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FEMIP

Review of Existing Trade Finance Services for Euromed Trade

European Investment Bank

Review of Existing Trade Finance Services for Euromed Trade

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FINAL REPORT

SUBMITTED BY

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LIST OF ACRONYMS / ABBREVIATIONS

ADB	Asian Development Bank
CAGEX	Compagnie Algérienne d'Assurance et de Garantie des Exportations
CESCE	Compañía Española de Seguro de Crédito a la Exportación
COFACE	Export Credit Insurer Company - France
COTUNACE	Compagnie Tunisienne pour l'Assurance du Commerce Extérieur
DEG	Deutsche Investitions und Entwicklungsgesellschaft mbH
EBRD	European Bank for Reconstruction and Development
ECAs	Export Credit Agencies
ECGC	Export Credit Guarantee of Egypt
EGCD	Export Credits Guarantee Department
EIB	European Investment Bank
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FMO	Netherlands Development Finance Company
FX	Foreign Exchange
GDP	Gross Domestic Product
GTFP	Global Trade Facilitation Programme
GWB	Gaza West Bank
HERMES	Export Credit Insurer Company - Germany
IADB	Inter American Development Bank
IFC	International Financial Corporation
IFI	International Financial Institution
JLGC	Jordan Loan Guarantee Corporation
LCI	Lebanese Credit Insurer
MPC	Mediterranean Partner Countries
SMAEX	Société Marocaine d'Assurances à l'Exportation
TFP	Trade Facilitation Programme
UAB	Union of Arab Banks
WTO	World Trade Organisation

1.- Introduction

IAAG Consultoría & Corporate Finance has been contracted by the EIB to undertake a review of existing trade finance services in the Euromed region.

The enhancement of international trade has historically been the cornerstone of economic growth in the world, leading to the reduction of poverty and greater national prosperity. This concept is supported by a plethora of economic analyses which demonstrate the importance of trade finance to a country's overall performance. A World Bank reports states "trade finance and related services play a critical role in economic development". International trade in developing countries is equivalent to about one-half of gross national income. Any increase in trade therefore has a major impact on economic activity. One of the main messages of the World Bank analysis is that "participation of IFI's in international trade can help less creditworthy countries and firms expand their access to finance". Support of trade finance in developing countries is crucial to their development.

The TOR of the assignment requested to:

(i) Review existing statistical data for trade flows between the EU and the Mediterranean Partner Countries and underlying payment flows;

(ii) Identify trade finance instruments used and specify the type of trade flows being financed;

(iii) Take stock of the banking and financial infrastructure to facilitate trade finance in the EUROMED region through a survey of commercial banks, ECAs, multilateral and IFI initiatives;

(iv) Identify potential limitations in the trade finance capacity of local banks in the Mediterranean Partner Countries, limited trade credit lines and country exposure limits of EU commercial banks and ECAs for specific partner countries;

(v) Review the potential scope for FEMIP to provide complementary support in terms of (i) strengthening the trade finance capabilities of local banks in the Mediterranean Partner Countries, (ii) assist the development of a network between banks in the region and the EU and (iii) offering export/import financing to help expand regional trade flows;

(vi) Provide a preliminary assessment of the organisational structure required to establish a possible FEMIP Trade Facilitation Programme.

The geographical coverage comprised the following Mediterranean Partner Countries: Algeria, Egypt, Gaza-West Bank, Jordan, Lebanon, Morocco, Syria and

Tunisia. Any proposed support would be based largely on IFC/EBRD's trade finance programs (TFP).

1.1.- Methodology

During a meeting at the EIB in September, a draft final report was discussed and its general structure agreed. The international trade and trade finance activity in the eight MPC countries are analysed in detail, including their trade volumes and profile, their banking sectors and ability of local banks to obtain adequate trade lines. The availability of suitable trade finance instruments from the international banking community is also discussed and the major international trade banks reviewed to assess their capability to support trade effectively in the region. Any shortcomings and needs in trade finance are also analysed. Finally, information about the export credit agencies (ECAs) in each country and the adequacy of their services to support their countries' export industries is provided.

The report then goes on to make a recommendation as to what action EIB should follow and whether a TFP-type program or other support is needed and how it should be implemented.

2.- International Banks

In order to obtain a broad understanding of how the international banking community views trade and trade finance in the EUROMED region, discussions were held with the following 14 major international trade finance banks. The banks were initially sent a questionnaire (copy in the annex) which was followed up with detailed discussion.

- ✓ HSBC, London
- ✓ RBS, London
- ✓ American Express Bank, London
- ✓ Standard Bank of South Africa, London
- ✓ Standard Chartered Bank, London
- ✓ Citibank, London
- ✓ BACB, London (British Arab Commercial Bank, a subsidiary of HSBC)
- ✓ Deutsche Bank, Frankfurt
- ✓ Dresdner Bank, Frankfurt
- ✓ Calyon, Paris
- ✓ BNP, Paris
- ✓ Banco Santander, Madrid
- ✓ BBVA, Madrid
- ✓ BNP, Rome (they cover the Middle East)

Most of the international banks have extensive trade lines with the major local banks in North African countries where competition for trade business is fierce and pricing extremely aggressive. The confirming banks work mostly with the top 10 or 20 banks in these countries and tend not to deal with the smaller banks. The international banks generally feel they do not need support for their trade business in North Africa and implementation of a TFP-type program is not required. Country limits are adequate for requirements and the banks offer a suitable range of trade finance instruments and financial structures.

The same applies generally to Lebanon and Jordan although there is more scope for trade support in these countries. In Lebanon the banking sector is relatively strong and the banks are well capitalized although they are over-exposed to the government. The IFC provides good coverage for the medium sized banks, while the larger banks do not need trade support. Most of the trade is short term.

Jordan enjoys a relatively favourable risk rating. Its banks are quite small but are often partly owned by Arab state financial institutions and benefit from small clean trade lines from the international banks. The IFC is preparing GTFP lines for four banks in Jordan and will continue to add new banks in due course.

In Syria the US banks are prohibited from working with the country and many European banks follow suit. There is therefore scope for trade support in Syria. EIB's relatively broad coverage of local banks in the country makes Syria a good candidate for a trade program. IFC is working with one Syrian bank under its GTFP.

None of the international banks with whom discussions were held have trade lines for banks in Gaza West Bank (GWB). There are therefore good possibilities in GWB, once the political situation stabilises.

Calyon Bank of France stated that it did not feel trade support was warranted in any of the MPCs. The general consensus of the other international banks was that their lines are sufficient in North Africa and generally sufficient in Jordan and Lebanon. Support for oil transactions is not required. These are either carried out on a cash basis or at very aggressive pricing levels as the banks scramble for this short term business. Exports of capital goods are also accommodated without difficulty.

More detailed information on each country is included in the country analysis below.

3.- Local Banks

Meetings were held with twenty local banks and Government Institutions in five countries – Morocco, Algeria, Tunisia, Egypt, and Jordan. Discussions about GWB were held with banks in Jordan. Up to the moment and despite several efforts, we have not obtained any answer from Syrian banks in reply to the questionnaire. For the reasons mentioned below, Lebanon was also not visited.

The general consensus amongst the North African local banks confirms what was said by the international banks; they are liquid and have extensive trade lines with the major international banks. The state-owned banks do not need support and many of the smaller banks are foreign owned, often by Arab banks. 85% of Algerian, Tunisian and Moroccan trade is conducted with the EU and 90% of this trade is with France, Italy, Germany and Spain. Egypt's trade is slightly more diversified but has a similar profile. Therefore the local banks work mostly with banks in these EU countries although they have lines with international banks throughout the world. Some of the smaller Egyptian banks and branches of foreign banks in Egypt are interested in trade support at the right price, to increase their country limits.

Banks in Jordan, Lebanon and Syria show greater demand. However, it is recommended GWB should not be considered for the time being for security reasons. Full details are provided in the country evaluations.

Several local banks in North Africa expressed interest in supporting their clients' wish to import goods from East European countries. Manufactured goods exported by these countries are less costly than similar products manufactured in more developed countries. A TFP would facilitate the development of such business. Similarly, many banks stated that import/export business with Sub Saharan countries is expanding. However, risk issues exist between banks, which a TFP would help resolve. This would entail expanding any TFP proposed by the EIB to include Sub Saharan African countries.

4.- International ECAs (non MPC)

Government-owned ECAs nowadays tend to focus on long-term trade risk (over five years) to guarantee or finance major construction works and capital goods exports. Short term ECA coverage has mostly been privatized in western countries and is covered by the insurance industry.

Amongst the western ECAs, the team contacted ECGD, CESCE and COFACE. These ECAs are open for medium/long term business in the North African MPCs. ECGD and CESCE provide cover for Syria, Jordan and Lebanon on a case by case basis. However, cover can be quite costly. Coface, however, is quoting openly for business in Syria, Jordan and Lebanon, although it covers shorter term trade than many ECAs. GWB is currently off-limits for all ECAs. The insurance companies also stated they can provide short term coverage in North Africa, and are prepared to consider transactions in Jordan, Lebanon and Syria, but not GWB.

4.1.- ECAs in the MPCs

Exports are crucial to a country's development. While the TFP provides short term pre-export finance and/or guarantees to generate pre-export finance, it cannot take the risk of buyers in developed countries nor provide long term finance for such buyers. This type of cover and finance is typically provided by a country's national ECA. Developed and mid-development countries all have strong ECAs of different structures. Most are state-owned or partially state-owned, at least for the longer risks. Details of each MPC's ECA are provided in the country analyses. Some appear to function adequately, while others are slow and costly, or non-existant.

5.- International Trade Agreements signed by the MPCs

Details of the trade agreements signed by the MPCs are provided in each of the country analyses below. Some of these agreements are generic amongst all or some of the countries and are explained briefly in this paragraph.

The EU's policy towards the Mediterranean region as a whole is governed by the Euro-Mediterranean Partnership, launched at the 1995 Barcelona summit between the European Union and its 10 Mediterranean partners. The Barcelona Process involves extending free trade across the Mediterranean region through a network of bilateral agreements between the EU and individual Mediterranean partners together with free trade agreements between the partners themselves, with the aim of creating a Euro-Mediterranean Free Trade Area by 2010. All MPC member countries have signed the agreement. The ENP Agreement (The European Neighborhood Policy) is a natural follow-on from the Euromed agreements. However this agreement focuses more on areas of political, economic, commercial, justice, security and cultural cooperation.

In 2004, Jordan, Egypt, Morocco and Tunisia signed the Agadir Agreement, a free trade agreement between the four countries. The agreement commits the parties to removing tariffs on trade between them, and to intensifying economic cooperation notably in the field of harmonizing their legislation with regard to standards and customs procedures. This will help foster south-south trade.

Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia are full members of the WTO. Algeria’s application is still in process.

Following the ending of the Multi-Fibre Arrangement, Jordan, Morocco and Tunisia have withstood increased competition from China, India and Bangladesh. Jordan and Morocco’s situations were helped as a result of free trade textile agreements concluded with the USA.

Most of the countries are members of the UN, IMF and the World Bank, the Organisation of Islamic Conference, League of Arab States and the Arab Magreb Union.

6.- Trade Facilitation Programmes (TFPs)

The TOR of the assignment requested that any proposed trade support for the MPCs be based largely on EBRD/IFC’s trade programs (TFPs).

EBRD first established its Trade Facilitation Program (TFP) in 1997, since when it has run successfully, reaching an aggregate transaction volume of around US$4.5 billion with no claims. IFC’s program has been in operation for two years and has completed US$2 billion of transactions also with no claims.

The TFP operates principally by providing guarantees to international confirming banks, taking the credit risk of local issuing banks in the countries of operation. The guarantees cover the payment risk of confirming banks in trade transactions, especially letters of credit (LCs) but all bone fide trade instruments and transactions may be guaranteed.

The TFPs create a network of commercial banks that greatly increases the number of potential trading partnerships. By focusing on risks that the market cannot effectively take, the TFP helps to leverage trade volumes, assists in opening markets and facilitates the growth of "south-south" trade flows. The TFPs enable local banks to do business on an unsecured basis with international commercial banks. The cash collateral that would otherwise be posted can be directed to providing working capital to clients.

Small and Medium Enterprise (SME) development has been a notable achievement under the programs. EBRD and IFC experience shows that over 70% of all transactions support the SME sector.

Being part of a global IFI network supporting trade could enable EIB to play an important role in developing trade, both intra- and inter-regional, as well responding quickly when crises disrupt trade finance in the MPC region. Enabling banks to reach international standards of governance, management and banking operations is also an important by-product.

The program provides guarantees on a transaction basis and requires an experienced team to manage the operations. However, the operations are highly automated, being based on SWIFT messages for the incoming and outgoing traffic.

The principal instrument employed is the guarantee, issued by EBRD/IFC. This is used to cover the payment risk of confirming banks in documentary credit transactions, specifically under letters of credit. LCs guarantee payment after transfer of ownership of goods, protecting both the exporter and the importer against settlement risk. As an additional guarantee, exporters often request that LCs be confirmed. EBRD/IFC guarantees the Confirming Bank that the payment due from the Issuing Bank will be made when documents are presented in order. LCs are provided as an example, but EBRD/IFC guarantees can be used to guarantee any type of trade related instrument or payment risk including guarantees, deferred payments, payment guarantees, collection payments, discount of bills, leasing and bid and performance bonds amongst others.

Under the TFP, a Confirming Bank requests EBRD to provide a partial or full guarantee of the payment risk. The short tenor and contingent nature of payment risk make guarantees under the TFP program less risky than loans. The guarantee is a contingent liability: the self-liquidating nature of trade means that it is unlikely that a firm will default on the repayment of its trade credit; however, even that possibility does not ensure that the Issuing Bank would default on its LC payment. In the latter eventuality, a Confirming Bank would claim under EBRD/IFC's guarantee.

The preponderance of transactions falls within the "classic" trade parameters of 360 days. However, for some goods, the trade cycle is longer and is not being financed in a way that supports the natural conversion time required to obtain the liquidity from the transfer of goods. Up to 3 year tenors are sometimes necessary for the export and import of machinery and equipment and construction services. International commercial banks have proved to EBRD/IFC that trade finance for equipment exports valued at under $50 million represents an under-served market. Local financial institutions cannot always finance such needs out of their own deposit base or under trade finance facilities provided by foreign banks or export credit agencies which may be restricted. Drawing from EBRD's examples, such support includes: the import of food processing and other equipment. Many of these transactions are financed under deferred payment LCs or through advance payments (secured by advance payment guarantees) and are payable in installments so that risk decreases over time. Only credit-worthy local banks would benefit from such tenors. All local member banks are rigorously reviewed and trade lines approved only after suitable due diligence and credit analysis.

An important advantage of the TFP is that it forces member banks, and those banks striving to join the prestigious "EBRD/IFC club" to attain international standards of operating efficiency, corporate governance and integrity. Any local bank that does not meet the standards or defaults on its commitments through lack of integrity would be discharged from the "club" and its international reputation tarnished. Incentives are therefore very high for members and potential members.

Another major advantage is that TFP enables new international banks to enter into trading activity with local banks in the region. During discussions with the Spanish banks, for example, it transpired that many of them do not have limits for local MPC banks and would like to start up relationships under TFP cover. The same would be true of Indian, Brazilian or Chinese banks, for example. This concept is especially important in the case of local banks wishing to take trade risk on local banks in other MPCs, i.e. to develop intra-regional trade. Therefore there is scope for a TFP to bring in new international and local banks as Confirming Banks in a new program.

TFP can be argued to be more of a development tool than a trade enhancement program. This is because member banks tend to be small with correspondingly small TFP limits. TFP programs usually do not support more than 1% of a country's trade. They focus more on developing and supporting small, local, private sector banks, and, through intermediation, developing the SME sectors.

A major issue in establishing a TFP is the need to sign up a wide network of Confirming Banks at an early stage. This includes not only international banks in Europe and the USA, but also banks in Asia or Africa with which the MPC banks may wish to do business, and most importantly, with local MPC banks across the region in order to foster intra-regional trade. It is necessary to establish a good network at an early stage to support all kinds of cross-relationships. The ADB found that it spent a lot of time signing up 150 or so Confirming banks, whereas the number of Issuing Banks it was subsequently able to sign, and the level of TFP business generated, was disappointingly low. It is possible a similar scenario could prevail in the MPC region.

Given that the critical mass of the Euromed countries is quite small, and any potential candidate banks would also be small, it is believed unlikely that total trade lines under a TFP-type program would exceed, say, €45 million in any country. This would assume a high-case scenario where perhaps, one medium sized and two to three small banks were approved as Issuing Banks in a country with trade lines of between €10 and €20 million each. The total program utilization in seven MPCs, assuming 65% limit utilization, would therefore be around €200 million. This assumes EIB takes an aggressive approach to competing with IFC in the region. A low-case scenario might show total lines of €150 million with a 65% utilization rate, i.e. around €100 million of usage.

Another important factor about TFP is that it is primarily import driven, i.e. it helps local banks to support the import of goods more effectively. The program does provide cover for pre-export finance provided by international banks, however this may not be of primary demand in the MPCs as the local banks are very liquid and able to provide the finance themselves. EBRD's TFP also provides pre-export loans to the banks, (direct loans from EBRD to the local banks) but this is also of secondary importance for the reason mentioned above.

EBRD's TFP has now completed about US$4.5 billion worth of business comprising 6800 transactions. It has 109 approved Issuing Banks in 21 countries. IFC has completed $2 billion of trade volume (in about 2000 transactions) and has 96 approved Issuing Banks in 53 countries. IFC's program has been very successful in sub-Saharan Africa and in South America. It is less successful in Asia and the Middle East. The Asian Development Bank (ADB) has also struggled with the programme in Asia. In Asia most trade is transacted on a cash basis and the risk ratings of many banks are relatively good. Trade finance pricing is also very fine. Therefore the market is quite difficult for a TFP in Asia. The Inter American Development Bank (IADB) has only just started operating in South America, but sees good potential in spite of working alongside the IFC. It has approved about 40 banks in 14 countries. The Islamic Development Bank has recently established a trade finance subsidiary in Dubai and is looking to support trade more aggressively in Africa, the Middle East and Asia.

EBRD has six staff in its TFP back office. However, most of the due diligence and monitoring of banks is undertaken by staff in the field or by relationship staff. The bank also uses consultants for training and TA work. It is therefore difficult to say exactly how many people work full time for the TFP. IFC has 13 staff running its operation, including those acting as regional coordinators. It also uses regional staff for due diligence and monitoring work, and consultants for training and TA.

The World Bank Group considers IFC's GTFP to be a most innovative and successful product. It sees it as relatively simple to implement and enables the bank to start working with higher risk countries and banks it would not normally consider working with for higher risk products. GTFP is a relatively low risk product. Once a successful relationship has been developed, IFC can move on to offer a wider range of loan and equity products. The program is highly developmental on a range of fronts. It enables IFC's trade team to stay closely in contact with the local banks (and the international markets) on a regular basis. In this way, red flags can quickly be raised, should a local bank encounter difficulties. However, none of the TFPs in existence have had any losses to date. Through intermediation, GTFP helps support the SME sector, facilitates trade for small businesses and provides order and discipline in trade finance pricing. Importantly it enables smaller banks to operate on a level playing field with larger institutions. It also helps establish trade relationships between new countries and new counterparts. This is turn fosters intra- regional trade. The introduction of a TFP also has intangible benefits such as enhanced corporate governance amongst member banks, management discipline and adherence to a strict code of conduct. Also, once a TFP structure is in place, it can be of considerable benefit in the event of a major financial problem or melt-down. The trade limits can quickly be increased and liquidity provided to the system through the TFP structure. This has been evidenced on a small scale in South America during the recent credit crunch. IFC management considers GTFP to be an excellent business development tool for the IFC, as well as providing strong development in the financial sectors of its countries of operation. The IFC wishes to work with other MDBs (including the Islamic Development Bank) to foster intra-MDB relations and to strengthen the support for the developing world.

6.1.- Risk sharing in EBRD's TFP

In order to off-load part of its risk and do more TFP business with banks than its prudential guidelines allow, the EBRD has signed risk-sharing agreements with institutions such as FMO, DEG, and a consortium of insurance companies. It also signed a risk sharing agreement with ADB to avoid competition between the two MDB's in Central Asia.

The arrangements enable the risk sharing MDBs to take a percentage of the TFP portfolio risk of defined issuing banks in the TFP. It allows them to support trade in developing countries without having to be involved in the hands-on operations of a transaction-based program. However, the risk participants must undertake their own due diligence of the issuing banks and assume full risk for their portion of the risk sharing. They receive the TFP's yield on their portion of the portfolio after deduction of an operational fee.

While this arrangements suits institutions such as FMO and DEG, which do not look for significant direct involvement with the local banks, ADB felt it did not have a close enough relationship with the issuing banks, and that its development impact was insufficient. EBRD is also able to decide which issuing banks it wishes to allow others to share risk with, and the potential risk sharer

(ADB) has to go along with this. However, once decided, the percentage of risk sharing remains in force until cancelled. As described below, this might be an option for EIB.

6.2.- TFP Operational aspects

A full TFP operation would require five professionals to run it at the outset plus one (perhaps two) business development officers. This assumes the due diligence work of reviewing any new TFP banks could be absorbed by existing EIB credit officers and that EIB support areas such as credit approval, legal, SWIFT and loan operations could handle the (quite heavy) TFP business without increasing staff numbers. It would be necessary to hire three or four experienced trade finance professionals to ensure a successful launch of the program.

Implementation of a TFP would also probably require some policy change within EIB to allow the release of SWIFT guarantees without passing through the loan disbursement unit. This is because a fast turn-around is essential to operating a successful TFP and any bureaucratic delays would diminish the program's chance of success. It is believed essential to have a SWIFT terminal in the TFP operations "trading room" area.

6.3.- Financial Considerations

Direct operational running costs of a TFP could be in the region of €900,000 pa, being direct salary costs of, say, €650,000, and non salary costs of another €250,000.

A high-case salary breakdown might be as follows. These salary costs are fully "rolled up" salary costs, i.e. they include directly related salary overhead costs:

Head of Trade Finance – a professional with 15 years experience	€ 200,000 pa
Assistant Trade Finance head – 10 years experience	€135,000 pa
Junior trade finance specialist – 4 years experience	€ 85,000 pa
Two experienced (EIB) administrative staff €60,000 each	€120,000 pa
Trade finance business development officer	€110,000 pa
Total	**€650.000pa**

A low-case salary range could be €550,000.

Assuming total TFP lines of €150 million after three years operation, an estimated 65% utilization rate and average fee levels of 1.5% pa, the program would yield gross revenues of €1.5 million.

The TFP would therefore be profitable before loss provisions and other overheads. The EBRD program has had no losses after 10 years of operation and the IFC's program no losses after two years.

Should EIB decide to risk share under IFC's facility, staffing might be as follows:

Head of Trade Finance head – 10 years experience	€ 175,000 pa
An experience admin assistant (from EIB staff)	€ 75,000 pa
Total	**€250,000 pa**

7.- Competition

During the Luxemburg meeting, EIB expressed its wish not to compete with other multilaterals. Therefore the team did not visit Lebanon during the site reviews as the IFC has a strong GTFP presence there. Also the team has a good knowledge of Lebanon's banking sector and trade. IFC has the market well covered and most of the larger banks do not need support.

The issue of competition with IFC has been noted several times during the report. Apart from Lebanon, the IFC has also established its GTFP in Jordan, is looking at a few small banks in Egypt, and has one bank signed up in Syria.

8.- Pricing

The team was requested to include an assessment of trade finance pricing in the report. Discussions with international banks confirm that pricing in the North African countries is extremely fine for major local banks. Fee levels of around 30 basis points per annum (bps pa) are available in Algeria, Morocco and Egypt, and around 75 bps p.a. in Tunisia. Pricing in Lebanon and Jordan is around 175 bps p.a. and 200 bps p.a. in Syria. Oil transactions are often priced lower because they are generally large and very short term.

The multilateral development banks have generally agreed a minimum TFP pricing of 75 bps pa for their transactions. This assumes that pricing lower than 75 bps pa is not "additional", and the local banks are able to manage on their own. It also assumes a minimum "market" price of around 100 bps pa. TFP pricing is lower than market to enable the confirming banks to take some profit out of the transactions. Therefore, for a confirmation normally costing 200 bps pa, EIB might charge 150 bps pa for its cover and the CB 50 bps pa to compensate its administrative cost. The overall cost to the issuing bank would remain the same at 200 bps pa and the market would not be distorted nor any business displaced. Insurance companies also usually charge around 75% of trade confirmation fees when they insure confirmation risk. Trade pricing is a strong indicator of local banks' need for multilateral bank support.

If EIB were to follow a similar pricing strategy, should it implement a TFP, minimum pricing of around 75 bps pa would eliminate the top tier banks in North Africa from inclusion. Should EIB be prepared to accept pricing as low as 20 bps pa, for example, its TFP could do business in all MPCs, and would be attractive to most local and international banks. However this would imply competing with the market and displacing regular market activity.

NB: The pricing of EIB's triple A rating is not a major consideration in the above calculations, even though a confirming bank's risk is converted to triple A risk should EIB fully guarantee a transaction. As most transactions are quite small, the CBs are as concerned about covering their administrative costs as they are about risk pricing.

All major banks now have their own risk pricing models. These vary in sophistication and methodology. However they all base their clean trade pricing on country risk, counterparty risk, and tenor and transaction size versus the equity size of the counterparty bank. The track record of the counterparty is also an important input into the risk model mix. Most trade finance is inherently short term (less than one year) and therefore benefits from lower pricing at the short end of the yield curve. It is also based on trade finance instruments, (L/Cs, guarantees etc), which are governed by UCP and other internationally accepted governing bodies. Trade portfolios tend to be well diversified, mostly of relatively small-sized transactions with short tenors that roll over on a regular basis. Deferred payment structures require regular three or six monthly repayment schedules. Also, trade finance is deemed to be "self liquidating" and therefore safer than straight finance.

As a result, trade finance pricing has become very fine for good risks. 20 basis points p.a. is not uncommon for trade finance risk in developing countries for sound state-owned banks or well capitalized private sector banks. Basle II may increase rates slightly (and thereby make TFP more attractive) however, it is not expected to change pricing materially for good risk counterparts. Basle II requires capital allocation levels to vary based on the deemed counterparty risk. In the past capital allocation was fixed by accounting standards requirements.

In the case of MDBs, the situation is different, as they, like EIB, are not accustomed to providing short term finance, especially in the form of guarantees. It is believed EIB's pricing does not follow a standard risk pricing curve, and tends to be lower, or at least not significantly higher, for long term finance than for medium term. This policy would have to be re-evaluated for TFP pricing.

An important factor for EIB to consider in evaluating TFP pricing, is its own required level of capital allocation for the issuance of guarantees, especially short term guarantees. EBRD's statutes require it to provide 100% capital allocation for guarantees. This clearly impacts its pricing, country and bank limits and TFP's ability to "compete" with EBRD's other longer term, and potentially more developmental, products.

IFC began its GTFP with 100% allocation, but has now reduced this to 50% for guarantees with tenors of less than one year. This has considerably facilitated country and counterparty limit issues. However, it is probably not true to say it has changed pricing considerations, as pricing at MDBs often has less to do with risk reward issues than pricing based on pre-determined considerations of affordability, development, additionality and non-competition.

If EIB wishes to implement a successful TFP in the MPC region, it will need to offer minimum pricing levels in the North African countries at least as low as 50 bps pa (and preferably lower). To achieve this it will have to reconsider its current pricing policy and consider capital allocation of 50% or less for short term guarantees. As mentioned, EBRD's program has had no losses after nine years of operation and IFC no losses after three years. The risk of a bank defaulting on an L/C guaranteed by TFP is minimal because of the major international repercussions that would follow and the bank's loss of status through being eliminated from the TFP. TFP risk pricing can therefore be viewed differently from regular EIB risk products.

Once a minimum pricing level has been established, EIB would need to price its TFP pricing for each bank below that charged by the market. The due diligence conducted for each bank would determine the risk levels EIB would be prepared to take on any bank and whether the market driven pricing provides adequate risk reward for that institution and country.

9.- Country Analysis – General

Details of each MPC country are analysed individually under their respective headings. These include brief information on economic and trade data and the banking sectors. Analysis is also provided on the international banks' view of trade finance in each country and results provided of meetings with local trade finance banks.

Below is an analysis of all the eight MPCs' credit ratings and „ease of doing business". This is provided on a general basis to facilitate comparison between the countries.

MPC Country Analysis - 2007	Algeria	Egypt	Morocco	Tunisia	Lebanon	Jordan	Syria
Population	34	73.6	30.7	10.3	6.1	5.7	19.4
GDP (US$ billions)	126	128	73	34	24	16	37
GDP per Capita (US$ (000's)	3702	1739	2369	3313	3934	2741	1928
Exports (US$ billions)	59.04	22.02	14.49	14.01	3.21	6.01	11.07
Imports (US$ billions)	31.06	37.83	26.4	16.84	26.44	11.41	92.43
Ease of doing business (world rankings)	125	126	129	88	85	80	137
Credit Ratings							
Moodys	NA	Baa2	Baa2	A3	B2	Baa3	NA
Standard & Poor's	NA	BB+	BB+	BBB	B-	BB	NA
Fitch	NA	BB+	NA	BBB	B-	NA	NA

In GDP terms, Algeria and Egypt are the larger economies. Algeria has by far the greatest level of exports as a result of its oil exports. Lebanon has the largest per capita income, reflecting its long history of trade and business, and is the second highest ranked MPC for „ease of doing business". Jordan comes top in this league amongst the MPCs while Syria is ranked lowest. GWB has not been included as data is not available.

9.1- Algeria

A) Economic and Trade Data

ALGERIA	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	55	57	68	85	102	114	126
Real GDP growth rates	2,6	4,7	6,9	5,2	5,1	3,6	4,8
CPI (End of period Inflation)	4,2	1,4	2,6	3,6	1,6	2,5	4,5
Population (in million)	30,88	31,36	31,85	32,36	32,91	33,49	34,00
Exports							
Billion US$	19,09	18,71	24,46	32,22	46,33	54,81	59,04
Imports							
Billion US$	-9,48	-12,01	-13,35	-17,95	-19,86	-20,52	-31,06
GDP per capita (US$ 2006)	1787	1819	2136	2627	3103	3400	3702

Export Partners (2006)	%	Import Partners (2006)	%
USA	27,20%	France	20,40%
Italy	17,10%	Italy	8,80%
Spain	11,00%	China	8,00%
France	8,40%	Germany	6,90%
Canada	6,60%	USA	6,60%

B) Foreign Trade

Algeria has the largest GDP of the eight MPCs being reviewed, followed closely by Egypt. However, Algeria’s non-oil trade volumes are lower than Egypt’s, evidencing Algeria’s relatively narrow trading infrastructure.

Algeria’s main exports are petroleum, natural gas, and petroleum products. Exporting partners are principally the EU (mainly Italy, France, Netherlands and Spain) with the USA and Brazil leading the remainder. Hydrocarbons make up 97% of total exports and represent 30% of Algerian GDP. 74% of EU imports from Algeria comprised oil and gas in 2005. Transport material and chemical products accounted for 2% and 1.0% respectively.

Imports consist mostly of capital equipment goods, food, beverages and consumer goods. These come mainly from France, Italy, USA, Spain, Germany and Canada. In 2005, the EU’s main exports to Algeria were machinery and transport equipment, agricultural produce and chemical products. EU-Algeria trade in services is still relatively small.

Algeria's agricultural products include wheat, barley, oats, grapes, olives, citrus, fruits, sheep and cattle. The mining industry contributes 17% to Algeria's GDP. Mineral production includes mercury, iron ore, phosphates, zinc, silver, gypsum, and barite. The manufacturing industry contributes 14% to GDP and includes construction materials (cement, bricks, structural steel), steel production, automobile manufacturing and consumer goods manufacturing.

Algerian exports fell in the first quarter of 2007, while import growth stayed strong. However the trade surplus remained large. The government has continued to steadily build up foreign-exchange reserves. With the recent entry into force of the EU-Algeria Association Agreement in September 2005, Algeria has assumed fully-fledged EU-partnership.

Algeria is expected soon to endorse the new Protocol to help enhance the rather low level of south-south trade in the region. Also Algeria is in the process of accession to the WTO.

C) Main exported and imported products

Main exported products	Main imported products
Fuels and lubricants.	Industrial supplies
Industrial supplies	Foodstuffs.
Foodstuffs and beverages.	Machinery and other capital goods.
Machinery and other capital goods.	Transport equipment.
Consumption goods	Consumption industrial goods.
Transport equipment and accessories.	Fuels and lubricants.

Import Commodities 2006 (USD millions)		
Description by Commodity	**Trade Value**	**% of total**
Machinery/mechanical appliances	$ 3.669.3	17,1
Vehicle other than railway/ tramway	$ 2.393.8	11,2
Articles of iron or steel	$ 2.014.4	9,4
Electrical machinery/equipment + parts of	$ 1.889.8	8,8
Cereals	$ 1.385.8	6,5
Other	$ 10.102.9	47,1
Totals	**$ 21.455.9**	100
Aggregate (WTO stats)		
Agricultural products		21
Fuels and mining products		2,9
Manufactures		75,3
Totals		99,2
Export Commodities	**Trade Value**	**% of total**
Mineral fuels/oils, products of their distillation	$ 53.549.5	98,1

Iron and steel	$ 262.9	0,5
Inorganic chemicals	$ 186.3	0,3
Copper and articles thereof	$ 105.8	0,2
Organic chemicals	$ 97.5	0,2
Other	$ 410.7	0,8
Totals	**$ 54.612.7**	100
Aggregate (WTO stats)		
Agricultural products		0,2
Fuel and mining products		98,8
Manufactures		1
		100

D) Main Trade Agreements

Main Trade Agreements
WTO accession in process
European Mediterranean Partnership
ENP Agreement
Algeria is also a member of the United Nations Organization (UN) and its main specialized institutions, the IMF and the World Bank.
Organization of the Islamic Conference (O.I.C); League of Arab State and Arab Co-operation organizations; Arab Maghreb Union;
Agreements have also been signed with Australia, Netherlands and Canada in the field of exports development.
Organization of Petroleum Exporting Countries (OPEC).

E) Local Banking Sector

Algeria‘s public sector banks have historically been inefficient and bureaucratic. However, the gradual involvement of international banks has helped provide an increasingly strong and dynamic sector. In particular, trade finance activity and the range of available products are at international standards.

The Central Bank, Banque d’Algerie (BdA) will continue its policy of a managed float of the Algerian dinar, given that oil exports are valued in US dollars, making it susceptible to fluctuations in FX rates and oil prices. The BdA’s ability to control the rate of inflation has been helped by the stability of the dinar and by the narrowing of the differential between the official and parallel exchange rates.

The BdA is seeking to improve the performance and regulation of the banking sector, as privatization draws in foreign players, which should increase competition, help create a more dynamic sector and boost lending to the private sector.

The public sector banks include the Central Bank, five state-owned commercial banks, an investment bank and a savings bank. The state-owned trade bank is the Banque Exterieur d'Algerie (BEA).

Private commercial banks include the Caisse Nationale de Mutualité Agricole (CNMA), four French banks, Citibank and seven Arab banks. In addition, HSBC has obtained a license to operate in the country as HSBC Algérie with a capital of US$35.5m.

F) Review of International Banks' trade business with Algeria

Algeria is viewed by the international banking community as a strong credit risk, given its extensive oil exports and well capitalized public sector banks. The state-owned banks are large enough to obtain substantial trade lines from the international banks. Competition for trade finance business is fierce and pricing low - in the region of 30 bps pa for the state-owned banks, and up to 50 bps pa for smaller institutions. Trade lines are sufficient for most requirements and do not require cash collateral. Oil transactions are very short term and are eagerly sought by Confirming Banks (CBs) or are conducted on open account basis. Because of Algeria's strong perceived country rating, country limits are also high. Structured trade finance and all necessary trade finance instruments are readily available.

The international banks work mostly with the state-owned banks, especially BEA, and with affiliates of foreign-owned banks. The French banks are particularly active in the market and competition for trade business is strong. In some cases the German banks do not compete because pricing is too low. There is therefore limited opportunity for second and third tier Algerian banks to enter the trade finance market. However, Amex and RBS believe there is potential for some TFP-type support for smaller Algerian banks. Amex sometimes off-loads risk on the secondary markets when obligor risk is too high (i.e. when they deal with smaller banks). This would indicate some need for TFP, however pricing would be an issue. Most other confirming banks stated they have no limit problems in working with the Algerian banks.

G) Site Review of Local Banks

During the site visit, the team met with:

- ✓ ABCA (Arab Banking Corp of Algeria)
- ✓ Gulf Bank Algeria (GBA),
- ✓ Housing Bank for Trade and Finance, (Subsidiary of HBTF, Jordan)

Meetings were not arranged with the state-owned banks or branches of the large international banks for the reasons expressed above. The private banks are very liquid, albeit at very short term, and have extensive trade lines with international banks. None of the three banks interviewed has difficulty in obtaining confirmations or acceptance of their trade risk internationally, and this in spite of the fact that HBTF and ABCA have relatively low net worth. Both banks have foreign ownership (from other Arab-states) which adds

to their credit ratings. ABCA, in particular has a very strong reputation internationally. It usually requests its branches in London or Paris to confirm its L/Cs, whose risk is widely accepted. ABCA also has extensive lines with major international banks. HBTF and Gulf Bank Algeria said the same thing – they have little interest in a TFP-type support program. They are liquid and benefit from large international trade lines. Most Algerian trade is conducted on open account basis. It is also mostly short term but longer tenors out to three years are not a problem to obtain.

85% of Algeria's trade business is conducted through the state-owned banks which command pricing of around 30 bps pa. The three private banks interviewed obtain pricing of between 50 and 60 bps pa although the fees are invariably paid abroad by the foreign exporter. Although the fees are invoiced back to the importer, the local banks do not see the fees and have little interest in them. Algeria is relatively under-banked and the state-owned banks are still stated to be rather inefficient. This should leave room for the smaller foreign banks to compete, however developing new business has not been easy for the private banks. Until recently, no private Algerian bank was permitted to work with the state banks, but this law has now been changed which enables the private banks to raise funds on the interbank market from state banks.

All oil business passes through the BEA at very fine pricing. Non-oil Algerian exports are relatively limited and only small amounts are handled by the private banks. The Algerian exporting SME sector is also quite small, which inhibits the smaller banks covering this market. SME trade is typically a good market for smaller banks. As increasing amounts of imports are conducted on open account basis, the small private banks have limited access to profitable trade finance business.

The team had hoped to identify two or three very small locally-owned banks that might be interested in the program. However, three such potential banks have either been closed or may not be suitable. No other candidates were identified. Given Algeria's strong credit rating, and the strength of the banking sector, the country is not considered to be a candidate for trade support. This view is supported by the IFC.

HBTF also stated it did not need any training or TA as it has five experienced French expats working in Algeria and can call on Head Office support when needed. The same applies to ABC and GBA.

In summary, the Algerian banks do not have immediate need for TFP. Extensive trade lines are in place, finance is readily available to provide pre export and post shipment import finance, and the banks have no difficulty in arranging longer tenors for capital goods imports. All standard trade finance instruments are in place, structured finance is available when needed and the banks are sufficiently well trained to manage their businesses successfully. The IFC supports this view.

One area where HBTF requested support was assistance in lengthening its deposit profile. Its deposit liabilities are very short term, which prohibits lending beyond one year. A guarantee or other mechanism could be offered by EIB to provide back-up protection to enable longer lending. HBTF does not need additional term loans because it is cash rich. Also the finance needs to be in local currency. Therefore a mechanism to extend its existing dinar deposits would be a good solution. Alternatively, local currency subordinated debt could help HBTF achieve longer deposits as well as increasing its capital base.

At end 2006, the major banks in Algeria were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
Banque Al-Baraka Algerie	$ 560	$ 621
Housing Bank for Tade & Finance	$ 89	$ 119

H) Algeria's ECA - CAGEX

CAGEX appears to operate satisfactorily. However, most private banks in Algeria prefer not to accept CAGEX's insurance policies as the company is rather slow, especially in the case of SMEs. The banks prefer to take the direct risk of the exporter and price the finance accordingly.

The country's non-oil exports are relatively limited and there is correspondingly low demand for CAGEX's services. CAGEX is supported by COFACE which provides a short-form SME insurance policy to assist small business exporters. COFACE also provides its database of foreign companies to enable Algerian companies to evaluate the export risk of foreign buyers. For the time being it is not believed that EIB can add significant value in offering to support CAGEX. The Berne Union also provides training and technical support to ECAs in developing countries.

9.2- Egypt

A) Economic and Trade Data

EGYPT	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	95	88	81	79	90	107	128
Real GDP growth rates	3,5	3,2	3,2	4,1	4,5	6,8	7,1
CPI (End of period Inflation)	2,4	2,4	3,2	8,1	8,8	4,2	10,9
Population (in million)	65,30	66,63	67,98	69,33	70,72	72,13	73,57
Exports							
Billion US$	7,08	7,12	8,21	10,45	13,83	18,46	22,02
Imports							
Billion US$	-16,44	-14,64	-14,82	-18,29	-24,19	-30,44	-37,83
GDP per capita (US$ 2006)	1461	1313	1197	1137	1270	1489	1739

Export Partners (2006)	%	Import Partners (2006)	%
India	10,10%	USA	7,80%
Italy	9,20%	Saudi Arabia	6,90%
USA	8,70%	China	5,80%
Spain	7,50%	Italy	5,30%

B) Foreign Trade

Egypt's main trading partners are Germany, France, Holland, Italy and the UK. It also trades with the USA, Japan and Libya.

The country ran a current-account surplus of US$1.9bn during the first half of fiscal year 2006/07, above the US$1bn surplus recorded for the first half of 2005/06. The increase was mainly a result of larger surpluses on services and remittances from Egyptians working abroad. Although merchandise exports increased, there was an even larger rise in merchandise imports. Hence, the merchandise trade deficit widened to US$6.6bn.

The rise in merchandise exports mainly stemmed from a 46% rise in non-oil goods consisting mainly of finished and semi-finished manufactured goods. This is an encouraging diversification of Egyptian trade.

Bolstered by high global oil and gas prices, export earnings from crude oil and natural gas rose by 8.6% and 15.3% respectively. Exports of liquefied natural gas are a major contributor to exports. Petroleum imports fell to US$2.1bn from US$2.6bn. Exports have benefited from the currency devaluation of 2003 and reduction of duties in 2004.

Non-petroleum goods accounted for the majority of total merchandise imports, which increased to US$15.2bn from US$12bn. This stems from strong domestic demand and export growth, which in turn created demand for imported goods and supplies. Strong global shipping enabled Suez Canal revenues to increase by US$2bn in 2006. Service payments, on the other hand, remained broadly stable.

C) Main exported and imported products

Main exported products	Main imported products
Spinning and weaving products.	Iron and steel.
Agricultural goods (cotton, rice, potatoes, citrus, medicinal herbs, spices…)	Petroleum and its products.
Metallurgical products.	Organic and inorganic chemical substances.
Chemicals.	Wood and cork and articles thereof.
Pharmaceuticals, paper products, cosmetics…	Resins and artificial plastics.
Food industries (molasses, refined sugar, canned vegetables and fruit, cigarettes and tobacco)	Paper and articles thereof.

Import Commodities *2006 (USD millions)*		
Description	**Trade Value(USD)**	**% of total**
Mineral fuels, oils, distillation products	$ 3.375.6	16,3
Commodities (not specified by kind)	$ 2.924.0	14,1
Nuclear reactors, boilers, machinery	$ 1.860.5	9,0
Cereals	$ 1.517.2	7,3
Electrical, electronic equipment	$ 1.127.3	5,5
Other	$ 9.862.4	47,7
Totals	**$ 20.667.2**	100
Aggregates (WTO)		
Agricultural products		24,2
Fuel and mining products		16,8
Manufactures		49,9
Totals		90,9

Export Commodities	Trade Value(USD)	% of total
Mineral fuels, oils, distillation products	$ 7.662.7	55,7
Commodities (not specified by kind)	$ 1.607.2	11,7
Iron and steel	$ 816.0	5,9
Salt, sulphur, earth, stone, plaster, lime, cement	$ 440	3,2
Plastics (and articles thereof)	$ 392.4	2,9
Other	$ 2.837.2	20,6
Totals	**$ 13.756.3**	100
Aggregates (WTO)		
Agricultural products		15,4
Fuels and mining products		54
Manufactures		30,4
Totals		99,8

D) Main Trade Agreements

Main Trade Agreements
WTO
European Mediterranean Partnership
ENP Agreement
Agadir Agreement
United Nations Organization (UN) and its main specialized institutions.
Organization of the Islamic Conference (O.I.C); Arab League States. Arab co-operation council and the council of Arab Economic Unity. Inter-Arab Trade and Transit Agreement.
Agreement with Russia covering the Export of local goods in return for Russian spare parts. Egypt also signed investments agreements with Indonesia, China, Romania, Hungary, Turkmenistan, Uganda, Netherlands, Sri Lanka and Korea.
Agreement between Egypt and the Palestinian authority.

E) Local Banking Sector

Egypt has a relatively well-developed financial-services industry, despite the country's continuing poverty and the heavy weight of its public-sector banks. However, private joint-venture and foreign banks make up an increasingly dynamic part of the banking sector. The banking industry provides mostly short-term financing.

The Central Bank of Egypt (CBE) is the regulatory body responsible for setting and co-ordinating monetary and banking policies. It now has stronger supervision powers and aims to create a modern, efficient banking sector that can compete in the global marketplace.

During the past few years, considerable consolidation of the banking sector has occurred. At end 2006, there were 43 banks licensed by the CBE. Of these, 36 were locally established institutions, including the major public-sector banks, 28 were private sector banks and five public-sector specialized banks.

In general Egyptian banks suffer from a lack of trust among the public, and many Egyptians prefer to keep their cash under the mattress. Low per-capita income further constrains market expansion. Following the aggressive consolidations of 2005 and 2006, some banks have stepped up their marketing efforts, in the hope of reaching Egypt's massive, and still largely untapped, middle- and lower-income customer base.

Foreign direct investment remains low. To achieve higher GDP growth the government will need to continue its aggressive pursuit of reform, especially in the energy sector. Egypt's export sectors - particularly natural gas - have bright prospects.

At end 2006, the major banks in Egypt were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
National Bank of Egypt	$ 29.353	$ 34.226
Banque Misr	$ 18.479	$ 19.157
National Societe Generale Bank	$ 2.912	$ 6.906
Bank of Alexandria Sanpaolo	$ 6.648	$ 5.766
Arab African International Bank	$ 3.312	$ 4.918
Arab International Bank	$ 3.654	$ 3.833
Faisal Islamic Bank of Egypt	$ 2.853	$ 3.361
Suez Canal Bank	$ 2.171	$ 2.147
Al Watany Bank of Egypt	$ 1.618	$ 1.751
National Bank for Development	$ 1.502	$ 1.535
Egyptian Saudi Finance Bank	$ 1.021	$ 1.277
Export Development Bank of Egypt	$ 1.331	$ 1.275

Public-sector banks	Market share (%)
National Bank of Egypt	22.71
Banque Misr	15.15
Banque du Caire	6.43

Top ten private local banks (before mergers)	Market share (%)
Bank of Alexandria	5.45
Commercial Intl Bank	4.05
National Soc Générale Bk	2.23
Faisal Islamic Bank of Egypt	2.18

HSBC Egypt	1.79
Suez Canal Bank	1.66
Housing and Dev Bank	1.25
Al-Watany Bank of Egypt	1.25
National Bank for Dev	1.15
Barclays Bank Egypt	0.93

Foreign branch banks
Arab Bank Jordan. Bank of Nova Scotia Canada. Citibank United States. Mashreq Bank United Arab Emirates. National Bank of Abu Dhabi United Arab Emirates. National Bank of Greece Greece. National Bank of Oman Oman. BNP Paribas operates through BNP Paribas le Caire.

F) Review of International Banks' trade business with Egypt

Egypt is considered to be in the same category as the French speaking North Africa countries as regards trade finance. A significant part of the trade is conducted on open account basis. The banking sector is relatively strong and NBE demands trade pricing of around 30 bps pa. HSBC and the German banks have lines for the 20 top banks in the country with pricing ranging between 30 to 50 bps pa. BNP is a strong player and quoted 30 bps pa for NBE. Amex works mainly with NBE, Commercial International Bank and Al Watany Bank. While Amex's Egypt country limit is substantial, its limits for banks like Al Watany are relatively small and Amex sells risk in the secondary market. Amex prices NBE at 30 bps pa, CIB at 40 bps pa and Al Watany around 70 bps pa. Its country and bank trade limits are generally sufficient.

RBS believes there is scope for bi-lateral trade facilities for small Egyptian banks; however, pricing would be around 100 bps pa. The Egyptian banks generally have sufficient liquidity.

The IFC has identified three Egyptian banks for inclusion in its GTFP - Commercial International Bank, Delta International Bank and Ahli United Bank. It has not placed much emphasis on Egypt so far, because of the relative lack of need for trade support there. However, IFC has a regional office in Cairo and now proposes to target small Egyptian banks more closely under GTFP.

In general, given Egypt's strong and well diversified banking sector, the international banks feel that TFP support is not needed for the large and medium sized banks. (However see Citibank Egypt's comments below). There is some scope for support of small banks but this might result in competition with the IFC. Oil transactions are mostly undertaken on open account.

G) Review of Local Banks

Banks met in Egypt were:

- ✓ Export Credit Guarantee Company of Egypt
- ✓ Citibank
- ✓ National Bank of Egypt
- ✓ Commercial International Bank
- ✓ Export development Bank of Egypt.

Citibank stated that its Egyptian country limits are too small for its business needs and it could use a TFP to increase business. This is an interesting request and just the type of business requirement that TFP can address. However, pricing will be an issue. While specific pricing was not discussed with Citibank, it is considered that it would likely be in the 20 to 40 bps pa range. Subject to EIB's consideration of any minimum pricing levels for a potential TFP, this may be too low.

Some local banks expressed interest in receiving TFP cover for their exports to Eastern Europe. This would imply their becoming Confirming Banks under a program taking the risk of banks in Eastern Europe. This might be a possible pointer towards EIB risk sharing in either EBRD or IFC's programs.

As an interesting point some local banks also expressed interest to about the covering of its transaction with sub-Saharan countries.

H) Egypt's ECA

The state-controlled **Export Development Bank of Egypt** (**EDBE**) promotes exports through limited trade finance, as well as financing export-oriented industries and maintaining an Export Information Centre. The two main sources of finance provided by the bank are short-term financing of working capital and medium-term financing in the form of subsidised, or soft, loans. These are available over extended periods as start-up capital for the purchase of fixed assets for export projects.

The **Export Credit Guarantee Company of Egypt** (**ECGC**) was established in 1993 to provide guarantees against commercial or political risk to Egyptian based exporters. The guarantee can cover up to 80% of the export amount. ECGC charges 0.5% to 2.0% premium, depending on its assessment of the risk. The exporter can sell the guarantee to a bank.

Private bank export financing is usually short term and aims to cover the exporter's working capital during the production period. Financing terms range from three months to one year, and exporters can usually receive credit to pay for inputs, either of local or foreign origin. Banks will normally decline to finance long-term export contracts. Banks will finance 50% to 80% of the value of an export order, whether in the form of a contract, shipping documents, insurance documents or a letter of credit, depending on the credibility of the exporter. If the locally based exporter is not well known in the market and does not have a proven track record, banks will request that the foreign importer open a L/C to reduce their risk. Requesting L/Cs constitutes an additional cost to the importer, which may reduce the competitiveness of Egyptian exports.

It is believed that Egypt is well served by its ECA, and that it functions effectively.

9.3.-Jordan

A) Economic and Trade Data

JORDAN	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	9	10	10	11	13	14	16
Real GDP growth rates	5,3	5,8	4,2	8,6	7,1	6,3	6,0
CPI (End of period Inflation)	1,8	1,8	1,6	3,4	3,5	6,3	5,0
Population (in million)	4,98	5,10	5,23	5,35	5,47	5,60	5,73
Exports							
Billion US$	2,29	2,77	3,08	3,88	4,30	5,20	6,01
Imports							
Billion US$	-4,30	-4,50	-5,08	-7,26	-9,32	-10,26	-11,41
GDP per capita (US$ 2006)	1803	1880	1949	2133	2304	2519	2741

Export Partners (2006)	%	Import Partners (2006)	%
USA	27%	Saudi Arabia	25,60%
Iraq	23%	China	10,40%
India	17%	Germany	7,80%
Saudi Arabia	15%	USA	4,70%
European Union	12%	Egypt	4,20%

B) Foreign Trade

For a small country in a difficult region, Jordan has a relatively diversified and successful export/import industry. Its trade deficit narrowed in the first quarter of 2007 as a result of strong growth in export earnings and only subdued growth in the import bill. Exports and re-export activity grew by 21% against a modest rise in imports of just 3.5%.

Ready-made clothing was the single largest category of domestic exports, with USA the dominant market, absorbing 93.2% of total clothing exports. Vegetable exports are the second largest category, going mostly to Syria, Iraq and the UAE. Pharmaceutical exports were the third-largest export, earning 10.9% of total export revenue. Potash, phosphates and fertilizers were also major export earners. Jordan also exports to Saudi Arabia, Italy, India and Japan.

Saudi Arabia is the main supplier of oil to Jordan and was the largest single import supplier. China is now the second largest source of imports, particularly cloth, clothing and accessories. The improvement in the trade balance over the first quarter was accompanied by stronger tourism revenue and workers remittances.

The EU is Jordan's main source of non-oil imports. EU exports to Jordan accounted in 2004 for €1.5 billion, with Jordan's overall imports amounting to €6.4 billion. Jordan's trade relations with the EU feature a structural trade deficit with imports almost twice as high as exports. The trade deficit is partially compensated by a surplus in services, mainly remittances and tourism.

Tourism is likely to continue to grow steadily in 2007-08. According to the Central Bank, workers' remittances reached a record US$2.5bn in 2006, and were a significant factor in the reduction in the current-account deficit.

Jordan's imports from the EU consist mainly of machinery, transport equipment, chemical and agricultural products. Jordanian exports are mainly minerals chemicals and phosphates. Trade liberalization in agriculture is well-advanced: 73% of Jordanian agricultural exports to the EU are liberalized. Pharmaceuticals are seen as one of the most competitive sectors, with prospects for growth from outsourcing by EU companies. Services account for 73% of Jordanian GDP in 2005, mainly travel and transportation.

Trade reforms in Jordan are well advanced and are generally in line with international best practices and principles of the Single Market

C) Main exported and imported products

Main exported products	Main imported products
Textile clothes.	Fuels and lubricants.
Pharmaceutical products.	Foodstuff and live animals.
Vegetables.	Transport equipment and accessories.
Fertilizers.	Chemicals.
Phosphates.	Spinning and weaving products.
Phosphoric acid.	

Import Commodities 2006 *(USD millions)*		
Description	**Trade Value(USD)**	**% of total**
Mineral fuels/oils + products of their distillation	$ 2.720.1	23,8
Vehicles other than railway or tramway	$ 1.014.0	8,9
Machinery and mechanical appliances; parts thereof	$ 843.8	7,4
Electrical machinery + equipment + parts thereof	$ 843	7,4
Fabrics	$ 461.9	4,0
Other	$ 5.563.6	48,6
Total	**$ 11.446.9**	**100**
Aggregates (WTO)		
Agricultural products		14,6

Fuels and mining products		26,2
Manufactures		57,1
		97,9
Export Commodities	**Trade Value(USD)**	**% of total**
Articles or apparel/clothing accessories	$ 841.6	16,3
Precious or semi-precious stones	$ 477.3	9,2
Fertilizers	$ 469.3	9,1
Articles or apparel/clothing accessories (	$ 413.8	8,0
Pharmaceutical products	$ 313.2	6,1
Other	$ 2.651.2	51,3
Total	**$ 5.166.6**	**100**
Aggregates (WTO)		
Agricultural products		13,6
Fuels and mining products		11,2
Manufactures		68,5
Total		93,3

D) Main Trade Agreements

Main trade Agreements
WTO in 2000
EU-Mediterranean Association Agreement
ENP Agreement
United Nations Organization (UN) and its main specialized institutions.
Free Trade Agreements with the USA. Agadir Agreement with Egypt, Tunisia and Morocco.

E) Banking Sector

Jordan has a reasonably well developed small banking sector. It includes the Central Bank, twelve commercial banks, nine foreign bank branches and three Islamic banks. Islamic banking makes up a very small percentage of the overall banking sector. Many of the commercial banks have Gulf-state or other Arab ownership which enhances their credit ratings. Citibank, HSBC and SGB are among the most active foreign bank branches, together with two Lebanese banks.

The Central Bank is committed to the maintenance of the dinar's peg to the dollar, despite the associated lack of monetary flexibility and the devaluation against the Euro.

At end 2006, the major banks in Jordan were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
Arab Bank	$ 27.484	$ 32.465
Housing Bank for Trade & Finance	$ 4.508	$ 5.777
Jordan Ahli Bank	$ 2.358	$ 2.454
Jordan Islamic Bank for Finance & Investment	$ 2.212	$ 2.434
Jordan Kuwait Bank	$ 1.987	$ 2.326
Bank of Jordan	$ 1.667	$ 1.941
Cairo Amman Bank	$ 1.731	$ 1.660
Capital Bank of Jordan	$ 540	$ 1.207
Arab Jordan Investment Bank	$ 682	$ 784
Arab Banking Corporation (Jordan)	$ 579	$ 730
Jordan Commercial Bank	$ 512	$ 723
Islamic International Arab Bank	$ 405	$ 575

Regional investors have maintained their appetite for Jordan's banking sector. For example, Jordan Dubai Capital, Dubai International Capital and Dubai Islamic Bank have invested at least $100 million in the Industrial Development Bank (IDB) to convert it into an Islamic Bank. In May 2007, Lebanon's Byblos Bank took a 9% stake in Jordan Ahli Bank and Kuwait Finance House (KFH) has announced plans to establish a US$50m investment bank in Jordan.

IFC's GTFP is establishing lines for three Jordanian banks, Bank of Jordan, Capital Bank ($28 million capital), and Export and Finance Bank.

F) Review of Foreign Banks' trade finance with Jordan

Jordan has a relatively strong country risk rating, based on its stable government and support for the USA and western world. As a result, trade pricing is lower than would be expected for a small country in a high risk region. Discussions with CBs indicate that country limits and bank lines are at reasonable levels. Where necessary, risk is off-loaded on the secondary market.

Arab Bank is by far the largest bank in Jordan and benefits from extensive trade lines from international banks with pricing at a low of 30 bps pa. HSBC, Amex and SCB each have lines for the top 5 or 6 banks in Jordan with pricing up to 100 to 150 bps pa for the smaller institutions. These include Bank of Jordan, Capital Bank of Jordan, GWB Investment Bank, Housing Bank for Trade and Finance, Jordan Alhali Bank and Export and Finance Bank. Amex has limits of $4 or $5 million per bank and a country limit of $20 million; tenors are generally around 60 days but can be longer. Amex and SCB see a steady stream of small trade transactions for Jordan every week.

There is demand for TFP support for the smaller banks, and most international banks see scope for EIB support in Jordan. However, the IFC is working on providing GTFP lines of around $10 million each for four banks, and any EIB involvement in trade finance support could lead to competition issues.

G) Local Banks
Banks visited were:

- ✓ Union of Arab Banks (UAB)
- ✓ Arab Bank
- ✓ Capital Bank
- ✓ Housing Bank for Trade and Finance, Jordan
- ✓ Arab Banking Corporation
- ✓ Jordan Investment and Finance Bank
- ✓ Export and Finance Bank.

Jordan banks also express interest about the covering of its transactions with sub-Saharan countries.

H) Jordan's ECA
Jordan Loan Guarantee Corporation (JLGC) was established in 1994 with a capital of JD 7 million. The Central Bank of Jordan's subscription in the Corporation came out of a USAID grant. In 1997, the Corporation took on the function of Export Credit Guarantee and its capital was increased to JD 10 million (USD 14 million).

JECG appears to operate adequately, if rather bureaucratically. Local and international banks do not speak very highly of it. Its value to Jordan's exporting community is therefore uncertain. It is possible that TA could be formulated by EIB to enable JECG do provide broader and more effective support functions.

9.4.- Lebanon

A) Economic and Trade Data

LEBANON	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	17	19	20	21	22	23	24
Real GDP growth rates	4,5	3,3	4,1	7,4	1,0	0,0	2,0
CPI (End of period Inflation)	-0,4	1,8	1,3	1,7	-0,7	5,6	3,5
Population (in million)	5,41	5,52	5,63	5,74	5,85	5,97	6,09
Exports							
Billion US$	0,88	1,21	1,73	2,05	2,28	2,79	3,21
Imports							
Billion US$	-6,80	-5,91	-6,53	-8,50	-8,40	-8,55	-10,03
GDP per capita (US$ 2006)	4959	5323	5559	5949	5889	6137	6398

Export Partners (2006)	%	Import Partners (2006)	%
Iraq	14,60%	Italy	9,90%
Switzerland	10,60%	France	7,80%
Syria	8,30%	Germany	7,80%
United Arab Emirates	7,70%	China	7,60%
Turkey	7,30%	USA	5,90%

B) Foreign Trade

Lebanon has a service-based economy, with a relatively small manufacturing sector, resulting in recent years in an extremely large visible trade deficit. In 2007, as inputs for rebuilding were brought in, import spending grew strongly. Export earnings grew more slowly as investors in export-oriented industries remained cautious, resulting in a widening of the trade deficit to around US$6.5bn. The trade deficit is expected to widen further in 2008.

Historically, the trade deficit has tended to be offset by services earnings, principally from tourism. These are strongly dependent on political stability and fell sharply during the 2006 conflict. They remained depressed in 2007.

Assuming that promised international financial assistance arrives and the rising numbers of expatriate Lebanese workers continue to send home substantial remittances, the current-account deficit should remain manageable (at around 7% of GDP).

Lebanon's total export revenue reached US$852m for the first four months of 2007, up 10.5% on the same period last year. In part, this reflected the depreciation of the US dollar (to which the Lebanese pound is pegged) against the currencies of some of Lebanon's other main trading partners, particularly in Europe. However, the rise in exports also came on the back of a modest domestic economic recovery in the first quarter, coinciding with a brief period of political calm before the beginning of the clashes with militants in the north of the country.

Lebanon's principal exports are jewelry, mineral products, machinery, metals, chemicals and foodstuffs. The main destinations of the exports are Syria, UAE, Italy, Switzerland, USA, Saudi Arabia, and France. Lebanon also exports fresh fruit and vegetables, as well as processed foods to other Arab countries. The currency slide has made Lebanon's food exports more competitive than those of other food exporters in Europe. Much of the growth in exports was also driven by a significant rise in re-exports. There was a further increase in the trans-shipment trade, as trading volumes at Beirut port continued their steady recovery after the losses during the 2006 war and blockade. Lebanon's re-export industry is mostly importing raw materials and semi-finished industrial and consumer goods from Europe, and re-exporting them to countries of the region lacking a Mediterranean coast, such as Iraq and Jordan, as well as Egypt, Syria and Saudi Arabia.

The rise in export revenue in January-April 2007 was accompanied by an even stronger growth in import spending. Lebanon's total expenditure on imports for the first four months was US$3.65bn, up by 14% on the year-earlier. Given Lebanon's small population, limited natural resources and equally limited industrial and manufacturing sector, the country is wholly dependent on imports for most consumption and economic activity. As a result the country imports a wide range of raw, semi-finished and consumer goods, normally accounting for up to half of GDP.

The country is also almost entirely dependent on imported fuel for all energy, including electricity generation and refined fuel for transport and industry. Continued high oil and gas prices on international markets were an important factor contributing to the rise in import spending. Spending on mineral products accounted for 22% of the total. Other important import categories included electrical equipment at 11.4%, chemical products at 10.2%, base metals at 8.7% and vehicles at 7.7%. Prepared foodstuffs, while accounting for just 7.4%, made up a lot of the physical volume of imports. Italy remained the country's largest supplier of Lebanon's imports, with 10.7% of the total, but was closely followed by the US, which has in recent years overtaken other important suppliers of consumer and industrial goods, such as China, France and Germany. The US has steadily climbed in importance as a source of imports since mid-2005, when the government began to build stronger US ties, leading to a sharp inflow of military and security goods.

C) Main exported and imported products

Main exported products	Main imported products
Jewelry products.	Petroleum products.
Machinery.	Machinery.
Chemical products.	Vehicles.
Foodstuff.	Chemical products.

Import Commodities 2006 (USD millions)		
Description	**Trade Value(USD)**	**% of totals**
Mineral fuels/oils + products of their distillation	$ 1.981.4	21,1
Vehicles other than railway or tramway rolling stock	$ 829.0	8,8
Machinery + mechanical appliances; parts thereof	$ 621.6	6,6
Precious or semi-precious stones	$ 526.3	5,6
Electrical machinery + equipment + parts thereof	$ 487.2	5,2
Other	$ 4.950.7	52,7
Total	**$ 9.396.5**	**100**
Aggregates (WTO)		
Agricultural products		16,9
Fuels and mining products		30,3
Manufactures		49,8
Total		97
Export Commodities 2006 (USD millions)	**Trade Value(USD)**	**% of total**
Natural or cultured pearls, precious or semi-precious stones	$ 285.6	16,4
Electrical machinery + equipment + parts thereof	$ 176.8	10,1
Iron and steel	$ 103.4	5,9
Salt; sulphur; earths and stone; plastering materials	$ 102.9	5,9
Machinery + mechanical appliances + parts thereof	$ 97.0	5,6
Other	$ 979.6	56,1
Total	**$ 1.745.6**	**100**
Aggregates (WTO)		
Agricultural products		11
Fuels and mining products		28,2
Manufactures		40,9
Total		80,1

D) Main Trade Agreements

Main Trade Agreements
WTO
EU-Mediterranean Association Agreement
ENP Agreement
EFTA (2004)
Agadir Agreement
United Nations Organization (UN) and its main specialized institutions.
GAFTA (Greater Arab Free Trade Association) Economic and trade co-operation agreements with Turkey, and African countries, Syria, China, Czechoslovakia, Egypt, Jordan and Kuwait, Agreements were also ratified with Iraq, Morocco and Romania, Russian Federation and Saudi Arabia.

E) Banking Sector

Lebanon's central bank is the Banque de Liban, established in 1964. The country has a well established banking system with well-capitalised banks.

Lebanon's banking sector was the country's only industry to enjoy consistent growth in 2006/7. Total assets of the banking system continued to rise in the year to the end of May with strong profits among leading banks. The consolidated balance sheet and income statement of the Alpha Group of banks, (Lebanon's ten largest banks), saw aggregate net profits of US$173m in the first quarter of 2007.

Originally the major banks were used as a conduit for investment in Lebanon's public debt. In recent years, however, banks have sought to limit their exposure, and have instead expanded overseas operations, particularly in the countries of the region with less developed financial sectors, where banking has become increasingly profitable as a result of the high price of oil and high levels of regional liquidity. Bank Audi, for example, is now in many respects more like a regional bank than a Lebanese domestic bank. This trend has fed through into faster growth and higher profits for Lebanese banks with established or growing regional operations.

At end 2006, the major banks in Lebanon were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
BLOM Bank S.A.L.	$ 11.918	$ 14.220
Bank Audi S.A.L. Audi Saradar Group	$ 11.478	$ 14.170
Byblos Bank S.A.L.	$ 7.526	n.a.
Bank Med S.A.L.	$ 5.876	$ 6.524

Fransabank	$ 4.952	$ 5.245
Bank of Beirut S.A.L.	$ 4.315	$ 4.628
Banque Libano-Francaise	$ 3.722	$ 5.090
Credit Libannais S.A.L.	$ 3.166	$ 3.446
Societe Generale de Banque au Liban	$ 2.891	n.a.
Lebanese Canadian Bank Sal	$ 2.836	$ 3.223
BBAC S.A.L.	$ 2.494	$ 2.695
BLC Bank S.A.L.	$ 1.968	$ 2.091

IFC's GTFP has approved trade limits of around $40 million each for Fransabank, Byblos Bank, Bank of Beirut and Banque Libano Francaise (BLF). Banks such as Blom Bank and Bank Audi do not need GTFP support as they are strong enough and sufficiently well capitalized to merit substantial trade lines from the international banking community. While BLF uses the GTFP facility to about 50% of the limit, Fransabank, Beirut and Byblos are understood to hardly use their lines. This is evidence that, even for a politically unstable country such as Lebanon, the need for GTFP support is marginal in this region.

The team has a good knowledge of the banks in Lebanon. Given that the country has a relatively strong banking sector, IFC's GTFP is covering the medium-sized banks quite well, and the larger banks do not need trade support, the team did not visit Lebanon during the recent site visits and recommends that EIB does not compete with IFC in Lebanon.

F) Review of International Banks' trade finance with Lebanon

International banks indicate that their country limits for Lebanon are usually adequate for their needs. Amex, HSBC and the German banks say they rarely sell Lebanese risk on the secondary markets. This is born out by the fact that IFC's GTFP lines for its four Lebanese banks are only partially being used.

BNP Rome (which covers the Middle East) sees daily Italian exports going to Lebanon. Amounts are up to $3 or $4 million with short tenors of 60 days. BNP works with the top 5 or 6 banks. Pricing is between 150 and 200 bps pa. In view of a restricted country limit, BNP sometimes uses IFC's GTFP for support. The other large international banks do not appear to have major difficulties with bank limits, country exposure or tenors. Lebanon's trade volumes have reduced since the recent war.

G) Review of Local Banks

In spite of high political risk, Lebanon continues to trade relatively freely with the outside world. Its banking sector is strong and banks are comfortable acting as "middle-men" for trade between third party countries. Its banks are expanding into neighbouring countries such as Syria and Jordan, and are also creating subsidiaries in London, Paris and elsewhere to provide off-shore confirmations. Bank of Beirut in London does a lot of confirmation business for its Lebanese Head Office, albeit from a rather low capital base. Fransabank and Byblos do a significant amount of confirmation business themselves, confirming trade transactions from Lybia, Sudan and Eritrea etc. The Lebanese banks are very liquid and have many years experience in international trade. Given IFC's presence in the country, it is not felt that there is much room for EIB support.

Banks that could be contacted with a view to joining an EIB TFP (that are not in IFC's GTFP) are the following.

- Banque de la Mediterranee SAL (Bankmed)
- Al-Ahli International Bank
- Intercontinental Bank of Lebanon
- United Credit Bank SAL.

H) Lebanon's ECA

Lebanon's ECA is **Lebanese Credit Insurer S.A.L**. (**LCI**), the first specialized credit insurance company in the country. Not a lot is known about it, but given the fact that most of Lebanon's trade is very short term, it is doubtful it is very active in insuring Lebanese exports.

9.5.- Morocco

A) Economic and Trade Data

MOROCCO	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	38	40	50	56	59	65	73
Real GDP growth rates	7,6	3,3	6,1	5,2	2,4	8,0	2,5
CPI (End of period Inflation)	0,6	2,8	1,2	1,5	1,0	3,3	2,5
Population (in million)	28,83	29,19	29,52	29,84	30,14	30,44	30,73
Exports							
Billion US$	7,14	7,84	8,76	9,91	11,20	12,70	14,49
Imports							
Billion US$	-10,16	-10,90	-13,10	-16,40	-19,13	-21,75	-26,44
GDP per capita (US$ 2006)	1310	1387	1688	1890	1956	2149	2368

Export Partners (2006)	%	Import Partners (2006)	%
France	28,40%	France	16,50%
Spain	20,80%	Spain	11,60%
United Kingdom	6,00%	Saoudi Arabia	6,80%
Italy	4,90%	Italy	6,40%
India	4,30%	China	5,40%

B) Foreign Trade

Morocco has been one of the principal beneficiaries of the MEDA programme. However, Moroccan trade with other Mediterranean countries is limited and accounts for only about 5% of the total. In 2004, Morocco signed the Agadir Agreement free trade agreement with Jordan, Tunisia and Egypt. Morocco's free trade agreement with Turkey entered into force in 2006 and a further significant free trade agreement has been concluded with the USA. Morocco is one of the first Mediterranean countries to strongly support regional integration in trade.

The EU is Morocco's primary trading partner (mostly Germany, France Italy, Great Britain and Spain) accounting for 67% of exports and 55% of imports. The US is a relatively small trading partner, accounting for about 5% of Morocco's trade. Other important trading countries are Saudi Arabia, Japan and India.

EU-Morocco trade is rapidly assuming new dimensions. Between 1994 and 2006, trade volumes grew by over 80%, with EU imports from Morocco nearly doubling. EU exports to Morocco also increased significantly.

Morocco's economy is still relatively dependant on trade in textiles and agricultural products, which together account for 55% of exports. Morocco is a net exporter of fruits and vegetables and a net importer of cereals, oilseeds and sugar. However severe recent droughts have badly affected production.

In the five months to end-May 2007 Morocco's merchandise trade deficit widened to US$5.7bn. This was chiefly the result of the need to import larger quantities of wheat following the decline in cereal production. Economic expansion in the non-agricultural sector saw a 38% rise in the value of industrial vehicle imports, while imports of gas, fuel oils and plastic materials also increased.

Exports grew marginally, mainly as a result of a rise in exports of phosphates and derivatives (chiefly fertilisers, which grew by 62% year on year). Exports of electrical cables recorded a rise of 21%. Data for the first five months show that tourism receipts continued to expand strongly. However, Morocco still attracts fewer tourists than Egypt or Tunisia, although this could change if the strong growth of recent years continues. Remittance inflows from Moroccans working abroad grew by 15% over the period; the Moroccan economy depends heavily on the in-flow of funds from Moroccans working abroad.

Morocco has the poorest hydrocarbon resources in North Africa and has to rely on imports for most of its energy. The plan to develop a new nuclear power station remains some years off. The Tangiers Med Port container terminal started operating in 2006 with a second terminal due to start in 2008. Accommodating the latest generation of super container ships, the terminals aim to position Morocco as one of the leading trans-shipment hubs in the region. Export competitiveness, especially vis-à-vis Asian exporters, remains a problem.

C) Main exported and imported products

Main exported products	Main imported products
Phosphoric acid.	Petroleum and by products.
Rock phosphate.	Wheat.
Fertilizers.	Raw materials and semi-manufactured products.
Fish and canned fish.	Capital goods.
Citrus fruit and fruit juice.	Miscellaneous consumption goods.
Textile and leather clothes.	
Crustaceans and mollusks.	

Import Commodities 2006 (USD millions)		
Description	**Trade Value(USD)**	**% of total**
Mineral fuels/oils + products of their distillation	$ 5.041.4	21,6
Electrical machinery+ equipment + parts thereof	$ 2.195.7	9,4
Machinery + mechanical appliances, parts thereof	$ 2.373.6	10,2
Vehicles other than railway or tramway rolling stock	$ 1.499.5	6,4

Iron + steel	$ 1.117.3	4,8
Other	$ 11.070.7	47,5
Total	**$ 23.298.4**	**100**
Aggregates (WTO)		
Agricultural products		12
Fuels and mining products		24,8
Manufactures		61,9
Total		98,7
Export Commodities 2006 (USD millions)	**Trade Value(USD)**	% of total
Articles of apparel + clothing accessories (not knitted)	$ 2.404.6	19,2
Electrical machinery + equipment + parts thereof	$ 1.897.5	15,1
Inorganic chemicals	$ 1.023.4	8,2
Articles of apparel + clothing accessories (knitted)	$ 800.1	6,4
Fish + crustaceans, molluscs + other aquatic invertebrates	$ 689.3	5,5
Other	$ 5.715.5	45,6
Total	$ 12.530.64	100
Aggregates (WTO)		
Agricultural products		20,7
Fuels and mining products		12,9
Manufactures		64,9
Total		98,5

D) Main Trade Agreements

Main Trade Agreements
WTO
EU-Mediterranean Association Agreement
ENP Agreement
United Nations, IMF
OIC, Arab Magreb Union and Arab States League
Agadir Agreement.
Several other economic and commercial co-operation agreement were signed between Morocco and most of the other African, Asian, European and American countries. USA agreement.

E) Banking Sector

At end 2006, the major banks in Morocco were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
Attijari Wafa Bank	$ 15.054	$ 19.573
Crédit Populaire du Maroc	$ 12.295	n.a.
BMCE Bank	$ 8.173	n.a.
Crédit Agricole du Maroc	$ 3.955	n.a.
Credit du Maroc	$ 2.569	n.a.
Crédit Immobilier et Hotelier	$ 2.053	n.a.
Fonds D´Equipement Communal	$ 611	n.a.

Its main problem has been the need to deal with excess liquidity in the economy fuelled by workers' remittances from abroad and the sharp improvement in the government's fiscal position. The impact of this was clear in 2006, when inflation rose markedly.

The bank has hitherto resisted pressure from exporters for a more competitive exchange rate, arguing that the current managed float has been useful in anchoring the economy and keeping inflation low and that a devaluation would raise import and debt-servicing costs, putting additional strain on the fiscal position.

BMCE is one of the country's leading private commercial banks. Wafa Bank and BCM recently merged, creating Attijari Bank, one of the largest banks in the region. Attijari has taken control of Tunisia's Banque du Sud, in partnership with Banco Santander, and bought 67% of a Senegalese lender, Banque Senegalo-Tunisienne. The bank has also applied for a banking license in neighbouring Algeria. Morocco's largest state savings bank is the Caisse de Dépôt et de Gestion (CDG). Whereas Algeria is considered to be under-banked, Morocco is significantly over-banked.

F) Review of International Banks' trade finance activity with Morocco

International banks provide very substantial trade lines to banks in Morocco which meet most trading requirements. The French banks dominate the confirming bank scenario, but German banks are also very aggressive where German exports are concerned. As a result, competition for business is fierce and pricing fine - around 30 to 35 bps pa is quoted by many confirming banks. Some large short-dated transactions are quoted as low as 20 bps pa.

HSBC works with the top 20 banks including the state-owned institutions. Most other major CBs also have lines for these banks. Much of the trade is conducted on open account basis, especially oil transactions. Most international banks do not see any need for trade support in Morocco. Existing trade lines, instruments and financial products meet market needs. Large capital equipment transactions often involve structured transactions which are managed in the market on a syndicated basis or through existing limits.

BMCE is generally used for commodity transactions. Other banks frequently mentioned were AttihariWafa Bank, Credit Populaire, Credit Agricole, Magreb and Bank Al-Amal. Arab Bank also featured predominantly. The top 20 banks are well served by the international banks and pricing is below what multilateral institutions would generally regard as “additional”.

G) Review of Local Banks
The team met with the following banks:

- ✓ BMCE
- ✓ AttijariWafa Bank,
- ✓ Banque Centrale Populaire,
- ✓ Bank Al-Amal,
- ✓ BMCI (Groupe BNP)
- ✓ Credit Agricole
- ✓ SMAEX
- ✓ ASMEX (Association Marocaine des Exportateurs)
- ✓ Ministere du Commerce Exterieur

Morocco has an increasingly positive credit rating and its banks have very large trade lines from international banks. BMCE, BMCI and AttijariWafa Bank stated clearly that they do not need assistance with trade finance. Pricing will be the only way to make a TFP attractive to them.

Trade finance is relatively well diversified in Morocco, all standard trade instruments are used and finance is readily available. Imports are increasingly paid on open account, but LCs, standbys, guarantees and documentary collections with discount of bills to provide post shipment finance are also common.

H) SMAEX (**Société Marocaine d'Assurances à l'Exportation**) is a semi-public company. The chief shareholders are one third each, the State, local banks and insurance companies. SMAEX underwrites commercial risks in transactions with the European Union and commercial and political risks for operations with Eastern Europe and sub-Saharan Africa. SMAEX does not seem to have a particularly good reputation for operational efficiency amongst the local banks in Morocco, and is not believed to be very SME friendly. However, it does an adequate job in insuring larger export transactions. SMAEX has some support from CESCE.

9.6.- Syria

A) Economic and Trade Data

SYRIA	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	21	23	23	25	29	35	37
Real GDP growth rates	3,7	5,9	1,1	2,8	3,3	4,4	3,9
CPI (End of period Inflation)	3,4	-0,5	5,8	4,4	7,2	10,0	7,0
Population (in million)	16,72	17,11	17,55	17,98	18,36	18,94	19,41
Exports							
Billion US$	5,29	6,56	7,15	7,14	9,05	9,54	11,07
Imports							
Billion US$	-33,52	-37,53	-45,82	-63,43	-74,50	-86,12	-92,43
GDP per capita (US$ 2006)	1257	1331	1293	1392	1560	1844	1928

Export Partners (2006)	%	Import Partners (2006)	%
Italy	19,60%	Russia	10,20%
France	8,80%	China	6,50%
Saudi Arabia	8,70%	Ukraine	5,30%
Iraq	6,40%		

B) Foreign Trade

2006 figures show a continuation of the recent trend of rapid growth in Syria's foreign trade, although it is not clear how much this is a result of actual increased activity or a reflection of improved data collection. A large part of the upward revisions to exports has stemmed from goods other than oil. Non-oil exports are benefiting from the relaxation of foreign-exchange controls, which has led to more exports being officially recorded. Thus the trade deficit should stabilise at around US$500m in 2007-08.

In 2006 total exports increased by 19% even though oil exports registered a modest decline. Oil last year accounted for 40% of total exports, compared with 49% the previous year. In contrast, refined petroleum products imports have been increasing.

Earnings from oil exports are one of the government's most important sources of foreign exchange. Exports are mainly to Italy, Germany, France, Turkey and Lebanon. Although its oil reserves are small compared to those of many other Arab states, Syria's petroleum industry accounts for a majority of the country's export income.

If oil output continues to decline at the same rate as in the first quarter, Syria will be close to becoming a net oil importer by the end of 2008. However, the government is hoping to stem the rate of decline through enhanced oil recovery operations in both marginal and mature fields. There is also the chance of fresh discoveries in several new fields. The value of merchandise exports is expected to rise slightly in 2007 as strong growth in non-oil exports offsets the decline in oil exports.

Syria's main import partners are Germany, Italy, Korea, Turkey and Ukraine. Imports from Israel are prohibited. Main imports are raw materials essential for industry, agricultural produce, equipment, and machinery.

C) Main exported and imported products

Main exported products	Main imported products
Mineral fuels and lubricants.	Manufactured goods.
Foodstuffs and live animals.	Machinery and transport equipment.
Miscellaneous manufactured articles.	Foodstuffs and live animals.
Inedible crude materials except fuels.	Chemicals.
	Inedible crude materials except fuels.

Import Commodities 2006 (USD millions)		
Description	**Trade Value(USD)**	**% of totals**
Mineral fuels/oils + products of their distillation	$ 3.116.8	27,1
Vehicles other than railway or tramway	$ 1.018.5	8,9
Iron + steel	$ 865.6	7,5
Machinery and mechanical appliances	$ 859.5	7,5
Plastics + articles thereof	$ 658.7	5,7
Other	$ 4.968.9	43,3
Total	**$ 11.488.2**	**100**
Aggregates (WTO)		
Agricultural products		18,1
Fuels and mining products		3,8
Manufactures		59,1
Total		81

Export Commodities 2006 (USD millions)	**Trade Value(USD)**	**% of totals**
Mineral fuels/oils + products of their distillation	$ 4.405.6	40,3
Commodities not specified by kind	$ 756.7	6,9
Articles of apparel + clothing accessories (knitted or crocheted)	$ 570.9	5,2
Edible vegetables + certain roots+ tubers	$ 387.7	3,6
Cotton	$ 372.7	3,4
Other	$ 4.425.5	40,5
Total	**$ 10.919.3**	**100**
Aggregates (WTO)		
Agricultural products		12,4
Fuels and mining products		51,2
Manufactures		10,1
Total		73,7

D) Main Trade Agreements

Main Trade Agreements
WTO
EU-Mediterranean Association Agreement
ENP Agreement
OIC (Organisation of the Islamic Conference), Arab League States and Arab Institution of Co-operation.
Syria has signed economic and commercial co-operation agreements with Eastern European and EU countries as well as with Middle Eastern and Asian countries, especially China, South Korea and India.

E) Banking Sector

In 1966 the state achieved complete ownership of commercial banking by merging all existing commercial banks into a single consolidated Commercial Bank of Syria. In addition, the government created specialized banks to promote economic development. It extended the charter of the Agricultural Cooperative Bank from the pre-independence period and established the Industry Bank, the Real Estate Bank, and the Popular Credit Bank.

In 2001, Syria legalized private banking and there are now a few Arab and Middle Eastern privately owned banks operating in Syria. The Syrian Commission on Financial Markets and Securities (SCFMS) was set up last year to regulate Syria's capital market.

Given the poor development of its capital market, and Syria's lack of access to international finance, monetary policy remains captive to the need to cover the fiscal deficit. Interest rates are fixed by law, and most rates have not changed in the last 20 years. Some basic commodities continue to be heavily subsidized, and social services are provided at nominal charge. The Central Bank is aiming to move to a managed float of the pound, replacing a multi-exchange-rate regime. Furthermore, the peg to the dollar is to be abandoned in favour of a peg to a basket of currencies based on the SDR.

At end 2006, the major banks in Syria were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
Commercial Bank of Syria	$ 16.950	n.a.
Popular Credit Bank	$ 1.504	$ 1.549
Real Estate Bank	$ 1.503	$ 2.028
Industrial Bank	$ 1.264	$ 1.382
Saving Bank	$ 17	$ 15

F) Review of International Banks trade finance in Syria

Syria remains something of an enigma. The American banks are prohibited from working with the country (especially with Commercial Bank of Syria) because of political mandates, and most European banks follow suit. State-owned Commercial Bank is the main trade finance bank in the country. British Arab Commercial Bank in London (BACB), a subsidiary of HSBC, works with Commercial Bank on a regular basis and finds performance satisfactory. The private sector banks are quite small; International Bank for Trade and Finance is a subsidiary of Jordan's Housing Bank, and Arab Bank of Syria is a subsidiary of Jordan's Arab Bank. The Lebanese banks, Audi, Byblos, Blom and Fransabank, also all have subsidiaries in Syria. IFC has completed an appraisal of Blom Bank's subsidiary, BSO (Bank of Syria and Overseas), and expects to approve a trade line shortly. This is IFC's first GTFP bank limit in Syria. It is also understood that Turkish and Dubai/Gulf based banks provide confirmations for Syrian banks.

Because of country and commercial risk, all the private banks need trade support in Syria. Very few international banks are open for business there, but under EIB support this could change. The consensus is that there is good scope for an EIB program to support the local banks. Pricing is in the region of 200 to 225 bps pa. BACB in London is comfortable providing tenors on a clean basis up to 360 days and longer for Commercial Bank of Syria.

G) Local Banks

EIB has a good list of banks in its SME funds in Syria (private and state-owned). Provided there is room under EIB's prudential guidelines to do more business with these banks, trade lines could be offered to all of them. The due diligence and credit appraisal have already been carried out, and new trade lines could quickly be approved. This would provide excellent trade coverage in the country.

H) ECA

Syria does not yet have an ECA. This could be an area of potential support for EIB.

9.7.- Tunisia

A) Economic and Trade Data

TUNISIA	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	20	21	25	28	29	31	34
Real GDP growth rates	5,0	1,7	5,6	6,0	4,0	5,4	6,0
CPI (End of period Inflation)	2,0	2,7	2,7	3,6	2,0	4,5	3,0
Population (in million)	9,67	9,78	9,89	9,93	10,04	10,17	10,30
Exports							
Billion US$	6,61	6,86	8,03	9,68	10,49	11,49	14,01
Imports							
Billion US$	-9,16	-8,98	-10,30	-12,11	-12,46	-14,01	-16,84
GDP per capita (US$ 2006)	2066	2152	2525	2846	2892	3032	3313

Export Partners (2006)	%	Import Partners (2006)	%
France	32,90%	France	23,50%
Italy	24,00%	Italy	20,90%
Germany	8,40%	Germany	8,20%
Spain	5,50%	Spain	5,10%
Libya	4,50%	Libya	3,90%

B) Foreign Trade

Tunisia is the most advanced of the Euro-Med partners as far as the introduction of a free trade area with the European Union is concerned. Tunisia started dismantling tariffs in 1996, before the entry into force of the EU-Tunisia Association Agreement in 1998. 84% of Tunisian exports go to the EU, with the EU providing around 72% of Tunisia's imports. Tunisia is a party to the Agadir Agreement creating a free trade area with Egypt, Jordan, and Morocco.

During the period 2000-2006, exports reached an average of 45.5 per cent of GDP. Alongside tourism, the manufacturing sector, which accounts for more than 50 per cent of total exports, and more particularly the textiles and clothing sector, is the spearhead of this export drive. The country's main trading partners are the EU (France, Germany,, Spain, Belgium and the Netherlands) and Japan and Libya. Tunisia has also recently been successful in developing trade ties with China and Portugal.

Trade has grown strongly in the first five months of 2007 as energy exports surged. Mechanical and electrical goods exports rose by 41%, agricultural exports by 28% and textile exports increased by 19%. These figures reflect the revival of textile and clothing sector which has withstood increased competition from China, India and Bangladesh, following the ending of the Multi-Fibre Arrangement. However, the figures also show that the textile sector has been overtaken in export value by the mechanical and electrical sectors. Leather goods exports remain strong.

Tunisia is one of the largest exporters of olive oil, dates, citrus fruit, harissa, seafood, and various organic fruits and vegetables. Imports have been rising at a rapid rate, expanding by 23% in the first five months of 2007, led by a 35% increase in mechanical and electrical goods imports, and a 32% increase in agricultural imports. Textile imports, mainly cloth and fibres for the clothing industry, rose by 35% in response to faster activity in the sector. The energy import bill fell by 15%, reflecting the reduction in oil imports that has followed a rise in domestic oil production in 2007.

85% of Tunisia's trade is with the EU, mostly with Italy, France, Spain and Germany. All phosphate exports and oil trade are handled by the state-owned banks. The country also transacts a small but encouraging amount of intra-regional trade, mostly with Algeria, Libya and Morocco. Goods are mostly agri-products, construction equipment, chemicals and iron.

The import bill is expected to continue to increase in 2008, as the industrial modernization programme boosts demand for imports of capital goods. Falling tariffs on manufactured imports from the EU will also raise demand. With export earnings growing at a slightly faster rate than import costs the trade deficit should be fairly stable at around US$2.5bn in 2007-08. Tunisia has become a net importer of oil over the past years.

Tourism receipts rose by 10% in the first five months of 2007, compared with the same period of 2006.

At the beginning of 2000, a new reform process was launched with a view to facilitating external trade by reducing the time taken to complete foreign trade operations, rationalizing procedures and documents and reducing transaction costs. The ongoing review of the Customs Code will make procedures more transparent, strengthen the rights of operators and make customs more efficient. Tunisia is endeavouring to ensure increased interaction between trading partners and enhance South-South trade through various agreements. Tunisian trade is rooted in the Mediterranean region with a heavy European component amounting to approximately 80 per cent of its total external trade. There have been far-reaching reductions in tariffs.

Robust export volume growth and the weakening of the dollar against the euro are expected to increase export earnings from US$11.5bn in 2006 to US$15.8bn in 2008.

C) Main exported and imported products

Main exported products	Main imported products
Crude and refined petroleum	Fabrics and textile articles
Olive oil.	Pharmaceutical products.
Ready made garments and hosiery.	Sugar.
Phosphoric acid and phosphates.	Vegetable oils.
Shoes and leather products.	Wheat.
Dates.	Chemicals.
Sea products.	Industrial raw materials.

Import Commodities 2006 (USD millions)		
Description	**Trade Value(USD)**	**% fo total**
Mineral fuels/oils + products of their distillation	$ 1.798.4	13,7
Machinery + mechanical appliances; parts thereof	$ 1.428.3	10,8
Electrical machinery + equipment; parts thereof	$ 1.410.9	10,7
Vehicles other than railway or tramway	$ 879.4	6,7
Cotton	$ 855.8	6,5
Other	$ 6.801.3	51,6
	$ 13.174.3	100
Aggregates (WTO)		
Agricultural products		11,4
Fuels and mining products		17,8
Manufactures		70,8
Total		100
Export Commodities 2006 (USD millions)	**Trade Value (USD)**	**% of total**
Articles of apparel + clothing accessories (not knitted)	$ 2.471.4	23,6
Electrical machinery + equipment; parts thereof	$ 1.518.2	14,5
Mineral fuels/oils; products of their distillation	$ 1.357.4	12,9
Articles of apparel + clothing accessories (knitted)	$ 622.6	5,9
Animal or vegetable fats + oils	$ 448.6	4,3
Other	$ 4.075.3	38,8
	$ 10.493.6	100
Aggregates (WTO)		
Agricultural products		12,7
Fuels and mining products		15,9
Manufactures		71,3
Total		99,9

D) Main Trade Agreements

Main Trade Agreements
WTO
EU-Mediterranean Association Agreement
ENP Agreement
OIC, Arab Magreb Union (AMU), Arab States League
Agadir Agreement with Egypt, Lebanon and Morocco
Tunisia has also concluded commercial agreements and tariff conventions with some African, Asian, American and European countries.

E) Banking sector

Considerable progress has been made in recent years in strengthening the banking sector and diversifying the sources of financing. The process of privatizing the banking sector through strategic partnerships has been speeded up and the legal and regulatory framework has been modernized. Privatisation is expected to be pursued and may include Banque Franco-Tunisienne (BFT), Société Tunisienne de Banque, Banque Tuniso-Koweitienne and Banque de Tunisie et des Emirats.

The banking system is controlled by the Central Bank of Tunisia (BCT) and consists of 14 deposit banks, 8 development banks and 8 foreign banks. There are currently 765 bank branches across the country, averaging one agency per 12,000 inhabitants, about the same average as in developed countries.

The insurance sector has also benefited from the reform in the country's economic and social sectors. The most important developments relate mainly to the reform of the legal framework and to a series of measures designed to consolidate the financial position of the insurance companies, including export insurance.

At end 2006, the major banks in Tunisia were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
Societé Tunisienne de Banque	$ 3.228	n.a.
National Agricultural Bank	$ 3.063	n.a.
Banque Internationale Arabe de Tunisie	$ 2.800	n.a.
Banque de L´Habitat	$ 2.406	n.a.
Arab Tunisian Bank	$ 1.333	n.a.
Bank Ettamwil Tounsi Saoudi	$ 248	$ 352
Banque de Tunisie et des Emirats	$ 195	n.a.

North Africa International Bank	$ 176	$ 229

F) Review of International Banks trade finance activity with Tunisia

Tunisian banks benefit from extensive trade lines from EU and American banks. Pricing, at between 50 and 80 bps pa is higher than Morocco and Algeria, but remains low for a TFP-type program. BNP Paris quoted pricing of 75 bps pa for the private banks. Country limits are high for all international banks the team interviewed, given Tunisia's strong country rating and its diversified exports and oil reserves.

Banks that were mentioned as counterparts were state-owned STB and BNA as well as private banks Amen Bank and BIAT. The international banks located in Tunisia include the French banks, Citibank, Magreb Bank and Arab Banking Corporation. There are few very small banks in Tunisia.

In general, the international banks are able to provide adequate trade lines and do not feel they need support; country limits, tenors and trade instruments are sufficient for requirements. The French banks and Citibank are strongly represented and compete aggressively for trade business in this open and developing economy.

G) Review of Local Banks

During the site visit, the team met with:

- STB
- Banque Nationale Agricole (BNA)
- Amen Bank
- Banque de Tunisie, and
- BIAT

Tunisia is viewed positively by the international banks and its banks have very large trade lines. State-owned STB and BNA stated clearly that they do not need assistance with trade finance. They obtain pricing of around 50 bps flat for LC confirmations. They are highly liquid.

The private banks also confirmed they have adequate trade lines with confirming banks in many countries across the world. Pricing is around 80 bps pa for Amen Bank and BIAT, while Banque de Tunisie pays between 80 and 120 bps pa.

Trade finance is relatively well diversified in Tunisia, all standard trade instruments are used and finance is readily available. Imports are increasingly paid on open account, but LCs, standbys, guarantees and documentary collections with discount of bills to provide post shipment finance are also common.

As mentioned, trade with Libya is increasing, but because of the poor credit rating of the Libyan banks, most trade is done on a cash basis or through Libyan banks in Tunisia which are requested to confirm the transactions. Because the Libyan banks are relatively well capitalized, this procedure works well. Tunisian banks also continue to confirm Algerian imports, following Algeria's difficult times during the 1990s.

In summary, the Tunisian banks generally do not need a TFP. Extensive trade lines are in place, finance is readily available for pre export and post shipment import finance, and the banks have no major difficulty in arranging longer tenors for capital goods imports. All standard trade finance instruments are being used, structured finance is available when needed and the banks are sufficiently well trained to manage their businesses successfully.

Amen Bank is short on liquidity and would appreciate consideration for medium term loans in Dinars and Euros. BIAT and BT are looking at the need for conversion of their short term deposits to longer term loans.

No smaller banks were identified that might be interested in TFP.

H) Tunisia's ECA – COTUNACE

Tunisia's export credit agency Cotunace appears to work efficiently and gave a good impression during interviews. The company provides export risk insurance to exporters, but no finance. However, the World Bank provides credit lines to local banks to fund SMEs' exports based on Cotunace export insurance cover. The program has had some limited success so far.

The state-owned banks speak favourably of Cotunace. The smaller banks prefer to take direct risk on their exporting clients rather than relying on Cotunace export insurance as it is rather costly. Cotunace supports SMEs as well as large companies – it uses Coface's short-form insurance policy that can be accessed on-line to support SMEs. It also uses Coface and Hermes' database to provide information to Tunisian exporters about importing companies across the world.

Given that Coface and Hermes are assisting Cotunace, and the generally favourable comments received from local banks, it is not believed that EIB can add significant value in providing TA or finance to Cotunace at this time.

9.8.- Gaza – West Bank

A) Economic and Trade Data

WEST BANK/GAZA	2001	2002	2003	2004	2005	2006	2007
GDP							
GDP (billion current US$)	3	3	3	4	4	n.a	n.a
Real GDP growth rates	-5,6	-8,1	-9,2	12,3	6,3	4,9	-13,1
CPI (End of period Inflation)	2,8	1,2	5,7	4,4	3,0	3,5	5,1
Population (in million)							3.9
Exports							
Million US$	560	465	465	535	588	534	
Imports							
Million US$	2.704	2.536	2.844	3.279	3.597	3.479	
GDP per capita (US$ 2006)	1257	1331	1293	1392	1560	1844	1928

West Bank

Exports - partners:	Israel, Jordan, Gaza Strip (2004)
Imports - partners:	Israel, Jordan, Gaza Strip (2004)

Gaza

Exports - partners:	Israel, Jordan, West bank (2004)
Imports - partners:	Israel, Jordan, West bank (2004)

B) Foreign Trade

The West Bank/Gaza economy is not a typical economy facing standard development challenges. The government, now split into two, is unable to function effectively. The administrations have no real control over their borders or territories, and the fact that West Bank and Gaza are two separate geographical territories, divided by Israel, creates severe difficulties.

The most binding constraints on economic activity in GWB are the uncertainty and extra cost of doing business because of the difficulty of access—not only to external markets but also to local markets—resulting from the Israeli security regime. Closures impinge on all aspects of the movement of goods and people, and disrupt economic links between the locations in an unpredictable manner. Security screenings of outbound and inbound truck-loads dramatically raise trading costs.

With the decline in output, real per capita GDP fell by more than 10 percent in 2006 to almost 40 percent below its pre-intifada level in 1999. In the Gaza Strip, more than one-third of the labour force is now out of work, compared to less than one-fifth in the West Bank.

87% of GWB's trade is with Israel. Until GWB is able to diversify its trading outlets, it will not be able to develop stronger trading links with other countries and/or create a more stable economy. 10% of GWB's trade is with Arab countries. It seems logical that these links should be strengthened and supported. It also appears increasingly necessary to view the two territories i.e. Gaza and WB, separately from an international trading perspective. The likelihood of the "road bridge" between Gaza and WB being concluded seems ever more remote. WB should probably look eastwards, towards Jordan, and Gaza south towards Egypt (if the border can be properly opened), and/or out to the Mediterranean Sea, to diversify from dependence on Israel. The latter would clearly entail a long term strategy and would envisage the strengthening of a suitable sea-port in Gaza. 3% of GWB's trade is with the EU. It is suggested that a separate project could be undertaken to help the territories trade more readily with the EU. While a TFP would help, it is suggested that more basic assistance is first required in defining the political needs, establishing trading relationships and putting effective financing in place. It is believed that this could help replace the export of labour (which is in any case now severely restricted) with the export of goods.

When Hamas took control of the Gaza Strip, all crossings between Gaza and Israel were again closed, ending almost all trade between Gaza and the outside world. The intensified restrictions on movement and access, particularly at the Gaza border, have seriously limited the flow of goods and people.

GWB's main imports are consumer goods and construction related goods. Nearly all consumer goods in WBG are imported. Import levels have remained relatively strong thanks to the higher levels of humanitarian support. Exports are mainly agricultural goods and limestone bricks etc.

Gaza and West Bank's main trading partners are: Israel (87%), Arab States (10%) and EU (3%)

C) Main exported and imported products

Main exported products	Main imported products
Agricultural goods.	Food.
Manufactured goods.	Consumer goods.
Furniture.	Construction materials.
Textiles and apparel.	Investment goods.
Limestone.	

GWB benefits from trade arrangements with:

- ✓ United States of America
- ✓ Canada

- ✓ European Union (EU)
- ✓ European Free Trade Association (EFTA)
- ✓ Russia
- ✓ Turkey
- ✓ Arab World
- ✓ Egypt
- ✓ Jordan
- ✓ Saudi Arabia
- ✓ Yemen

D) Banking sector

The GWB Monetary Authority (PMA) acts as the Palestinian central bank. A 2006 IMF report states that the WB banking sector is surprisingly large. There are 22 banks, of which 12 are foreign owned, with 138 branches. While the banks are very liquid, lending is understandably undertaken very cautiously and with full collateral. In reality, there are few credit-worthy lending outlets.

At end 2006, the major banks in GWB were as follows:

Source: Union of Arab Banks - 2007 Directory of Arab Banks & Financial Institutions

Ranking by Total assets (in million USD)	2005	2006
Arab Bank	$ 2.231	$ 2.004
Bank of Palestine PLC	$ 497	$ 602
Palestine Investment Bank	$ 214	$ 2088
Arab Islamic Bank	$ 185	$ 219
Commercial Bank of Palestine	$ 94	n.a.
Al-Aqsa Islamic Bank	$ 51	$ 59
Palestinian Banking Corporation	$ 18	$ 24

E) Review of International Banks trade finance business in GWB

None of the international banks contacted has any dealings with GWB. Most of GWB's trade is settled on a cash basis. The trucks cross the border (when open) with payment usually settled in advance. It is possible that Jordan and other Arab banks that have subsidiaries in GWB undertake some confirmations and/or take some GWB risk, but this business is believed to be very small.

F) Local Banks

The team met with the following Jordanian banks which have GWB operations, to discuss GWB trade support:

- ✓ Housing Bank for Trade and Finance, Jordan
- ✓ Arab GWB Investment Bank
- ✓ Jordan Investment and Finance Bank

The consensus is that local banks in GWB are unable to take any trade risk at present and there is effectively no trade finance being undertaken. Given the high risk of operating in the area, it is recommended that EIB does not consider GWB a potential candidate for trade support at this time.

If necessary, in due course the team will try to contact the following banks:

- ✓ GWB Investment Bank
- ✓ Alquds Bank for Development
- ✓ GWB Commercial Bank
- ✓ Bank of GWB
- ✓ GWB International Bank
- ✓ GWB Bank Limited

There are possibilities for trade support in GWB, albeit for very small amounts subject to an improvement in the political situation.

10.- Recommendation

In the French speaking North African MPCs, the large and medium sized banks are well served by the international banks and pricing is extremely aggressive. The same applies to Egypt where the IFC is also covering the country and may create competition issues for EIB. Any TFP implemented by EIB would have to focus on a few very small banks. These were only identified in Egypt.

Lebanon is also well covered by the IFC and Jordan increasingly so. This leaves Syria and GWB as possible candidates for a TFP, the latter depending on the on-going political crisis, plus a few small banks that can possibly be identified in Algeria, Tunisia, Egypt and Morocco at a later date.

Under this scenario, the critical mass is considered to be too small to merit establishing full TFP operations and signing up confirming banks across the world. However, the program would be profitable and would help develop some small banks which in turn support the SME sectors.

In order to provide this support on a cost effective basis, it is recommended that;

i) EIB consult with EBRD as to whether it could use EBRD's TFP operations and confirming bank network for its own TFP. This would eliminate much of the start-up costs and operational headaches. It would enable EIB to run its own TFP and "do its own thing" while out-sourcing the back office function to EBRD. Initial discussions with EBRD indicated that they would be happy to discuss such an idea. An additional advantage of this scenario is that EIB would confirm its policy of working closely with the EBRD. However, it may also end up competing with IFC in some countries of the region.

ii) Alternatively EIB should consider risk sharing with IFC under its GTFP in the MPCs. Risk sharing has certain disadvantages as discussed above, but it is believed these are not insurmountable. Risk sharing would resolve the competition and operations overhead issues, while enabling EIB to support trade for new banks in the region which IFC has not yet contacted (for example in Syria) and work with existing IFC banks on a paru passu basis with IFC. It would also enable EIB to start operations in GWB in conjunction with IFC. Risks in GWB are so high that the level of risk any single institution can take will be very small. Therefore risk sharing with IFC would make good sense. In addition, it might enable EIB to take the lead role in implementing a TFP in GWB.

    This solution would resolve many of the issues discussed in the report while enabling the EIB to demonstrate its support for trade and the SME sector in the region. It would also emphasise good collaboration between the MDBs.

Issues to be considered are:

- Insufficient critical mass. Would it make sense to expand the remit of the potential TFP to cover Sub-Saharan African as well as the MPC region? There is sufficient potential trade business in the larger region to ensure a successful TFP at EIB.

- Pricing. To what level would EIB be prepared to reduce its TFP pricing to make it attractive to potential users?

- EIB's capital allocation for short term guarantees – consider reducing it to 50% or less.

- Using EBRD's back office or risk sharing with IFC

- Establishing a separate TFP from IFC and working in harmony alongside each other

Unless, some of the above mentioned issues can be addressed, it is believed there is insufficient critical mass for EIB to start a TFP of its own and pricing is too low in many cases. It is recommended that EIB approach IFC with a view to risk sharing in the GTFP in the region.

Annex 1- Banks and Institutions visited

MAROC	
Institution	**Credit Agricole / Casablanca**
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EGYPT	
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Annex 2 - Trade Review Questionnaire - International Banks

IAAG Consultoria & Corporate Finance has been contracted by the European Investment Bank in Luxemburg (EIB) to undertake a review of trade finance needs and shortcomings in EIB's Mediterranean Partner Countries (MPCs).

These countries comprise Morocco, Algeria, Tunisia, Egypt, Lebanon, Jordan and Syria, as well as West Bank and Gaza.

The review aims to include discussions with local and international banks involved in trade finance in the region, as well as with export credit agencies (ECAs). The discussions will articulate the sufficiency of trade lines, tenors, liquidity, trade finance instruments, and general market needs and shortcomings.

The review will use EBRD and IFC's trade finance programs as a benchmark for any support that may be needed, however discussion will be open to all possible options and requirements.

During our meeting, we would like to discuss with you the following:

1.- Your bank's Trade Finance business profile with each of the countries

Exports to MPCs

- Which major banks do you provide trade confirmation lines for in each country?
- Which are the most active in trade?
- Can you give us an idea of the level of your bank's trade limits for each country? Are you able to provide clean trade lines sufficient to meet the needs of each bank/country?
- Which trade finance instruments are typically used? Are these sufficient/suitable?
- What tenors are provided? Are these sufficient for large capital equipment transactions?
- Is liquidity a problem in any of the countries? Are you/local banks always able to provide sufficient finance to clients for import transactions?
- What constraints and shortcomings do you/the local banks face in your trade finance business? What can be done to improve matters, extend

tenors, provide finance/liquidity, increase confirmation lines, eliminate cash collateral requirements?

- Would a TFP-type programme help the process?

Exports from MPCs

- Is your bank involved in pre export finance in any of the countries?
- Which exports are you most involved with?
- Please explain product types used
- To what extent does the local ECA in each country provide adequate support to exporters? What are the shortcomings and needs?

2.- General

Discuss:

- TFP and how this might help
- The provision of general guarantees to international banks allowing them to take more risk on local banks
- Ideas on how to improve matters?

Annex 3 - Trade Review Questionnaire - Local Banks

IAAG Consultoria and Corporate Finance has been contracted by the European Investment Bank in Luxemburg (EIB) to undertake a review of any trade finance needs and shortcomings in EIB's Mediterranean Partner Countries.

These countries comprise Morocco, Algeria, Tunisia, Egypt, Lebanon, Jordan and Syria, as well as West Bank and Gaza.

The review aims to include discussions with local and international banks involved in trade finance in the region, as well as with export credit agencies (ECAs). The discussions will articulate the sufficiency of trade lines, tenors, liquidity, trade finance instruments, and general market needs and shortcomings.

The review will use EBRD and IFC's trade finance programs as a benchmark for any support that may be needed, however discussion will be open to all possible options and requirements.

During our meeting, we would like to discuss with you the following:

1.- Imports

1.1.- Your bank's Trade Finance profile

- Please advise your bank's approximate trade finance import volumes, divided between:
    - Letters of Credit
    - Ttrade payment guarantees,
    - Avaled bills,
    - Collections,
    - Open account (bank transfers)
    - Others.
- Approximately what percentage of your country's total trade import volumes does your bank handle?
- Which client sectors do you target/which client sectors use your trade finance services?
    - Please list your clients' principle imports and which countries they come from.
- Why do clients choose to use the various trade finance instruments? Is this determined by reasons of cost, efficiency, safety, or is it at the request of the exporter?

- What tenors are typically in your import transactions?

- To what extent is post import finance provided? How is this structured (L/C deferred payment, avaled bills etc).

- Do you/can you operate your trade finance business through an EU subsidiary to eliminate country risk?

1.2.- Oil and capital equipment imports

- Should oil imports be handled differently from non oil transactions?
- Do they need special support?
- What about large capital equipment imports?

1.3.- Confirming Banks

- Please list your principle confirming banks.
- Do you have sufficient levels of confirmation lines?
- Are tenors sufficient for all types of transactions including large ones?
- Are you required to post cash collateral?

1.4.- Post import finance

-
- Are you always able to provide sufficient finance to clients for import transactions?
- How do you finance capital equipment imports?
- Is finance provided locally or through supplier finance from abroad?

1.5.-Pricing

- Is confirmation pricing provided at a reasonable international level?
- Can you share with us the approximate clean confirmation fees charged to your bank for 180 days?
- Is ECA and supplier finance provided at acceptable rates?

1.6.- Shortcomings

- What constraints and shortcomings do you/your clients face in trade finance?
- What can be done to improve matters?

2.- Exports

2.1.- Your trade finance export profile

- What are the country's main exports?

- Which exports are your clients most involved with?
- Which are your main export partner countries?
- What percentage of the country's exports pass through your bank?
- What percentage are you financing in some way? Please explain product types and usage.
- Do you provide pre-export finance and which stages of the production cycle do you finance?

2.2.- Export Credit Agencies (ECAs)

- To what extent does your national ECA provide support for exports?
- Does it provide both finance and guarantees?
- Does it support SMEs as well as large corporates?
- Is response time reasonably quick?
- Is it cost effective?
- Do you have any suggestions as to how the service could be improved?
- If your ECA does not provide finance would it help if it did?

3.- Intra regional trade

- What percentage of your clients' trade is intra-regional?
- What can be done to help increase this ratio?

4.- Regulatory Control

- Are there any regulatory requirements that could be changed/improved?

5.- Trade Finance Training

- Can EIB assist in any way?

6.- General discussion:

- TFP and how this might help.
- The provision of more general guarantees from EIB
- Would direct finance to your bank from EIB assist your trade business?
- Is there a need to enable banks to lend at longer tenors (for post import finance)

Annex 4 - Customs relations between EU and Mediterranean Countries

1. Customs relations framework

1.1 Bilateral EU relations

The European Community has signed bilateral agreements with Morocco, Algeria, Tunisia, Syria, Lebanon, Egypt, Jordan and with the Palestinian Authority of the west Bank and the Gaza Strip.

These Euro-Mediterranean Association Agreements have are based in the 1995 Barcelona Conference between the member states of the European Union and Partners of the Southern Mediterranean. All the agreements have a similar structure, although each of them keep their own peculiarities, and replaced the co-operation agreements, between the EC and each of these countries, ended in the'70s which give unilateral preferences granted by the EC.

The inspiring notes of each agreement, in relation with customs, are to promote the free movement of merchandises with the total abolition of tariffs and quotas, to form a large free trade area to come into force in 2010.

In this environment the rules about the origin of merchandises are essential towards granting benefits to products on the Euro-Mediterranean market. Rules of origin determine the elaborations that may suffer products without losing their original character.

Legal framework

The Euro-Mediterranean association agreements collected a system of accumulation of origin pan-euro-Mediterranean that is an extension of a previous Pan-European system of accumulation. It therefore operates between the EC and the Member States of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) and Turkey and countries which signed the Barcelona Declaration, namely Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip. Faroe Islands have been added to the system as well.

Cumulation

In the context of the Pan-Euro-Med system, diagonal accumulation means that products which have obtained originating status in one of the 42 countries may be added to products originating in any other one of the 42 without losing their originating status within the Pan-Euro-Med zone.

In Pan-Euro-Med zone, a possibility to cumulate origin diagonally is based on a "variable geometry" rule. It means that countries of the Pan-Euro-Med zone can only cumulate originating status of the goods if the free trade agreements including a Pan-Euro-Med origin protocol are applicable between them. Consequently, a country of the zone which is not linked by free trade agreements with the others is practically outside accumulation's benefits *(The Annex I reflect all existing agreements)*

In parallel, full accumulation is currently operated by the European Economic Area (EEA comprises the Community, Iceland, Liechtenstein and Norway) and between the Community and Algeria, Morocco and Tunisia. These countries apply full accumulation between themselves and diagonal accumulation with the other pan-European countries.

No drawback rule

In the Pan-Euro-Med zone, in principle, in diagonal trade a prohibition of drawback must be respected.

Protocols between the Community and Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip provide for partial drawback which is considered as being in line with the no-drawback rule.

The same protocols allow benefiting from drawback in purely bilateral trade between the EC and those countries. This implies that drawback can be granted only if diagonal accumulation has not been applied and a product has not been re-exported from a country of importation to any of the other countries of the zone.

Proof of origin

The originating status of a product is proved by either:

- a movement certificate EUR.1 or EUR-MED issued by the customs authorities of the exporting country or
- an invoice declaration or an invoice declaration EUR-MED. This may be made out by an approved exporter or by any exporter for a consignment consisting of one or more packages containing products whose total value does not exceed € 6 000.

1.2. Unilaterally concessions

The European Community grants benefits tariff within the Generalised System of Preferences, to the less developed countries, unilaterally, it is not negotiated with them: the preferential treatment is non-reciprocal.

Legal framework

The GSP regulation for the period to 31/12/2008 is Council Regulation (EC) No. 980/2005.

GSP rules of origin are contained in Articles 66 to 97 and Annexes 14 to 18 and 21 Reg. 2454/93

No drawback rule

There is no "no drawback" rule.

Principle of territoriality

Working or processing outside the territory of this beneficiary country is not permitted. Goods exported and subsequently returned may be considered as originating only if it can be demonstrated that they are the same as those exported, and that they have not undergone any operations beyond those necessary to preserve them in good condition.

Accumulation with goods originating in Norway and Switzerland

Because the GSP schemes offered by Norway and Switzerland are similar to EC GSP, a certain linkage between them is possible. Materials (other than agricultural products or products covered by a derogation) which originate in Norway or Switzerland which undergo more than a minimal operation in a beneficiary country, are considered to originate in that beneficiary country, and may be exported to the EC, to Norway or to Switzerland.

In addition, the customs authorities in the Community, Norway or Switzerland may, for the purpose of sending the goods on to one of the other parties, replace a Form A issued by the authorities of a beneficiary country.

Agreement in the form of an Exchange of Letters between the Community and each of the EFTA countries that grants tariff preferences under the GSP (Norway and Switzerland), providing that goods originating in Norway or Switzerland shall be treated on their arrival on the customs territory of the Community as goods with content of Community origin (reciprocal agreement) *(OJ L 38, 8.2.200)*

Proof of origin

The normal proof of origin for goods exported from a country is:

- a certificate of origin Form A or
- an invoice declaration may be made out:
    - by an approved Community exporter
    - by any exporter for any consignment consisting of one or more packages containing originating products whose total value does not exceed EUR 6 000,

The period of validity is 10 months.

2.- EC Agreements:

2.1.- Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia:

The Euro-Mediterranean Agreements established an Association between the Community and its Member States of the one part, and the different Mediterranean countries which has signed the agreement, currently Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.

The objectives of the Agreements are:

- to provide an appropriate framework for political dialogue, allowing the development of close political relations between the Parties,
- to establish conditions for the progressive liberalisation of trade in goods, services and capital,
- to foster the development of balanced economic and social relations between the Parties through dialogue and cooperation,
- to contribute to the economic and social development of Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia
- to encourage regional cooperation with a view to the consolidation of peaceful co-existence and economic and political stability, and
- to promote cooperation in other areas which are of mutual interest.

Free movement of goods

In order to the progressive liberalisation of trade in goods, the Community and Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia shall gradually establish a free trade area over a transitional period from the entry into force of each Agreement, according special modalities and in conformity with the provisions of the General Agreement on Tariffs and Trade of 1994 (GATT) and of the other multilateral agreements on trade in goods annexed to the Agreement establishing the World Trade Organisation (WTO)

The provisions shall apply to products originating in the Community and in Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia falling within Chapters 25 to 97 of the Combined Nomenclature (Industrialize products), with some exception.

Imports into the Community of products originating in Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia shall be allowed free of customs duties and of any other charge having equivalent effect and free of quantitative restrictions and of any other restriction having equivalent effect.

Imports in Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia of products originating in the Community shall be gradually abolished of customs duties and charges having equivalent effect applicable in accordance with a schedule.

No new quantitative restrictions on imports or any other restriction having equivalent effect shall be introduced in trade between the Community and Mediterranean contries.

Mediterranean countries shall not apply to exports to the Community either customs duties or charges having equivalent effect, or quantitative restrictions or measures having equivalent effect. The same is applicable to the Community exports to Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.

Regarding agricultural, fisheries and processed agricultural products, the Community and Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia shall progressively establish a greater liberalisation of their trade in agricultural, fisheries and processed agricultural products of interest to the parties.

Customs

The Parties shall develop customs cooperation to ensure that the provisions on trade are observed. Cooperation will focus in particular on:

- the simplification of controls and procedures concerning the customs clearance of goods;
- the introduction of the single administrative document and a system to link up the Community's and Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia´s
- transit arrangements.

The Parties' administrations will provide mutual assistance.

Statistics

The main objective of cooperation in this field shall be to harmonise methodology in order to create a reliable basis for handling statistics.

Money laundering

The Parties shall cooperate with a view in particular to preventing the use of their financial systems to launder the proceeds arising from criminal activities in general and drug trafficking in particular.

Cooperation in this field shall include, in particular, technical and administrative assistance aimed at establishing effective standards relating to the fight against money laundering.

Capital movements and other economic matters

The Community and Mediterranean countries will ensure, from the entry into force of the Agreements, to help the free circulation of capital for direct investments made in companies formed in accordance with the laws of the host country, and the liquidation or repatriation of these investments and of any profit stemming.

The Parties will hold consultations with a view to facilitating the movement of capital between the Community and Mediterranean countries and achieve its complete liberalisation as soon as conditions are possible.

Economic cooperation

The Parties undertake to intensify economic cooperation in their mutual interest.
The aim of economic cooperation shall be to:

- encourage the implementation of the overall objectives of this Agreement,
- promote balanced economic relations between the Parties,
- support Mediterranean's own efforts to achieve sustainable economic and social development.

2.2.- Syria

The Euro-Mediterranean Conference held in Barcelona in November 1995 marked the starting point of the Euro-Mediterranean Partnership, which includes: a political and security partnership, an economic and financial partnership; and a social, cultural and human partnership.

Current EU-Syria relations are governed by the Co-operation Agreement of 1977. Syria has negotiated a far-reaching Association Agreement with the EU, which should pave the way for the country's full participation in the European Neighbourhood Policy (ENP). The Association Agreement provides a comprehensive framework for the economic, political and social dimensions of the EU-Syria partnership. The agreement was initialled in October 2004 but cannot be implemented yet, Member States having deemed so far that the political context did not allow for signature and ratification.

2.3.- West Bank and Gaza Strip

An Interim Association on Trade and Cooperation is hereby established between the Community and the Palestinian Authority.

The objectives of this Agreement are:

- to provide an appropriate framework for a comprehensive dialogue, allowing the development of close relations between the Parties,
- to establish the conditions for the progressive liberalization of trade,
- to foster the development of balanced economic and social relations between the Parties through dialogue and cooperation,
- to contribute to the social and economic development of the West Bank and Gaza Strip,
- to encourage regional cooperation with a view to the consolidation of peaceful coexistence and economic and political stability,
- to promote cooperation in other areas which are of reciprocal interest.

Free movement of goods

The Community and the Palestinian Authority shall establish progressively a free trade area over a transitional period, according special modalities conformity with the provisions of the General Agreement on Tariffs and Trade of 1994 and of the other multilateral agreements on trade in goods annexed to the agreement establishing the World Trade Organization (WTO).

No new customs duty on imports, or any other charge having equivalent effect, shall be introduced on trade between the Community and the West Bank and Gaza Strip.

Imports into the Community of industrial products originating in the West Bank and the Gaza Strip shall be allowed free of customs duties and of any other charge having equivalent effect and free of quantitative restrictions and of any other measure having equivalent effect.

Products originating in the Community, and included in the treaty, imported into the West Bank and the Gaza Strip, the Palestinian Authority may levy fiscal charges shall be gradually abolished in accordance with the following schedule:

The provisions concerning the abolition of customs duties on imports shall also apply to customs duties of a fiscal nature.

The Community and the Palestinian Authority shall progressively establish a greater liberalization of their trade in agricultural and fishery products of interest

Customs cooperation

Is intended to ensure that the provisions on trade are observed and to guarantee fair trading.

It could give rise to the following types of cooperation:

- various forms of exchange of information and training schemes,
- simplification of controls and procedures concerning the customs clearance of goods,
- introduction of the single administrative document and a system to link up the Community's and the Palestinian Authority's transit arrangements, and
- technical assistance provided by experts from the Community.

Statistics

The main objective of cooperation in this domain should aim to ensure the comparability and usefulness of statistics on foreign trade, finance and balance of payments, population, migration, transport and communications

Cooperation on economic policy

Cooperation is aimed at:

- the exchange of information on the macro-economic situation and prospects and development strategies,
- joint analysis of economic issues of mutual interest, and
- the encouragement of cooperation between economists and policy makers in the West Bank and the Gaza Strip and in the Community.

Regional cooperation

As part of the implementation of economic cooperation in the various spheres, the Parties will encourage operations designed to develop cooperation between the Palestinian Authority and other Mediterranean partners, through technical support.

This cooperation will be an important element of the Community's support for the development of the region as a whole.

Priority will be given to operations aimed at:

- promoting intra-regional trade,
- developing regional cooperation on the environment,
- encouraging the development of the communications infrastructure required for the economic development of the region,
- strengthening the development of youth cooperation with neighbouring countries.

In addition the Parties will strengthen cooperation between them on regional development and land-use planning.

To this end the following measures may be taken:

- joint action by regional and local authorities in the area of economic development, and
- the establishment of mechanisms for the exchange of information and experience.

Capital

With regard to transactions on the capital account of balance of payments, the Parties undertake to impose no restrictions on the movement of capital relating to direct investments in the West Bank and Gaza Strip in companies formed in accordance with current laws, nor on the liquidation and repatriation of the yield from such investments, or any profit stemming there from.

The Parties shall consult each other with a view to facilitating the movement of capital between the Community and the West Bank and Gaza Strip

2. Special situation in each country

2. 1 Republic of Algeria

CE Agreement

Euro-Mediterranean Agreement establishing an Association between the European Community and its Member States, of the one part, and the People's Democratic Republic of Algeria, of the other part (OJEU L 265 10/10/2005)

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)
- Accumulation of origin : Maghreb bilateral , diagonal and full accumulation (Protocol 6)
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)
- Dumping: Council Regulation (EC) No 1911/2006 of 19 December 2006 imposing a definitive anti-dumping duty on imports of solutions of urea and ammonium nitrate originating in Algeria, Belarus, Russia and Ukraine (OJEU L 365 21/12/2006)]

International environment

Maghreb Country

Generalised System of Preferences: country member in the general scheme

WTO: Observer government. Status of accession working party. The Application was Received on 3 June1987

2.2 The Arab Republic of Egypt

CE Agreement

Euro-Mediterranean Agreement establishing an Association between the European Communities and their Member States, of the one part, and the Arab Republic of Egypt, of the other part (OJEU 304 30/09/2004)

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)

- Accumulation of origin : Pan-euro-med accumulation (Protocol 4)
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)

International environment

Machreck Country

Generalised System of Preferences: Country member in the general scheme

WTO: Egypt has been a member since 30 June 1995.

2.3 The Palestinian Authority of the West Bank and the Gaza Strip

CE Agreement

Euro-Mediterranean Interim Association Agreement on trade and cooperation between the European Community, of the one part, and the GWB Liberation Organization (PLO) for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip, of the other part. (OJEU L 187 16/07/1997)

The interim Association Agreement is in application until the celebration of the Euro-Mediterranean Agreement establishing an Association.

Special customs situation

Cumulation of origin: Bilateral cumulation (Protocol 3)

Customs legislation in the best Bank and Gaza Srip derives from Jordanian or Israeli law. In addition to this, the Paris Economic Protocol of 1994 governs economic and trade relations between the PA and Israel.

2.4 The Hashemite Kingdom of Jordan,

CE Agreement

Euro-Mediterranean Agreement establishing an Association between the European communities and their Member States, of the one part, and the Hashemite Kingdom of Jordan of the other part (*OJ L 129, 15.5.2002)*

Recommendation No 1/2005 of the EU-Jordan Association Council of 9 June 2005 on the implementation of the EU-Jordan Action Plan (*OJ L 228, 3.9.2005)*

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)
- Accumulation of origin: Pan-Euro-Med accumulation (Protocol 3)
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)

International environment

Machreck Country

Generalised System of Preferences: country member in the general scheme

WTO: Jordan has been a member of WTO since 11 April 2000.

2.5 Republic of Lebanon

CE Agreement

Euro-Mediterranean Agreement establishing an Association between the European Community and its Member States, of the one part, and the Republic of Lebanon, of the other part (OJEU L 143 30,05,2006)

Recommendation No 1/2007 of the EU-Lebanon Association Council of 19 January 2007 on the implementation of the EU-Lebanon Action Plan (*OJ C 89, 24.4.2007)*

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)
- Accumulation of origin: Bilateral and diagonal accumulation (Protocol 4)
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)

International environment

Machreck Country

Generalised System of Preferences: Country member in the general scheme

WTO: Observer government. Status of accession working party. The Application was received on 30 January 1999

2.6 Kingdom of Morocco

CE Agreement

Agreement in the form of an Exchange of Letters between the European Community and the Kingdom of Morocco concerning certain amendments to Annexes 2, 3, 4 and 6 to the Euro-Mediterranean Agreement establishing an association between the European Communities and their Member States, of the one part, and the Kingdom of Morocco, of the other part *OJ L 70, 18.3.2000*

2005/904/EC: Decision No 2/2005 of the EU-Morocco Association Council of 18 November 2005 amending Protocol 4 to the Euro-Mediterranean Agreement, concerning the definition of the concept of originating products and methods of administrative cooperation *OJ L 336, 21.12.2005,*

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)
- Accumulation of origin: Diagonal and full Pan-Euro-Med accumulation (Protocol 4)
- Council Regulation (EC) No 1886/2004 of 25 October 2004 extending the definitive anti-dumping duty imposed by Council Regulation (EC) No 1796/1999 on imports of steel ropes and cables originating, inter alia, in the People's Republic of China to imports of steel ropes and cables consigned from Morocco, whether declared as originating in Morocco or not, and terminating the investigation in respect of imports from one Moroccan exporter *(OJ L 328, 30.10.2004),*
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)

International environment

Magreb Country

Generalised System of Preferences: country member in the general scheme

WTO: Morocco has been member since 1 January 1995.

2.7 Syrian Arab Republic

CE Agreement

Cooperation Agreement between the European Economic Community and the Syrian Arab Republic (*OJ L 269, 27.9.1978)*

Syrian is a full participant in the Barcelona Process. However, negotiations on a EU-Syrian Association agreement were concluded in October 2004, but the agreement has yet to be signed and ratified. Then current relations are governed by the 1977 Cooperation Agreement.

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)

Accumulation of origin

Bilateral and diagonal accumulation (Protocol 2)

International environment

Machreck Country

2.8 Republic of Tunisia

CE Agreement

Euro-Mediterranean Agreement establishing an association between the European Communities and their Member States, of the one part, and the Republic of Tunisia, of the other part (*OJ L 97, 30.3.1998)*

Recommendation of the EU/Tunisia Association Council of 4 July 2005 on the implementation of the EU/Tunisia Action Plan (OJ *C 327, 23/12/2005)*

Special customs situation

- Customs nomenclature: Party contracting to the harmonized system for the classification of goods (Developed by the World Customs Organization)
- Accumulation of origin: Maghreb bilateral , diagonal and full accumulation (Protocol 4)
- Excluded country from the Commission Regulation (EC) No 1694/2002 of 27 September 2002 imposing definitive safeguard measures against imports of certain steel products (OJEU L 261 28/09/2002)

International environment

Magreb Country

Generalised System of Preferences: country member in the general scheme1

WTO: Tunisia has been a member since 29 March 1995.

List of Information Sources

EIU (Economist Intelligence Unit) http://www.eiu.com/

EU Trade Information http://europa.eu/pol/comm/index_en.htm

Capital Intelligence (CI) Rating Reports http://www.ciratings.com/

World Trade Organisation http://www.wto.org/

World Bank http://www.worldbank.org/ - http://www.doingbusiness.org

Muslim Trade Network http://www.muslimtrade.net/b2b/

FITA (The Federation of International Trade Associations) http://www.fita.org/

Union of Arab Banks http://www.uabonline.org/

Union of Arab Banks – Arab banks and Financial Institutions Directory

Central Banks and Trade Association of the various countries

Discussions with international banks

Discussions with local banks, ECAs and Bank Associations

European Investment Bank

Facility for Euro-Mediterranean Investment and Partnership

IAAG Consultoría & Corporate Finance has been contracted by the EIB to undertake a review of existing trade finance services in the Euromed region. The enhancement of international trade has historically been the cornerstone of economic growth in the world, leading to the reduction of poverty and greater national prosperity. This concept is supported by a plethora of economic analyses which demonstrate the importance of trade finance to a country's overall performance. A World Bank reports states –trade finance and related services play a critical role in economic development–. International trade in developing countries is equivalent to about one-half of gross national income. Any increase in trade therefore has a major impact on economic activity. One of the main messages of the World Bank analysis is that –participation of IFI's in international trade can help less creditworthy countries and firms expand their access to finance–. Support of trade finance in developing countries is crucial to their development.

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