal collateral of applicants, which explains why young entrepreneurial talents find it difficult to find funding resources. Venture capital is not well known and micro-credits, as described above, are still very new, which limits efficient pooling of savings and largely contributes to the brain drain.

Therefore, the gradual reform of financial systems must become a priority, and financial institutions must be adapted to the requirements of sustainable development.

2. Fiscal decentralization

For several years, the World Bank has urged developing countries to implement fiscal decentralization principles that have been so successful in developed countries. In our opinion, no sustainable development process can be implemented without the fiscal decentralization.

The definition of sustainable development and the adoption and implementation of adequate socio-economic policies require the participation of all stakeholders and beneficiaries of the growth process as well as the participation of all those excluded or not benefiting from economic growth. This participation should first and foremost be organized at local level (municipalities, urban bodies and regions). The process of empowering stakeholders can be more easily implemented through sustainable development policies and mechanisms at the local, regional levels that at the national level. This empowerment should also allow citizens to better control the management of local collectivities which powers will have been enlarged.

However, it is the responsibility of the States to ensure that local bodies have resources proportional to their population and to define clear and precise rules on the use of these resources, so as to avoid all squandering or misuse of financial resources at the local level.

Local taxation can also be a very effective tool for sustainable development policies in the areas of environmental taxes (see below), land development funds (urban, rural and coastal) or as regards tax equity between taxpayers (realignment of direct and indirect taxes). However, developing States are still conservative with respect to fiscal decentralization. Some attempts in Latin America, in particular, were not models of rigorous public fund management at the local level.

However, decentralization as a whole remains a necessary instrument for the implementation of sustainable development. The examples of best practices, particularly in the reduction of unemployment, are more often local than national.

3. Environmental taxes and governance in the private sector

In recent years, tax measures aimed at fighting pollution have been multiplied. In fact, these measures impose the polluter-payer principle, through specific taxes collected to repair damages. Conversely, a wide array of tax tools and incentives exists to encourage energy efficiency, the use of non-polluting energies, waste collection, recycling and composting, waste water recycling, etc.

The tax systems in developing countries are still very rigid and very limited use is made of environmental taxes. These systems are too exclusively focused on increasing and seldom used as economic policy instruments. Furthermore, the private sector considers that taxation of business-induced environmental damages may jeopardize the economic competitiveness of their products on international markets.

Environmental taxation in Mediterranean countries is essentially penalizing and exclusively limited to a few simple taxes. In incentive taxation, income tax rates imposed on individual entities and on corporate profits can be modified as per the level of pollution generated by their activities. There is still much to be done in terms of taxation on fuel, quarries, water, etc. Moreover, taxes on car transport, marine navigation, urban development and the exploitation of coastal areas for tourism can be modified to take into account the imperatives of sustainable development.

In fact, as shown earlier, the awareness of private sector as regards their social and environmental responsibilities in the development process is still limited. Adapting financial tools to sustainable development will require widespread action with financial officials (of the private and public sectors) to enhance their awareness of their reponsibilities in their dealings with both private companies and government owned entities. These are consumers of limited natural resources and implement management styles that do not always take into account the need to reduce pollution, to boost the technical know-how of the workforce, to reduce unemployment and to prevent the brain drain. Many measures are available in this area.

The initiative of the Secretary General of the United Nations, known as Global Compact, initially launched at the Forum of Davos in 1999 and then at the UN headquarters in New York in July 2000, should be promoted more actively in developing countries and in the Mediterranean region. This initiative is aimed at raising the awareness of the private sector companies as to their "citizenship" responsabilities", and assume their responsibilities in the field of globalization, sustainable development, and the respect for the environment, human rights and labor laws. It also urges the implementation of governance and transparency principles in private sector activities.

4. Swapping external debts for local funding of development action, particularly at the local level

There have been several limited transactions involving the swap of external debts for funding of development actions in general targeting the protection of nature, in Bolivia, Brazil and Egypt. Recently, in December 2003, Spain and Morocco signed an agreement to exchange 478 million USD in bilateral debts in favor of private or public local investments involving the participation of Spanish companies. These transactions were not sufficiently prepared or publicized to have wide-ranging impact. And yet, they represent financial instruments which could become essential to the funding of sustainable development operations.

In fact, it is possible to imagine the design of a mechanism whereby debts could be swapped for sustainable development resources at the level of local collectivities, and as shown later, of employers' associations, trade unions and education institutions. The role of local bodies would be reinforced in sustainable development strategies, which must be based on local needs. It is possible to imagine the creation of "regional development companies" capitalized through debt conversion. These companies would be focused on development at the local level, and could bring their support to the creation of local companies or to the expansion of local production capacities.

5. Sales of CO2 emission rights

This tool is still in the early stages of development. It could be used to increase financial resources in countries where CO_2 emission levels are inferior to those of industrialized countries, and particularly in the EU. The interest for Mediterranean countries lies mainly in the fact that investments to reduce CO_2 emissions can lead to the sale of "emission rights" to other countries.

Even if the United States did not sign the Kyoto protocol, experts consider that the CO_2 market has a promising future particularly as regards possible sales to EU countries.[28]

B. Funding stakeholder capacity building to promote dialogue and involvement in the SD process

If sustainable development is a process requiring the participation of all stakeholders and beneficiaries of economic, social and cultural life, it is of the highest importance that these stakeholders have the capacity to analyze their situation and identify their new roles in sustainable socio-economic growth. Until today in developing countries, emphasis was placed on the role of the State and of civil society, through the increasing number of NGOs. However, NGOs are often without financial independence, as they are either dependent on local State subsidies or on aid from the private sector or from large NGOs in developed countries.

In fact, it is necessary to widen the categories of sustainable development stakeholders and participants to include vital institutions in all sustainable growth processes, although these institutions are often excluded from exchanges on socio-economic policies. Capacity building initiatives should therefore target the following institutions to ensure more active participation in the SD process.

1. The public or private production and services sector

The objective here is to strengthen the institutional capacities of entities representing productive sectors: Chambers of commerce, industry and agriculture; spzecilazed producers associations (textile, chemical products, buildings and TP, etc.), which are the main source of environmental degradation and over-consumption of natural resources. As stated earlier with regard to the Global Compact initiative of the United Nations, business and production entities, although poorly equipped in many developing countries, must be made more aware of the requirements of sustainable development and the appropriate human and financial resources needed to impact the quality and efficiency of economic activities.

2. Professional associations

Free-lance professions are represented by different bodies: the Medical Association, the associations of pharmacists, engineers, architects, lawyers, etc. In view of the importance of the members of free-lance professions in the economy, their representative bodies should be more than just institutions defending the interests of their members, and should be involved in sustainable development awareness initiatives and in publicizing the contributions of these professions to the definition and implementation of required actions and processes.

[28] *Refer in this respect to the communications made at the Symposium held by the International Organization of Francophone countries regarding "The new financing modes in the economic fields and in sustainable development", notably Clément COTE, "The mechanism of proper development (MPD) as a complementary means for financing sustainable development" and Franck LECOCQ, "Financing global public goods: The experience of carbon funds of the World Bank", as well as Laurent PIERMONT, "Financing global goods and the North-South collaboration: Example of the mechanism of proper development (MPD)", Paris, 5-7 May 2004.*

3. Labor and rural unions

The points covered above also apply to the labor and rural sectors.

4. Educational institutions

As stated earlier, these institutions are not sufficiently involved in sustainable development. In developing countries, institutional ties between the academic world and the local and international private sector are insufficient to maintain the required levels of local technical and scientific skills or to efficiently associate the local economic, technical and scientific potential, until now either under-used or completely untapped, in the global economy.

Universities and educational institutions seldom use fundamental or applied research, particularly in areas related to environment (waste water recycling, energy efficiency and alternative energies, generic medicine, enhancement of irrigation techniques, etc.). Several studies have stressed the high number of scientific and technical higher education graduates (engineers, medical doctors, mathematicians, physicists and biologists), who do not find employment in their fields of expertise on their local market. The situation therefore requires that technical and academic institutions focus on assisting their students in finding employment, either through the creation of laboratories and research centers, or through permanent contact with the local private sector (where efforts are also required, as highlighted below).

5. The media

In view of their importance, the role of the media in the SD process must grow. They can largely contribute to the dissemination of SD principles and concepts and become a major forum of dialogue on the main issues and the roles of the different stakeholders.

6. Local bodies

As stated earlier, dialogue and action plans at the local level are essential to the SD process, and it is crucial to reinforce the institutional capacity of local bodies which play a central role among stakeholders.

II. Improving the use of financial instruments, savings and development assistance

It is possible to define explicit financial priorities, on the basis of this diagnosis and the issues it underscores, for the internal policies of countries and for the existing cooperation mechanisms. These policies and mechanisms will have to be adapted to internal policy changes if the basic components of sustainable development are to be implemented.

Five major areas of innovation can be identified.

A. Economic and financial decentralization of the State in favor of local collectivities: Financial twinning

The objectives of this policy are two-fold:

- To ensure more empowerment of population in terms of sustainable development policies and mechanisms, easier at the local and regional levels. This empowerment should also allow citizens to better control the management of more empowered local collectivities.
- To provide local collectivities with the necessary financial resources to assume their responsibilities in environmental protection, in the provision of social assistance, in the promotion of SMEs, as they are closer to the field than the central Government and have a better grasp of realities.

Among the main cooperation actions in this field, "financial" twinning can be organized between the local bodies of the EU and those of developing countries. This could pave the way to opening the EU capital markets to the issuance of long term bonds issued by Mediterranean local bodies with the guarantee of their twins in the EU.

In some OECD countries, particularly Ireland and Finland, very productive local partnerships have reduced unemployment and exclusion, and have paved the way to better environmental protection.[29]

Whatever the case may be, the official public assistance of OECD countries should be more efficiently geared to local bodies, even if this means exerting pressure on beneficiary countries to provide their local bodies with an increased absorption capacity for external aid flows. Funds could be disbursed through donor countries' local bodies until Mediterranean local collectivities in beneficiary countries have the necessary human and technical capacities. Under the twinning system, local partners could be in charge of identifying actions and the nature of assistance required from their twins.

B. Generalization of new funding instruments: Pollution taxes and debt restructuring

In this field, and without going as far as the Tobin tax, there are light taxes that can easily be collected from pollution sources (docking of ships, car imports, arrival of tourists). **The product of these taxes must imperatively be earmarked for environmental and heritage protection, and could be collected in a special fund.**

Furthermore, to relieve the financial distress of countries where external debts have generated net negative flows of external resources, the EU should be requested to undertake major restructuring of the debts owed to EU Member States on the model of the Brady Bonds, issued by the U.S.

[29] *Refer to the following document: Local Partnerships for Better Governance, OECD, Paris, 2001.*

These bonds sport the name of the U.S. Treasury Secretary who applied this technique to the reduction and restructuring of debts in Latin American. The bonds were specifically issued for that purpose. The private creditors of Latin American countries (commercial banks having funded loans that are guaranteed or not by OECD countries) were given the choice of either reducing the interest rates charged or to reduce the principal of the structured debt. The U.S. Treasury further facilitated debt restructuring by allowing the use of zero-coupon American State bonds as guarantee for the principal of restructured debts, leaving the eventual risk of interest payment failure to creditors.[30]

In the context of stronger Mediterranean cooperation for the establishment of the sustainable development framework, it seems appropriate to issue EU-guaranteed "Euro-Mediterranean" bonds on large European markets to restructure country debts and reduce the debt burden. As covered in Chapter III, the total amount issued could correspond to a portion of the 50 billion USD estimated as the European share in the external debt of Mediterranean countries (public bilateral debts, debts with commercial banks and bond debt).

In addition, the following measures are advised:

- Gradual fiscal decentralization in favor of local bodies
- Improved balance between direct and indirect taxes
- Adjustment of tax incentive mechanisms for investments so as to promote technology-related investments over traditional private investments in trade, light services and real estate.

Efforts will be required from donor countries to redirect assistance to local collectivities and territorial partnerships designed according to the most successful European initiatives. As stated earlier, a share of ODA budgets should be decentralized in favor of local bodies in donor countries. This would facilitate the fiscal decentralization in beneficiary countries and encourage the financial twinning described above between the local and territorial collectivities of donors and beneficiaries.

C. Creation of a specialized financial institution

For several years, several EU Mediterranean countries, such as Italy, have examined the creation of a Mediterranean bank to facilitate and accelerate intra-Mediterranean development and cooperation. But this project has never materialized. The Oslo agreements and the perspectives of economic cooperation between Israel, Turkey and Arab countries in a peaceful Middle East, prompted the United States to suggest the creation of a bank for the

[30] *Zero coupon issuance corresponds to the issuance of bonds that do not pay annual interest, but where the principal is automatically accrued yearly by the amount of interest. Thus, the value of a bond issued at 12% interest rate and at 50% of the price of its nominal value at maturity can double in 7 years until it reaches issuance nominal value at maturity.*

development of the Middle East, and the World Bank was assigned the task of undertaking the preliminary studies. The project was later abandoned.

It seems in fact wiser to further the assessment of the creation of a Mediterranean Fund for Sustainable Development, which could be financed through the different sources described herein. The fund could be decentralized and operate through nationalwindows so as to reduce operating costs. It could cooperate closely with multilateral funding institutions, and in particular with GEF.

A share of the amounts generated by debt swaps for sustainable development initiatives could be deposited in this Fund.

D. Reforming the role of the educational system: The conversion of debts into R&D funding

The objective of this reform is the establishment of close institutional ties between the academic world and the local and international private sector to retain local technical and scientific skills and to efficiently include the local economic, technical and scientific potential, until now either under-used or completely untapped, in the global economy.

Several studies have stressed the high number of scientific and technical higher education graduates (engineers, medical doctors, mathematicians, physicists and biologists), who do not find employment in their fields of expertise on their local market. The situation therefore requires that technical and academic institutions strive to find employment for their students in the local private sector (where efforts are also required, as highlighted below).

In this respect, it would be worthwhile to study the possibility of designing a mechanisms for the **conversion of external debt into domestic financial resources allocated to the creation of University R & D laboratories,** thereby contributing to stop the serious damages that a continuous brain drain could create to other efforts to initiate a process of sustainable development. Such a financial swap scheme would provide Mediterranean universities with the capacity for fundamental and applied scientific research, which would be beneficial for the establishment of ties between private sector development and would stimulate its innovative capacity.

E. Stimulating the role of the private sector: Taxation and debt conversion

The objective here is complementary to the one described above and focuses on changing the private sector investment behavior seeking easy and short term rent profits to a technologically dynamic investment behavior that would generate much more employment opportunities. It is necessary for private business entities in developing countries to gradually break away from their traditional “rent seeking” investment behavior protected by State policies, to an investment behavior seeking profits from industrial R&D, improved quality of products and innovation that constitute the basic root of dynamic economies and of the globalization progress.

Tax policies can play a major role in this regard, by discouraging concentration of private investment activities in luxury real estate, wholesale commercial distribution, intermediation with multinational companies yielding no local added value) in favor of R & D investments, purchase of patents, upgrade of productivity and continuous training of the workforce. These fields of investments which are a key factor for the upgrading of economic dynamism in the Mediterranean region has not so far attracted domestic private sector companies. Thus, solar or wind energy, for instance, has attracted very marginal interest in spite of its huge need. Mediterranean and African climates are the perfect environment for these non-polluting sources of energies, but as weel for a large variety of available medicinal plants and agricultural products, and for infrastructures in water savings and energy efficiency, waste treatment or waste water, sorely lacking on local markets.

This is why it is imperative to create close institutional links between stakeholders in the educational sector and those in the business sector so as to build capacity to undertake for the necessary studies and analysis within liberal professions and employers' associations and trade unions.

The mechanisms of debt conversion to fund R&D laboratories, to purchase patents or licenses, to pay royalties could also, under specific conditions, be made available to private sector businesses.

To be successful, private sector incentive policies require strong business ethics, regulating mechanisms for competition and for the protection of the environment, industrial and intellectual property or trademarks.

As regards businesses in the EU Member States, they should stop considering Mediterranean markets as passive and captive for their own multinational corporations to be protected from the competition of other highly industrialized countries. On the contrary, they should examine the potential for interaction between the private sectors of both rims. In this way, within the current context of the global competition between large commercial and geographical groups, the share of Euro-Mediterranean and African economies in the expansion of the global trade encouraged by globalization, would be consolidated and increased. The existence of high, untapped technical and scientific potential in the poor Mediterranean and African regions should bring the leaders of the EU and of European business to reconsider Euro-Mediterranean relations from a more dynamic and creative angle, to the benefit of both rims.

The matrix of sustainable development initiatives, annexed to this report, synthesizes the aforementioned measures under four main areas:

- Decentralization of economic responsibilities
- Adjustment of the role of the public sector
- Involvement of education in the economy

- ➤ Stimulating the role of the private sector

The matrix is divided into two distinct but complementary parts: the first dedicated to the objectives and means of internal policies, and the second to the objectives and means of external cooperation.

General Conclusion: Prerequisites for the implementation of new economic and financial mechanisms in the Mediterranean region

To change the biased and sluggish development trend in the Mediterranean, bureaucratic traditions involving State-to-State centralized assistance will need to be changed in favor of different channels of decentralized, assistance leading to stronger ties between local bodies and to the establishment of partnerships to reduce unemployment and exclusion, to high growth in R & D capacities and to inducing private sector operators to be more transparent and dynamic and to assume their social, economic and ethical responsibilities.

As illustrated in this study, although all donors express their readiness to dedicate their assistance to sustainable development strategies, the nature and types of assistance remain dependent on traditional projects and programs in areas not directly linked to the implementation of sustainable development. There has been progress in assistance allocated for new areas, such as renewable energies, heritage conservation, culture, healthcare, reduction of poverty, support to the establishment of democratic institutions and to civil society), but amounts dedicated to these areas remain marginal in the overall flow of external resources accruing to Mediterranean countries.

Therefore, donors and beneficiaries will need to trigger a qualitative leap in cooperation procedures. Pilot experiences for the suggested innovations described in this Report could be implemented before new procedures are generalized.

Table 41

Sustainable Development Matrix for Mediterranean Countries

Area	Internal Policies		Cooperation Mechanisms	
	Objective	*Means*	*Objective*	*Means*
I. Decentralizing economic responsibilities	*Reinforcement of the role of local bodies in the development process*	1.Financial Instruments and efficient tax equalization mechanisms	*Substantial increase of assistance programs to local bodies*	1. Reduce funding for large national infrastructures in favor of urban and rural infrastructures in local bodies (LB)
		2.Upgrade and development of technical capacity		2 .Increase technical assistance to LB in water and waste management
		3.Centralization and strengthening of environmental and land use legal powers (water treatment, waste management, quarries,etc.		3. Increase assistance in favor of laws and regulations for local bodies
		4.Decentralization of social and educational expenditures		4. Increase technical assistance for favor of local finance management and resource equalization mechanisms in local bodies
		5. Creation of regional development organizations or regional investment funds		5. Decentralize bilateral assistance through OECD countries' local bodies, which would support CL in finance management
		6. Modernization of legislation on local bodies to enhance their autonomy		6. Conversion of a share of bilateral debts in favor of LB or local development institutions to be created
				7. Envisage financial twinning where EU's LB could guarantee LB bonds issued on European financial markets by Mediterranean LB
II. Adjusting the role of the public sector	*A. Reinforcement of State regulation functions*	1. Upgrading legislations on the economy (embezzlement, insider trading, prevention of abuse of dominant position) to develop business ethics	*Focus structural adjustment programs on actions to increase the regulatory capacity of Mediterranean Governments*	Focus technical assistance on capacity building for Regulatory bodies
		2. Land and land use development; conservation standards, water treatment and management, waste management, new quarries etc…		
		3. Renforcing the legal framework and continuous training for judges		
		4. Adjustment of public sector salaries		
		5. Creation of independent regulatoty bodies in key areas (consumer protection, telecommunications, insurance, transport, etc.)		
		6. Clear definiiton of public services function and of privatizable entities under the control of regulatory authorities		
	B. Reinforcement of taxation in favor of sustainable development	1. Increasing the share of direct taxes in State receipts (taxes on signs of wealth, wealth tax, real estate tax)	*Make new resources available to encourage environment and heritage conservation*	1. Envisage the creation of environment protection taxes at regional level, on the basis of simple indicators (number of tourists, docking of ships, car imports, etc...)
		2. Adjust taxation to discourage profits from rent activities, stimulate the growth of technological expertise and the appetite for industrial risk, encourage family businesses to go public		2. Focus tax reform support on the reinforcement of direct taxation and incentives to businesses rather than only of indirect taxation
		3. Local subsidies for venture capital and microloan distribution mechanisms		
		4. Fiscal decentralize in favor of local bodies		

III. Involving private and public education in the economy	***Ties with economic sectors to stimulate employment for students and reduce the brain drain***	1. Funding R&D laboratories	***Design new mechanisms for university cooperation and for cooperation between Mediterranean universities and private European firms***	1. Mechanisms of debt conversion into local soft loans for the creation of fundamental and applied research laboratories
		2. Close ties with local employers' associations to stay abreast of employment opportunities for university graduates		2. Intensify exchanges of professors and students between the two parts of the Mediterranean sea
		3. Close ties with multinational firms for R&D contracts		3. Subsidies for the translation of scientific and human science literature in all Mediterranean languages
		4. Adjust professional training to the requirements of employers' associations		
		5. Close ties with local employers' associations to organize continuous training for technical, scientific, accounting, financial and administrative job-seekers; assessment of new requirements for skilled executives and workforce in the economy		
		6. Orient education to technology-related professions (specialized technicians); reduction of expenditures on over-crowded traditional disciplines		
		7. Contacts with foreign universities for technical cooperation and outsourcing of research		

IV. Stimulating the private business sector	***Transition from rent type of profits to profits accruing from technological growth***	1. Reinforce employers' and workers' associations (research centers, laboratories, data bases)	***Development of financial and technical assistance programs for employers' and workers' associations***	1. Debt conversion into local funds for the creation of specialized research centers with employers' associations and trade unions
		2. Create Business Ethics Committees and Environment Protection Committee		2. Twinning of employers' and workers' associations; creation of specialized regional research centers
		3. Reinforce the transparency of accounts: enhancing the chartered accountant profession; developing analytical accounting		
		4. Financial and institutional participation in the organization of the job market and of continuous training		
		5. Encourage investments in industries related to environment protection, renewable energies, medicinal plants and generic medication, climate-specific construction materials etc...		
		6. Reform banking systems to curtail the monopoly of banks over national savings and stimulate and diversify the forms of funding; generalize access to loans		
		7. Opening of family business capital to local savings and to foreign partnerships, reinforcement of stock exchange dynamism and regulation		

Figure 1. Sustainable development in the Mediterranean: breaking the vicious circle.

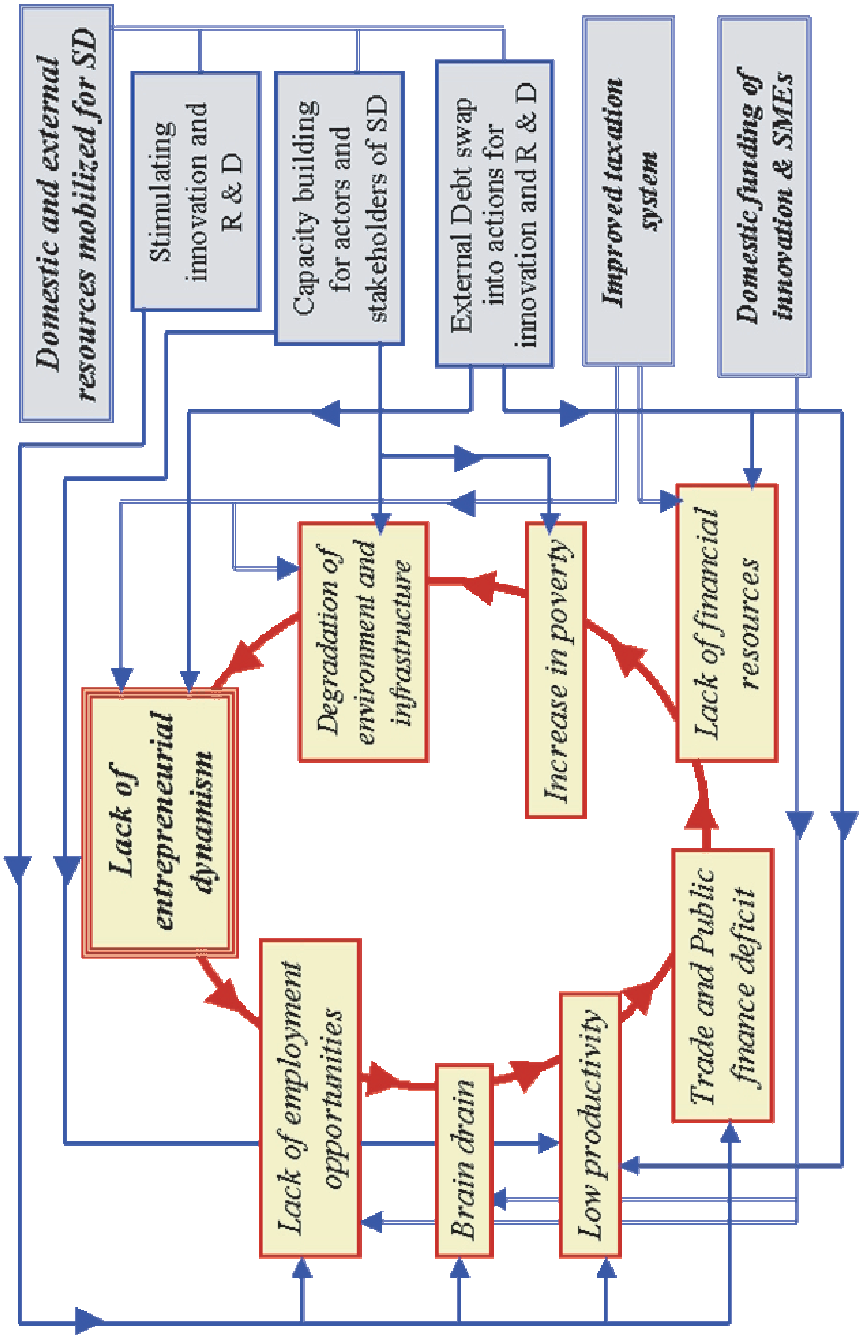


Table 42. Indicators of fragility per developing Med. countries.

	illiteracy, woman statute and unemployment	Financial and social fragility	post-conflict context	Straight government or semi-democratic	Centralized economy without liberalization programme	Low GDP level
Albania	☆	☆				☆
Bosnia-Herzegovina	☆	☆	☆			☆
Serbia-Montenegro	☆	☆	☆	☆	☆	
Algeria	☆	☆		☆		☆
Libya				☆	☆	
Morocco	☆	☆				☆
Tunisia				☆		
Egypt	☆	☆		☆		☆
Jordan	☆	☆	☆			☆
Lebanon	☆	☆	☆			☆
Palestinian Territories	☆	☆	☆	☆		☆
Syria	☆			☆	☆	☆
Turkey		☆				