



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

FEMIP financing operations in Syria

FEMIP: Financing in Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia

FEMIP is the key player in the financial partnership between Europe and the Mediterranean, providing almost EUR 7.3 billion of financing between October 2002 and December 2007.

The Syrian economy is highly dependent on its oil sector – which provides half of the government's revenues and about two thirds of its export revenues – as well as on the agriculture sector, which contributes around 30% of GDP and employment.

With oil reserves expected to be exhausted within 10-15 years, economic diversification is at the top of the policy agenda. While some measures have been taken to improve productivity and competitiveness, further efforts are needed to strengthen economic activity and create jobs for an expanding work force.

As the European Union's financing institution, the EIB supports Syria by financing infrastructure projects that improve the business climate and by encouraging private sector initiatives. The EIB has provided financing worth more than EUR 1.1 billion since the start of its activities in Syria in 1978, with a significant increase since the establishment of FEMIP in 2002.

About FEMIP

The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) brings together the whole range of services provided by the European Investment Bank in the Mediterranean partner countries.

Operational since October 2002, it is now the key player in the financial partnership between Europe and the Mediterranean, providing almost EUR 7.3 billion of financing between October 2002 and December 2007.

Over the period 2007-2013, FEMIP has EUR 8.7 billion at its disposal to support projects in the nine Mediterranean partner countries. These resources are augmented by EUR 2 billion under the Mediterranean Partnership Facility II and by EU budget resources for technical assistance and private equity activities.

FEMIP encourages the modernisation and opening-up of the economies of the Mediterranean partner countries. Activities are focused on two priority areas: development of the private sector and the creation of an investment-friendly environment.

The EIB in Syria: A multisectoral approach

EIB financing in Syria since 1978 has been spread amongst the key sectors of energy, transport, telecommunications, environment, health and support for small and medium-sized enterprises (SMEs):

- **Energy:** This sector is the largest beneficiary of EIB loans in Syria with over EUR 615 million of financing provided for the upgrading and modernisation of the electricity transmission and distribution systems and for the construction of two power plants in Deir Ali and Deir Azzour.
- **Transport and telecommunications:** EUR 50 million and EUR 100 million have gone respectively to support the modernisation of the port of Tartous and the development of rural telecommunications.
- **Water and the environment:** The Bank has provided some EUR 85 million for a

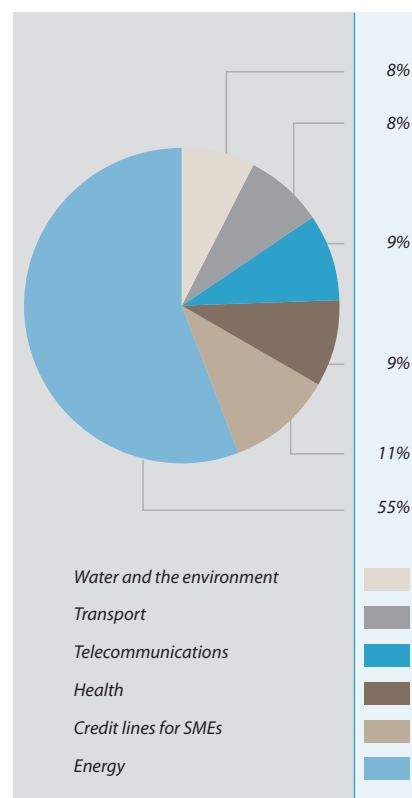
number of water and irrigation projects. In 2006, it signed the Damascus rural water and sanitation project.

- **Health:** EUR 100 million has been provided for the modernisation of hospitals throughout the country.
- **Support for SMEs:** Two credit lines totaling EUR 120 million have been provided to finance capital investment projects mounted by Syrian small and medium-sized enterprises. The first credit line signed in 2003 was the Bank's first operation in Syria in support of the private sector.
- **Technical Assistance (TA):** Syria is amongst the largest beneficiaries of FEMIP's TA operations. EUR 17.3 million has gone to 19 TA operations contracted between 2003 and 2007. Technical assistance is a key instrument for improving the quality of lending operations and increasing their impact on development. The technical assistance portfolio in Syria is a diversified sector-wise as the lending portfolio.

Energy is the largest beneficiary of EIB loans in Syria, with over EUR 615 million of financing provided to this sector.



Sectoral breakdown of EIB operations in Syria (1978-2007): EUR 1.1 billion



More gas, less oil

Syria's energy sector has historically been largely dependent on the country's oil resources. However, Syria intends to place greater emphasis on natural gas and needs to develop the infrastructure required to extract and distribute gas. The setting-up in February 2003 of Syria's national gas company underlines the increasing importance of this sector to the domestic authorities.

In this context, the EIB extended in 2004 and 2005 two loans for a total value of EUR 400 million to build natural gas-fired combined cycle power plants located near Deir Azzour on the Euphrates river and near Damascus.

These projects will contribute to lowering greenhouse gas emissions and will provide cheaper energy through the use of local gas resources. Furthermore, the development of a regional gas market could offer substantial opportunities for the economic growth of Syria and its neighbours.

Looking for new options for private sector investment financing

Following a request from the Syrian Ministry of Finance, FEMIP launched a feasibility study to investigate new options to expand medium and long-term financing for private sector projects through domestic lending institutions.

The study financed by the FEMIP Technical Assistance Support Fund was published in March 2006. It recommends different potential scenarios for restructuring the banking sector and proposes the establishment of a number of new financing institutions and/or products (e.g. a “difficult debt institution”, a Syrian SME bank and an export credit insurance facility), which it is believed will be of particular benefit to the Syrian economy.

This first phase is currently being followed by a second one which focuses on an assessment of the loan portfolio of a number of public sector banks and assisting them in the preparation of accounts in accordance with International Financial Reporting Standards (IFRS), as a first step towards the rehabilitation of the overall banking sector.



The successful implementation of the SME fund shows the potential for private sector development in Syria.

SME Fund II: Providing long-term financing for SMEs

The Bank is providing a EUR 80 million credit line to finance investments carried out by private sector SMEs in a number of sectors, comprising industry, services, infrastructure, tourism, environmental protection, health and education sectors.

This operation builds on a first operation signed in September 2003 for an amount of EUR 40 million. Soon to be fully disbursed, this operation has proved to be very successful.

In line with the objectives of FEMIP, the operation provides an appropriate contribution to the sustainable financing of SMEs, which today play a strategic role for the balanced economic and social growth of the country. As in the case of the first credit line, FEMIP will provide substantial technical assistance during the implementation of the project.

This operation will directly support the ongoing liberalisation process in Syria by facilitating investments into a number of crucial economic sectors. In addition, it will reinforce the impact of a number of parallel programmes for the development of both the private and financial sectors in the country, promoted by the Bank and a wide range of other donors.

A forum for dialogue

FEMIP involves the Mediterranean partner countries in its lending policy guidelines through constructive discussions on economic, financial and sectoral matters. This dialogue operates at three levels:

- The FEMIP Ministerial Council, which brings together once a year the Euro-Mediterranean ministers of Economy and Finance.
- The FEMIP Advisory Committee, which is composed of representatives of the Member States, the Mediterranean countries and the Commission. The Committee meets several times a year and has the remit of discussing FEMIP’s strategy, approving its annual report and issuing opinions on the launch of new financial products.
- The FEMIP Conferences, which periodically bring together representatives from the private and public sectors and civil society, academics and experts to discuss topics relating to regional integration and economic development in the Mediterranean partner countries.



Facility for Euro-Mediterranean Investment and Partnership

Contacting FEMIP

Direct loans (with an investment cost of over EUR 25 million) and private equity financing can be requested directly from the EIB. Applications for the financing of smaller-scale projects should be addressed directly to the financial institutions or commercial banks to which the EIB has granted credit lines. A list of the partner institutions in Mediterranean countries and other information on lending can be found on the Bank's website (www.eib.org/femip).

FEMIP products

- Long-term direct loans for large-scale projects (costing more than EUR 25 million)
- Credit lines to intermediary banks, which on-lend the funds to finance investment undertaken by small and medium-sized enterprises or local authorities
- Credit lines to microfinance institutions
- Private equity (direct equity or quasi-equity investments in unlisted companies, private equity funds and co-investments with local intermediaries)
- Technical assistance to strengthen the capacity of Mediterranean partner countries and promoters and to finance upstream studies and activities focusing on private sector development

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