



Facility for Euro-Mediterranean Investment and Partnership • Facility for Euro-Mediterranean Investment and Partnership



FEMIP

Facility for Euro-Mediterranean Investment and Partnership

Annual Report 2005





Message from the Vice-President

In sharing with you this second edition of the FEMIP activity report, I should like first of all to look back over 2005, which was a very useful year for the development of the Euro-Mediterranean partnership. However, I should also like to take a preliminary look ahead at 2006, which is likely to be crucial for the future of economic and financial cooperation between Europe and its neighbours in the southern and eastern Mediterranean.

In 2005, FEMIP essentially managed to combine quantity with quality.

Quantity, with EUR 2.194bn of lending arranged, a record in the short history of FEMIP, which makes it the leading financial player in the region.

Quality, with half its lending directed to the private sector and therefore to promoting job creation and the modernisation of the economic fabric.

Quality again, with the first loans being made under the Special FEMIP Envelope, that is without a sovereign or international guarantee, operations that further widen the range of products offered.

Quality yet again, with the first studies launched to facilitate understanding of the challenges of development in the Mediterranean, such as the Handbook on Sovereign Debt Markets in the Mediterranean Countries or the study on Mediterranean migrants' remittances from Europe to their countries of origin.

Quality, finally, with an operational and institutional dialogue considerably strengthened by the formalisation of new partnership agreements with academic institutions or networks operating in the region, the organisation of workshops or committees of experts, or active participation in most of the events that were a feature of 2005 – the "Year of the Mediterranean", marking the tenth anniversary of the Barcelona Process.



Philippe
de Fontaine Vive Curtaz

EIB Vice-President
in charge of FEMIP
June 2006

Details of these activities are given in the following pages and I hope that you will find them of interest and enjoy reading them.

In 2006 FEMIP is faced with a series of new challenges.

First of all, it must endeavour to facilitate the transfer of experience to those partner countries that make less use of its financial support. To begin with, Turkey, which embarked upon negotiations for EU membership in 2005 and thus became an "Accession Country", set to play a central role as a partner between Europe and the Mediterranean. FEMIP should also give greater support to developing the private sector in Algeria, which, thanks to the favourable trend of commodity prices, has decided to repay all its outstanding loans early and no longer resort to borrowing to finance its public investment.

Then there is the FEMIP evaluation procedure initiated by the European Commission together with the EIB in consultation with all those involved in the Euro-Mediterranean partnership, in order to prepare for the December 2006 European Council conclusions on the future of our economic and financial partnership and on the prospects for FEMIP. This development will of course be consistent with the EIB's new lending mandates for the period 2007-2013 for operations outside the European Union, as decided by the Council, but also with the European budget support over the same period for technical assistance, risk capital and interest subsidies.

The Euro-Mediterranean economic and financial partnership will be able to serve as a benchmark for implementation of the European Union's Neighbourhood Policy and thus help to forge even closer and more consistent cooperation.



Contents

Message from the Vice-President	1
Working towards shared goals	4
Chronology of key events	8
Investment climate in the Mediterranean partner countries	10
Map of projects financed	14
Analysis of the FEMIP portfolio: 2002-2005	16
FEMIP, a forum for dialogue and exchange	20
FEMIP, a place for reflection	24
A reinforced partnership with development finance institutions	28
Stimulating growth and employment: FEMIP projects in 2005	32
Credit lines	34
Risk capital operations	38
Transport and telecommunications	41
Energy	44
Industry	48
Environment	50
Technical assistance	52
FEMIP Trust Fund Projects	56
Organisation and staffing	58
Publications	60
Annexes	
List of projects signed (01/10/2002 – 31/12/2005)	63
List of technical assistance projects signed in 2005	66

Working towards shared goals

2005 was a milestone year for the Euro-Mediterranean partnership. Dubbed the “Year of the Mediterranean”, it encompassed a range of events celebrating the tenth anniversary of the Barcelona Declaration, culminating in the Barcelona Euro-Mediterranean Summit in November. It also provided an opportunity for discussion and debate on the progress made since 1995 and the approach to be followed for the realisation of the Euro-Mediterranean ambition of creating a common area of peace, stability and shared prosperity, as formulated in Barcelona.

Since October 2002, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) has been contributing to this effort within its sphere of responsibilities, as its resources permitted. With more than EUR 7.2bn invested in the countries of the southern and eastern rims of the Mediterranean between 2002 and 2005, FEMIP has demonstrated its resolve to support the economies of the Mediterranean partner countries¹.

The following overview sketches the origins, foundations and principal products of an instrument for cooperation which has proved its effectiveness in consolidating the Euro-Mediterranean partnership.

Operational since October 2002, FEMIP is the fruit of the political will expressed on both sides of the Mediterranean to give fresh impetus to the financial cooperation between Europe and its Barcelona Process partners. The decision to set up this Facility, which brings together under one roof the whole range of services provided by the European Investment Bank (EIB) in the Mediterranean partner countries, was taken by the European Council at its meeting in Barcelona in March 2002. FEMIP's launch followed in April 2002 at the Euro-Mediterranean Conference in Valencia attended by the Foreign Ministers of the European countries and the Mediterranean partners.

FEMIP's principal remit is to support the modernisation and opening-up of the Mediterranean partner countries' economies so as to make them more competitive and efficient, and in particular to prepare them for the free-trade area due to start in 2010. It accordingly marks an important stage in the EU-Medi-

terranean financial partnership furthering the Barcelona Process, and fits in with the new European Neighbourhood policy adopted in 2004.

In this context, FEMIP's projects revolve round two priority objectives: development of the private sector, and creation of an investment-friendly environment. In order to meet its objectives, FEMIP finances projects carried out by the private sector, whether in the form of local initiatives or foreign direct investment. It also supports infrastructure schemes (energy, transport, communications), investment in human capital (health, education, social housing) and projects aimed specifically at protecting the environment.

Among the many factors explaining FEMIP's achievements are the resources provided by the EIB and the EIB's experience in the region, where the Bank has invested more than EUR 15bn since 1974. This success also owes much to the complementarity between the activities of the European Commission and the EIB in the region and to the resources provided by the Com-

¹ Algeria, Egypt, Gaza and the West Bank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey.

mission. The partnerships concluded with development finance institutions and the synergy established between the Member States and the Mediterranean partner countries have likewise contributed to this performance. Cooperation with the partner countries is further strengthened by FEMIP's outreach offices in Cairo, Rabat and Tunis, which provide valuable on-the-ground contacts with the local community and authorities.

Over the first three years of its existence, FEMIP has undergone major change. In recognition of the results achieved during its first year of operation, the Euro-Mediterranean Finance Ministers decided at their November 2003 meeting in Naples to expand FEMIP's range of tasks. This was done mainly by the infusion of additional resources, acceptance of greater risk (creation of a Special FEMIP Envelope), the establishment of a Trust Fund and by intensified dialogue with the Mediterranean countries on economic and financial issues through annual ministerial meetings and the creation of a committee of experts.

By focusing energies and resources on projects with high value added, FEMIP is contributing to one of the Euro-Mediterranean partnership's key objectives: promoting economic growth and job creation in the Mediterranean partner countries.

Fifth FEMIP Ministerial Committee meeting in Skhirat (Rabat), Morocco - June 2005



More than EUR 7.8bn for the period 2000-2006²

The resources deployed by FEMIP stem largely from the Euromed II Mandate, augmented by a number of complementary facilities geared to specific objectives.

Euromed II Mandate

FEMIP's loans are granted by the Bank under the Euromed II Mandate conferred on it by the Member States. As such, they are covered by the EU's Guarantee Fund in respect of political and, in certain cases, commercial risks. This mandate, originally set at EUR 6.425bn for the period 2000-2006, was increased to EUR 6.520bn by adding the balances that remained unutilised by the candidate states at the time of their entry into the Union. The main objectives of the Euromed II Mandate are to develop the private sector and upgrade the economic infrastructure, particularly those elements necessary for the expansion of inter-regional trade, such as transport, electricity and telecommunications networks³.

Euro-Mediterranean Partnership Facility

The Euromed II mandate is supplemented by a EUR 1bn facility for EIB loans, without the benefit of cover from the Guarantee Fund, for projects of regional interest and of common interest between the European Union and the Mediterranean partner countries, notably in the energy and communications sectors. This Facility was established in 2001, on the recommendation of the fourth Euro-Mediterranean Foreign Ministers' Conference.

Risk capital envelope

FEMIP also operates as a provider of investment capital (equity and quasi-equity resources for unlisted private companies), drawing on a so-called "risk capital" envelope financed by the EU budget. The total amount earmarked for this type of investment runs to EUR 200m for the period 2001-2006. The relevant operations take the form of investment in private equity funds, co-investment with specialised local financial intermediaries or direct investment.

² 01/02/2000-31/01/2007.

³ As a consequence of Turkey being recognised as a candidate for accession to the EU, in August 2005 all operations signed in this country under the Euromed II mandate were retroactively moved to the South-Eastern Neighbours (SEN) mandate. However, lending to Turkey, as a Mediterranean partner under the Barcelona Process, has so far continued to be accounted for under FEMIP. Apart from the SEN mandate, financing in Turkey over the period also occurred under a number of other envelopes, namely the Pre-Accession Facility, the Special Action Programme and the Turkish Earthquake Rehabilitation and Reconstruction Assistance (TERRA).

Technical Assistance Support Fund

Technical assistance financed by the Support Fund is an important FEMIP instrument designed to improve the quality and impact of the Bank's lending operations. The Support Fund's resources are used for the purpose of carefully preparing investment projects and implementing them with increased efficiency. For the period 2003-2006, the European Commission has allocated EUR 105m to the FEMIP technical assistance Support Fund under the MEDA Regulation.

Interest rate subsidies

In order to encourage environmental projects, an interest rate subsidy on FEMIP loans is granted out of European Union budgetary resources. The effect is to improve the economic and financial impact of the projects concerned. Since 1995, interest rate subsidies totalling more than EUR 200m have enabled FEMIP to finance a portfolio of environmental projects running to over EUR 2.5bn in aggregate.

FEMIP Trust Fund

Established at the end of 2004, the FEMIP Trust Fund is modelled on the co-financing funds of other international financial institutions. Its activities span two areas: acquiring holdings in the private sector (investment capital) and financing technical assistance and studies, thereby supplementing both the risk capital envelope and the Technical Assistance Support Fund. Participation in the Trust Fund enables donors to augment the contributions coming from the EU budget allocated to FEMIP under the MEDA programme. At the end of 2005 resources totalling EUR 33.5m – garnered from 16 different donors (15 Member States and the European Commission) – stood at the Trust Fund's disposal for technical assistance and risk capital operations.

Interim Facility

In order to enable FEMIP to continue its activities pending the entry into force of the new financial provisions for the period 2007-2013, a proposal was laid before the Heads of State or Government at the Barcelona Euro-Mediterranean Summit on 27 and 28 November 2005 for a temporary facility of EUR 1bn for 2006 and EUR 0.5bn for 2007 to be established should that prove necessary. This is expected to be formalised in the course of 2006, in the light of FEMIP's operational needs.

A diversified and complementary product range

In order to meet its objectives, FEMIP offers three main types of product:

Long-term loans

Most of FEMIP's operations consist of long-term loans, extended in one of two forms:

Individual loans (direct financing) are made direct to private or public promoters of projects where the investment cost exceeds EUR 25m. The financing terms (maturity and grace period) are tailored to the type of investment, and appropriate security is required.

Credit lines, also known as "global loans" (indirect financing), are medium or long-term loans, generally for 6 to 8 years, advanced to local intermediary banks and leasing bodies which on-lend the funds – taking on the project risk – to finance investment undertaken by small and medium-sized enterprises and local authorities. These operations cater for projects with an investment cost below EUR 25m. Credit lines can also be used to meet the needs of micro-enterprises.

In its lending activity FEMIP can also draw on the Special FEMIP Envelope (SFE), a facility that enables it to provide financial support for private sector operations exhibiting a higher risk profile than standard long-term loans in the European Union. Recourse to the SFE has become necessary because the average risk profile of the Mediterranean partner countries is higher than

in the European Union, which means that private promoters in the region face additional costs in obtaining guarantees from third parties enjoying a credit rating acceptable to the Bank. The primary beneficiaries of the SFE are local banking intermediaries and companies that are well established locally.

Risk capital financing














FEMIP finances unlisted local private companies by providing equity or quasi-equity resources (participating or mezzanine loans). Such operations take the form of direct investments, co-investments with local financial institutions or investments in funds. They are aimed for the most part, though not exclusively, at small and medium-sized enterprises. The dominant features of these operations are that they involve investment in the local currency and the taking of direct risk without reliance on a bank guarantee. The expected return must be commensurate with the risk assumed by FEMIP as an investor. As part of its support activity, FEMIP also uses risk capital resources through participating loans to certain micro-credit associations.

Technical assistance operations

The purpose of these operations is to help FEMIP's partner countries and private promoters in strengthening their management capacity in the medium and long term, improving the quality of investment projects and enhancing their developmental impact. In contrast to the technical assistance financed by the Trust Fund, which is provided upstream of the relevant loan operations, these operations target activities carried out in connection with existing or potential projects. It can be delivered at various stages of projects, be it for the purposes of preparing, evaluating or managing them.

Chronology of key events

The highlights of FEMIP activity during 2005 and the first half of 2006 are outlined below:

-  **7- 8 March 2005:** The third meeting of the FEMIP Committee of Experts was held in Luxembourg to discuss the modernisation of the Mediterranean banking and financial markets and the introduction of innovative financing instruments.
-  **13 May 2005:** The EIB and the European Development Finance Institutions (EDFIs) signed a letter of intent to promote closer cooperation in the development of private sector projects in the Mediterranean region.
-  **27 May 2005:** The EIB and the World Bank Institute signed a work programme for 2005-2006 aimed at stepping up their cooperation in the field of the knowledge-based economy.
-  **17 June 2005:** The FEMIP Representative Office in Morocco was officially opened.
-  **20 June 2005:** The fifth meeting of the FEMIP Ministerial Committee took place in Skhirat (Rabat), Morocco, in conjunction with the first meeting of the Euro-Mediterranean ECOFIN Council.
-  **16 August 2005:** The EIB, the European Commission and the African Development Bank Group (AfDB) signed a Memorandum of Understanding to strengthen their cooperation in supporting development programmes in African countries.
-  **11 November 2005:** Resumption of EIB operations in the West Bank and Gaza Strip with two projects for improving electricity infrastructure and providing support to small and medium-sized enterprises.
-  **21 November 2005:** The EIB was granted permanent observer status at the Euro-Mediterranean Parliamentary Assembly.
-  **27-28 November 2005:** The Euro-Mediterranean Summit was held in Barcelona to celebrate the tenth anniversary of the Barcelona Declaration.
-  **13 December 2005:** The EIB, Agence française de développement (AFD) and KfW Entwicklungsbank signed an agreement on closer cooperation in the Mediterranean region and the African, Caribbean and Pacific States.
-  **15 December 2005:** FEMIP participated in the first Euro-Mediterranean Transport Ministers' Conference, held in Morocco, which adopted the Blue Paper on Transport in the Mediterranean region.
-  **21 February 2006:** Seven multilateral development banks met in Luxembourg at the invitation of the EIB to discuss the management of the Trust Funds and co-financing.
-  **21-22 March 2006:** The fourth meeting of the FEMIP Committee of Experts was held in Vienna to discuss the topics of energy and improving the investment climate in the Mediterranean.



Micro-credit has become recognised as a scheme for those on low incomes, especially for unemployed young people who want to generate their own income. Through its credit lines, FEMIP can also meet the demand for micro-credit, as shown below.



Investment climate in the Mediterranean partner countries

For the Mediterranean partner countries, trade and private investment are needed to provide new engines of growth and dynamism. Small open economies tend to experience faster growth rates, and in particular faster productivity growth rates, which are really the ultimate determinant of national income. What have been the main economic trends in the region throughout 2005? How can the business climate in Mediterranean countries be further improved?

Recent developments in the Mediterranean partner countries are encouraging and prospects for the region have improved. At the conjunctural level, the region has benefited from favourable global economic and financial conditions, lifting growth in the region to 6.5% in 2004 and 4.4% in 2005 while a similar robust performance (4.8%) is projected for 2006⁴. Furthermore, although oil prices are pushing up economic activity in the three Mediterranean partner countries that are net oil exporters – Algeria, Egypt and Syria – growth is more or less evenly distributed across the region, with particular emphasis on the strong economic recovery taking place in Turkey. Most macroeconomic aggregates are reasonably well balanced. Despite a recent slight pickup in inflation in a number of countries, 2005 consumer price increases appear to be in single-digits for all Mediterranean partner countries, with the possible exception of Syria. In addition, there has been no significant deterioration in fiscal deficits across the region,

even if Algeria's generous oil-related tax revenues and the stabilisation programme currently taking place in Turkey mostly drive the improved regional average. These factors, combined with stronger workers' remittances, politically-induced grant flows in some countries, and a recent pickup in tourism, have contributed to an improvement in the external current account position of the region, which has shifted into a surplus over the past four years, though some countries still display sizeable deficits.

In addition to favourable short-term developments, there has also been progress in the areas of policy design and structural reforms. With a series of aggressive measures in the areas of trade, taxes, and subsidies, and the plans it has launched to restructure the financial system, privatise most state companies, modernise the fiscal accounts, and strengthen monetary policy, Egypt is the latest arrival to the group of reform-minded countries in the region. The revival of the privatisation programme in Egypt has produced results. Privatisation revenues shot up from US\$ 2.7m in 2003/04 to almost US\$ 1bn in 2004/05. It is estimated that privatisation

revenues in 2004/2005 almost doubled the revenue raised over the previous five years. Funds raised are going to be used to restructure less attractive public sector holdings and to pay down domestic debt. Several large sales have been carried out so far in 2005/06, resulting in privatisation revenue of US\$ 0.9bn in the first quarter of the year. In addition to the Bank of Alexandria, the other major sale anticipated during 2005/06 is that of a stake in Telecom Egypt. The Ministry of Investment expects total privatisation revenue to reach US\$ 1.7bn in 2005/06.

By October 2005, 194 state-owned enterprises had been fully or partially privatised in Tunisia, bringing in receipts of US\$ 1.8bn (75% came from foreign investors). Receipts have varied considerably from year to year, reflecting some political resistance to foreign influence in the economy, as well as worries about job losses. Privatisation gained some momentum in 2005 with the sale of Société Tuniso-Algérienne de ciment blanc for US\$ 80m and a 33.5% stake in Tunisia's sixth-largest bank, Banque du Sud, for US\$ 45m. However, far more substantial inflows are in prospect for 2006 with the likely sale of a 35% stake

⁴The analysis in this paper covers all Mediterranean partner countries, including Israel and Turkey. The 2006 projections are taken from the September 2005 IMF World Economic Outlook.



Developing infrastructure has a substantial impact on improving the business climate

in the state-owned telecoms firm, Tunisie Télécom, which is expected to raise about US\$ 1.5bn. A large number of smaller state holdings (including a sugar refiner and a retailer) are also up for sale.

In Morocco, further privatisation progress was made in 2004. First, an additional stake in the capital of Banque Centrale Populaire was sold in July for US\$ 85m. Second, the Government divested itself of a further 21% stake in Maroc Telecom, raising some US\$ 1bn. In addition, the French conglomerate Vivendi bought another 16% of Maroc Telecom for about US\$ 1.4bn, raising its stake to 51%. The actual payment occurred at the beginning of 2005 and the operation is recorded as a 2005 privatisation. There are currently twelve public companies on the privatisation list, of which Somathes, a tea and sugar importer, and Drapor, a port dredging company, are the largest.

In Turkey, privatisation advanced impressively in 2005 with the sale of Turk Telekom and Tupras, the oil refinery,

among others. Privatisation receipts amounted to US\$ 5bn. Bank restructuring was largely completed and the banking system is now financially sound and much better regulated and supervised than in 2000. The restructured and more transparent banking sector has become the main focus of foreign interest; 80% of the US\$ 7bn in foreign acquisitions in 2005 involved banks. The privatisation programme for 2006 is focused on the electricity sector. Authorities expect privatisation receipts to increase to US\$ 9-10bn but decline to US\$ 5bn in 2007.

The decisive privatisation process in the region appears to have helped to strengthen the regional investment climate and to have contributed to a progressive increase in private capital flows to the region since 2001. This, in conjunction with the stronger external current account positions, has led to a substantial rise in foreign exchange reserves, which have increased by over 70% since 2001, albeit in some cases from very low levels.

Ten years after the launching of the Euro-Mediterranean Partnership initiative through the Barcelona Process, significant progress has been made on certain aspects of the Partnership – as measured, for instance, by the increased financial cooperation, the conclusion of negotiations for association agreements with almost all Mediterranean partner countries, as well as progress in policy design and structural reforms. But much remains to be done to achieve the proposed creation of a zone of shared prosperity on the two sides of the Mediterranean.

The major goal of trade liberalisation and EU transnational support has been to encourage greater inflows of foreign direct investment (FDI), and on this score the Mediterranean countries (with the exception of Turkey and Israel) have performed poorly. Since 2000, the main Mediterranean countries⁵ have received an average inflow of EUR 11bn⁶, which represents about one-sixth of total flows to the developing world. The Mediterranean countries have indicated that the first major wave of EU outsourcing in the late 1990s concentrated mainly on the new EU Member States, i.e. eastwards, not southwards. In response to that, the EU has pointed to the inadequate local business environment, capital-account restrictions and incomplete transparency and rule of law. Free zones have, to a limited extent, appeared in the region, but FDI has been attracted especially to state asset sales, EIB-supported infrastructure projects, and oil and gas. Greenfield non-oil FDI remains the exception rather than the rule.

⁵ Data exclude Israel and the West Bank and Gaza.

⁶ World Bank data.

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

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

Source: World Bank

Rankings of Mediterranean partner countries according to a set of business dimensions (Starting a Business, Dealing with Licences, Hiring and Firing, Getting Credit, Protecting Investors, Enforcing Contracts, Registering Property, Paying Taxes, Trading Across Borders, Closing a Business – the last four are not reported in the table but are available on request), which are aggregated in the Ease of Doing Business Indicator. The indicator shows that the most business-friendly of all Mediterranean partner countries is Israel, which ranks 29 out of a total of 156 countries considered in the World Bank study.

A variety of structural bottlenecks still indeed constrain investment climates. In cross-country comparisons of economic competitiveness, the Mediterranean partner countries typically rank low on the lists (Table 1), with their economies exhibiting rather rigid labour markets, weak investor protection and poor access to credit, among other weaknesses. Furthermore, despite considerable progress towards greater involvement of the private sector in economic activity, most Mediterranean partner countries still show signs of the statism that dominated those economies in a not-so-distant past. Public sectors are typically large – and inefficient – and high expenditure levels coupled with difficulties in raising appropriate tax revenues have resulted in sizable public sector deficits and government debt. This development model resulted in limited economic diversification and only partial and fragmented integration with the world economy. More broadly, governance indicators produced

by the World Bank show that the Mediterranean partner countries lag significantly behind the EU in all aspects of governance (Figure 1)⁷. In addition, the Mediterranean partner countries compare unfavourably with other regions – such as Latin America and Asia – on a number of governance indicators, including notably voice and accountability, political stability and regulatory quality⁸.

⁷ The World Bank compiles governance indicators for the six dimensions of governance indicated in Figure 1. The data source is very comprehensive: several hundred individual variables measuring perceptions of governance are drawn from 18 different agencies, including international organisations, political and risk-rating agencies, think tanks, and non-governmental organisations.

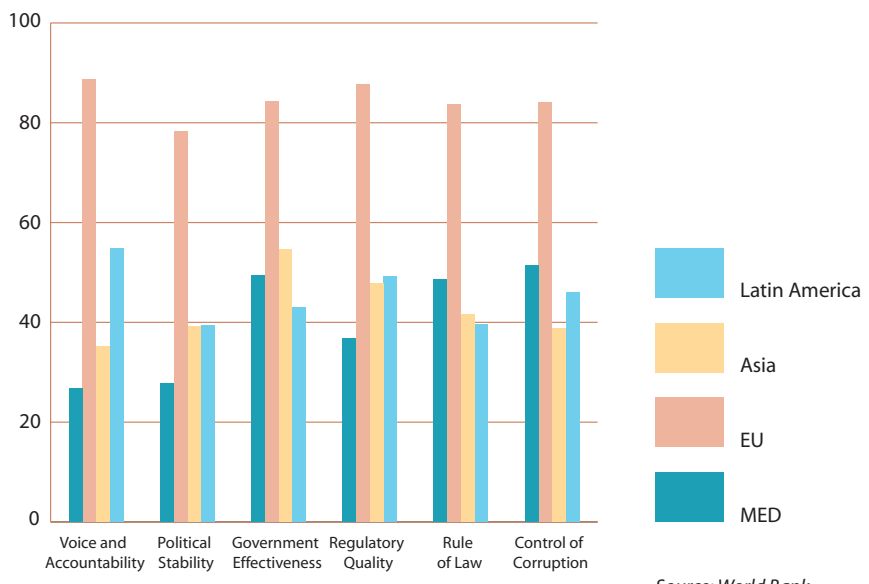
⁸ A distinctive feature of the region is long-lasting regimes with internal tensions.



Support for the private sector is one of the main objectives of FEMIP (printing company, Tunisia).

Against this background, it is imperative that the Mediterranean partner countries take the opportunity afforded by a stable macroeconomic environment and strong external positions to advance reform efforts and further strengthen the investment climate. This is becoming all the more urgent with the emergence of powerful new Asian competitors in the main export markets of the Mediterranean partner countries – the EU. The region would benefit from reforms aimed at increasing private sector activity, further integrating the region into the world economy, strengthening fiscal positions, deepening financial markets, improving governance and adjusting the role of the state in the economy. At the same time, reform efforts will need to be accompanied by strong social support mechanisms. However, it is important to recognise that the pace and sequencing of reforms differ from country to country and depend on local circumstances. Thus, different contexts require different solutions to solve common problems.

Figure 1: Governance indicators 2004





Source: World Bank.

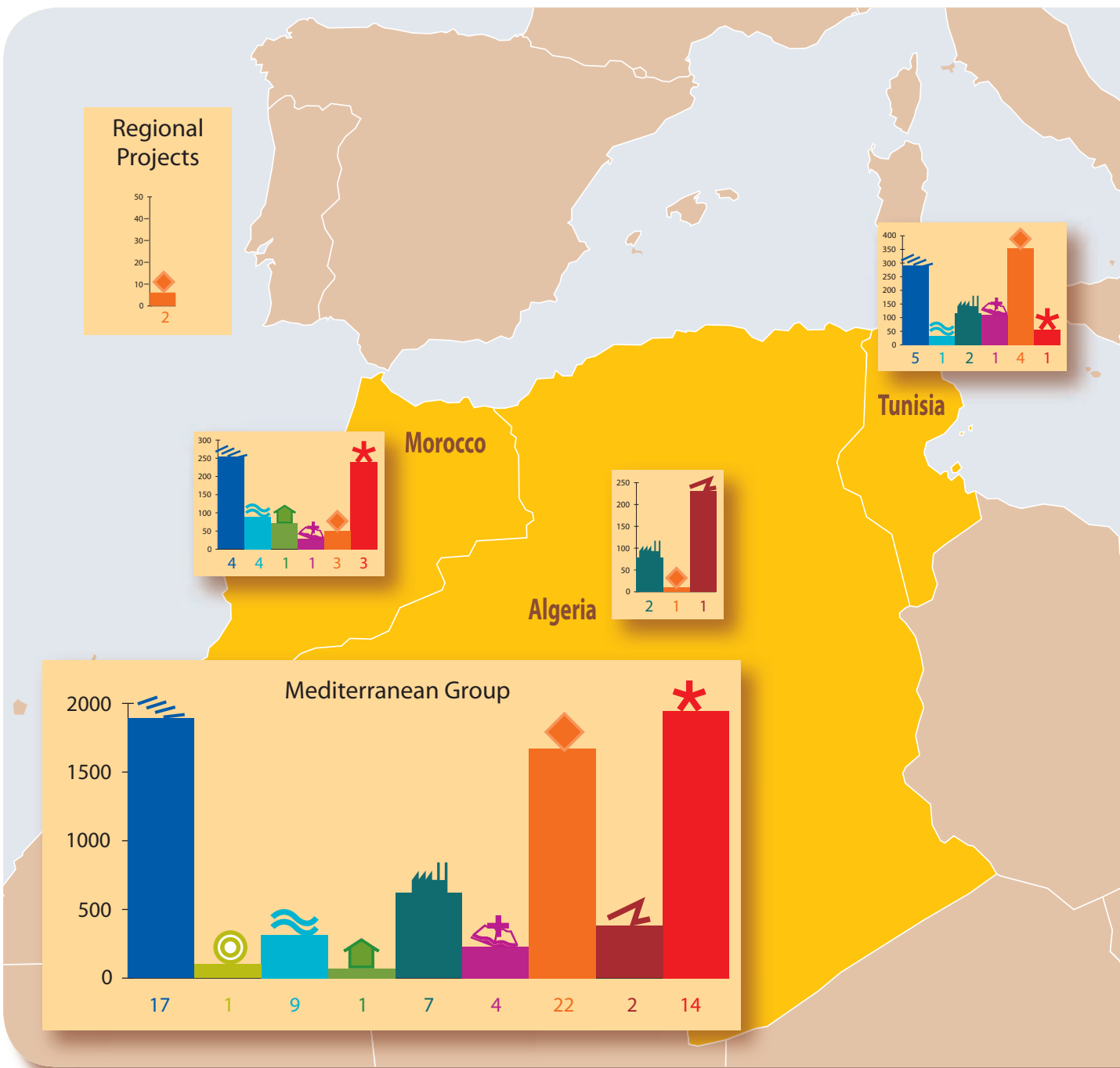
Reforms need to be selective and focus on local binding constraints on economic growth rather than take the form of a single set of policy actions.




The region has benefited from favourable global economic and financial conditions, lifting growth in the region to 6.5% in 2004 and 4.4% in 2005, while a similar robust performance is projected for 2006.

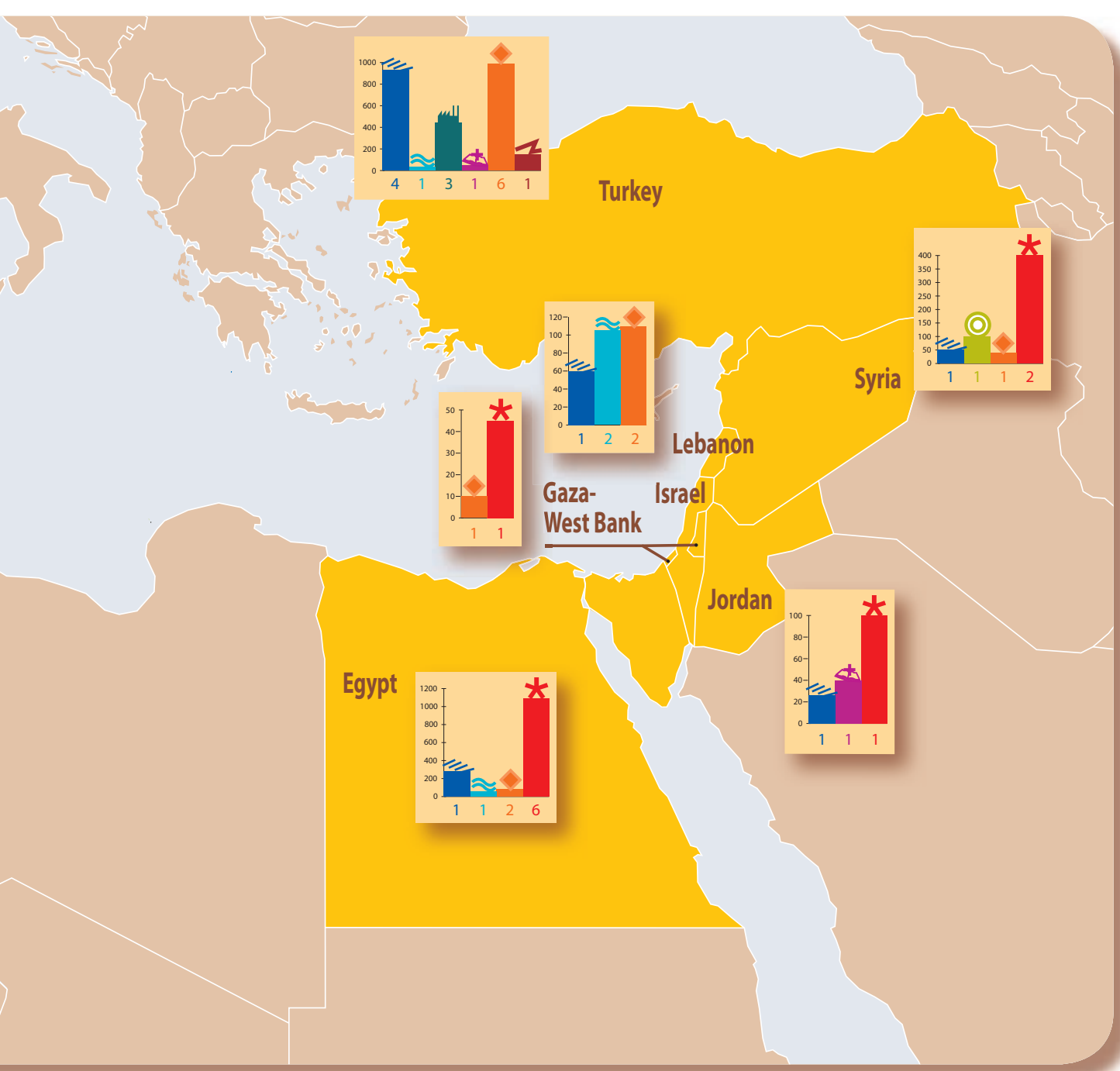
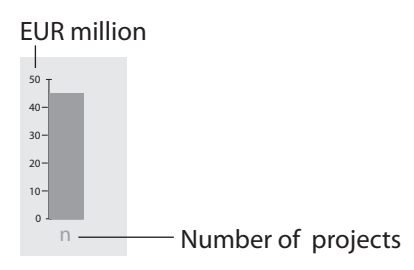


Map of projects financed since the creation of FEMIP (2002-2005)

-  Transport
-  Urban infrastructure
-  Telecommunications
-  Industry
-  Water, sewerage
-  Health, education



-  Financial sector
-  Composite infrastructure
-  Energy



Analysis of the FEMIP portfolio: 2002-2005

A review of the FEMIP portfolio covering the period 2002-2005 shows that the targets were met, with annual lending activity amounting to approximately EUR 2.2bn in 2004 and 2005. This underlines the definite progress made since the Facility was established, as the average annual volume of lending over the period 1997-2000 did not exceed EUR 1.1bn.

Annual lending of more than EUR 2bn

Following the establishment of FEMIP in October 2002, there was a substantial increase in lending to the Mediterranean countries, as illustrated by the chart below.

Since 1 October 2002, 77 operations totalling EUR 7.2bn have been signed under FEMIP. Even more importantly, over the

same period FEMIP lending and investments helped to mobilise an additional EUR 18.4bn from other sources, bringing the total value of projects financed to EUR 25.6bn, which means that FEMIP managed to leverage almost three times its own contribution.

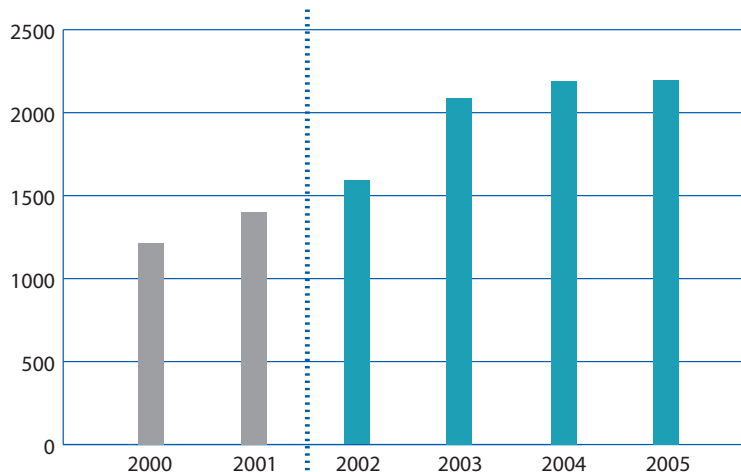
Over this period, operations were signed under FEMIP in nearly all Mediterranean countries, Israel being the only exception as ratification by Israel's Parliamentary

Assembly of the Framework Agreement with the Bank⁹ is still pending.

In terms of geographical distribution, signatures were well balanced among FEMIP's three main regions (the Maghreb, the Near East and Turkey, with 28%, 36% and 36% respectively of FEMIP's overall portfolio).

Looking at the evolution of the geographical distribution of signatures since the year 2000, it is interesting to note the growth in volumes, especially in the last three years, in both Turkey and the Near East. This came about as a direct consequence of Turkey's prospect of accession to the EU and the substantial improvement of the investment climate in both regions (leading to a parallel increase in FDI flows). By contrast, declining volumes in the Maghreb coincided with a period of excess liquidity and artificially low interest rates in local currency in the countries in question. A case in point is Algeria, where booming oil and gas prices over

Yearly trend in signatures (EUR million)



⁹The Framework Agreement is due to be ratified by the Knesset by mid-2006. Subject to such ratification taking place, it is expected that one or more operations will be signed in Israel by the end of 2006.

the last few years led to a drastic reduction in borrowing and early repayment of outstanding EIB loans.

Both approvals and disbursements followed similar trends. Approvals doubled from EUR 1.4bn in 2000 to EUR 2.8bn in 2005, the large increase basically coinciding with the establishment of FEMIP at the end of 2002. Disbursements, certainly a more tangible indicator of the actual realisation of investment projects on the ground, grew even more impressively, with overall levels almost tripling from EUR 0.6bn in 2000 to EUR 1.7bn in 2005.

In terms of sector allocation, with 60% of the portfolio infrastructure continued to be the main focus of FEMIP activity. FEMIP support for infrastructure in the region appeared to be almost equally divided between transport (34%, roads, ports, railways, urban transport, aircraft) and energy (26%, comprising power and gas projects, the latter being mostly in the private sector).

The financial services sector accounted for just over 20% of the portfolio. Within

this category, which comprises credit lines targeting small and medium-sized enterprises (SMEs) as well as risk capital operations, credit lines accounted for the bulk of the lending.

Lending to industry, targeting a diverse range of sectors (cement, steel, automotive, etc.), accounted for around 10% of the portfolio and can be considered, for the most part, as direct private sector support. Lending to the environmental (mostly wastewater) and human capital (education and health-care) sectors, both of which count among FEMIP's priority objectives, accounted for 4% and 3% respectively.

Projects with high value added

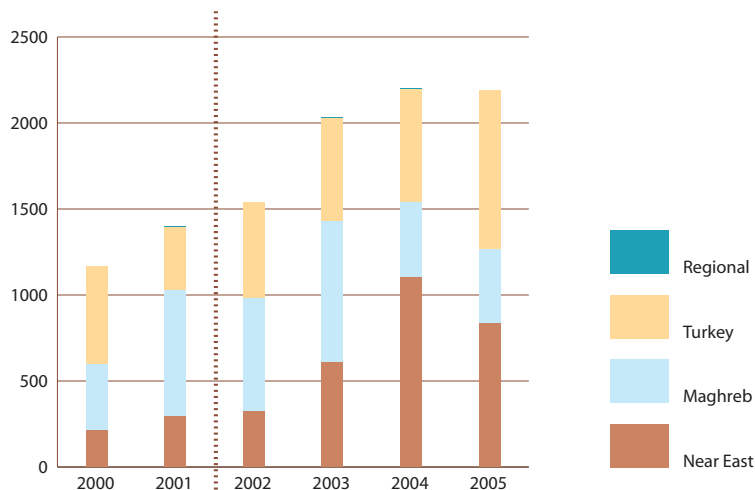
From a qualitative standpoint, it should be noted that the complexity and variety of FEMIP operations also increased noticeably over the period. Such complexity was recognised in the award by EuroMoney to the IDKU LNG Plant project in Egypt of "Best Project Finance LNG deal

of the year" in 2003. The period was also characterised by a series of "firsts" in the Bank's long history of activity in the region in a number of areas (in 2003 first loan to micro-credit institutions, in 2004 first social housing loan, in 2005 first leasing operation, etc).

The application of "project conditionality" continued to form an integral part of the Bank's project appraisal and approval process in the Mediterranean region. Although macroeconomic conditionality was not applied, as providing macroeconomic assistance does not form part of the EIB's remit, strict compliance was required with conditions associated with a particular project or economic sector, such as price or tariff increases, improved management of a borrower or company, cessation of non-profitable activities, productivity targets and asset disposals. In fact, as recently found by an Evaluation Report on past operations in the Mediterranean region, the Bank has provided a significant financial contribution and a more than adequate non-financial one to the projects it has financed in the region¹⁰.

Moreover, an emphasis on value added within the Bank's overall policy framework was reflected in the recent introduction of specific "value added sheets", to be completed for each project submitted. To better assess the value added of its operations in the region, three "pillars" of value added were identified: consistency between the operations and the FEMIP mandate's objectives; the quality and soundness of each project; and the financial value added.

Yearly trend in signatures – by region (EUR million)



¹⁰ EIB financing with own resources through individual loans under Mediterranean mandates, EIB Evaluation Report, July 2005.

Increased support for the private sector

As illustrated by the chart below, the establishment of FEMIP led to a massive increase in private sector support for the region¹¹. With lending to the private sector increasing from an average of EUR 0.3bn a year in the period 2000-2002 to an average of EUR 0.9bn a year in the period 2003-2005, in absolute terms EIB support for the private sector in the region has increased threefold since the establishment of FEMIP.

¹¹ The definition of private sector used in this report includes: all loans to companies/entities which are wholly or mainly privately owned; all credit lines (taking into account the fact that the intermediary – whether a private or public bank – is just a “conduit”, the final beneficiaries always being SMEs); operations in support of foreign direct investment in the region; and all risk capital operations.

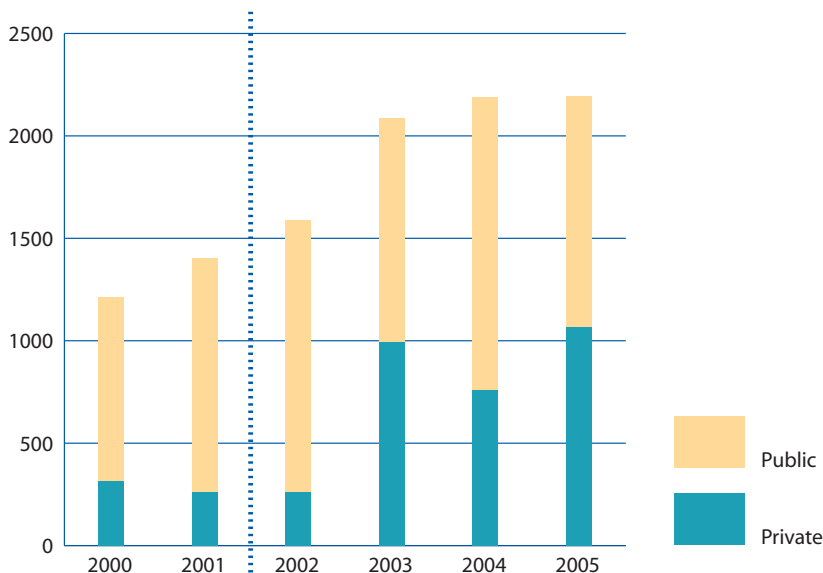
Since 1 October 2002, a total of 31 private sector projects have been signed by the Bank in the region (out of a total of 77), amounting to nearly EUR 3bn or approximately 40% of the volume of total signatures. Support for SMEs through credit lines accounted for the bulk of private sector direct support, with EUR 1.6bn (15 operations) and EUR 1.3bn (9 operations) in signatures respectively.

Furthermore, it is noteworthy that many of the loans provided to public borrowers help to create an environment that is conducive to private investment. These loans used for infrastructure projects, mostly in the transport and energy sectors, reduce transaction costs for private companies and improve their competitiveness and access to markets.



Assistance for SMEs through credit lines accounted for the bulk of private sector direct support, with EUR 1.6bn.

Yearly trend in private sector support (EUR million)



FEMIP risk capital

The impact of risk capital operations is significant and deserves special attention, especially as they all involve direct, unguaranteed financing of the private sector.




Between 1 October 2002 and the end of December 2005, eight new risk capital operations for a total amount of EUR 79m were signed. This brought the total stock of risk capital operations managed by the Bank in the Mediterranean from EC budgetary funds to the particularly noteworthy overall figure of some EUR 350m, approximately two thirds of which was still outstanding (i.e. disbursed but not repaid) as of end-2005.

The Bank is not only the most active private equity investor in the region amongst international financial institutions but has also gained a reputation for being a reliable, value added investor. The following examples illustrate this point.

The Bank has played a crucial role in most, if not all, significant fundraising initiatives for closed-end private equity funds in the past five years in the region (with pioneering initiatives dating back to the mid-1990s). In fact, especially in the case of first-time funds, the EIB's presence among investors is often mentioned by local counterparts as a strong comfort, sometimes even a prerequisite, for other (scarce) investors to join the financing round.

In Morocco, leading micro-finance institutions (Al Amana, Zakoura) have repeatedly mentioned the EIB's early support with risk capital financing as instrumental in their successful development. The Bank is currently working on a regional strategy for micro-finance and is currently being urged by other countries (e.g. Tunisia, West Bank/Gaza Strip, Jordan) to replicate these success stories.

Risk capital operations show a number of distinctive features, such as:

-  **Governance:** Typically the EIB's hands-on approach to individual investment will lead to the application of best market practice (often EU standards) in terms of financial discipline and governance (e.g. auditing of financial statements, mitigation of conflicts of interest, reporting).
-  **Leverage:** The Bank is always a minority investor, committing at an early stage to projects that it finances. Through its early presence, the Bank is likely to act as a catalyst in attracting other sources of funding. Most local promoters state that, without risk capital, their projects would have been jeopardised or, in many cases, impossible to realise as planned.
-  **Sustainability:** Risk capital operations are designed to support profitable ventures creating added value and jobs. The achievement of an expected return commensurate with the risk taken is a sine qua non for each investment decision by the EIB. For the EU budget, this enables the return on an operation to be recycled into new initiatives.

Above all, because they target exclusively private sector companies, risk capital operations are at the very heart of FEMIP's remit, contributing significantly to the EU objectives of development of the financial sector and job creation in this part of the world.

FEMIP, a forum for dialogue and exchange

One of the defining features of FEMIP is the close involvement of the Mediterranean partner countries in its lending policy guidelines, thanks to a structure that is something of an innovation within the Bank.

In order to maximise the effectiveness of FEMIP's operations in the Southern and Eastern Mediterranean, a Ministerial Committee and a Committee of Experts have been established to strengthen economic and financial relations within the region over the long term.

Ongoing institutional dialogue

In 2003, when it was decided to reinforce FEMIP, the Policy Dialogue and Coordination Committee – made up of representatives of the European and Mediterranean partners – was transformed into

a Ministerial Committee bringing together once a year the 35 Finance Ministers of the European and Mediterranean countries to discuss economic, financial and sectoral matters. The Committee of Experts, which was designed as a think tank, has a mandate to submit specific operational recommendations to the

FEMIP Ministerial Committee, which since 2005 has met in tandem with the Euro-Mediterranean ECOFIN Council.

The third meeting of the FEMIP Committee of Experts was held in Luxembourg under the Luxembourg Presidency of the European Union on 7 and 8 March

(From left to right) Luxembourg Minister of the Economy and Foreign Trade, Mr Jeannot Krecké, representing the EU Presidency, Moroccan Minister for Finance and Privatisation, Mr Fathallah Oualalou, Prime Minister of Morocco, Mr Driss Jettou, EIB President, Mr Philippe Maystadt, and EU Commissioner for Economic and Monetary Affairs, Mr Joaquín Almunia, at the fifth FEMIP Ministerial Committee meeting in Skhirat (Rabat), Morocco – June 2005.



2005. The work of the meeting focused mainly on the ways in which FEMIP can support the modernisation of the Mediterranean banking and financial markets, which primarily entails regulatory reform, the development of capital markets and assistance in enhancing the competitiveness and efficiency of the banking sector.

The experts' recommendations formed the basis for the fifth meeting of the FEMIP Ministerial Committee, which was held in Skhirat (Rabat), Morocco, on 20 June 2005. The 35 Finance Ministers of the European and Mediterranean countries also addressed water and sanitation issues and the development of the region's transport sector. For the first time the meeting was coupled with a meeting of the Euro-Mediterranean ECOFIN Council, which was established to commemorate the tenth anniversary of the Barcelona Process and provide fresh impetus to the economic and financial dialogue.

The fourth meeting of the FEMIP Committee of Experts was held in Vienna on



Cooperation with the partner countries is strengthened by FEMIP's outreach offices in Cairo, Rabat and Tunis. Fully operational since January 2005, FEMIP's Tunis Office was inaugurated in December 2004 by the Tunisian Minister of Development and International Cooperation, Mr Jouini, and EIB Vice-President, Mr de Fontaine Vive.

21 and 22 March 2006. Around one hundred high-ranking representatives of both the public and private sectors in the EU Member States and Mediterranean partner countries examined ways of improving the business climate in the region, with the primary objective of promoting foreign direct investment. Discussion centred on cutting red tape.

The participants also tackled the question of the development of the Mediterranean energy markets, the interconnection of electricity markets at the inter-Mediterranean level and their integration with Europe, and measures to give better support to renewable energy and energy efficiency in the region.

The results of the meeting and of the workshop on the harmonisation of procurement procedures in the Mediterranean held in Luxembourg on 21 November 2005 will form the basis for the work of the sixth meeting of the Ministerial Committee, to take place on 25 and 26 June 2006 in Tunis, which will also be combined with a meeting of the Euro-Mediterranean ECOFIN Council.






FEMIP Committee of Experts meeting
Luxembourg – March 2005


Meetings and exchanges with partners from the private sector

Dialogue with Mediterranean partners is not confined to the institutional sphere but also takes place within civil society, thanks mainly to local trade associations and chambers of commerce. As those involved in the private sector are being called upon to play a prominent role in the economic development of their region, FEMIP considers it essential to inform them about the opportunities for finance and support, but also to gather from these players on the ground the information that will enable it to operate more effectively. For that reason, a series of activities was organised throughout

last year in conjunction with other financial institutions and the Mediterranean partner countries:

-  The Euro-Mediterranean Investment Summit, which was held in Marseille on 13 and 14 January 2005, examined specific measures to speed up progress in investment and trade in the Mediterranean;
-  In conjunction with the Greek Ministry of Economic and Financial Affairs, FEMIP held a series of meetings in Athens on 4 February 2005 with representatives of the private sector on the role of FEMIP in supporting investment in the Mediterranean region;

-  On 17 March 2005 the EIB held a conference in Istanbul on "Investing in Turkey", at which the role of Turkish and foreign promoters from both the public and private sectors was examined from the standpoint of Turkey's accession to the EU;

-  The "Regional Forum on the Investment Climate in the Southern Mediterranean Region and the Middle East", which was organised jointly by the European Commission, the World Bank Group and the EIB in collaboration with the Egyptian Ministry of Investment, was held in Cairo on 28 and 29 November 2005.

2005, the "Year of the Mediterranean"

FEMIP took part in the Euro-Mediterranean summit held in Barcelona on 27 and 28 November 2005. Against the background of calls for closer political and social partnership, FEMIP's role as an effective instrument of financial cooperation was acclaimed and confirmed in the five-year work programme adopted during the summit.

FEMIP also took part in a number of events organised on the margins of the summit in Barcelona, including:

- the Euro-Mediterranean Cities Conference (25 and 26 November 2005); and
- the Euromed Regional Conference (25 and 26 November 2005).

In addition, FEMIP played an active part in the first Euro-Mediterranean Ministerial Conference on Transport held in Marrakesh on 15 December 2005, during which the Blue Paper on Transport in the Mediterranean was adopted.

On 21 November 2005, in the light of its essential role in promoting dialogue on economic and financial issues between the two shores of the Mediterranean, the EIB was granted permanent observer status at the Euro-Mediterranean Parliamentary Assembly.



On the occasion of the Euro-Mediterranean summit, a letter of intent was signed between the Catalan Government, through Institut Català de Finances, the Instituto de Crédito Oficial (ICO) and the EIB for the creation of a Fund for the Mediterranean Region in favour of the private sector. From left to right, Economic and Financial Advisor to the Generalitat de Catalunya, Mr Antoni Castells, Spanish Minister of Foreign Affairs, Mr Miguel Angel Moratinos, President of the Generalitat de Catalunya, Mr Pascal Maragall, EIB Vice-President Mr Philippe de Fontaine Vive, and ICO President Mr Aurelio Martinez.



FEMIP Experts' Committee meetings are an opportunity for experts from both sides of the Mediterranean to meet and exchange ideas.

Discussing procurement harmonisation

On 21 November 2005, FEMIP held a workshop on procurement for Mediterranean countries at the Bank's headquarters in Luxembourg. The workshop, which was attended by representatives from partner countries and multilateral/bilateral development banks, instigated an exchange of experience, knowledge and best practice in the field of procurement. The participants discussed ways to achieve closer harmonisation between foreign donors and progressively integrate national procurement systems. It was agreed that the harmonisation of procurement procedures and, where possible, procurement policy, serves the objectives of both partner countries and donors.

FEMIP, a place for reflection

In addition to lending, FEMIP helps foster a better understanding of the factors and mechanisms that play a decisive role in development and modernisation of the economy.

For example, FEMIP provides all the participants in the Euro-Mediterranean Partnership with studies concerning, in particular, the factors that may contribute to strengthening the financial and banking sector in partner countries.

In addition, recognising the importance of the value added of academic expertise, FEMIP has increased its cooperation with universities and networks of experts.

Analysis of remittances by Mediterranean migrants in Europe: how can the EUR 7.1bn transferred every year be better used?

FEMIP has published the first detailed analysis of the flows of funds from Mediterranean migrants working in Europe¹², thereby highlighting a subject that has not yet been fully measured.

The study, which was financed by the FEMIP Trust Fund, reveals first and foremost the scale of the phenomenon: some EUR 7.1bn is remitted “officially” every year from Europe to eight Mediterranean countries (the figure rises to between EUR 12 and 14bn if “informal” transfers are taken into account). The volume of funds remitted by migrant work-

ers is substantial, exceeding the flows of foreign direct investment and official development assistance. However, the study shows that the transfer methods used are extremely expensive for those sending the money and do not allow the funds to be put to sufficiently good use in order to finance the economies of the recipient countries.

On account of the range of issues addressed and the recommendations made, this study forms a sound basis for a process of information and consultation on the measures that could be taken to improve the terms offered to migrant workers for transferring funds and to develop the channelling of these transfers through banks in order to enhance their effectiveness and enable better use to be made of these resources to finance the economy.



¹² To be found on the EIB's website at <http://www.eib.org/publications/publication.asp?publ=244>.

Study of sovereign debt markets

A handbook on sovereign debt markets in the Mediterranean partner countries produced by the Capital Markets Department of the EIB was published in December 2005¹³. The aim of the handbook is to improve understanding of the government debt markets in the countries in which FEMIP operates, with a view to promoting the development of those markets.

The study surveys the general characteristics of government debt in each of the ten partner countries and issues of government bonds and Treasury bills and notes. Secondary debt markets, supervisory regimes and the provisions concerning transactions, agreements, settlement and Islamic finance are also examined. The document is based on information provided by the debt management offices and other government authorities of the ten Mediterranean partner countries.

Partnership with the FEMISE university network

In order to improve its capacity for economic analysis of the region, FEMIP wanted to make use of sound expertise from the economic and banking communities in the partner countries.

As part of its new policy of partnership with the universities, in March 2006 FEMIP signed a partnership agreement with the Euro-Mediterranean Network of Economics Institutes (FEMISE), which

brings together 55 institutes specialising in the study of the Euro-Mediterranean Partnership. Coordinated jointly by the Economic Research Forum of the University of Cairo and the Mediterranean Institute in Marseille, FEMISE covers twelve EU countries, Romania and the ten Mediterranean partner countries.

Cooperation with the FEMISE network will take a number of forms (execution of studies, consultations on specific topics, exchanges of experts and labelling of joint operations) and will cover the following fields of common interest:

- 🌐 transition and economic reform, including economic governance and the development of the private sector;
- 🌐 social policy, especially with regard to public health and employment;
- 🌐 regional integration: North-South and South-South;
- 🌐 the role of the State and the reform of economic institutions;
- 🌐 the potential social and economic contribution of the Neighbourhood Policy.

Reaching out to young Mediterranean talent: the FEMIP internship programme

The EIB has decided to set up a FEMIP internship programme, which will welcome young nationals of the Mediterranean partner countries. Under this programme, selected participants holding a degree from a higher education institution will have the opportunity to undertake an internship at the Bank's headquarters in Luxembourg or at one of its field offices, for a period of six to twelve months. This pilot programme will be financed by the FEMIP Trust Fund. FEMIP will provide the selected candidates with on-the-job experience and training in a global development environment, whilst giving the EIB an opportunity to benefit from the knowledge, talent and multicultural diversity that they can bring to the institution. Furthermore, the programme will contribute to capacity-building efforts in the candidates' respective home countries, as interns return to contribute to economic development



The FEMIP internship programme will provide the selected candidates with on-the-job experience and training in a global development environment, whilst giving the EIB an opportunity to benefit from the knowledge, talent and multicultural diversity that they can bring to the institution.

¹³ To be found on the EIB's website at <http://www.eib.org/publications/publication.asp?publ=242>.

Fostering a better understanding of the financial sector

A number of studies and technical assistance missions financed by FEMIP focused on the financial sector, the strengthening of which is a precondition for the development of the private sector.

Financing businesses in Algeria

Through its Trust Fund, FEMIP is financing a study on the access of small businesses to sustainable forms of outside finance in Algeria. The study is expected to outline the main bottlenecks in small-scale finance that inhibit its development and to suggest areas and instruments through which the EIB could act as a catalyst in attracting sustainable funding of small businesses. The study is expected to be completed by mid-2006.

Private sector investment in Syria

In 2005, following a request from the Syrian Ministry of Finance, FEMIP launched a feasibility study financed by the FEMIP Technical Assistance Support Fund to develop new options for financing private sector investment in Syria. Interim results presented in March 2006 showed that the total size of Syria's banking sector has increased substantially over the last 15 years, to around EUR 22bn or 120% of GDP in 2006, compared with 24% in 1990. However, the study also shows that the public sector banks are only marginally active in private sector investment financing and that private sector lending to SMEs for investment financing is almost absent. This study, which consists of two phases, is expected to be completed in December 2007.

Long-term savings in Morocco

Financed by the FEMIP Trust Fund, this study examines the situation regarding private savings in Morocco, including the main impediments to achieving an optimal level and composition. The study will make specific recommendations on how to improve the level and composition of private savings and will also look at how FEMIP could support these policies.

Training for risk capital investment companies (SICARs) in Tunisia

Financed by the Technical Assistance Support Fund, this training course will be held between March and July 2006 and will enable the staff of Tunisian SICARs to improve their knowledge of how to evaluate, set up and monitor equity and quasi-equity investments. It is also intended to improve relations between the EIB and SICARs, especially by explaining the EIB's expectations and the procedures for ensuring the rapid processing of investment applications on the basis of objective criteria and an optimum monitoring of the portfolio.

Strategic study to identify the instruments available to the EIB in the field of micro-finance

The purpose of this study, financed by the Technical Assistance Support Fund, is to determine the best way for the Bank to support micro-finance associations (MFAs) in each of the Mediterranean partner countries without causing market distortions, while achieving the main objective of facilitating the integration of micro-finance associations into the local financial sector. The study will also make it possible to identify the measures the Bank can take to meet the financing needs of MFAs that are not covered at present and to evaluate possible requirements in terms of technical assistance. It is expected to be completed by May 2006.



Steel industry in Tunisia: strengthening the local financial sector is a precondition for the development of a strong, self-reliant and competitive private sector.

A reinforced partnership with development finance institutions

FEMIP works continuously with the European Commission, through the joint provision of financial products, dialogue on the main policy guidelines and mutual consultation. FEMIP also maintains close links with international and bilateral European financial institutions, with which a number of memoranda of understanding and letters of intent were signed in 2005, thus reinforcing the solid network of partnerships that had been built up over the years.




The EUR 60m “Routes rurales II” project in Morocco involved parallel lending by the World Bank and the EIB.



Partnership with the World Bank to stimulate the knowledge-based economy




Under the strategic partnership agreement signed in May 2004 between the European Commission, the EIB and the World Bank concerning their action in support of economic and social development in the Mediterranean partner countries, the EIB and the World Bank Institute (WBI) decided to step up their cooperation in the field of the knowledge-based economy by signing, in May 2005, a work programme for 2005-2006.

The aim of the work programme is to develop and share knowledge in the fields of innovation, new technologies and urban development. It provides for three types of activity:

-  EIB participation in training programmes for the beneficiary countries' economic operators and administrations, implemented by the WBI from its knowledge hub in Marseille, in the fields of urban development and new technologies;
-  cooperation in the field of technical assistance for the formulation of urban strategies and application of innovative technologies fostering economic activity in the region;
-  exchanges of knowledge between the two institutions' operational teams with regard to bolstering the local banking and financial sectors and measures to foster the development of micro-finance.

Joint activities conducted under the EC-EIB-World Bank Partnership in the Mediterranean region

A number of joint activities have been carried out since the signature of the Memorandum of Understanding in May 2004, including the co-financing of operations, regular coordination meetings to identify potential linkages between policy and investment initiatives, the organisation of conferences and workshops, and coordination at the local level between the three institutions' offices in the countries concerned. Activities undertaken since May 2004 include:

-  the EUR 60m "Routes rurales II" project in Morocco, which was signed in June 2005 and involved parallel lending by the World Bank and the EIB;
-  coordination of the technical assistance programme for Tunisia, mainly in areas where the three institutions are actively involved or are considering new operations. Information on their respective country assistance strategies was exchanged and meetings have been held to explore possibilities for cooperation in a number of sectors, including higher education and vocational training, water and wastewater, transport, urban development and tourism;
-  a number of meetings held to discuss overall cooperation and action in Jordan, along with the identification of priority areas for joint work. A joint mission to Jordan on "trade facilitation" was organised in early February 2005;
-  a private sector development event, the "Regional Forum on the Investment Climate in the Southern Mediterranean Region and the Middle East", which was co-organised by the three institutions and took place on 28 and 29 November 2005 in Cairo, Egypt.

Support for the private sector in conjunction with the African Development Bank

Following discussions that had begun in 2004, the EIB, the European Commission and the African Development Bank Group (AfDB) signed a Memorandum of Understanding (MoU) in August 2005 to enhance the effectiveness of their cooperation in supporting development programmes in African countries.

The priority areas of cooperation include the co-financing of projects to support the private sector and regional cooperation and the exchange of information on poverty reduction, macroeconomic reform and debt relief.

Under this partnership, which covers the entire area in which the AfDB operates, specific measures for the Maghreb countries and Egypt have been identified, particularly with regard to support for the private sector, whose decisive impact on growth and poverty reduction was emphasised in the MoU.

In order to initiate implementation of the MoU, senior management of the three participating institutions held a follow-up meeting hosted by the EIB in Luxembourg on 26 January 2006. The focus was on macro-economic reform, regional cooperation and the private sector, and the discussions showed a common commitment to make the tripartite MoU operational in order to achieve tangible results rapidly.

Towards a European network of development finance institutions

2005 saw a strengthening of the partnerships between the EIB and several bilateral European institutions operating in the Mediterranean in order to improve the coordination and implementation of their aid policies.

On 13 May 2005 the EIB and the European development finance institutions (EDFIs) signed a letter of intent to promote the co-financing of private sector projects, enhancement of institution-wide coordi-

ination, joint technical work and policy dialogue. The letter of intent confirmed the strengthening of the already close cooperation between the EIB and the twelve bilateral European institutions operating in the Mediterranean, which had been formalised by the Framework Agreement on Financial Cooperation and Exchange of Services concluded in January 2003.

On 13 December 2005 the EIB, Agence Française de Développement (AFD) and KfW Entwicklungsbank (the German development bank) signed an agreement to enhance their cooperation in the Mediterranean and African, Caribbean and Pacific countries in which they operate.

Under the agreement the EIB, AFD and KfW undertake to promote a more rational deployment of their resources and respective responsibilities. In concrete terms, the three institutions will promote co-financing operations, the pooling of their resources, at both the project evaluation and monitoring stages, and a sharing of their services, such as their

Exchange of views between multilateral development banks (MDBs)

On 21 February 2006 the EIB hosted a round table on trust fund administration and co-financing, which was attended by the World Bank, the International Monetary Fund, the African Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development and the Asian Development Bank.

The participants discussed recent developments in trust fund administration and policy reform and examined the IT infrastructure and web-based portals used by MDBs to interact with their trust fund and co-financing donors. They also exchanged views on laying down a basic classification and standardised definition of co-financing and conferred about trust funds as a possible instrument for responding to specific crises such as bird flu.

networks of offices abroad. They will also ensure better sharing of information and closer consultation on various aid issues and encourage exchanges of staff.

In order to accomplish the above, a working group was set up and held its first meeting on 22 February 2006 at the EIB. Representatives from AFD, KfW and the EIB discussed the main features of each institution's mandate and modus operandi (type of funds, type of instruments, projects, countries and focal sectors of operations) and compared procurement,

loan agreements and disbursement procedures. They agreed to identify countries and sectors of common interest to the three institutions and come up with two or three projects that could be used as pilot cases for the pooling of services.

The signing of these two agreements based on shared and coordinated responsibility between the EIB and its major bilateral partners marks a further step towards better and stronger cooperation between European development finance institutions.

Trust Fund administration and co-financing roundtable, Luxembourg, February 2006.



Stimulating growth and employment: FEMIP projects in 2005

2005 proved once again to be a remarkable year for FEMIP, which succeeded in maintaining the same level of involvement recorded in 2004 in terms of investment volume. A total of 23 new operations amounting to EUR 2.2bn were signed in 2005 in the Mediterranean partner countries.

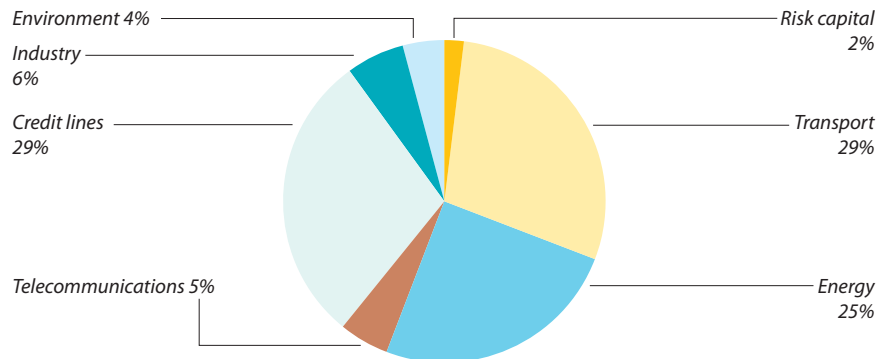
Lending, private equity and technical assistance

FEMIP managed to further increase its commitments to the private sector in the Mediterranean, with almost half of the total projects signed aimed at supporting SMEs and foreign direct investment. To be more precise, projects to support the private sector represented 49% of the total volume of signatures during the year and around 60% of the number of projects signed in the region (13 out of a total of 23).

Risk capital operations showed remarkable growth, with the total for operations in the form of equity or quasi-equity injections more than doubling over the year to EUR 45m¹⁴ (2%).

The lion's share of lending – EUR 1.287bn, or 59% – went to the infrastructure sector, especially transport (EUR 640m, or 29%), energy (EUR 547m, or 25%) and telecommunications (EUR 100m, or

Sectoral breakdown of FEMIP operations



5%). Credit lines for SMEs amounted to EUR 650m (29%), while industry and the environmental sector received finance of EUR 122m (6%) and EUR 90m (4%) respectively.

In terms of geographical distribution, 42% of signatures (6 projects representing a total of EUR 930m) related to projects in Turkey, reflecting the boost that the prospect of future accession to the EU has given to local and foreign investment in the country, 38% to the Near East (10 projects involving a total of EUR 834m) and 20% to the Maghreb (7 projects totalling EUR 430m).

Disbursements were significantly higher than in 2004, rising from EUR 1.4 to 1.7bn. This substantial increase, which was equivalent to around 80% of the new commitments for the year, was largely the result of sustained efforts in project implementation, thanks especially to technical assistance operations.

Twenty-six technical assistance operations financed by the FEMIP Support Fund involving a total of EUR 21.3m were undertaken in 2005.

¹⁴ This figure does not take account of signatures under global authorisations, which in accordance with the Bank's usual practice are not recorded as "new signatures". These signatures totalled around EUR 15m in 2005.

Deployment of the operational instruments of the reinforced FEMIP

Last year saw the consolidation of the new operational instruments created under the reinforced FEMIP in 2004.

2005 was the first full operational year of the **FEMIP Trust Fund**. Seven projects involving a total of EUR 3.4m were approved by the Trust Fund's Assembly of Donors in the course of the year.

Thanks to the creation of the **Special FEMIP Envelope (SFE)**, the first three operations without sovereign or international guarantees were approved last year for local banks in Morocco, Jordan and Lebanon.

The pages that follow present an overview of the FEMIP operations signed in 2005, broken down according to sector of activity.



Pathways for improving support for the private sector

Despite the progress that has been achieved, the expansion in FEMIP lending to the private sector continues to be hampered by certain administrative and legal constraints. For example, some countries are tending to delay extending the provisions of the Framework Agreement with the EIB to private sector projects. FEMIP, for its part, has noted that some of its local partners expect it to take on greater risk and ease the level of guarantee required. The Mediterranean partner countries and the EU Member States will be able to indicate how they wish to strengthen support for the private sector in the course of the evaluation of FEMIP and its development prospects.

Issuing in local currency

On 14 February 2006 the EIB launched its first borrowing linked to the Egyptian pound (EGP), thus opening the way for future issuance on the Egyptian domestic market. With a maturity date of 6 March 2008, it is the longest-dated outstanding bond in synthetic EGP on the market. The issue volume is EUR 44m, or EGP 300m, it bears a coupon of 6.50% payable in euros based on a formula linked to the EUR/EGP exchange rate and it was priced at par. The operation was joint lead-managed by Barclays Bank and Banca Profilo. The issue was launched to meet demand from international investors and creates a new benchmark on the Egyptian pound market. For the EIB it represents a stepping-stone towards establishing a presence on the domestic capital market in Egypt; it also signals the continuation of the Bank's policy of building its presence in selected emerging capital markets, particularly those of the Mediterranean partner countries. In addition, the Bank is considering issuing local currency bonds in a number of partner countries, with the relevant national authorities being fully consulted. Solid cooperation from partner countries is a prerequisite for this type of operation. These issues will make it possible to provide local borrowers with long-term loans without exchange risks and to stimulate local capital markets while helping them to respond better to the financing needs of the private sector.

Credit lines

MAGHREB

Credit lines totalling EUR 180m for Tunisia

Two credit lines for a total of EUR 180m were signed in December and made available to a number of public and private banks or leasing companies for financing Tunisian SMEs in the industrial and services sector, including those operating in tourism, health and training.

These are the fourth and fifth global operations of this type since 1998 designed to provide Tunisian enterprises, via local banks, with the long-term EIB resources required to finance their development at advantageous rates of interest. The previous operation, involving EUR 150m, enabled 725 investments to be financed, with a total value of EUR 500m, and contributed to the creation of almost 5 000 jobs. Not only does FEMIP's support for the development of Tunisia's private sector correspond to the principal aim of its activities in the Mediterranean partner countries, but it also underpins the Government's policies to improve the competitiveness of its economy and create employment.

The main objective of the EUR 60m **Technopoles global loan** is to provide, through selected banks, medium and long-term finance for investment in the priority high-value-added sectors targeted by the Tunisian authorities under their technology park programme. These sectors are: renewable energy, water and the environment, biotechnology and pharmaceuticals, mechanical engineering, electronics and IT, telecommunica-

tions, textiles and agribusiness. Six banks have been selected and are signatories to the loan – Amen Bank (AB), Arab Tunisian Bank (ATB), Banque de l'Habitat (BH), Banque Internationale Arabe de Tunisie (BIAT), Banque Tuniso-Koweitienne de Développement (BTKD) and Société Tunisienne de Banque (STB). The final beneficiaries are private companies that wish to make small and medium-sized investments in setting up production units in the sectors covered by the technology parks programme. This loan is a follow-up to the Technopoles project signed in June 2005 for financing the construction of five specialised technology parks (see below).

The **second loan**, for EUR 120m, is intended to continue providing – through financial intermediaries, banks and leasing companies – long-term resources for new investment or extension, modernisation or rehabilitation projects carried

out by private companies operating in the industrial and services sectors, including tourism, health and education. Five banks and three leasing companies are included among the selected intermediaries and signatories to the loan: Amen Bank (AB), Arab Tunisian Bank (ATB), Banque de l'Habitat (BH), Banque Tuniso-Koweitienne de Développement (BTKD), Union Bancaire pour le Commerce et l'Industrie (UBCI), Arab Tunisian Lease (ATL), Compagnie Internationale de Leasing (CIL) and Tunisie Leasing (TL). This loan will foster a robust financial sector and a more diversified market economy and will help Tunisian companies adjust to the increased competition resulting from the liberalisation of the economy and the progressive implementation of the free trade area with the European Union.



The previous credit lines operation, involving EUR 150m, enabled 725 investments to be financed, with a total value of EUR 500m, and contributed to the creation of almost 5 000 jobs in Tunisia.

EUR 30m to support private sector investment in Morocco

This operation was the first to be conducted under the Special FEMIP Envelope (SFE) scheme since it was approved in January 2004. Signed in September 2005, the EUR 30m credit line targets sectors involved in foreign currency-generating activities such as industry and services. The selected intermediary is Banque Marocaine pour le Commerce Extérieur (BMCE), the third largest bank in Morocco and the strongest in corporate and trade finance.

Although BMCE is among the best risks in Morocco, the operation was considered under the SFE framework because it had a higher risk profile than is normally accepted under the EIB's standard credit risk rules.

The operation co-finances new investment or extension, modernisation or rehabilitation projects carried out in Morocco by the private sector in the industrial and services sectors, including tourism, and preferably with local SMEs. It will therefore support the development of the private sector in Morocco and help to improve its competitiveness in a more open economic environment resulting from the implementation of the free trade agree-

ments agreed recently with the European Union and the United States. In addition, it will facilitate investment in strategic sectors in Morocco and reinforce the impact of parallel programmes promoted by the European Union in the country.

Morocco's economy is still insufficiently diversified. It continues to depend disproportionately on agriculture (about 20% of GDP), which itself depends heavily on variable rainfall, affecting economic growth significantly from one year to the next. In order to change this situation, the Government is promoting investment in other sectors, in particular manufacturing, export-oriented businesses and tourism, which represents the country's second-largest source of foreign currency. While the success of these attempts was mixed before 1999, it now appears that it is becoming more visible, with some sectors showing more steady growth. In order to enable the sectors in question to continue to develop and encourage foreign investment, they will, however, still need further support and adequate financing.

By providing attractive long-term funding, the credit line will support these investments and therefore contribute to the Government's objectives of economic diversification and stability. It will also increase confidence in the Moroccan economy's potential and improve its prospects.



The operation co-finances new investment or extension, modernisation or rehabilitation projects carried out in Morocco by the private sector in the industrial and services sectors.

NEAR EAST

Operating successfully in a higher-risk environment: EUR 50m for a leading Lebanese bank

The operation signed in December 2005 concerns a EUR 50m credit line facility given to Byblos Bank, a major Lebanese bank. The bulk of the proceeds of the credit line will be on-lent to selected medium-sized to large private sector domestic corporates in Lebanon for eligible domestic investment projects. The facility will thus extend FEMIP's reach to private sector projects in Lebanon which, because of their size, would not have access to direct EIB funding.

Byblos Bank will also use part of the loan proceeds to fund selected small to medium-sized public sector infrastructure

projects. Byblos has in recent years actually started to develop certain forms of well targeted public sector lending, at the municipal level, as well as to commercially-run public entities (i.e. ports). The promotion of sustainable and "bankable" domestic private sector lending to such public entities is expected to increase over time their financial autonomy and ultimately improve their management and operational efficiency – both key objectives under FEMIP for public sector development in the Mediterranean partner countries.

One of the main characteristics of this project is that it comes under the Special FEMIP Envelope scheme. Owing to the deterioration of the situation in Lebanon's financial markets during the first half of 2005 and the increased interest rate volatility and pressure on its exchange rate (due to political turmoil), all Lebanese banks had to pay the price of

the "political risk factor" in their activities with foreign lenders or investors. From an outside perspective, all Lebanese banks operate in a country rated by Moodys at B3 (foreign currency ceiling), the same rating as Argentina after it defaulted on its debt.

In this context, the SFE scheme enabled FEMIP to finance a promising private sector operation in a Mediterranean country with a higher risk profile than the one accepted under "standard" EIB operations.

Moreover, from FEMIP's strategic perspective Lebanon's banking sector has the potential to gradually move away from state-guaranteed credit line operations towards stand-alone credit lines with dedicated partner banks under the SFE scheme. The operation with Byblos Bank is the first step in that direction.



The promotion of sustainable and "bankable" domestic private sector lending to develop certain forms of well targeted public sector lending, at the municipal level, as well as to commercially-run public entities (i.e. ports), is expected to increase over time their financial autonomy and ultimately improve their management and operational efficiency.

TURKEY

EUR 390m for the financing of small and medium-sized projects in Turkey

Since Turkey's banking sector very much needs to attract commercial funding with longer tenors, the appeal of the EIB's long-term funding has been obvious. Three EIB credit lines totalling EUR 390m, signed in November 2005, targeted small and medium-sized private sector projects, including, for the first time, a specialised leasing company as a borrower, which widened the range of EIB final beneficiaries. Leasing, which is relatively new in Turkey, is seen as an ideal form of longer-term financing for smaller SMEs, as banks remain reluctant to extend unsecured long-term credit to such small entities.

Industrial Sector Global Loan V is a EUR 250m project targeting the financing of small and medium-sized projects in industry, tourism and services, including health and education. The operation is conducted through five well-known intermediaries, namely TSKB, Vakıfbank, TKB, Ziraat and Halkbank. All five have high profiles in the market and enjoy strong brand names. With the exception of TSKB, whose capital is majority-owned by two leading private commercial banks, all the other intermediaries are state-owned or state-controlled and have undertaken reforms that have produced results. This credit line is expected to result in a good geographic spread throughout the country and good sectoral diversification, whilst at the same time maximising leverage (above the minimum limit of 2 times), creating new employment and earning much-needed foreign currency for the local economy. In line with the strong growth of the Turkish economy and the resulting demand from the private sector for finance for productive investments, demand for EIB credit lines has been significant. The last industrial sector credit line of EUR 250m signed in March 2004, was fully allocated to projects within a year. This, together with Industrial Sector Global Loan III (totalling EUR 450m), has supported projects worth EUR 1.4bn in the foreign currency-earning sectors of tourism and manufacturing and increasingly also in education and health, creating some 12 000 jobs.

Koçbank global loan for the financing of small and medium-sized projects in industry, tourism, and services was signed with Koçbank, Turkey's fifth-largest private sector bank, and Koç Lease, a market leader in the Turkish leasing industry. Through this EUR 100m project, the Bank is providing long-term financ-



ing that increases the financial intermediaries' ability to reach and service the investment needs of the final beneficiaries. The operation enhances the Bank's support for SMEs and the private sector in general in Turkey and contributes to the development of the domestic banking sector. In this regard, the project is in line with the priorities of FEMIP, focusing on wealth and job-creating private sector investment.

Citilease global loan is a EUR 40m loan to Citilease finansal Kiralama AS, a Turkish leasing subsidiary of Citibank N.A. and Citigroup Inc., which targets the fast-growing leasing sector. Intermediation of EIB lending by leasing companies is expected to be an effective way for the Bank to reach SMEs in Turkey, given the limited access of such companies to long-term bank funding and the upsurge in capital investment, buoyed by recent strong domestic economic growth.

Risk capital operations



Small or medium-sized enterprises in the areas of construction, public works, light industry and services have difficulty in raising finance from public or private banks. Leasing therefore appears to be a particularly appropriate option for their needs.

MAGHREB

EUR 10m for the creation of a leasing company in Algeria

Signed in December 2005, the “Maghreb leasing” project concerns the creation of a leasing company in Algeria specialised in medium-term SME financing. Promoted by two Tunisian financial institutions, Tunisie Leasing and Amen Bank, working together with other development finance institutions (PROPARCO, FMO) and private investors, this project is a prime example of North-South and South-South cooperation.

The FEMIP operation consists of supporting this project by providing the new company Maghreb Leasing with a financing facility through a participating loan in Algerian dinars

for the equivalent of EUR 10m. It should enable Maghreb Leasing to finance its first two years of operation, given the difficulty of mobilising local bank resources in the start-up phase.

Although a key feature of the Algerian market is the rapid emergence of a dynamic private sector, particularly in the areas of construction, public works, light industries and services, the companies concerned, the majority of which are small or medium-sized, have difficulty in raising finance from public or private banks. Leasing therefore appears to be a particularly appropriate option for their needs.

Following the adoption of an ad hoc legal and fiscal framework in the late 1990s, the leasing sector, though still in its infancy in Algeria, has good prospects of developing satisfactorily in terms of both profitability and lender protection.

NEAR EAST

EUR 10m contribution to the creation of a guarantee fund in the Gaza Strip/West Bank

In December 2005, FEMIP also joined forces with the German development bank KfW Entwicklungsbank and the European Commission to create a EUR 28.5m fund for private sector SMEs in the Gaza Strip and the West Bank. The Palestinian National Authority is the intermediary for the EUR 10m conditional loan granted by FEMIP for the Credit Guarantee Fund.

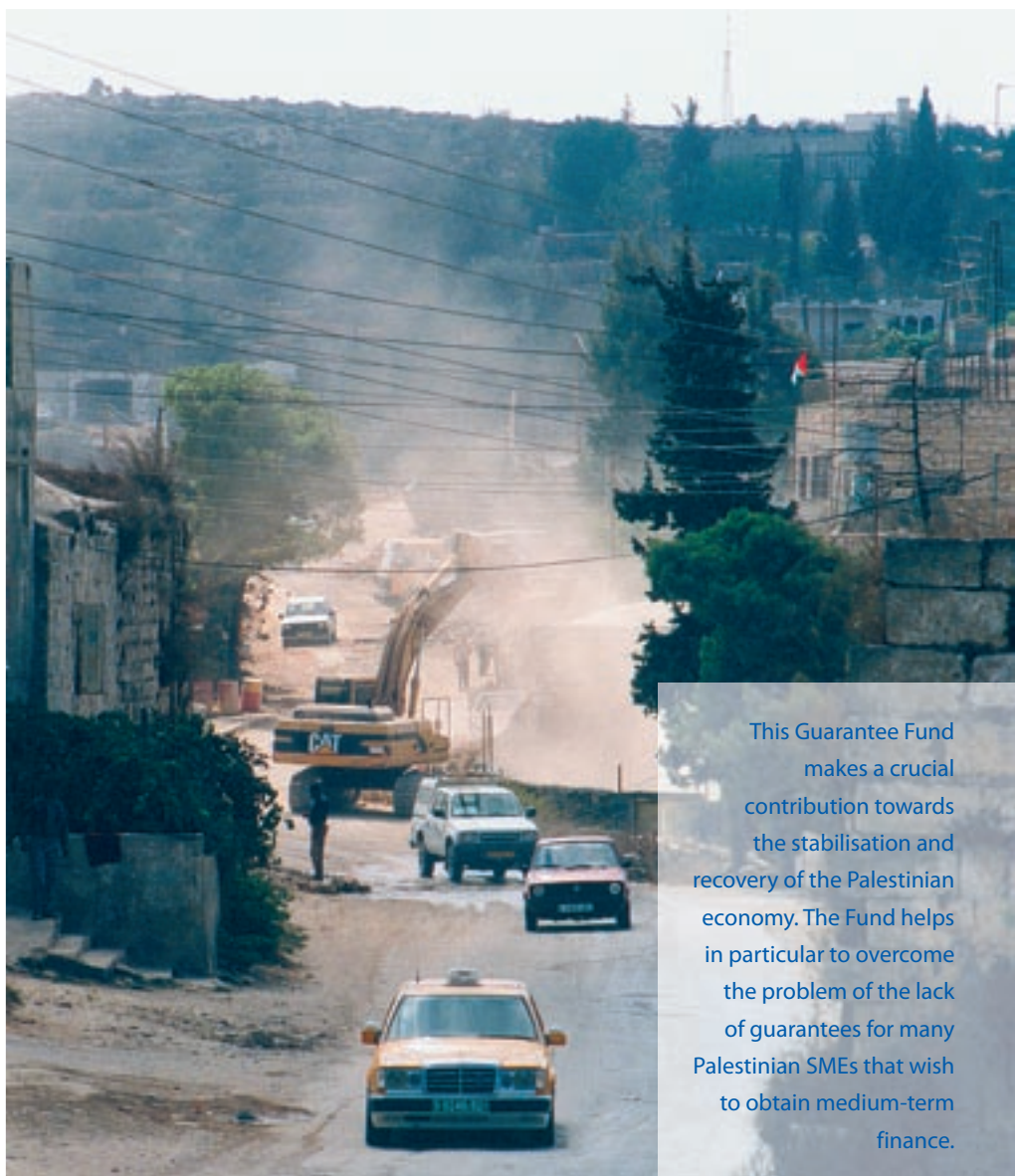
This Guarantee Fund makes a crucial contribution towards the stabilisation and recovery of the Palestinian economy. It is designed to support privately owned Palestinian SMEs in industry (mainly manufacturing), agro-industry, services and commerce that have less than 20 employees and find it difficult to obtain bank loans.

In keeping with FEMIP’s objectives, it creates conditions that are more conducive to private sector growth and job creation and at the same time supports the development of the local financial sector. The Fund helps in particular to overcome the problem of the lack of guarantees for many Palestinian SMEs that wish to obtain medium-term finance.

An independent local management team with experience in SME lending is responsible for operating the Fund.

Representing over 90% of formal private sector companies, SMEs form the backbone of the Palestinian economy and one of the keys to its recovery. The vast

majority are family-owned businesses and it is estimated that they employ some 168 000 people in total.



This Guarantee Fund makes a crucial contribution towards the stabilisation and recovery of the Palestinian economy. The Fund helps in particular to overcome the problem of the lack of guarantees for many Palestinian SMEs that wish to obtain medium-term finance.

EUR 25m for private equity operations in Egypt

At end-2005, FEMIP advanced EUR 25m for private equity operations in support of private sector companies in Egypt.

These funds, in the form of a risk capital facility, are channelled through selected Egyptian financial intermediaries or through FEMIP direct investment into private equity funds or private sector companies. The selected intermediaries include Commercial International Bank (CIB), National Bank of Egypt (NBE), EFG Hermes Holding Company (EFGH) and Export Development Bank of Egypt (EDBE).

This risk capital operation, the largest mounted under FEMIP in 2005 and the third of its type in Egypt, confirms the EIB's commitment to supporting private sector companies and developing the private equity market in this country.

It not only increases the availability for the local final beneficiaries of relatively scarce sources of equity and quasi-equity funding but also supports the development and application of best practices and international standards with respect to private equity.

Example of an operation under a global authorisation

The EUR 4.6m Agram Invest operation allocated in 2005 took place under a facility initially approved by the EIB in 1998 as a global loan from risk capital resources and extended in 2000 to temporary participations in investment companies and funds.

Agram Invest promotes small-scale projects in the start-up, modernisation or expansion phases. It assists companies in their efforts to create domestic expertise and develop new products for the local and export markets as well as to obtain economies of scale and scope, thus improving their competitiveness.

With priority being given to SMEs and joint ventures, the project is expected to support foreign direct investment in Morocco and to play a pioneering role in the development of the financial sector, as it provides for the promotion of the country's private equity industry.

Signature of an agreement in September 2005 providing for the EIB to acquire a stake in the tourism investment fund recently set up in Morocco by Caisse de Dépôt et de Gestion and Club Méditerranée. In this operation, the European Investment Bank acquired a EUR 5m equity participation in SIM (Société Immobilière de la Mer) via FEMIP.



Transport and telecommunications

MAGHREB

EUR 60m loan for financing of Rural Roads II project in Morocco

Signed in June 2005, this project is intended to finance improvements to 2 290 km of rural roads throughout the country, included in the first phase of the new national programme for the upgrading and building of rural roads covering the period 2005-2015. These roads have been selected on the basis of their economic rate of return, which in all cases exceeds 10%. The project promoter is

the Moroccan Ministry of Planning and Transport.

The FEMIP loan amounts to EUR 60m and loans from Agence française de développement, the World Bank and the Islamic Development Bank complete the financing of the first phase of the national rural roads upgrading and rebuilding programme.

The national programme should help to significantly open up entire predominantly agricultural regions. This project will provide the local population with better access to schooling and healthcare. Additionally, it will help to achieve trans-

port cost savings and improve productivity, particularly in the agricultural sector. It will also improve access to water distribution sources and facilitate the gradual switch from firewood to gas as a form of fuel, which will have a positive impact on public health and the environment.

This project is accompanied by a EUR 1m technical assistance operation that will help to set up a project management unit with international expertise.

This project will provide the local population with better access to schooling and healthcare. Additionally, it will help to achieve transport cost savings and improve productivity, particularly in the agricultural sector.



EUR 70m to develop the Casablanca-Marrakesh motorway in Morocco

This loan, granted in June 2005 to Société nationale des autoroutes du Maroc, is an extension of the Autoroutes du Maroc IV project signed in November 2003. Its purpose is the construction of a 163 km motorway on the Casablanca-Marrakesh route, which is set to connect the cities of Settat and Marrakesh in central/southern Morocco.

The construction of an uninterrupted motorway between Marrakesh and Tangiers via Casablanca and Rabat will provide a first-class link between the country's major economic centres. It will facilitate swift and secure passenger and freight transport between these centres and between Morocco and its neighbouring countries.

NEAR EAST

EUR 60m for the construction of new roads in Lebanon

In June 2005, FEMIP granted a EUR 60m loan to the Lebanese Republic for the construction of roads in Lebanon.

The loan covers the construction of two new roads of major national and regional importance: the first (11 km) is on the route between Beirut and Damascus and the second (6 km) serves the northern city of Tripoli, Lebanon's second city in terms of size and economic stature. These two roads will facilitate passenger and freight transport between Lebanon and Syria.

Continuous and well-targeted development of the road sector is essential for

Lebanon to cope with the growth of its population and economy and meet the need for public infrastructure which that entails, especially in urban areas along the coast. It is also essential for Lebanon to maintain a properly functioning road network in order to support the development of the private sector, as well as economic transit activity and trade, where Lebanon plays a key role and continues to represent a driving force for the region.

The planned road works are the subject of a three-year technical assistance programme financed by the FEMIP Technical Assistance Fund.

EUR 100m for the first operation in the telecommunications sector in Syria

In December 2005, FEMIP granted a EUR 100m loan for the extension of the

fixed line telephone network to poorly served areas of Syria. This is the first FEMIP loan to be signed in the telecommunications sector in the Mediterranean region. The Syrian telecoms company Syrian Telecommunications Establishment is responsible for executing and managing the project.

This loan will connect 430 000 new customers in 4 300 villages located in 13 mostly rural provinces across the country to the telephone network through the installation of suitable access technologies. This will allow the rural population to benefit from voice telephony services as well as possible internet access, which will enhance their quality of life and contribute to overall economic growth in rural areas of the country. At present, there are on average six telephone lines for every 100 rural dwellers. Thanks to this project, telecommunications density should increase to 10 lines per 100 inhabitants by 2010.

Continuous and well-targeted development of the road sector is essential for Lebanon to cope with the growth of its population and economy.



TURKEY

EUR 400m in favour of urban transport in Istanbul

In March 2005, the EIB extended a EUR 400m loan to the Republic of Turkey to help towards the financing of one of the world’s most ambitious urban rail transport projects, the Marmaray project, which is set to connect Europe with Asia.

The loan will help finance rolling stock for this rail project in the greater Istanbul area. The rolling stock of 440 carriages, to be configured as 10 and 5-car trains, will be deployed on the city’s urban and suburban rail system.

The 76 km railway line will connect Halkali on the European side of the Bosphorus with the suburb of Gebze on the Asian side, sharply reducing the travelling time between the two parts of the city and helping to relieve the growing traffic congestion. It will be able to carry 75 000 passengers an hour and will be linked with the light railway network and the metro. Some 62 km of the track will be above ground, while 14 km will be underground, including a 1.4 km tunnel under the Bosphorus. Thirty-seven ex-

isting stations will be upgraded while three underground stations will be constructed.

The project, scheduled for completion in April 2009, has already benefited from a EUR 650m loan from the EIB. This new loan of EUR 400m will thus bring total EIB support for the overall Bosphorus Tunnel scheme to EUR 1.05bn, the largest amount ever provided by the EIB for a project in Turkey.

Despite rigid adherence to a programme of budgetary austerity, Turkey is currently pressing ahead with a number of large infrastructure projects, ranging from urban transport and inter-city express roads to hydroelectric dams and water and sewerage systems, that are receiving substantial government funding. Foreign banks, governments and international lending institutions are encouraged by the country’s strong economic performance, falling inflation and lower interest rates and the prospect of EU membership.

By promoting more frequent use of public transport and reducing congestion, this project will not only enhance air quality and cut noise pollution but also help to tackle climate change by improving energy efficiency and reducing carbon dioxide emissions.

This new loan of EUR 400m will bring total EIB support for the overall Bosphorus Tunnel scheme to EUR 1.05bn, the largest amount ever provided by the EIB for a project in Turkey.



Energy

NEAR EAST

EUR 234m for the construction of a second natural gas liquefaction train in Egypt

Signed in July 2005, the project consists of the construction and operation of a natural gas liquefaction train with an annual production capacity of 3.7m t of liquefied natural gas, involving major international and Egyptian gas companies. It is located on Egypt's Mediterranean coast, near the town of Idku, some 50 km east of Alexandria, and is adjacent to the first liquefaction train financed by FEMIP with a EUR 304.5m loan signed in 2003.

This project is one of the three schemes involving the exporting of Egyptian natural gas to Europe and the USA that are currently being developed and which will supply the French, Spanish and (through this project) Italian and American markets. The project is driven by the increase in gas demand worldwide, by the general interest in diversifying and securing further gas supplies, as well as by the efficient use of gas reserves in Egypt, which are owned by major Egyptian and European companies.

The project borrower is Idku Natural Gas Liquefaction Company, a locally incorporated single-purpose company. The total amount of the loan is EUR 234m, divided up as follows: EUR 117m to be lent under the Euromed Mandate on a "risk-sharing" basis and EUR 117m under the Mediterranean Partnership Facility with full risk coverage, as the loan package will finance a project of major interest to Egypt and

the European Union in the energy sector, by contributing to the regional integration of energy networks in the Mediterranean and by providing a new source of natural gas for the EU market.

The project is being carried out by a joint venture involving EU and Egyptian companies and will result in the transfer of technical skills through the employment and training of local engineers and man-

agers during the life of the project. Its social and development impacts are linked to the creation of skilled and unskilled employment, active involvement in the local community on social projects of mutual interest, such as road safety and health care, and cooperation with the Egyptian Government to establish the first successful environmental impact assessment including public consultation.

The first liquefaction train was financed by FEMIP with a EUR 304.5m loan signed in 2003.



EUR 50m for financing of two gas pipelines in Egypt

In July 2005, FEMIP lent EUR 50m to Compagnie égyptienne du gaz naturel (GASCO) for two gas pipelines of a combined length of 152 km in Egypt.

The pipelines form part of the national gas transmission system, which transports natural gas from Egyptian offshore and onshore gas production fields to major power plants, industrial enterprises and other consumers throughout the country, and will strengthen the gas transmission system to cope with increasing demand.

This operation follows on from other FEMIP-financed energy projects in Egypt, including the Damietta and El Nubariya projects (natural gas-fired combined-cycle power plant) and the regional gas line connecting Egypt's gas network with Jordan's.

The GASCO gas pipelines III project will help reduce power generation costs by replacing oil with gas at existing power stations. Additionally, using gas in the new combined-cycle plants will improve the overall efficiency of the power network, increase the supply of electricity to meet growing demand and diversify the country's energy system.

Egyptian industry will also benefit from cheaper electricity and will be able over time to adopt internationally competitive gas-based technologies. In addition, this conversion will have a very positive environmental impact as it will significantly reduce polluting emissions. In view of current high oil prices, the project will have positive economic ramifications for the country.

EUR 200m for the Deir Azzour power plant in Syria

In November 2005, FEMIP extended a EUR 200m loan in support of the electricity sector in Syria. This loan to the Syrian Arab Republic will help finance the construction of a 750 MWe natural gas-fired combined-cycle power plant near the town of Deir Azzour on the Euphrates river in eastern Syria. The project will be executed and managed by the Syrian public entity in charge of electricity generation and transmission.

This is the second FEMIP operation in Syria for electricity generation, after the loan – also for EUR 200m – concluded in November 2004 for the construction of the Deir Ali power plant near Damascus.

Up until now, Syria's energy sector has been largely dependent on the country's oil resources. However, in view of its diminishing reserves, Syria now plans to place greater emphasis on natural gas and switch from oil-fired to gas-fired power plants. It also seems to have sufficient resources (an estimated 270bn m³ in 2003) although it needs to develop the infrastructure required to extract and distribute the gas. The setting-up in February 2003 of Syria's national gas company underlines the increasing importance of this sector to the domestic authorities. In addition to its contribution to lowering greenhouse gas emissions, the main economic benefit of the project is that it will provide cheaper energy thanks to the use of local gas resources.



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EUR 45m for improving the electricity supply network in the West Bank and Gaza Strip

In December 2005, FEMIP lent EUR 45m to the Palestinian National Authority for a vital investment to upgrade electricity supplies. The project is also being funded by Spain, Norway, Sweden and the Palestinian Authority.

This operation, which marks the resumption of EIB financial assistance to the West Bank and Gaza Strip after an absence of five years, will help to strengthen the economy and improve the standard of living in Palestine. It forms part of a EUR 99m programme for the rehabilitation and upgrading of the electricity transmission and distribution network throughout the Palestinian territories. It entails erecting 34 km of transmission lines in the Gaza Strip, the construction of two substations near Jerusalem and Nablus and distribution lines in the West Bank. The installation of about 50 000 prepayment meters across the Palestinian territories will result in more effective collection of outstanding payments.

This project will make it easier to serve 75 villages not yet connected to the power supply system and will provide infrastructure to meet growing electricity demand at a competitive cost. It will also help to reduce technical and commercial losses in the network, facilitate rural electrification and improve the reliability and quality of supplies.

The project also benefits from technical assistance worth EUR 2m aimed at supporting implementation and monitoring. The technical assistance will also serve to identify the sector's future investment and organisational requirements.



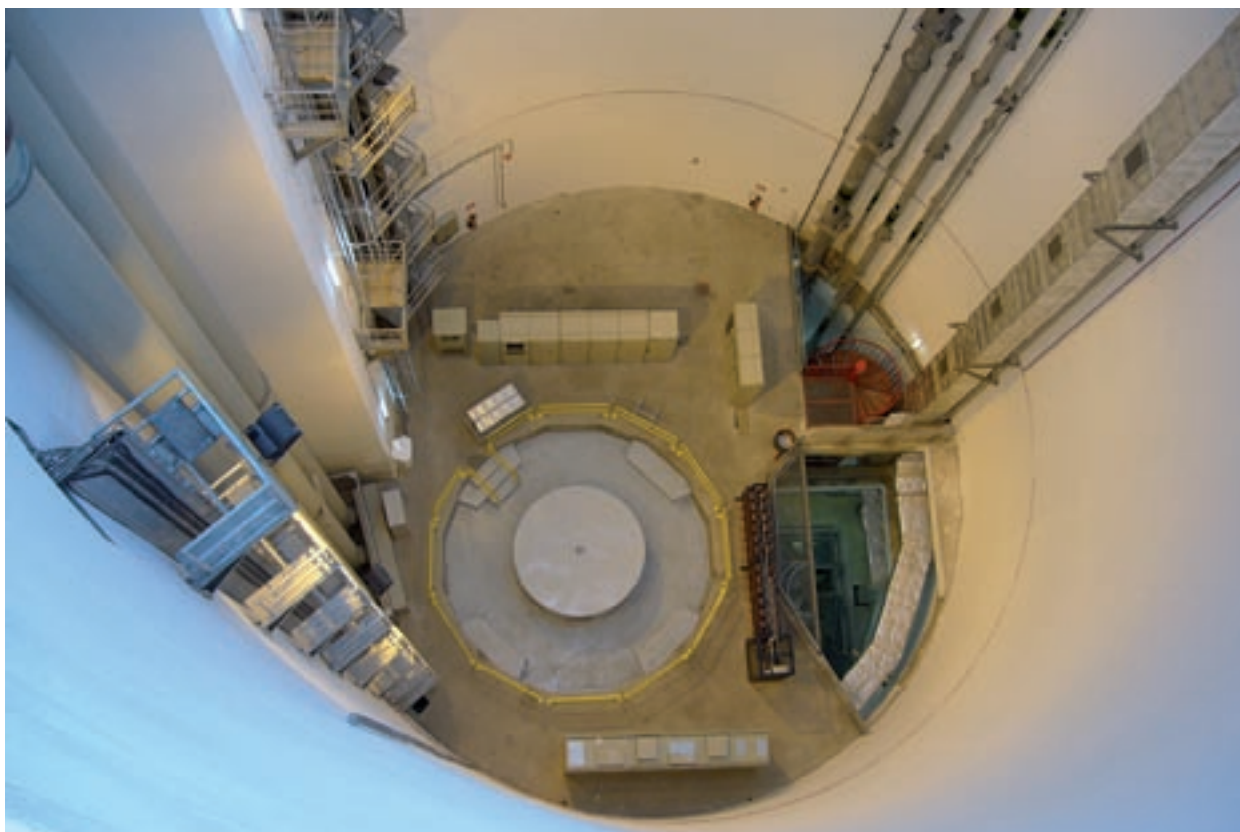
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**Example of a project in operation:
Afourer pumped storage power station in Morocco**

Work on the ONE Afourer pumped storage power station project, which began in October 2001, was completed in early 2006. This project, which was hugely important for Morocco's Office National de l'Électricité (ONE), represents a very good example of an EIB-financed project resulting in the development of priority economic infrastructure and helping to improve people's quality of life and the environment.

This strategic project enables ONE to optimise the management of electricity generation/demand in a novel way: by using relatively low tariffs at off-peak times to pump water to an upper reservoir, so as to feed it back to the generating turbines at peak (high tariff) times when energy demand is greater. The water used in this way also serves to meet the region's irrigation requirements. As a result, cost and energy savings are now possible, benefiting both ONE and the consumers.

Financed by the EIB to the tune of EUR 90m and by the Arab Fund for Economic and Social Development, this project will help to meet the growing peak demand for electricity in Morocco over the coming decade more cost-effectively.



Industry

MAGHREB

EUR 80m to finance five specialised technology parks in Tunisia

In June 2005, a EUR 80m loan was granted to the Republic of Tunisia. The project consists in creating the infrastructure and constructing the components for five technology parks specialising in electronics and mechanical engineering (Sousse), information and communications technologies (Sfax), textiles and clothing (Monastir), agro-food (Bizerte) and pharmaceuticals and biotechnology (Sidi Thabet).

The project forms part of the Tunisian Government's "Futurist Programme" launched in October 1999, under which it is intended to establish a series of 12 regional technology parks in the vicinity of major universities and industrial areas. The objective is to foster the creation of a national scientific and technological research network designed to speed up development of high-value-added activities and adapt the country's industrial fabric to internal and external economic developments.

Every technology park has a formal education component (university or college), contributing to an appropriate skills match; an incubation centre enabling research and development spin-offs to mature for initial industrial-scale production; and an industrial zone to allow a critical mass of specialisation at the technology park.

Tunisia's prime concern is currently its unemployment rate, which is stubbornly high at 15%, despite active employment programmes. Fostering productivity growth and re-launching the economy with an emphasis on other sectors is thus crucial to alleviating economic hardship, and supporting high-value-added industries through the Technopoles project forms part of this effort. The project was complemented by the signature of a EUR 60m credit line to support private sector investment in priority high-value-added sectors (see above).



The objective is to foster the creation of a national scientific and technological research network designed to speed up development of high-value-added activities and adapt the country's industrial fabric to internal and external economic developments.

TURKEY

Promoting the private sector in Turkey through a EUR 60m loan supporting float glass line production

Signed in November 2005, this EUR 60m loan concerns the establishment of a new float glass line in Yenisehir in the Eastern Marmara region of Turkey and a co-generation plant within the existing compound of a soda ash factory in Mersin on Turkey's eastern Mediterranean coast.

The co-generation plant will furnish reliable and clean energy for the production of soda ash, which is required as a main

component for glass production, while the new float line will produce flat glass for the local market. The project borrower and promoter is Sisecam Group, a well-established name in the glass sector, providing 13 000 jobs, mainly in Turkey, but also in other neighbouring countries, such as Bulgaria, where it is among the leading foreign direct investors.

EIB financing of this project will promote a sustainable private sector investment and help create a favourable climate for private investment. The project itself will boost the domestic supply of float glass for developing downstream industrial activities, notably in the construction sector, and reduce the dependency on imports, particularly of coated glass. The

investment in the co-generation plant will lead to significant energy savings and environmental benefits, especially in terms of emissions.

As far as employment is concerned, 200 new jobs are expected to be created. Located in the Eastern Marmara region, in Bursa province, the project will also add to the diversification of the region's industrial base and mitigate the economic volatility sometimes associated with export-oriented industrial activities.



Supporting the motor industry in Turkey. The EUR 150m "Toyota Motor Manufacturing Turkey" loan was signed in 2003.

Environment

NEAR EAST

EUR 60m loan for the construction of a wastewater treatment plant in Lebanon

Signed in November 2005, this EUR 60m loan to the Republic of Lebanon is for the construction of a wastewater treatment plant in Dora, a northern Beirut suburb, as well as primary, secondary and tertiary collection networks. This plant will treat wastewater originating from the centre and north of the city, which was previously discharged directly into the Mediterranean Sea untreated, thus increasing pollution of the coastal waters.

The FEMIP-financed project will have a significant environmental impact, improving the living conditions of the city's inhabitants and making the region more attractive to tourists. It comes under Lebanon's coastal pollution control programme, which is aimed at enabling the country to comply with the targets of the Barcelona Convention and the Genoa Declaration for the protection of the Mediterranean Sea against pollution.



Water sample before and after treatment.

As the project is helping to protect the Mediterranean coastline and facilitates compliance with environmental standards, it strengthens the Euro-Mediterranean partnership. It also benefited from a EUR 10m interest subsidy from the European Commission for its contribution to safeguarding the environment.

TURKEY

EUR 30m for a sewerage and wastewater treatment project in Turkey

This EUR 30m loan was extended in March 2005 to Samsun Water & Sewage Administration (SASKI) for the construction of a wastewater treatment plant and a wastewater collection and transfer system in the Turkish city of Samsun. This city is one of Turkey's principal Black Sea ports and an important industrial and commercial centre. The project will benefit 690 000 people in a region covering some 50 km of coastline.

In the past, wastewater had been discharged directly into the sea, causing many problems and environmental degradation. During the summer period, it led to unpleasant smells being given off, impacting negatively on the tourist season despite the numerous attractions of the city's old port. During stormy periods, the discharge of wastewater into the sea and subsequent sedimentation of sewage were responsible for heavy flooding.

The project financed should therefore considerably improve public health, bearing in mind that the adoption of stricter environmental standards will facilitate sustainable development of the region.



Technical assistance

Technical assistance is a key instrument for improving the quality of lending operations and increasing their impact on development. It has become an integral part of the appraisal and implementation process for FEMIP loans and requires close cooperation with the European Commission, other lenders and promoters.

The volume of operations financed by the Technical Assistance Support Fund increased significantly from EUR 13.8m in 2004 to EUR 21.3m in 2005 in respect of 26 service contracts signed with European consultancy firms. After two years of actual activity, technical assistance operations have now got into their stride. One third of Support Fund resources representing over 46 operations have been committed and the remaining resources have been programmed, although contracts have not yet been issued for all the consultants.

The impact of technical assistance on the Bank's lending operations is now being examined by an external consultant and the results will be available in the second half of 2006. The following paragraphs

give an overview of concrete results of completed and ongoing technical assistance operations at various stages of the project cycle, and some typical operations are presented.



The volume of operations financed by the Technical Assistance Support Fund increased significantly from EUR 13.8m in 2004 to EUR 21.3m in 2005.

Transport and telecommunications, energy, environment and human capital

Project preparation

Preparatory studies, including pre-feasibility and feasibility studies, investment programmes and business plans, have resulted in the identification of technically sound, socially balanced and economically/financially balanced proposals to develop infrastructure in a number of countries. These mainly include technical assistance operations in the environment, transport and human capital sectors. As a result, a number of investment projects have been developed which have either been signed or are due for EIB appraisal in 2006 and 2007. The provision of technical assistance in the preparatory phase has helped to ensure the quality of proposed projects and to further develop the Bank's portfolio of sustainable investment projects in the region. In some cases, requests for further technical assistance to support project implementation have been approved, which should ensure the quality of investment during subsequent phases.

Moroccan health sector

Technical assistance for the Moroccan Ministry of Health has proved particularly successful in helping to identify a major hospital reform programme, ensuring that the most important facilities will benefit from the investment in the most appropriate way. A EUR 70m loan agreement has since been signed between the EIB and the Moroccan authorities in support of the programme.

Project implementation

A number of technical assistance operations have supported Project Management Units (PMUs), both during their establishment and during project implementation, mainly in the environment and transport sectors. This has resulted in improved management of the underlying projects. It is expected that in the majority of cases the projects will be implemented within the proposed timeframe and budget, thus helping to avoid typical problems such as delays, cost overruns and other obstacles. Technical assistance is also contributing to more general improvements in the running of PMUs, by streamlining planning and procedures, improving tender documentation and tender procedures, focusing on quality assurance and supervision, and through various training activities. These activities are expected to improve the quality of both ongoing and future projects.

Technical assistance for Lebanese highways

The operation concerns technical assistance for the Project Management Unit established at the Council for Development and Reconstruction for a road construction project. The project consists of improvements to the two main road corridors linking Lebanon and Syria, which are crucial for the development of trade between the two countries and the region. It will contribute to an international multi-mode transport network in the region, which has emerged as a planning goal for the Euro-Med partnership. The technical assistance helps the PMU to manage the construction programme effectively as far as deadlines and budget are concerned.

Project evaluation

The impact of technical assistance in evaluating ongoing and completed projects has also proved to be particularly successful. Evaluations in the water sector have resulted in the identification of a number of recommendations to improve the management of projects during all phases of the project cycle, from project identification and preparation through to project implementation and monitoring. It is therefore expected that once these recommendations are implemented, the quality of future investment will be improved.

Evaluation of wastewater projects in Tunisia

The EIB has financed wastewater projects in Tunisia for several years, through the Office National d'Assainissement (ONAS). An in-depth evaluation of the "ONAS III" programme highlighted several areas where improvements can be made, at each stage of the project cycle. An action plan has been developed, with six main objectives. These include recommendations to enhance the financial management of projects, improve the quality of works, optimise cost, and improve the analytical data and operation of wastewater treatment plants. The quality of future projects in this area is therefore expected to increase once the action plan is implemented.

Direct private sector support

Credit lines

Technical assistance provided to strengthen the lending capacities of financial intermediaries and ensure effective and efficient use of EIB credit line facilities is having a positive impact on both the quality of loans and on improving the disbursement rate of credit line operations for SMEs. Similar results are beginning to be generated by technical assistance operations at a less advanced stage of implementation.

SME Fund in Syria

In September 2003, the EIB signed the "SME Fund" operation with the Syrian Arab Republic, which includes an apex global loan facility of EUR 40m from the Bank's own resources under the FEMIP programme. The SME Fund operation is the Bank's first credit line in Syria. The day-to-day operations of the SME Fund are carried out by the SME Fund Management Unit (FMU), based in the Commercial Bank of Syria. FEMIP technical assistance is being provided to support financially, economically and technically viable investment by private sector SMEs in Syria. The technical assistance is also helping to strengthen the FMU by transferring best industry practice in the fields of SME project appraisal and lending techniques. By the end of December 2005, 186 enquiries for loans amounting to EUR 182m had been received by the Fund, of which 60 requests for financing totalling EUR 62m were considered potentially eligible. The SME Fund is an innovative scheme that is already beginning to affect the approach of participating banks to the provision of term lending, and it is expected to have a development impact at SME level in the longer term.

Risk capital operations

The impact of support provided for the establishment of private equity funds is expected to be felt in the coming year. The support provided to date has been in the preparatory phase, which should result in the establishment of several funds in the region. In 2005, a number of market studies on private equity and microfinance were prepared, which in 2006 will enable the FEMIP Special Operations Divisions to steer future investments and use technical assistance to strengthen equity funds and microfinance schemes.

Creation of a private equity fund, Lebanon

Byblos Bank, one of the leading private banks in Lebanon, requested technical assistance from the EIB to set up a private equity fund. The fund is to be structured as a closed-end fund according to industry standards and will target medium-sized private Lebanese companies. There were no private equity funds in Lebanon at the time the technical assistance operation was launched and market conditions were favourable for the launch of the first private equity fund. The technical assistance programme implemented in cooperation with Byblos Bank's senior management and their legal adviser has contributed to the assessment of the feasibility of the initiative, recruitment of dedicated staff, selection of possible investees and alternative structuring options and the development of a framework for the fund. The private equity fund will become operational in 2006 with a total FEMIP risk capital investment of EUR 7m.



The EIB has financed wastewater projects in Tunisia for several years, through the Office National d'Assainissement (ONAS). An in-depth evaluation of the "ONAS III" programme highlighted several areas where improvements can be made. The quality of future projects in this area is therefore expected to increase once the action plan is implemented.



FEMIP Trust Fund Projects

Chaired by the Bank, the FEMIP Trust Fund (FTF) Assembly of Donors brings together representatives of all FTF donors and determines the principal orientations and strategies of the activities financed using the resources of the Fund. In 2005, the Assembly met three times and approved seven projects totalling EUR 3.4m.

The first project to be approved by the Assembly was a study on improving the efficiency of workers' remittances in Mediterranean countries, which was published in March 2006 (see below).

More than half the projects approved in 2005 focused on providing support to the financial sector. In this regard, a cooperation agreement was signed with the IMF to support its recently inaugurated regional Technical Assistance Center (METAC), which offers assistance with reform of banking regulation, supervi-

sion and financial sectors in the Mashreq countries. The FEMIP Trust Fund has contributed EUR 500 000 to this project.

The FTF Assembly also approved the financing of a study examining financial mechanisms for the development of renewable energy and energy efficiency in Mediterranean partner countries. The objective of the study is to investigate the possibilities for carbon finance and crediting activities in the Mediterranean region, identify priority sectors and build a pipeline of concrete projects under the Clean Development Mechanism (CDM)¹⁵.

FTF projects also include a study on the logistical needs of the Mediterranean region, in particular the need for the development of logistics platforms, with the aim of integrating Trans-European networks with the Mediterranean region.

¹⁵ Established by the Kyoto Protocol, the CDM allows an industrialised country with a greenhouse gas (GHG) emission limitation target to invest in an emission reduction project in a country without a target and claim credits for the GHG emission reductions achieved by the project.

Project	Country	Budget	FTF Assembly date of approval
Improving the efficiency of workers' remittances in Mediterranean countries	Regional	200 000	25/01/2005
Financial sector support programme	Regional	500 000	10/05/2005
Logistic needs in the Mediterranean partner countries – potential for the development of a Mediterranean logistic platform network	Regional	600 000	10/05/2005
Financial mechanism for the development of renewable energy end energy efficiency in MPCs	Regional	200 000	10/05/2005
Examining the access of small-scale firms to sustainable forms of outside finance in Algeria	Algeria	200 000	21/09/2005 (written procedure)
Examining the promotion of long-term savings in Morocco	Morocco	180 000	25/11/2005
Cement sector reform programme	Syria	1 500 000	25/11/2005



Integrating
Mediterranean
and European
transport
networks.

Organisation and staffing

The EIB's Mediterranean (FEMIP) Department was strengthened in 2005 by the increase in both the number of its external offices and its human resources.

Part of the Directorate for Lending Operations outside Europe, the Mediterranean (FEMIP) Department works closely with the Projects Directorate (which provides support in terms of technical expertise and economic analysis) and the Legal Affairs, Risk Management and Finance Directorates. It also avails itself of the services of the Bank's support directorates.

Building human capital

The Mediterranean (FEMIP) Department comprises three divisions, two geographical and one horizontal, and a unit responsible for general policy and institutional matters. The two geographical divisions cover the Maghreb and Near East and are responsible for lending in their respective countries of operation, while the horizontal division manages the Bank's risk capital and technical assistance activities in all the Mediterranean partner countries. Following Turkey's elevation to the status of candidate for EU membership, the division responsible for Turkey was integrated into the South-East Eu-

rope Department of the Directorate for Lending Operations in Europe. Whilst lending operations and the Bank's other activities in Turkey are booked until 2006 under FEMIP's activities with a view to maintaining consistency of the amounts committed over the 2002-2006 period, they are managed separately from an internal organisation perspective.

At the end of 2005, FEMIP could draw on some 70 dedicated staff, a significant increase compared to the 40 or so staff at the end of 2003 (all figures excluding Turkey)¹⁶. This increase reflects the Bank's decision to reinforce and widen the scope of FEMIP, especially with regard to steering the partnership with Mediterranean countries, supporting the private sector, implementing technical assistance and managing the Trust Fund. It also reflects the Bank's general strategy aimed at improving project monitoring and evaluation.

Deployment in the Mediterranean region

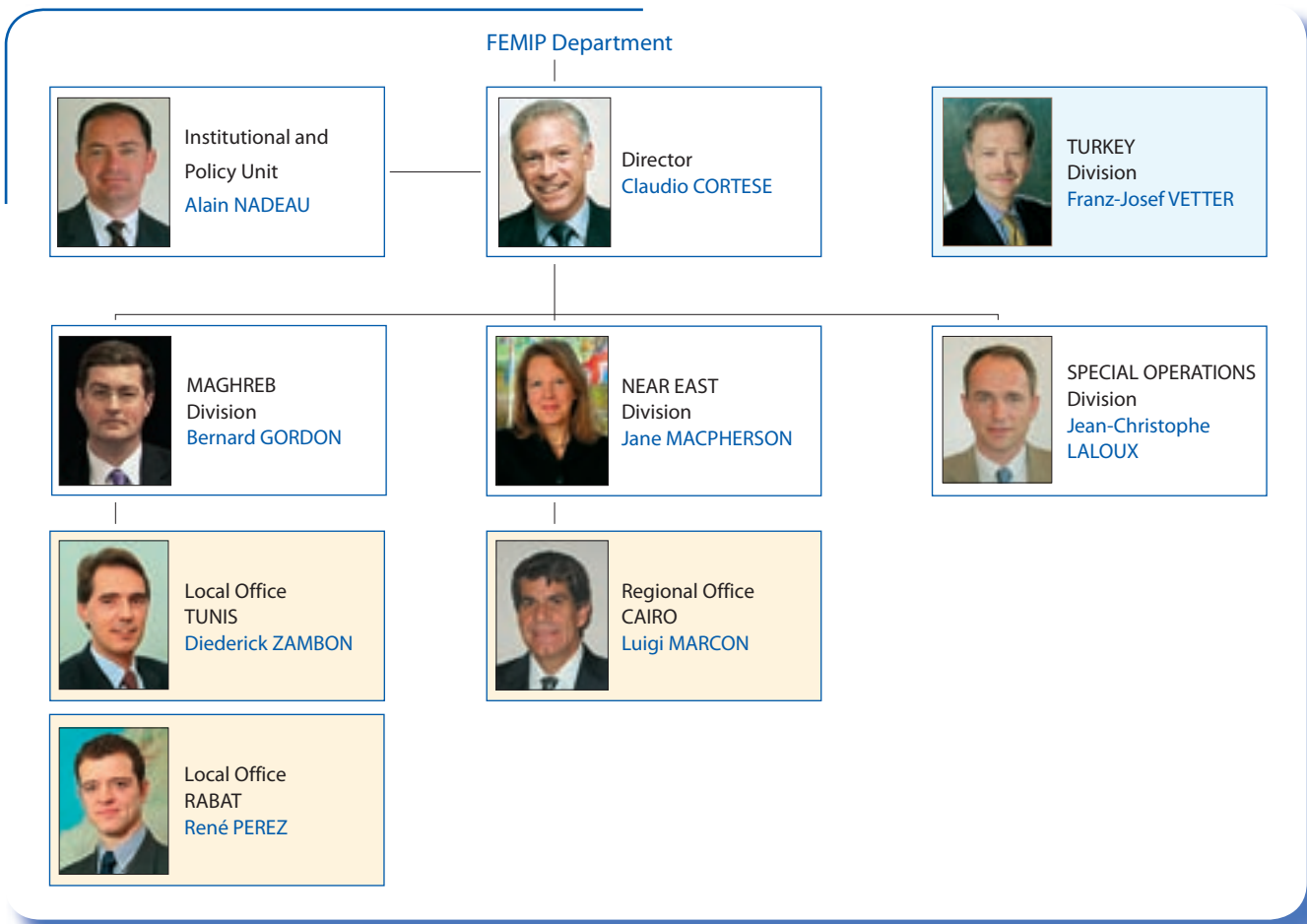
With the inauguration of the FEMIP office in Rabat in June 2005, the number of external FEMIP offices was increased to three. Following the opening in 2003 of the Cairo regional office, the Bank's first office outside the Union, and the successive opening in 2004 and 2005 of local offices in Tunis and Rabat, FEMIP's presence on the ground has been strengthened, leading to improved coordination with local public authorities, borrowers, the banking sector and lenders. At the same time, such proximity to local players has made it easier to identify projects and monitor them in greater depth. It has also facilitated the implementation of technical assistance.

FEMIP's Representative Office in Rabat was inaugurated by Minister for Finance and Privatisation, Mr Oualalou and EIB President Mr Maystadt in June 2005.



¹⁶ Estimates refer to the full-time equivalent physical headcount working directly on FEMIP operations and exclude indirect non-operational staff.

Organisation chart of FEMIP







The FEMIP team





Publications*

Activity reports and brochures

-  Overview of FEMIP 2005 Achievements, March 2006.
-  FEMIP 2004 Annual Report, June 2005.
-  Europe and the Mediterranean Region, June 2004.
-  EIB set to increase cooperation with the Mediterranean Partner Countries, April 2002.

Studies

-  Study on improving the efficiency of workers' remittances in Mediterranean countries, March 2006.
-  Sovereign Debt Markets in the EU Mediterranean Partner Countries, November 2005.

Thematic fact sheets



-  FEMIP and the Mediterranean partner countries, November 2005.
-  Environment and sustainable development in the Mediterranean partner countries, November 2005.
-  Energy in the Mediterranean partner countries, November 2005.
-  Transport in the Mediterranean partner countries, November 2005.
-  Private sector in the Mediterranean partner countries, November 2005.
-  Investment capital in the Mediterranean partner countries, November 2005.
-  Technical assistance in the Mediterranean partner countries, November 2005.

* *These publications are also available on the EIB's website: www.eib.org/publications.*

Country fact sheets

-  Financing provided by the EIB in Algeria, August 2004.
-  Financing provided by the EIB in Egypt, August 2004.
-  Financing provided by the EIB in Gaza and West Bank, August 2004.
-  Financing provided by the EIB in Israel, August 2004.
-  Financing provided by the EIB in Jordan, August 2004.
-  Financing provided by the EIB in Lebanon, August 2004.
-  Financing provided by the EIB in Morocco, August 2004.
-  Financing provided by the EIB in Syria, August 2004.
-  Financing provided by the EIB in Tunisia, June 2006.
-  European Investment Bank loans in Turkey, March 2005.

Evaluation reports

-  EIB financing with own resources through individual loans under Mediterranean mandates, July 2005.
-  EIB financing with own resources through global loans under Mediterranean mandates, February 2005.



Transporting gas from Damietta liquefied natural gas plant in Egypt.

Annex 1 – List of projects signed (01/10/2002 - 31/12/2005)

Country	Region	Project Name	Amount signed EURm	Public/Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
1 October to end-2002								
Algeria	Maghreb	ALGERIAN CEMENT COMPANY	62.0	Private	Loan & Risk Capital	Industry		
Morocco	Maghreb	ONE-INTERCONNEXIONS II	120.0	Public	Loan	Energy		
Morocco	Maghreb	ONEP IV PROTECTION DE L ENVIRONNEMENT	20.0	Public	Loan	Environment		X
Tunisia	Maghreb	AUTOROUTE DU SUD	120.0	Public	Loan	Transport & other infrastructure		
Turkey	Turkey	KGM - INTERURBAN ROADS I	225.0	Public	Loan	Transport & other infrastructure		
Turkey	Turkey	TOYOTA MOTOR MANUFACTURING TURKEY	150.0	Private	Loan	Industry		
Turkey	Turkey	TURKEY EDUCATION FRAMEWORK	50.0	Public	Loan	Human Capital		
TOTAL			747.0				NA¹	1
2003								
Algeria	Maghreb	RECONSTRUCTION APRES TREMBLEMENT DE TERRE	230.0	Public	Loan	Transport & other infrastructure	X	
Morocco	Maghreb	AUTOROUTES DU MAROC IV	110.0	Public	Loan	Transport & other infrastructure		
Morocco	Maghreb	ASSAINISSEMENT VILLES MAROCAINES-OUJDA	30.0	Public	Loan	Environment	X	X
Morocco	Maghreb	FORMATION PROFESSIONNELLE MAROC	30.0	Public	Loan	Human Capital		
Morocco	Maghreb	PORTS DU MAROC II	14.0	Public	Loan	Transport & other infrastructure		
Morocco	Maghreb	ASSOCIATIONS DE MICRO-CREDIT	10.0	Private	Risk-capital	Financial		
Tunisia	Maghreb	ENTREPRISES TUNISIENNES PG III	150.0	Private	Loan	Financial		
Tunisia	Maghreb	SANTE TUNISIE	110.0	Public	Loan	Human Capital		
Tunisia	Maghreb	STEG GAZ TUNISIE	55.0	Public	Loan	Energy		
Tunisia	Maghreb	STT- METRO LEGER DE TUNIS II	45.0	Public	Loan	Transport & other infrastructure		
Tunisia	Maghreb	TUNISACIER STEELWORKS	35.0	Private	Loan	Industry		
Egypt	Near East	IDKU LNG PLANT	304.5	Private	Loan	Energy		
Egypt	Near East	NUBARIYA COMBINED CYCLE POWER PLANT II	150.0	Public	Loan	Energy		
Egypt	Near East	ABU RAWASH WASTEWATER	55.0	Public	Loan	Environment		
Jordan	Near East	JORDAN EDUCATION	39.7	Public	Loan	Human Capital		
Jordan	Near East	AMMAN RING ROAD	26.2	Public	Loan	Transport & other infrastructure	X	
Syria	Near East	PORT OF TARTOUS	50.0	Public	Loan	Transport & other infrastructure	X	
Syria	Near East	SME FUND	40.0	Private	Loan	Financial	X	
Turkey	Turkey	AUTOMOTIVE INVESTMENT TURKEY	250.0	Private	Loan	Industry		

¹ The FEMIP TA Support Fund actually became operational in the second half of 2003.

Country	Region	Project Name	Amount signed EURm	Public/Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
Turkey	Turkey	INDUSTRIAL SECTOR GL III	200.0	Private	Loan	Financial		
Turkey	Turkey	TERRA1C-INFRASTRUCTURE & URBAN RECONS	150.0	Public	Loan	Transport & other infrastructure		
Regional	Regional	AVERROES FINANCE	3.5	Private	Risk-capital	Financial		
TOTAL			2 087.9				5	1

2004

Algeria	Maghreb	ALGERIAN CEMENT COMPANY - PHASE II	12.5	Private	Loan	Industry		
Morocco	Maghreb	ONE PARC EOLIEN DE TANGER	80.0	Public	Loan	Energy		
Morocco	Maghreb	INFRASTRUCTURES LOGEMENT SOCIAL	71.0	Public	Loan	Transport & other infrastructure	X	
Morocco	Maghreb	ONE- DEPOLLUTION CENTRALE MOHAMMEDIA	40.0	Public	Loan	Environment	X	X
Morocco	Maghreb	ASSAINISSEMENT VILLES MOYENNES (Safi)	20.0	Public	Loan	Environment	X	X
Morocco	Maghreb	ASSAINISSEMENT VILLES MAROCAINES-FES	20.0	Public	Loan	Environment		X
Morocco	Maghreb	ASSOCIATIONS DE MICRO-CREDIT II	10.0	Private	Risk-capital	Risk-capital		
Tunisia	Maghreb	VOIRIES PRIORITAIRES III	65.0	Public	Loan	Transport & other infrastructure		
Tunisia	Maghreb	VOIRIES PRIORITAIRES IV	40.0	Public	Loan	Transport & other infrastructure		
Tunisia	Maghreb	ASSAINISSEMENT DU SITE DE TAPARURA	34.0	Public	Loan	Environment	X	
Tunisia	Maghreb	PRET GLOBAL CPSCL	25.0	Private	Loan	Financial		
Tunisia	Maghreb	SNCFT IV	20.0	Public	Loan	Transport & other infrastructure		
Egypt	Near East	EGYPTAIR II*	290.0*	Public	Loan	Transport & other infrastructure		
Egypt	Near East	DAMIETTA LNG PLANT	188.4	Private	Loan	Energy		
Egypt	Near East	TALKHA & EL KURIEMAT POWER PLANTS	160.0	Public	Loan	Energy		
Egypt	Near East	GL PRIVATE SECTOR DEVELOPMENT	60.0	Private	Loan	Financial	X	
Jordan	Near East	REGIONAL GAS PIPELINE	100.0	Public	Loan	Energy		
Lebanon	Near East	APEX GL MULTI-SECTOR	60.0	Private	Loan	Financial		
Lebanon	Near East	SOUTH LEBANON WASTEWATER	45.0	Public	Loan	Environment	X	X
Syria	Near East	DEIR ALI POWER PLANT	200.0	Public	Loan	Energy		
Turkey	Turkey	INDUSTRIAL SECTOR GLOBAL LOAN IV	250.0	Private	Loan	Financial	X	
Turkey	Turkey	BOSPHORUS TUNNEL A	200.0	Public	Loan	Transport & other infrastructure	X	
Turkey	Turkey	SMALL BUSINESSES APEX GLOBAL LOAN	150.0	Private	Loan	Financial		
Turkey	Turkey	BURSA LIGHT RAIL TRANSIT SYSTEM	55.0	Public	Loan	Transport & other infrastructure		
Regional	Regional	AFRICINVEST FUND	4.0	Private	Risk-capital	Risk-capital		
TOTAL			2 199.9				8	4

* The amount signed for the project Egyptair II was increased by EUR 10m, bringing the total amount of signatures in 2004 to EUR 2 199.9m.

Country	Region	Project Name	Amount signed EURm	Public/Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
2005								
Algeria	Maghreb	PROJET MAGHREB LEASING	10.0	Private	Risk-capital	Financial		
Morocco	Maghreb	ADM IV TRANCHE B	70.0	Public	Loan	Transport & other infrastructure		
Morocco	Maghreb	ROUTES RURALES II	60.0	Public	Loan	Transport & other infrastructure	X	
Morocco	Maghreb	PRET GLOBAL BMCE BANK	30.0	Private	Loan	Financial		
Tunisia	Maghreb	TECHNOPOLES	80.0	Private	Loan	Industry	X	
Tunisia	Maghreb	PG ENTREPRISES TUNISIENNES IV	120.0	Private	Loan	Financial	X	
Tunisia	Maghreb	PG TECHNOPOLES TUNISIE	60.0	Private	Loan	Financial	X	
Egypt	Near East	IDKU LNG PLANT II	234.4	Private	Loan	Energy		
Egypt	Near East	GASCO GAS PIPELINES III	50.0	Public	Loan	Energy		
Egypt	Near East	UPGRADING EGYPTIAN ENTERPRISES III	25.0	Private	Risk-capital	Financial	X	
Gaza/West Bank	Near East	CREDIT GUARANTEE FUND	10.0	Private	Risk-capital	Financial	X	
Gaza/West Bank	Near East	ELECTRICITY NETWORK UPGRADING	45.0	Public	Loan	Energy	X	
Lebanon	Near East	LEBANESE HIGHWAYS	60.0	Public	Loan	Transport & other infrastructure	X	
Lebanon	Near East	BYBLOS BANK GL	50.0	Private	Loan	Financial		
Lebanon	Near East	GREATER BEIRUT WASTEWATER	60.0	Public	Loan	Environment		X
Syria	Near East	DEIR AZZOUR POWER PLANT	200.0	Public	Loan	Energy	X	
Syria	Near East	RURAL TELECOMS	100.0	Public	Loan	Transport & other infrastructure	X	
Turkey	Turkey	SAMSUN WASTEWATER	30.0	Public	Loan	Environment		
Turkey	Turkey	CITILEASE GLOBAL LOAN (TURKEY)	40.0	Private	Loan	Financial		
Turkey	Turkey	SISECAM GLASS MANUFACTURING	60.0	Private	Loan	Industry/Energy		
Turkey	Turkey	GL KOCBANK	100.0	Private	Loan	Financial		
Turkey	Turkey	INDUSTRIAL SECTOR GLOBAL LOAN V	250.0	Private	Loan	Financial		
Turkey	Turkey	BOSPHORUS TUNNEL B	450.0	Public	Loan	Transport & other infrastructure		
TOTAL			2 194.4				10	1

Annex 2 – List of technical assistance projects signed in 2005

Situation at 31/12/2005

Country	Operation	Promoter	Amount (EUR '000)
Algeria	Agence Nationale des Autoroutes - UGP	ANA	2 996
Algeria	Implementation of a municipal solid waste management plan in the Wilaya of Oran	Ministère de l'Environnement	199
Algeria	Redefinition of the municipal solid waste management plan in the city of Bouira and identification of technical support and training requirements nationally	Ministère de l'Environnement	149
Egypt	CGT optimisation study	Egyptian Electricity Holding Company	114
Egypt	TA to the Export Development Bank	Export Development Bank	200
Egypt	TA to the National Bank of Egypt	National Bank of Egypt	198
Egypt	Capacity Building Programme to the financial sector for the financing of small and medium sized projects and businesses	Egyptian banks, private equity funds and other financial institutions	2 076
Lebanon	TA for the Lebanese Highways project	Council for Development and Reconstruction	718
Lebanon	South Lebanon Wastewater Project - PMU	Council for Development and Reconstruction	1 211
Morocco	Agadir - Actualisation Schéma Directeur, Horizon 2025	RAMSA	195
Morocco	Définition d'un projet de réhabilitation hospitalière	Ministère de la Santé	192
Morocco	Agadir - Actualisation Schéma Directeur, Horizon 2025	RAMSA	199
Morocco	Analyse des émissions atmosphériques de la centrale de Mohammédia et recommandations d'amélioration	ONE	195
Morocco	Oujda - Évaluation de l'impact environnemental	Régie autonome intercommunale de distribution d'eau et d'électricité de Oujda (RADEEO)	173
Morocco	Régies Safi - Étude d'impact environnemental et conseils d'adaptation des planifications	Régie autonome intercommunale de distribution d'eau et d'électricité de la province de Safi (RADEES)	196
Morocco	Formation des Régies Phase I, Gestion d'Entreprise	Régie autonome intercommunale de distribution d'eau et d'électricité de Oujda (RADEEO)	100
Morocco	Assainissement Agadir - Lutte contre les problèmes d'odeur et de corrosion provoqués par la production du gaz H2S	Régie autonome multi-services Agadir (RAMSA)	79
Syria	TA to the Port of Tartous	Ministry of Transport	844
Syria	Feasibility Study to develop new options for private sector investment	Ministry of Finance	496
Syria	Pre-feasibility study for Damascus rural water and wastewater project	Ministry of Housing	199
Syria	Pre-feasibility study for Zabadani rural water and wastewater project	Ministry of Housing	200
Syria	Preparation of Damascus Industrial City and process water and wastewater treatment project	Ministry of Housing	200

Situation at 31/12/2005

Country	Operation	Promoter	Amount (EUR '000)
Tunisia	Unité de Gestion de Projet à la Société d'Études et d'Aménagement des Côtes Nord de la Ville de Sfax	SEACNVS	1 698
Tunisia	Supervision des Travaux - Société d'Études et d'Aménagement des Côtes Nord de la Ville de Sfax	SEACNVS	2 123
Tunisia	Assistance technique à la mise en place et au développement de 5 technopoles en Tunisie	Ministère de l'Enseignement Supérieur, de la Recherche et des Technologies	1 398
Turkey	Bosphorus Crossing & Commuter Rail Project - PMU	Ministry of Transportation, DLH	4 985
Total:	26		21 333



Children in the Chakwak discovery park, funded through a FEMIP credit line "Prêt Global Entreprises Tunisiennes III" signed in 2003.



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