FEMIP

Facility for Euro-Mediterranean Investment and Partnership

Annual Report 2006

Message from the Vice-President

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EIB Vice-President
in charge of FEMIP
May 2007

For FEMIP, certainly, but even more so for the Euro-Mediterranean partnership as a whole, 2006 will be viewed as a landmark year, for at least three reasons:

Operationally, as you will be able to see from reading this report, the volume of FEMIP's activities was again considerable and the quality of those activities high. This enabled us to make full use, within the allotted time frame, of the lending mandate entrusted to the EIB in 2000 and to foster private sector development and the creation of an investment-friendly environment, FEMIP's two priority objectives.

The year in question also provided the opportunity to continue the policy of diversification embarked upon in 2002, when FEMIP was established, with a presence that extended from the health sector to the petrochemical industry, from microcredit to lines of credit for environmental protection, from technical assistance to sectoral studies. By offering this range of operations and injecting more than EUR 1.3 billion in new finance, FEMIP again played a significant part in the modernisation and economic development of the Mediterranean region.

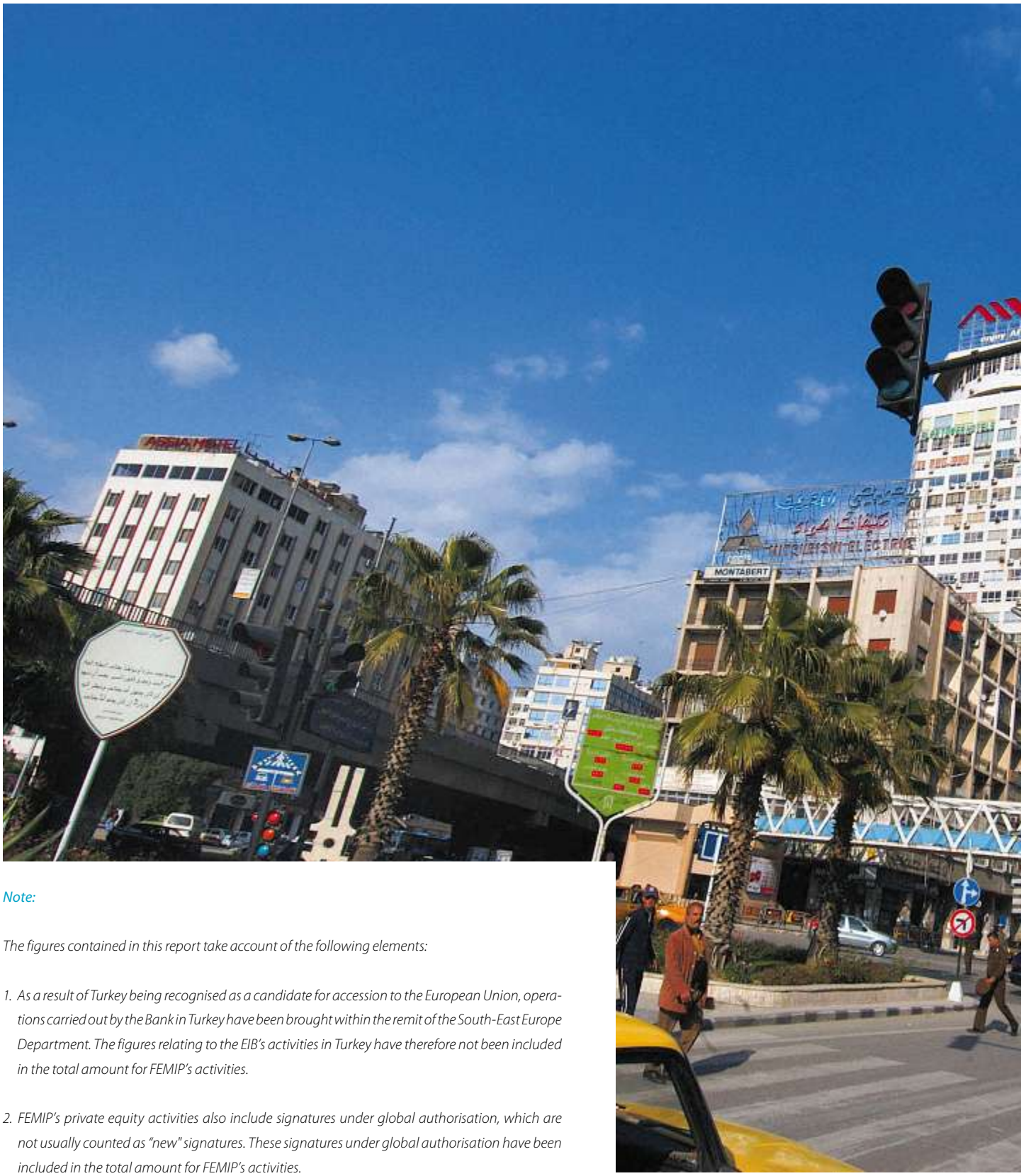
FEMIP's contribution to new thinking and the Euro-Mediterranean dialogue also took many forms in 2006, with in particular the last meeting of the Committee of Experts, the first major thematic conference and the launching of a programme for young interns. This cultural dimension is essential for building a genuine partnership.

Institutionally, 2006 saw the successful completion of the process of reviewing FEMIP's activities that had been initiated with the European Commission, with the support of the Bank and in conjunction with all stakeholders in the Euro-Mediterranean partnership. On the basis of a wide-ranging exchange of views at the June Ministerial Committee meeting in Tunis, the Council of the European Union in November confirmed the remit entrusted to FEMIP. While maintaining the existing arrangements, FEMIP was asked to step up its efforts to stabilise, on a sustainable basis, at 50% the share of its financing in favour of the private sector. This will involve a new phase of strengthening the instruments offered to promoters, in cooperation with the partner countries. It also assumes that FEMIP will have all the resources needed to accomplish this new task.

With regard to resources in particular, an important stage was also marked with the approval by the European Council in December of the new generation of loans to be deployed by the EIB over the period 2007-2013. Of the total, the share earmarked for the European Union's neighbours amounts to EUR 12.4 billion, the largest external lending mandate ever in the history of the Bank. Two thirds of this sum will go to the Mediterranean partner countries to help with their reform and investment efforts. In this way the Member States sent them a strong message of support and FEMIP is now preparing to translate that message into concrete action.

To that end, FEMIP will be able to draw on the work of its Committee, a new body decided upon by the European Council. This Committee brings together the representatives of the 27 Member States, the ten partner countries and the European Commission and provides a novel forum for ideas and guidance within the Euro-Mediterranean partnership.

Politically, FEMIP's activities should now be seen, in concrete terms, as lying at the heart of the European Neighbourhood Policy, which has itself also recently been strengthened to help create a common area of stability, security and well-being. The Mediterranean countries must not fear this new stage but, on the contrary, view it as an opportunity to participate in a grand joint ambition with Europe. Even so, it is only natural – indeed essential – to want to preserve the particular nature and specific objectives of the Barcelona Process. FEMIP, the bank promoting Mediterranean objectives, continues to serve that goal.



Note:

The figures contained in this report take account of the following elements:

1. *As a result of Turkey being recognised as a candidate for accession to the European Union, operations carried out by the Bank in Turkey have been brought within the remit of the South-East Europe Department. The figures relating to the EIB's activities in Turkey have therefore not been included in the total amount for FEMIP's activities.*

2. *FEMIP's private equity activities also include signatures under global authorisation, which are not usually counted as "new" signatures. These signatures under global authorisation have been included in the total amount for FEMIP's activities.*

Contents

Overview

The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) brings together under one roof the whole range of services provided by the European Investment Bank (EIB) in the southern and eastern Mediterranean.

Operational since October 2002, it is the key player today in the economic and financial partnership between Europe and the Mediterranean.

Its objective is to support the modernisation and opening-up of the Mediterranean partner countries' economies.

To that end, there are two priorities: support for the private sector and the creation of an investment-friendly environment.

FEMIP is also a meeting place and a forum for dialogue between Europeans and Mediterraneans.

FEMIP at a glance

I – Results for 2006

EUR 1.3 billion
invested in the Mediterranean partner countries

20 projects
financed to support growth and job creation

The Mediterranean partner countries

The Mediterranean partner countries are Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia.

As for Turkey, it continues, after being recognised as a candidate for accession to the EU, to participate in the institutional dialogue initiated under FEMIP. However, operationally, activities carried out in Turkey now come under the South-East Europe Department.

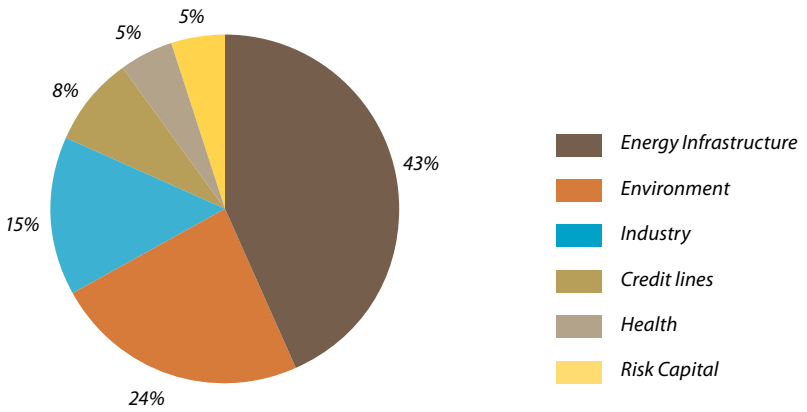
Geographical distribution

EUR 884 million in the Near East
Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Syria

EUR 445 million in the Maghreb
Algeria, Morocco, Tunisia

EUR 40 million for regional projects

FEMIP operations in 2006 (sectoral breakdown)



Sectoral breakdown

EUR 594 million for energy infrastructure
Gas pipelines, power plants, electricity distribution networks

EUR 325 million for environmental protection
Water and sanitation, waste treatment

EUR 200 million invested in industry
Petrochemical industry

EUR 115 million for small and medium-sized enterprises
Services, tourism, agrifoodstuffs, etc.

EUR 70 million for the health sector
Rehabilitation and renovation of hospitals

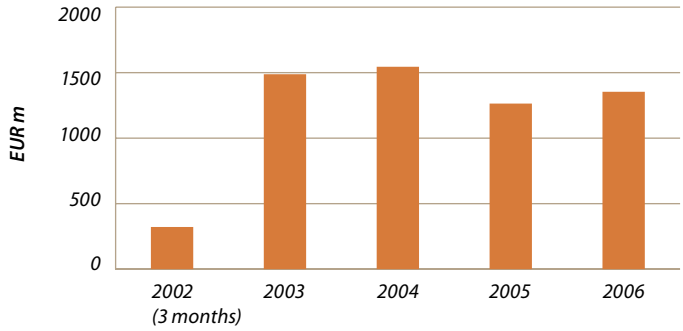
EUR 65 million In the form of private equity
Investment funds, acquisition of holdings in local companies

II – Results for 2002-2006

Between October 2002, the date on which it was launched, and December 2006, FEMIP:

- invested nearly **EUR 6 billion** in the nine Mediterranean partner countries;

Yearly trend in FEMIP signatures

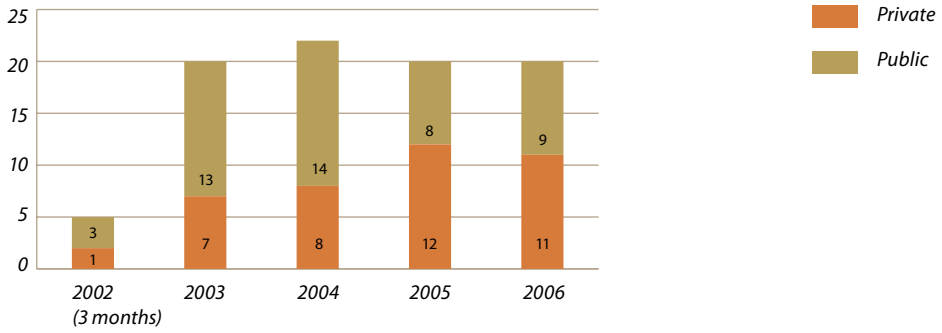


- financed **87 projects in favour of modernising and opening up the partner countries' economies**;

- **mobilised a further EUR 13.8 billion** in additional resources provided by the project promoters, other bilateral or multilateral financial institutions, or even commercial banks. This means that FEMIP managed to **leverage more than twice its own contribution**;

» **was involved in strengthening the private sector** in the region with **40 private projects financed**, i.e. nearly 46% of the total number of FEMIP projects;

Yearly trend in public-private sector split (number of projects)



» **financed more than 1 600 small and medium-sized enterprises** via its credit lines;

» **helped to improve the investment climate**, by devoting more than **60% of the total volume** of finance to projects in the infrastructure sector, particularly **transport and energy**;

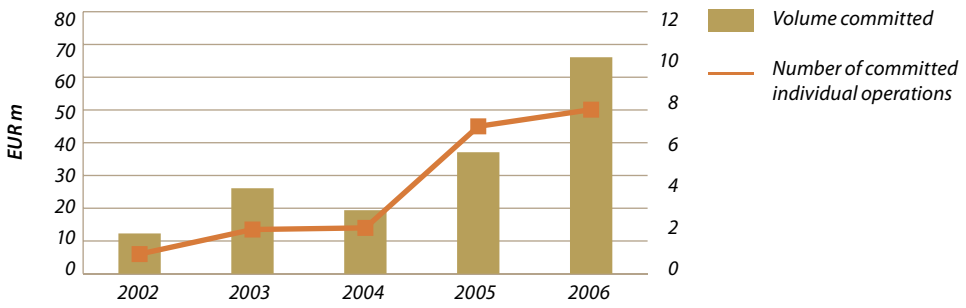
FEMIP projects (October 2002-December 2006)

	Infrastructure			Industry	Environ-ment	Human capital	Credit lines	Risk capital	Total
	Energy	Transport	Telecoms						
Algeria	-	230	-	75	-	-	-	10	315
Egypt	1397	290	-	200	55	-	100	21	2063
Gaza/ West Bank	45	-	-	-	-	-	-	10	55
Israel	-	-	-	-	200	-	75	-	275
Jordan	100	26	-	-	-	40	-	-	166
Lebanon	-	60	-	-	105	-	110	-	275
Morocco	370	325	-	-	170	100	30	45	1040
Syria	400	50	100	-	45	-	40	-	635
Tunisia	169	290	-	115	74	110	355	1	1114
Regional	-	-	-	-	-	-	-	48	48
Total	2481	1271	100	390	649	250	710	135	5986

- **launched 62 technical assistance operations** totalling EUR 36.8 million, with the aim of **improving the quality of lending operations** and increasing their impact on development;

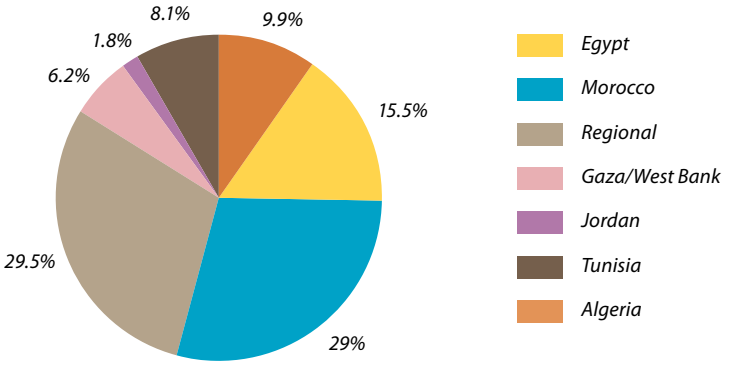
- **developed** its **private equity** activity in the Mediterranean, to the point where it has become **the most active risk capital investor in the region**, with a portfolio of over EUR 380 million involving more than 750 operations, including 22 investment funds and the acquisition of numerous holdings in local companies. The number of **operations** and the amounts involved **have risen significantly** over the past two years;

Risk capital commitments between October 2002 and December 2006



» **increased the number of regional risk capital operations. This trend** towards more regional operations is expected to **persist** as private sector counterparties understand the need to consolidate markets in order to compete against global players. Some are actively building their investment strategy around the creation of **"regional champions"** in this area.

Commitments per country between January 2005 and December 2006



Changes ahead in 2007

For FEMIP, 2006 marked a turning point, with the European Commission embarking – in cooperation with the EIB – on a wide-ranging process of deliberation and consultation on FEMIP's future development.

In November 2006, the ECOFIN Council decided to reinforce the Facility further. The Council also provided FEMIP with the resources to implement its policies by giving it a lending authorisation of EUR 8.7 billion for the Mediterranean partner countries over the period 2007-2013.

2006: a watershed year

In accordance with the recommendation of the December 2003 European Council that FEMIP be revisited in 2006, the European Commission initiated a review of the Facility in close liaison with the EIB.

This evaluation exercise took several forms. All of FEMIP's stakeholders – not only the Mediterranean partner countries and the Member States but also promoters, NGOs and financial institutions – were consulted by means of questionnaires prepared by the European Commission.

The EIB for its part conducted bilateral discussions with the authorities in all the Mediterranean countries through a series of visits conducted in the first half of 2006.

The sixth ministerial meeting of FEMIP, held in Tunis in June 2006, was one of the high points in this consultation process, providing a forum for the European and Mediterranean ministers who attended to set out their views on the Facility's future. Many participants also commended FEMIP's achievements and its ability to meet the region's expectations and needs in terms of financing and support for the private sector.

At the end of this consultation phase, the Commission submitted a communication on FEMIP's prospects to the EU Finance Ministers. The ECOFIN Council meeting in Brussels in November 2006 rated the results achieved as favourable and took the decision to reinforce FEMIP.

Setting the course for 2007-2013

That decision marked out two priority areas for FEMIP's development:

- Reinforcement of its operational instruments to enable it to expand its contribution towards developing the private sector.
  This requires FEMIP to continue broadening the range of its instruments and to develop new products such as local currency loans and guarantee funds. Greater risk-taking on the part of the Bank and the local financial intermediaries is to be encouraged. FEMIP must also consolidate risk capital operations and technical assistance, which are crucial for the development of local SMEs.

- Reinforcement of partnerships in order to increase partner countries' involvement.
  This requires FEMIP to extend the policy of dialogue with the partner countries through the establishment of a Committee composed of representatives of the Member States, the Mediterranean countries and the Commission. This Committee, replacing the FEMIP Experts Committee, has the remit of discussing FEMIP's strategy, approving its annual report and issuing opinions on FEMIP's sectoral strategy and the launch of new financial products.

Over the period 2007-2013, FEMIP will have at its disposal EUR 8.7 billion to support projects in the nine Mediterranean partner countries. This is nearly twice as much as the amount earmarked for these countries under the previous Euromed II mandate, and will be augmented by EU budget resources for technical assistance and risk capital activities, as well as the interest subsidies granted by the Commission.

Building on the very good results achieved during the period 2002-2006, FEMIP will continue to support the Barcelona Process by contributing to growth and job creation in the Mediterranean partner countries. It will also help to implement the European Neighbourhood Policy adopted in 2004, which is aimed in particular at encouraging the partner countries to promote equitable economic development.

These encouraging prospects usher in the period 2007-2013, which should enable FEMIP to serve even more effectively the Euro-Mediterranean partnership's main ambition, namely to create a common area of shared stability and prosperity.

What does FEMIP do?

FEMIP employs three main types of product: loans, private equity and technical assistance.

Products		Objectives	Beneficiaries
Loans	Credit lines	Development of small and medium-sized entreprises (SMEs) through lines of credit to EIB partners, commercial banks or development finance institutions, which then on-lend to their own clients.	SMEs
	Individual loans	Development of Mediterranean partner countries' economic infrastructure, with special emphasis on private sector development and the creation of a business-friendly environment.	Private and public sector promoters
Private equity		Promote the creation or strengthening of the equity base of productive enterprises, particularly those resulting from partnerships with EU-based companies.	- SMEs - Medium-sized private companies - Investment funds - Microfinance institutions
Technical assistance		Improve the quality and development impact of FEMIP operations by: - strengthening the capacity of Mediterranean partner countries and promoters; - financing upstream studies and activities focusing on private sector development.	All FEMIP clients

6th FEMIP Ministerial Meeting, Tunis, June 2006.

Financing facilities

The resources deployed by FEMIP during the period 2002-2006 stemmed largely from the Euromed II mandate, now wholly exhausted. For the period 2007-2013 FEMIP funding will derive from the new MED mandate under the European Neighbourhood Policy mandate, augmented by several complementary financing facilities.

The following table summarises FEMIP's financing facilities.

Name	Nature	Amount in EUR	Period	Objective
Euromed II mandate	Mandate conferred by the Member States, from the Bank's own resources	6.52 billion[1]	1 February 2000-31 January 2007	Contributing to the development of the private sector and infrastructure of the Mediterranean partner countries
ENP MED mandate	Mandate conferred by the Member States, from the Bank's own resources	8.7 billion	1 February 2007-31 December 2013	Contributing to the development of the private sector and infrastructure of the Mediterranean partner countries
Euro-Mediterranean Partnership Facility	From own resources	1 billion	2001-31 January 2007	Supporting projects of regional interest and common interest between the European Union and the partner countries, notably in the energy and communications sectors
Mediterranean Partnership Facility II	From own resources	2 billion	2007- 2013	Supporting well-defined priority projects of particular relevance to both the EU and the partner countries (regional development, sector policies, environment, support of EU enterprises, etc.)
Risk capital and technical assistance envelope[2]	EU budget	approx. 268 million	2007-2010	Fostering the creation or strengthening of equity and quasi-equity resources for SMEs in the Mediterranean partner countries
Risk capital envelope	EU budget	200 million	2001-2006	Fostering the creation or strengthening of equity and quasi-equity resources for SMEs in the Mediterranean partner countries
Technical Assistance Support Fund	EU budget	105 million	2003-2006	Helping the partner countries and private promoters to improve the preparation, management and supervision of their investment projects
Interest rate subsidies	EU budget	200 million	Since 1995	Supporting environmental projects
FEMIP Trust Fund	Contributions from the Member States and European Commission	33.5 million	Since 2004	Strengthening technical assistance by financing sectoral studies and supporting the private sector by providing equity and quasi-equity finance

[1] *Initially set at EUR 6.425 billion, this mandate was increased to EUR 6.520 billion after appropriation of the balances still unexpended by the candidate countries at the time they joined the Union. The scope of this mandate initially covered 12 countries (including Turkey, Cyprus and Malta) but was gradually reduced to the present nine Mediterranean partner countries.*

[2] *The risk capital and technical assistance envelope will be reviewed in 2010 on the occasion of the Mandate mid-term review.*

Addressing climate change

In order to support the EU's environmental policy, the EIB has established specific instruments that contribute to the development of Joint Implementation and Clean Development Mechanism projects inside and outside the EU. These instruments also cover projects in Mediterranean partner countries. The EIB's Climate Change Facilities comprise:

- *a EUR 1 billion Climate Change Financing Facility (2005-2008), which provides long-term loan finance to companies participating in the EU Emissions Trading Scheme. The Facility was enlarged in May 2006 to include financing for any project that significantly reduces greenhouse gas emissions, regardless of region, sector or type of greenhouse gas, or makes a significant contribution to climate change adaptation outside the EU;*

- *a EUR 5 million Climate Change Technical Assistance Facility provides advance funding for activities associated with the development of project-based carbon credits under the Joint Implementation and Clean Development Mechanism arrangements on a conditional loan basis.*

Investment climate in the Mediterranean

A recent pick-up in tourism has been registered in several Mediterranean partner countries. Here, the Medina project in Tunisia, which was financed via an EIB credit line.

Despite favourable recent macroeconomic developments in the Mediterranean partner countries, the key challenges facing the region are high unemployment and low productivity. The job creation challenge rests in the ability to conduct far-reaching structural reforms to improve the investment climate and become integrated into the global trading system. In practice, countries that have created more open, investment-friendly markets, while relaxing constraints that increase the cost of doing business, have been able to stimulate domestic investment and attract significant flows of foreign direct investment along with their integration into broader economic areas. In order to enhance the investment climate, partner countries' governments aim to strengthen their capacity for designing, implementing and monitoring investment policy reforms and improve intra-governmental policy coordination and cooperation. A number of countries, such as Morocco, Egypt, Israel, Jordan, Lebanon, Syria and Tunisia, have already drawn up reforms that include concrete investment policy reform measures aimed at improving their investment environment.

Macroeconomic developments

After several years of extremely good expansion, largely as a result of the exceptionally strong international oil markets, economic growth prospects for the Mediterranean region are robust. The region's economy grew by an average of 4.4% in 2005 and 2006 and is expected to grow by 4.8% in 2007[3]. Oil exporters will continue to benefit from record oil prices, but strong oil revenues will continue to tempt governments to raise public spending and investment (see page 20). Private investment in the non-oil sector will also strengthen as commercial banks continue to seek outlets for rising oil-induced liquidity levels. Furthermore, the strengthening of the euro against the US dollar will raise the competitiveness of non-oil exports from the region. This is expected to benefit countries such as Jordan, Morocco and Tunisia, particularly as they come to terms with the ending of the Multi-Fibre Agreement[4].

The oil-related surge in liquidity over the past two years has underpinned rising price pressures across the region, although 2006 consumer price increases tended to be at single-digit levels, except for Syria. Higher government spending has stimulated domestic consumption and reinforced domestic demand. The decline of the US dollar against the euro and the yen also contributed to the inflationary pressure, particularly among countries whose currencies are pegged to the dollar. In 2007, such pressures will be partially offset by an expected decline in non-commodity prices. On the other hand, extensive oil subsidies, including in non-oil-exporting countries, will help to contain inflationary pressures. Thus, average inflation in the Mediterranean region is expected to remain at 5% in 2007, as in 2006.

The external current account position in the Mediterranean partner countries is healthy, especially for oil-exporting countries. However, continued strong increases in merchandise imports (as public spending and private consumption strengthens) will have a negative impact on the current account balance in 2007. The outlook for resource-poor countries in the region is less robust, but nonetheless comfortable, with some exceptions such as Jordan and Lebanon. Non-oil exports will be supported by the strengthening of the euro – Europe is the most important destination for the (non-oil) exports of most of the Mediterranean partner countries. Moreover, a rise in workers' remittances, a recent pickup in tourism and increased earnings from stocks of foreign assets will contribute to the positive outlook for partner countries' external current account position.

After reaching a record level of US$ 53 billion in 2005, net private capital flows to the Mediterranean partner countries[5] declined in 2006 and are expected to decline further in 2007 (see Figure 1). A large portion of this decline is due to a sharp decrease in net commercial bank lending, with flows diminishing to about US$ 11 billion in 2007 from more than US$ 15 billion in 2006. On the other hand, net private capital flows to Mediterranean partner countries excluding Turkey are on an upward path, although the increase will represent only a marginal share of total net private capital flows to developing countries: from 1.8% in 2006 to 2.8% in 2007. Due to mass privatisation in Turkey, net foreign direct investment (FDI) in 2006 reached the record level of almost US$ 37 billion in the Mediterranean region. Despite the fact that merger and acquisition activity in the banking sector is set to continue, obstacles put in place by Turkish courts will slow down the pace of FDI in the region. In the rest of the region, Egypt will be the largest net FDI recipient, although at a declining rate. Nevertheless, there are a number of reasons to be cautious about the prospects for FDI in the region. In 2006, net direct investment represented only 20% of total FDI flows in developing countries (excluding Turkey, the ratio drops to 7.5%) and in 2007 regional net FDI is set to decrease to 9% of total FDI flows to developing countries (excluding Turkey, to 5.5%). It seems that FDI activity is likely to be discouraged by growth-constraining structural weaknesses and financial vulnerabilities, as well as by political tensions in the region.

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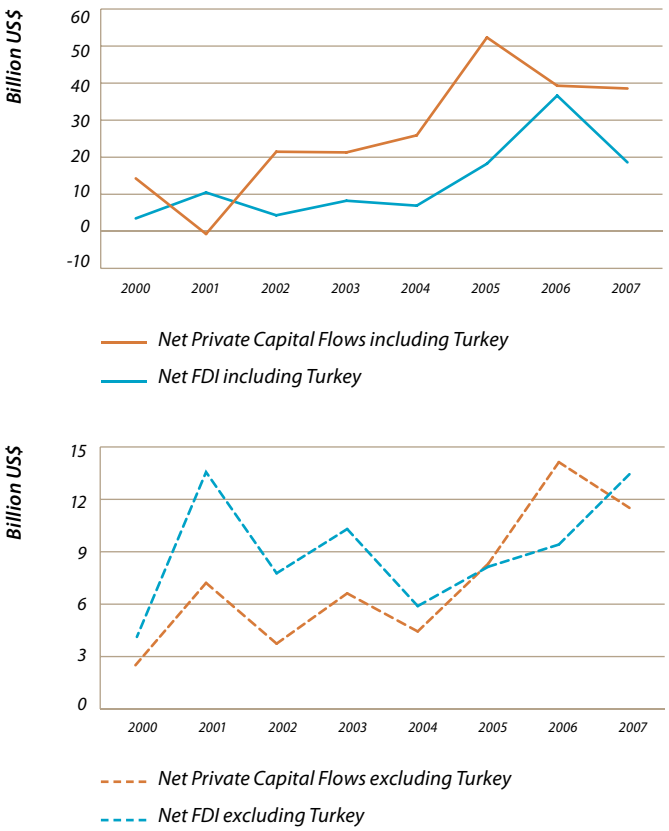
[3] *The analysis in this paper covers all Mediterranean partner countries, including Israel and Turkey. The data presented in this chapter are taken from figures provided by the World Bank, the Institute of International Finance and the September 2006 IMF World Economic Outlook.*

[4] *The MFA was a system of guaranteed quotas for textile exports that ended at the beginning of 2005.*

[5] *Data exclude Israel but include Turkey.*

Figure 1: Net private capital flows and net FDI flows to Mediterranean partner countries[6]



Fiscal balances across the region remained at a sustainable level, especially in the oil-exporting countries. Government revenues, which reached unprecedented levels in 2006, are expected to decline only marginally in 2007 as oil prices are unlikely to fall. Despite expectations of increased spending, the fiscal accounts of the region's oil producers are unlikely to experience major downward pressure. The fiscal positions of the region's non-oil economies will be challenging, partly because of persistently high recurrent expenditure.

[6] *Data do not include Israel, the West Bank or Gaza. 2007 data are World Economic Outlook forecast.*

Table 1: Current trade policy in Mediterranean partner countries (MPC)

	Average tariff	Average time for exports (days)	Average time for imports (days)	Overall trade policy (index 1-100)
Algeria	18.7	29	51	44
Egypt	9.1	27	29	43
Jordan	13.1	28	28	47
Lebanon	5.4	22	34	61
Morocco	30.1	23	33	38
Syria	19.6	49	63	18
Tunisia	28.3	25	33	51
Turkey	7	33	31	60
MPCs	16.4	30	38	45
Europe and Central Asia	7	31	43	51
Latin America and Caribbean	10.2	30	37	57
South Asia	16.8	34	39	41
Sub-Saharan Africa	13.7	49	61	34
High-income OECD	3.7	12	13	70

Note: Data on Israel, the West Bank and Gaza not available. 2005 or closest year available. Regional averages reflect the simple average of the data for the countries included. For each index, a country's value represents the country's current placement in a worldwide ordering of countries, based on trade characteristics expressed as a cumulative frequency distribution, with "100" reflecting the countries with the most-open/friendly trade policies and "0" reflecting the countries with the most-closed/burdensome trade policies.

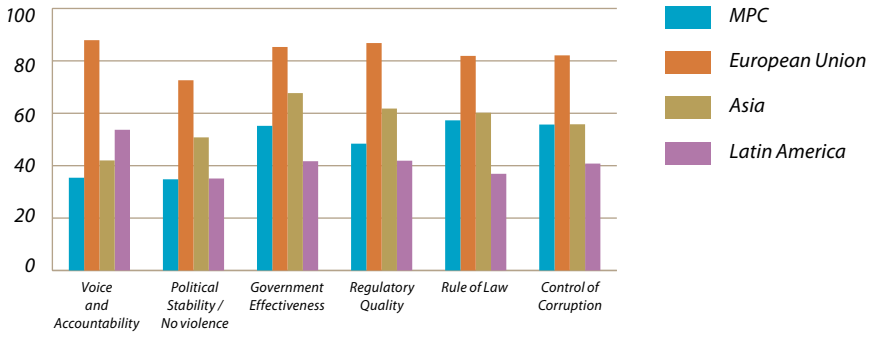
Structural reforms

Despite the favourable short to medium-term macroeconomic environment, longer-term growth prospects throughout the region depend upon the implementation of broad-based structural reforms. Much of the region's recent progress has occurred in the area of trade policy, especially in connection with a recent proliferation of bilateral and regional trade agreements. Since 2000, the region has made significant progress in reducing obstacles to trade. In all partner countries, tariffs have been reduced and non-tariff barriers dismantled with the region's largest trading partner, the European Union, as part of the EU Association Agreements. Turkey officially started membership negotiations with the EU in October 2005. Other bilateral and regional agreements – including free trade agreements with the United States in Jordan and Morocco and the Agadir Agreement between Egypt, Jordan, Morocco, and Tunisia – have also helped the process of trade liberalisation in the region. Nevertheless, although the region has made good progress with tariff reform over the past five years, trade liberalisation remains far from complete. The region continues to be one of the most trade-restrictive in the world, ranking in the bottom 45th percentile of countries worldwide with regard to trade regime openness, higher than only sub-Saharan Africa and South Asia.

Improving governance in the region is at the forefront of improvements in economic policy. In parallel with the economic reforms it faces, the region must strengthen the incentives, mechanisms and ability of public institutions both to improve economic policies and to forge the broad social consensus needed to successfully enact reform. Several important steps towards reform of governance have been taken by the partner countries over the past few years. Jordan and Morocco have both embarked on ambitious programmes of reform of civil service management, and in Egypt reform of the civil service acquired momentum with the announcement of a new early retirement scheme for public sector employees. There has been further progress in tackling corruption, particularly in Algeria, Egypt and Jordan, which recently enacted anti-corruption legislation. According to the World Bank, Mediterranean partner countries still lag behind the EU in all aspects of governance (Figure 2), and all behind with Asian countries. However, in terms of government effectiveness, regulatory quality, rule of law, and control of corruption they perform better than Latin America[8].

Wide-ranging reforms, supportive macroeconomic policies and a favourable external environment have contributed to a stable economic environment in the Mediterranean partner countries. However, countries must adjust to the more challenging global environment by continuing to reduce vulnerabilities and putting in place policies that will sustain the current growth momentum while maintaining financial stability. For **oil-exporting countries**, managing booming oil revenues remains the central challenge. Most countries have begun to use the opportunity provided by higher oil revenues to develop the private sector. In **oil-importing countries**, the major challenge is to adjust to the adverse terms-of-trade shock. Most countries have allowed only a partial pass-through of the increase in international prices to domestic prices. The pass-through will need to continue, especially in countries with weaker fiscal and external positions, with simultaneous efforts to strengthen the social safety net to assist the poor.

Figure 2: World Bank Governance indicators 2005[7]



[7] *The World Bank compiles governance indicators for the six dimensions of governance indicated in Figure 2. The data source is very comprehensive: several hundred individual variables measuring perceptions of governance are drawn from 18 different agencies, including international organisations, political and risk-rating agencies, think tanks, and non-governmental organisations.*

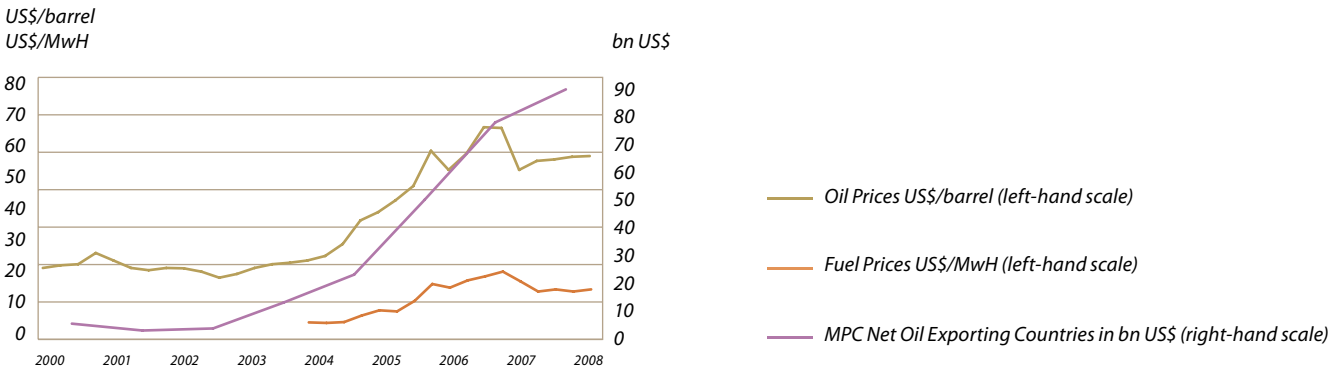
[8] *A distinctive feature of the region is long-lasting regimes with internal tensions.*

» Impact of oil market developments in the Mediterranean region

After three consecutive years of sharp increases, oil prices finally softened in the second half of 2006 but are still above US$ 50 per barrel (Figure 3). They are expected to approach the low/mid-US$ 60 per barrel in nominal terms by early 2007 and should then remain near that level through to the end of 2009. Gas prices follow oil price developments quite closely, with oil-indexed border prices setting the benchmark and continuing to dominate the markets.

Regional gas pipeline project, Jordan.

Figure 3: Fuel prices in US$/barrel and US$/MwH and fuel trade balance in US$ billion of MPC net fuel-exporting countries[9], 2000-2007 (forecast)



[9] *Net fuel-exporting countries are Algeria, Egypt and Syria.*

A. Resource-rich economies

There are three net oil (fuel)-exporting countries in the region: **Algeria**, **Egypt** and **Syria**. However, the benefits from rising oil prices have different impacts on each of the countries, reflecting the relative importance of energy resources.

Algeria's oil and natural gas export revenues account for more than 95% of Algeria's total export revenues, around 70% of total fiscal revenues, and 40% of gross domestic product. According to the latest estimates received, **Algeria** has over 12 billion barrels of proven oil reserves. Exploration over the past few years has led to the discovery of more oilfields and the proven oil reserves estimates could increase in the coming years. Due to rising oil prices, **Algeria** has built up sizeable current account surpluses, amounting to 24.8% of GDP in 2006. Accordingly, its level of external reserves increased to almost 34 months of imports in 2006 from 23 months between 2001 and 2005. Oil stabilisation funds have also been utilised for reserve building. The fiscal surplus increased from 6.5% of GDP between 2001 and 2005 to almost 17% of GDP in 2006. As a result of big increases in the wage bill and significant payments for external debt reduction, **Algeria**'s fiscal environment is strongly expansionary. However, given the buoyant ongoing oil revenues, the fiscal surplus in Algeria is expected to grow further.

Although **Egypt**'s net exports of crude oil and petroleum products have declined in recent years, higher prices on world markets have increased Egypt's oil revenues. Estimated proven oil reserves stand at 3.7 billion barrels, or 0.3% of world reserves. Egypt also started to export liquefied natural gas in January 2005, adding to its hydrocarbon revenues. Due to major recent discoveries, natural gas is likely to be the primary growth engine of Egypt's energy sector for the foreseeable future. In 2005, estimated proven gas reserves stood at 58.5 trillion cubic feet, or roughly 1% of world reserves. **Egypt**'s current account surplus remained at 2% of GDP and external reserves totalled 7.3 months of exports in 2006. On the other hand, **Egypt**'s fiscal deficit deteriorated, from 7.6% of GDP between 2001 and 2005 to 8.3% of GDP in 2006. A strong rise in public sector wages along with the rising cost of energy subsidies throughout the fiscal year 2005/2006 increased current expenditure. The authorities have recently signalled their firm intention to reduce the stock of public debt by introducing an energy subsidy reduction package in July 2006 and promised to introduce radical reforms in treasury management, modernising administration, and sales and property taxes.

Syria's oil industry faces a serious challenge in reversing the recent trend of declining oil production. With estimated proven oil reserves of around 2.5 billion barrels and in the absence of significant new discoveries, most observers predict that Syria could become a net oil importer by 2010. Although Syria's economic outlook is supported by high global oil prices in the short term, external balances will be placed under more pressure over the medium term. The current account moved from a surplus of 3.1% of GDP

Figure 4: External and fiscal position of net fuel-exporting MPCs,

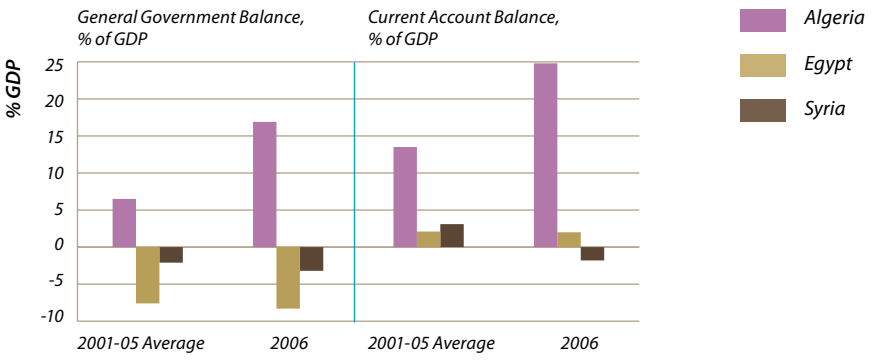
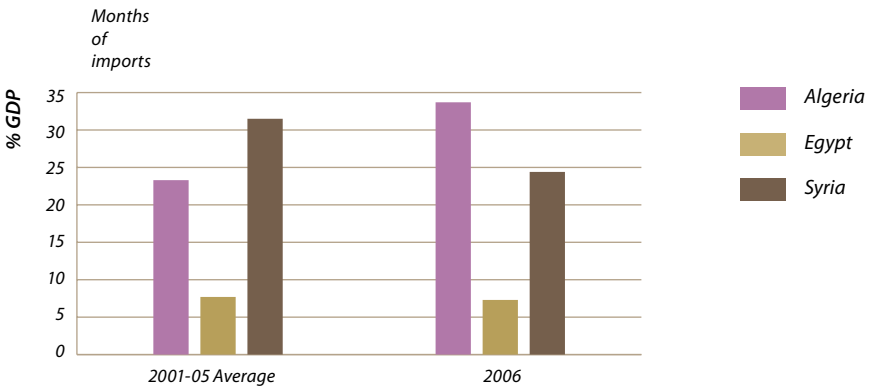
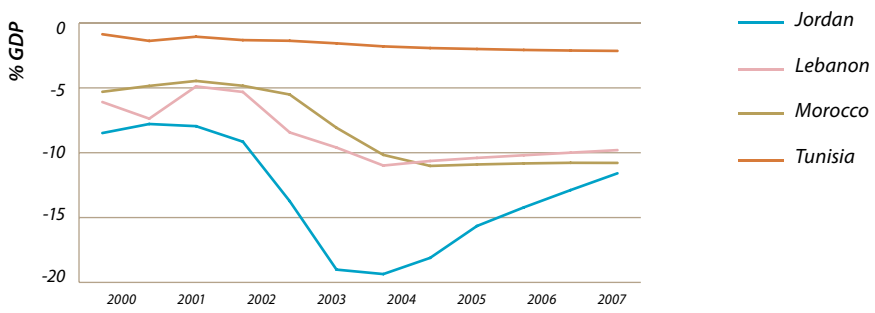


Figure 5: Foreign exchange reserves of net fuel-exporting MPCs, **months of imports, 2001-2006**



between 2001 and 2005 to a deficit of 1.8% of GDP in 2006 and external reserves decreased from an average of 31 months of imports between 2001 and 2005 to 24 months of imports in 2006. The decline in oil exports represents a fundamental challenge for the future of the economy. Syria needs to accelerate structural reforms and fiscal consolidation to generate new sources of growth and income.

Figure 6: Oil trade balance as percentage of GDP among selected resource-poor MPC economies, 2000-2007 (forecast)



B. Resource-poor economies

Higher oil prices and increased consumption have meant sharply rising import bills for the net fuel-importing countries in the region, with **Jordan**, **Lebanon**, and **Morocco** posting the largest increases. The impact has been most severe in **Jordan**, which relied on cheap oil from Iraq under the oil-for-food programme[10]. With oil imports growing significantly faster than GDP, the oil trade deficit-to-GDP ratio increased from only 2% in 2000 to 19% in 2005 (Figure 6). A deal with Iraq providing around 10-30% of Jordan's daily oil needs at preferential rates in mid-2006 seemed to alleviate some of the pressure caused by high oil prices.

Nonetheless, non-oil exporters benefit to a limited extent from strong oil prices in terms of rising remittances and as oil-rich Gulf States seek investment outlets for high levels of liquidity and extend loans in support of resource-poor MPCs. Positive spillover effects impacted Jordan and Lebanon, where workers' remittances totalled 20.1 and 26.3% of GDP in 2004, respectively. In 2006, it is estimated that net foreign direct investment will reach a record US$ 2 billion (13.6% of GDP) in Jordan and US$ 2.6 billion (11.6% of GDP) in Lebanon.

C. Case of oil subsidies

The sharp rise in oil prices has highlighted the MPCs' heavy subsidisation of oil prices on the domestic market, a policy officially designed to protect poor households. Energy subsidies are a significant expenditure item in many of these economies although the extent of the burden varies. In 2005, it ranged from 5.8% of GDP in **Jordan** to 8.1% in **Egypt** and 16% in **Syria**. Aware of the major fiscal implications, the authorities decided to mitigate the budgetary impact of subsidies and transfers by adjusting retail prices. In **Morocco**, oil products have been subsidised since 1995 and prices remained unchanged between 2000 and 2004. In 2004 they were increased by between 2.9 and 3.5%, depending on the product. Further increases were introduced in May and August 2005 and January 2006. The **Tunisian** Government has increased retail oil prices several times: in 2004 prices were raised by about 5% and more rises followed in February, June and September 2005. In **Egypt**, prices were adjusted upwards in 2004 by 50% on average following EGP devaluation a year earlier, and another subsidy reduction package was introduced in July 2006. This was a major step, given that there had been no change in the nominal domestic price of oil products between 1997 and 2004. In **Lebanon**, the Government imposed a price cap on gasoline in May 2004 and increased excise taxes to offset the rise in world prices. **Jordan** made its first reforms of the oil and gas subsidies by raising the price of gasoline and fuel oil by 10.6 and 33.3% respectively in July 2005. Additional rounds of fuel price increases are expected as the Government continues its plans to fully liberalise energy prices by 2007. In **Syria**, fuel subsidies account for 32% of fiscal spending according to the IMF, but they will be phased out by 2010.

[10] *After the first Gulf War, Jordan imported most of its fuel products from Iraq under the food-for-oil programme. Around half of the imports took the form of a grant, while the other half was sold at preferential below-market prices negotiated each year between the respective governments.*

» Progress in improving the business climate[11]

A critical focus of the Mediterranean partner countries' economic transition is the creation of a competitive business environment, free of excessive regulation. During 2006, continued progress was made by several of the economies to improve aspects of their business environment. Morocco was the top performer in the region as regards the ease of doing business. It cut the cost of starting a business, complying with tax regulations and carrying out property transfers, eased tax burdens, increased access to credit and reduced the cost of exporting and importing, which supported job creation – an urgent challenge across the whole region. Egypt continued to reform, but at a slower pace. The main reforms were improvements to new company start-up procedures and tax administration. In 2006, the partner countries (except for Lebanon and the Gaza/West Bank) each implemented at least one reform.

Apart from Morocco, there were other notable reformers in the region. Israel permitted a private credit bureau to start operations and is now among the top 10 in credit information coverage globally, easing access to credit. Algeria instructed banks and financial institutions to report unpaid credits and loans to the public credit registry, increasing available information about potential borrowers. Syria modernised its trade administration and reduced the cost of registering a new company by 40%. Tunisia increased investor protection by opening the books of companies to shareholders, strengthening auditor responsibility and prohibiting company loans to company insiders.

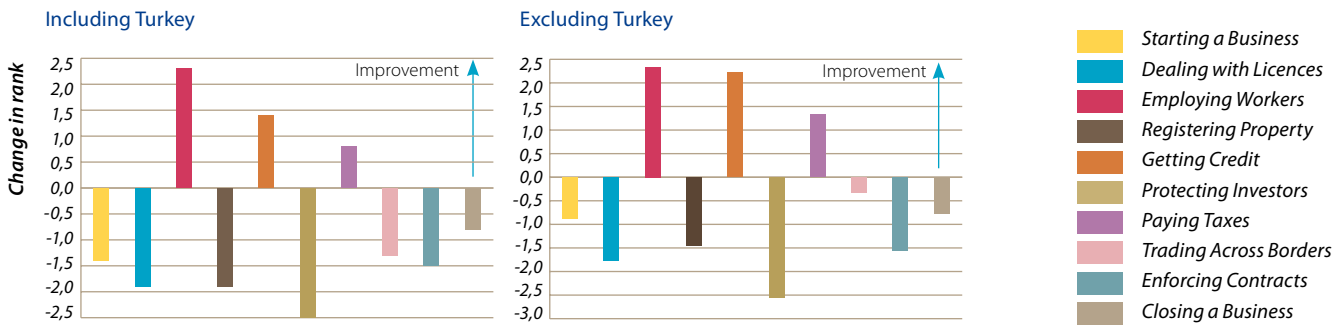
Despite the progress made by the Mediterranean partner countries' economies, there remain large obstacles to conducting business in the region, reflected mainly in high licensing requirements and inefficient courts. Further improvement of the partner countries' policies and practices regulating business will encourage the development of a productive, competitive private sector that can drive economic development and job growth.

Alongside reform of the business environment, several countries continue to pursue industrial policies designed to promote specific sectors or industries. In Morocco, a new industrial strategy – "Emergence"– was adopted in 2005 to enhance the competitiveness of specific sectors and employment creation, in order to improve the country's growth potential. This strategy focuses on identifying strengths and weaknesses of specific sectors and upgrading the industrial sector by modernising its production processes. Tunisia continues to maintain a dual system of investment promotion and trade policy. Generous privileges are extended for investments in selected sectors and for exporting, but the Government still discourages foreign investment in the protected service sectors.

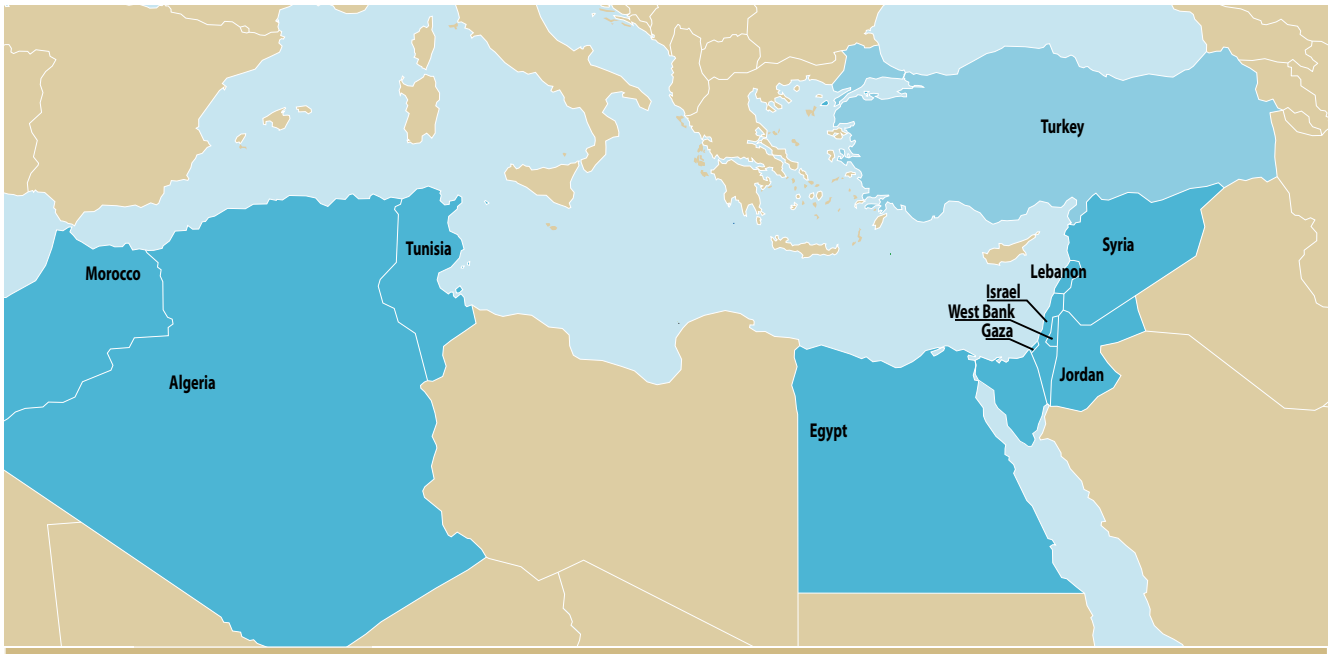
The partner countries' recent selective measures to promote various industries appear to be different from that in the past (being aimed less at protecting domestic industries than improving their prospects of international competitiveness). Most countries maintain a mix of both free market measures and industrial policies. However, the partner countries should be wary about seeking a new system of industrial policies to promote growth but instead be looking to create a neutral, internationally competitive business environment.

[11] *Based on the World Bank report "Doing Business in 2007".*

Figure 7: Changes in the ease of doing business in the Mediterranean partner countries in 2006/05 compared with 2005/04



Map of the Mediterranean partner countries



Economic snapshots 2006

Flag	Country	Population (millions)	Real GDP growth (%)	Inflation (%)	Net foreign direct investment (% of GDP)
	Algeria	33.6	4.9	5.0	0.8
	Egypt	72.1	5.6	4.1	5.5
	Gaza/West Bank	4	-13.8	3.7	n.a.
	Israel	6.9	4.5	2.8	n.a.
	Jordan	5.6	6	6.3	13.6
	Lebanon	3.7	-3.2	4.5	11.6
	Morocco	30.4	7.3	2.5	2.4
	Syria	19.1	3.2	5.6	2.4
	Tunisia	10.3	5.8	3.9	2.7
	Turkey	72.8	5	10.2	5.9

Source: World Economic Outlook, IMF, 2006.

Activities in 2006

> *"This Facility, which was launched in 2002 and subsequently reinforced in 2003 and 2004, demonstrates, I believe, the resolve of all Mediterranean and European countries, and of the EIB and the European Commission in particular, to infuse the region with a new process of Bank support, but also the commitment of the European Union to promoting and strengthening relations between the two shores of the Mediterranean."*

Mr Mohamed Nouri Jouini,
Tunisia's Minister for Development and International Cooperation,
6th FEMIP Ministerial Conference, Tunis, June 2006

FEMIP: forward through dialogue

The year 2006 was interspersed with a series of meetings which carried forward the process of Euro-Mediterranean dialogue through FEMIP. The first meeting of the Advisory Committee in February 2007 marked a further step towards intensification of the FEMIP partnership, which now operates at three levels: the Ministerial Council, the Advisory Committee and the FEMIP Conferences.

Meeting of the Committee of Experts

The 4th meeting of FEMIP's Committee of Experts was held in Vienna on 21 and 22 March 2006. Some hundred representatives of the EU Member States and the Mediterranean partner countries took part and discussed how to improve the investment climate in the Mediterranean and develop energy markets.

Sixth FEMIP Ministerial Meeting

Combined for the second time with a meeting of the Euro-Mediterranean ECOFIN, the 6th meeting of the Ministerial Council was held in Tunis on 26 June 2006 and discussed FEMIP's prospective development.

The participants also looked at the conclusions of the 2005 Luxembourg workshop on the harmonisation of procurement procedures and considered the recommendations emanating from the 4th meeting of the Committee of Experts.

- **The next meeting of FEMIP's Ministerial** Council will take place in Cyprus on 13 and 14 May 2007.

2006 FEMIP Conference on transport

The Conference, held in Monaco on 9 and 10 November, was devoted to transport and brought together some 150 participants, including politicians, business leaders and experts from the academic world.

Issues dealt with included sectoral investment priorities and the need for synergy between the public and private sectors to ensure successful implementation of priority projects. The Conference also discussed the development of technical and administrative interoperability between transport modes within the Euro-Mediterranean region, the organisation of hub-based routes and connecting ports and airports with their hinterland.

- The **2007 FEMIP Conference** was held in Paris on 22 and 23 March and focused on **Mediterranean migrants' remittances to their countries of origin** and their impact on development. This conference followed on from the study published by FEMIP in March 2006[12].

Meetings of the Advisory Committee

The first FEMIP Committee meeting was held on 6 February 2007 at the Bank's head office in Luxembourg. This inaugural meeting was attended by representatives of the Euro-Mediterranean countries and the Commission.

The discussions focused on the objectives of the FEMIP Committee and how it would operate. A number of representatives reiterated their commitment to the Euro-Mediterranean partnership, of which the meetings and activities of the FEMIP Committee are an integral part. The discussions also highlighted the partner countries' desire for greater involvement in the economic and financial partnership, something to which the FEMIP Committee is expected to contribute.

The second meeting was held on 3 April 2007 and dealt with preparations for the May FEMIP ministerial meeting.

[12] *For further information on this event, consult the EIB website http://www.eib.org/femip/conference.*

FEMIP Conference on Transport, Monaco, November 2006.

Euro-Mediterranean meetings

FEMIP was also represented at the main Euro-Mediterranean meetings held throughout the year, including:

- the Congress of the European Movement International, Algiers, February 2006;
- the second session of the Euro-Mediterranean Parliamentary Assembly (EMPA), Brussels, March 2006;
- the Meetings of Le Cercle des économistes, Marseille, May 2006;
- the 6th Euro-Mediterranean Ministerial Conference on Industry, Rhodes, September 2006;
- the Meeting of Euro-Mediterranean Foreign Ministers, Tampere, Finland, November 2006;
- the 3rd Euro-Mediterranean Ministerial Conference on the Environment, Cairo, November 2006;
- the 1st International Mediterranean Capital Investment Forum, Barcelona, November 2006; and
- the Euro-Mediterranean Enterprise Forum, Port El Kantaoui, Tunisia, December 2006.

Gaining a better understanding of the economic issues in the Mediterranean

Private sector investment in Syria, the obstacles to SME financing in Algeria, renewable energy and energy efficiency in the Mediterranean were among the themes discussed or researched under FEMIP's auspices.

Looking for new options for private sector investment financing in Syria

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[13].

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 three new financing institutions and/or products (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 being followed by a second one that will focus on assessing the loan portfolio of a number of public banks and assisting them in the preparation of accounts in accordance with the International Financial Reporting Standards (IFRS), as a first step towards the rehabilitation of the overall banking sector.

Study on expanding private long-term savings in Morocco

The FEMIP Trust Fund has also funded a study on private long-term savings in Morocco. The study describes the components of private savings and their impact on economic activity and identifies the principal obstacles to maximising the extent and composition of those savings.

It recommends practical and realistic public policy measures, such as further deepening capital markets, expanding retail banking coverage, modernising regulatory and fiscal conditions and practices, and developing new savings products that meet the needs and demands of savers and capital market participants.

How can the obstacles to SME financing in Algeria be overcome?

This is the main question posed by the study financed by the FEMIP Trust Fund on access to financing for Algerian SMEs. After analysing the structure and operation of Algeria's banking and financial system, the study puts forward a range of options to facilitate SME financing.

One of its key proposals is that a dedicated financial institution be created for SME financing. It also places the emphasis on developing financial products designed to boost the capital base of enterprises, such as injections of equity and quasi-equity funds, and highlights the importance of leasing, a fast-growing market in Algeria.

In 2007 a workshop will be organised by FEMIP on this very theme in Algiers in partnership with Algeria's Finance Ministry and Banque d'Algérie.

FEMIP stimulates reflection on energy and renewable resources

Throughout the year, FEMIP has worked towards nurturing debate and reflection on energy in the Mediterranean region, with a special focus on safeguarding energy supplies and protecting the environment.

Workshop on Clean Development Mechanism projects, Cairo, November 2006.

Discussing energy at the 4th FEMIP Experts' meeting

The development of Mediterranean energy markets was one of the two topics addressed by the 4th FEMIP Experts' meeting in Vienna. The participants emphasised the need to strike a balance between sustainable development, competitiveness and security of supply, in accordance with the EU's Green Paper on energy. As investment requirements in the energy sector are considered to be huge, they agreed on the need to press ahead with energy sector reform in the Mediterranean countries, with the aim of improving energy efficiency and ensuring a supply of affordable energy.

Study on financial mechanisms for the development of renewable energy

The Agence de l'Environnement et de la Maîtrise d'Energie (ADEME), Agence Française de Développement (AFD) and the EIB have joined forces to examine the possibility of promoting the development of renewable energy in the Mediterranean partner countries. The aim of this study supported by the FEMIP Trust Fund is to identify the requirements and prerequisites for developing renewable energy and energy efficiency in the region and to define financial mechanisms that will help to meet those requirements.

Workshop on Clean Development Mechanism (CDM) projects[14]

The FEMIP Trust Fund has also funded a study on carbon finance and crediting activities in the Mediterranean region. The preliminary results of the study were presented at a regional workshop held in Cairo on 19 November 2006. Around one hundred participants from both the public and private sectors attended the workshop and discussed CDM opportunities in the Mediterranean region.

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[13] *To be found on the EIB's website at http://www.eib.org/publications.*

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

A policy of partnerships

2006 saw close cooperation between the EIB and partner development finance institutions, pursuant to the memoranda of understanding and letters of intent signed over the past two years.

The Naga Hammadi dam project in Egypt is co-financed with KfW.

Coordination of development aid policies

The EIB has intensified its cooperation with the different development finance institutions through a series of meetings and events organised throughout the year:

- the coordination meeting with the African Development Bank and the European Commission at the EIB's head office in Luxembourg on 26 January 2006;
- the meetings of the working group composed of representatives of the EIB, Agence Française de Développement (AFD) and KfW Entwicklungsbank (the German development agency) in February, June and December 2006 focusing on implementation of the cooperation agreement signed in December 2005;
- the round table on administration of the Trust Funds and co-financing organised by the EIB in Luxembourg on 21 February 2006, which was attended by representatives of the multilateral development banks;
- the annual meeting of the European Development Finance Institutions (EDFIs) held in Oslo on 11 and 12 May 2006.

Co-financing

This cooperation took the form of the co-financing of projects in Egypt, Morocco, Syria and Tunisia, including the following:

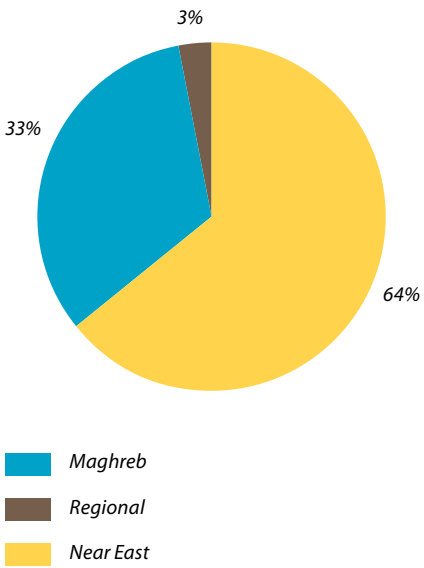
- the **Sebou Basin sanitation project in Morocco**, which involved, alongside the EIB, other institutions such as the European Commission and AFD, but also the Japan Bank for International Cooperation, the Kuwait Fund for Arab Economic Development and the Islamic Development Bank;
- the **Egyptian pollution abatement project (EPAP) II**, aimed at encouraging Egyptian enterprises to reduce their pollution levels. It is being financed in conjunction with AFD, the World Bank Group and the Japan Bank for International Cooperation;
- the **ONAS IV wastewater project**, co-financed with AFD and concerned with the construction, in various parts of Tunisia, of wastewater collector networks and treatment plants;
- several **investments in private equity funds**, which involved close collaboration with other international financial institutions.

The EIB has been very active in the wastewater sector in Tunisia. The project signed in 2006 is the fourth in a series of projects carried out in partnership with the Tunisian wastewater authority, ONAS, alongside other development finance institutions.

FEMIP's operations in the field

2006 proved to be a very good year for FEMIP. A total of 20 operations were signed, comprising 17 new operations for an overall amount of EUR 1.3bn and three operations under the global authorisation procedure[15].

FEMIP lending in 2006 (by geographical distribution)



FEMIP continued to provide support for private sector projects in the Mediterranean region, which represented 27% of total volumes signed during the year.

Interestingly, private sector projects represented 55% of the number of projects signed in the region (11 private sector projects out of a total of 20). The difference percentagewise between the volume and number of projects can be explained by the fact that private sector operations are generally on a smaller scale than those in the public sector, which consist predominantly of large infrastructure projects and environmental schemes.

FEMIP's aim is to stabilise the annual share of private sector operations at 50% of its total operations, in terms of volume.

In terms of sector allocation, the bulk of the lending was directed towards energy infrastructure (EUR 594m or 43%). The environment accounted for EUR 325m (24%) and industry for EUR 200m (15%). Credit lines for SMEs amounted to EUR 115m (8%) and risk capital operations to EUR 65m (5%). The health sector received 70m (5%).

In terms of geographical distribution, 64% of the total volume went on projects in the Near East (nine projects totalling EUR 884m), 33% on projects in the Maghreb (seven projects totalling EUR 445m) and 3% (four projects totalling EUR 40m) on regional projects.

[15] *A global authorisation is an amount approved by the EIB's Board of Directors in accordance with the normal procedure. Following the Board authorisation, this amount is used to undertake certain small-scale investments meeting predefined criteria. While global authorisations are regarded as "new" signatures under the Bank's customary practice, signatures occurring under global authorisations are not treated in the same way.*

Risk capital operations and technical assistance

Risk capital operations totalled more than EUR 65m. New risk capital operations increased to EUR 50m, 10% higher than the figure achieved in 2005. Five new operations were signed with the aim of providing support for the private sector and widening the sources of funding available to local SMEs.

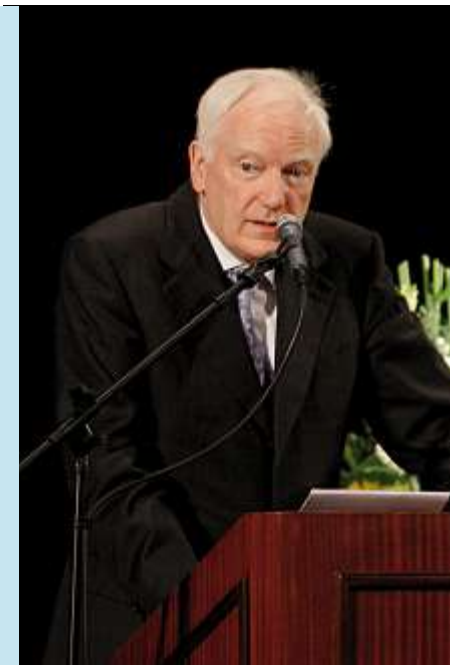
Signatures under global authorisations from risk capital resources amounted to more than EUR 15m and consisted of three individual financing operations (participation in funds or industrial companies). Four co-investments with local intermediaries were also undertaken under global authorisation[16].

Contracts were signed for 22 technical assistance operations with an overall value of EUR 12.3m under the FEMIP Technical Assistance Support Fund. Over 70% of the funds were allocated to the infrastructure, environment, water and wastewater sectors. Direct support for the private sector accounted for 25% of all technical assistance funds and 44% of the number of technical assistance operations.

Seven projects totalling EUR 4.3m were approved by the FEMIP Trust Fund Assembly of Donors in 2006. Most of the projects were regional in nature. The main areas targeted were environmental protection, renewable resources, support for the private sector and the development of financial services.

[16] *The volume granted under the four co-investments totalled EUR 1.2 million.*

EIB President Philippe Maystadt delivering a speech at La Sagesse University, Lebanon, October 2006.



"Paris III" Conference: EIB pledges support for Lebanon

The EIB has pledged support for Lebanon by providing EUR 960m in loans for the Lebanese economy over the coming five years. The Bank's support for Lebanon's recovery, reconstruction and reform plan was confirmed by the EIB's President, Mr Philippe Maystadt, at the international donors' conference held in Paris on 25 January 2007.

This amount is three times total EIB finance for Lebanon over the past six years, signifying a massive commitment by the Bank to backing the country's reconstruction effort.

With EUR 400m of financing for priority infrastructure projects, the Bank will continue its operations in the transport, sanitation and energy sectors while encouraging the necessary sectoral reforms.

EUR 560m of new financing will be channelled into the private sector in tandem with local banks, using innovative techniques such as debt securitisation and the financing of private investment under public-private partnerships (PPPs). Additionally, the EIB will promote the development of risk capital to underpin Lebanese companies.

» Credit lines for SMEs

Hotel sector in Tunisia.

Credit lines are set up in cooperation with local partner banks, which on-lend the proceeds of loans from the EIB to finance SMEs. The advantage of this instrument is that it enables SMEs to benefit from medium and long-term EIB funding that they could not obtain via direct loans.

Example of support for SMEs: the EIB in Tunisia

Through the credit lines made available to local banks, the EIB provides substantial support for Tunisian SMEs. Operations signed in previous years have a high success rate, thanks to effective allocation of the finance to SMEs.

Thus the Bank allocated EUR 30 million in 2006, in favour of 250 investments totalling EUR 100 million. These investments consisted of 229 leasing operations averaging EUR 60 000 in size and 21 long-term loans averaging EUR 750 000. They will encourage the creation of some 1 200 jobs.

With regard to the sectoral breakdown, 32% of the investments involved the hotel trade, 18% industry, 14% transport and 8% health. In order to support the recovery of the tourism sector, which requires considerable investment in tourist infrastructure, the EIB extended the maximum term of its loans from 10 to 15 years.

In addition, support for SMEs was strengthened by setting up a technical assistance unit offering the banks and leasing companies a customised training programme. It also provides assistance for investors in preparing their investment projects.

EUR 75 million for small and medium-sized enterprises in Israel

A EUR 75m contract was signed with Bank Hapoalim, Israel's leading bank, for the purpose of supporting investment projects mounted by small and medium-sized private sector enterprises.

This loan will help Bank Hapoalim to provide long-term financing on favourable terms to SMEs in the industrial and services sectors, particularly tourism, food processing, health and education.

SME in Syria.

EUR 40 million to encourage Egyptian enterprises to cut their pollution levels

The EIB granted a loan of EUR 40m to the National Bank of Egypt to enable industrial enterprises – largely in the private sector but including some in the public sector – to invest in measures to reduce pollution.

Geographically, the emphasis is on the Cairo and Alexandria conurbations, where more than 80% of the country's industrial activity is concentrated, but financing can be provided for industrial pollution abatement projects in all parts of Egypt.

This credit line carries a EUR 10m interest rate subsidy funded from the EU budget.

It is backed by a FEMIP technical assistance operation, together with that provided by the Finnish Government and the National Bank.

SME in Lebanon.

A look back at a project signed in 2005

Byblos Bank credit line

In December 2005, a EUR 50m credit line was granted to Byblos Bank, a leading bank in corporate domestic lending, and one of a select group of top-tier banks in the region that have an international presence.

The operation targeted small and medium-sized private sector projects in Lebanon and fell within the Special FEMIP Envelope, whereby the Bank assumes the commercial risk of the operation (the unsecured credit risk being borne by the financial intermediary) and the EU Community budget guarantee covers standard political risks.

Project implementation has been very successful despite the July 2006 military conflict. The full amount was allocated in ten months, with 72% of the loan amount going to industry, 9% to agro-industry, 8% to health and education, 6% to tourism and 5% to IT and technology-related services. In total 48 projects were financed under the EIB facility, supporting a total investment of more than EUR 130m.

» Risk capital operations

EUR 10m for a multi-sector fund in partnership with a leading European banking group

FEMIP joined forces with Société Générale Group's subsidiary Société Générale Asset Management in carrying out a private equity operation in the Mediterranean.

The Kantara Fund, expected eventually to reach some EUR 120m, is the first large-scale venture in the region promoted by a recognised European company experienced in fund management.

The EIB's stake in the Kantara Fund is EUR 10m. Apart from the financial aspect, the EIB's contribution was particularly important in putting together this multi-sector fund, which is targeted at private enterprises operating in Morocco, Tunisia, Algeria, Egypt, Lebanon and Jordan.

EUR 10m for financing SMEs in the Maghreb and Egypt

FEMIP participated to the tune of EUR 10m in creating the Euromed Fund, a closed-end investment fund.

This EUR 50m fund was set up under the aegis of the Lombardy region in Italy through its financial institution Finlombarda SpA and the Milan Chamber of Commerce.

FEMIP risk capital operations cover three types of financial instruments: direct investments (acquisition of equity or quasi-equity instruments in unlisted companies, private equity funds and co-investments with pre-selected local intermediaries).
FEMIP also provides local currency loans to microfinance institutions. These investments can be made either in accordance with the normal EIB cycle for the approval and signature of an operation or under a global authorisation.

Its object is investment in SMEs in Algeria, Egypt, Morocco and Tunisia, and it will contribute to expanding the volume of foreign direct investment in the Mediterranean partner countries.

It can draw on a network of local advisers based in North Africa who have a thorough knowledge of the target countries and can actively monitor the companies in the portfolio. Its location positions the Fund favourably for dealing with projects supported by Italian enterprises.

EUR 10m for financing infrastructure in Morocco

FEMIP put up EUR 10m towards the launch of the Moroccan Infrastructure Fund, a limited liability company incorporated under Moroccan law.

The Fund's focus is on infrastructure investment and projects and enterprises linked to this sector in Morocco. The promoters are Attijari Invest, a subsidiary of Attijariwafa Bank, and EMP Africa.

The creation of this Fund extends the existing cooperation between FEMIP and Morocco's financial sector into the infrastructure domain. It provides an additional source of finance for local enterprises while at the same time contributing to the development of the infrastructure sector in Morocco.

EUR 20m for enterprises with a regional dimension

Because development of regional groups is a key factor in building the economic competitiveness of the Mediterranean countries, FEMIP particularly targeted its private equity activity on the creation of funds fostering the consolidation of enterprises at regional level. In so doing, FEMIP is helping to strengthen South-South integration of the region.

Signature of the Moroccan Infrastructure Fund, Morocco, December 2006.

The Maghreb Private Equity Fund II

FEMIP took a EUR 10m founding stake in the Maghreb Private Equity Fund II.

Focusing on investment in mid-caps in Algeria, Morocco and Tunisia, this private equity Fund was launched by the Tuninvest Finance Group, with the objective of raising EUR 100m and targeting a limited number of sectors in order to establish regional groups in them.

This operation supports direct investment in the Maghreb countries and encourages trade and the establishment of interregional industrial enterprises – particularly through external growth – with a view to creating regional champions.

The EuroMena Fund for all the partner countries

FEMIP also took a EUR 10m founding stake in the EuroMena Investment Fund, a vehicle targeting investment in mid-cap enterprises in the Mediterranean countries.

The Fund was promoted by Capital Trust with the aim of building regional groups and seeks to raise between EUR 80m and 100m.

Drawing on the considerable experience that its promoter, the Capital Trust Group, has built up over a period of 20 years in leading-edge markets such as Europe and the USA, EuroMena will contribute to raising investment and governance standards in the Mediterranean partner countries.

A success story

A leading Arab financial institution moves into the private equity business

The National Bank of Egypt (NBE), the largest Egyptian bank, has expanded its private equity activities and become the first Arab financial institution to join the European Private Equity and Venture Capital Association (EVCA), which comprises several international members with wide experience in this field.

The EIB made a significant contribution to this achievement by helping NBE to establish its private equity unit and through FEMIP's technical assistance and private equity instruments, combined with the continuous follow-up provided by the EIB Cairo's Office.

Enda Inter-Arabe has received Merit Recognition for its financial transparency from CGAP, a consortium of development agencies working to expand access to financial services for the poor in developing countries. Alongside Enda, two other institutions from the region have received awards, Al Amana and Zakoura, which have already benefited from EIB financial support.

Example of an operation under global authorisation: Enda Inter-Arabe in Tunisia

For the first time in Tunisia, the EIB granted a loan to an NGO, Enda Inter-Arabe, which has been providing microcredit services since 1995.

This loan, made under FEMIP's risk capital envelope, has served to strengthen the capital of Enda Inter-Arabe and enabled it to extend its operations in the country's disadvantaged areas. Currently, 30 000 micro-entrepreneurs – of whom more than 85% are women – have a loan outstanding with Enda Inter-Arabe, and the repayment rate on microcredits is 99.6%.

This operation showed that there was considerable complementarity between the activities of the Commission and the EIB in the microfinance sector: grants provided by the Commission enabled Enda to develop into a self-sustaining, profitable microfinance association and the EIB loan had a decisive positive signalling effect on local banks that helped Enda to raise additional funds on the local financial market.

The loan was accompanied by technical assistance, which will enable Enda Inter-Arabe to strengthen its organisational structures with a view to optimising its growth management and becoming integrated in a sustainable manner into the local financial sector.

The Enda Inter-Arabe operation follows on from two operations totalling EUR 20 million carried out in 2003 and 2004, which benefited a number of Moroccan microcredit associations.

EUR 5.6m for an investment company with an innovative structure

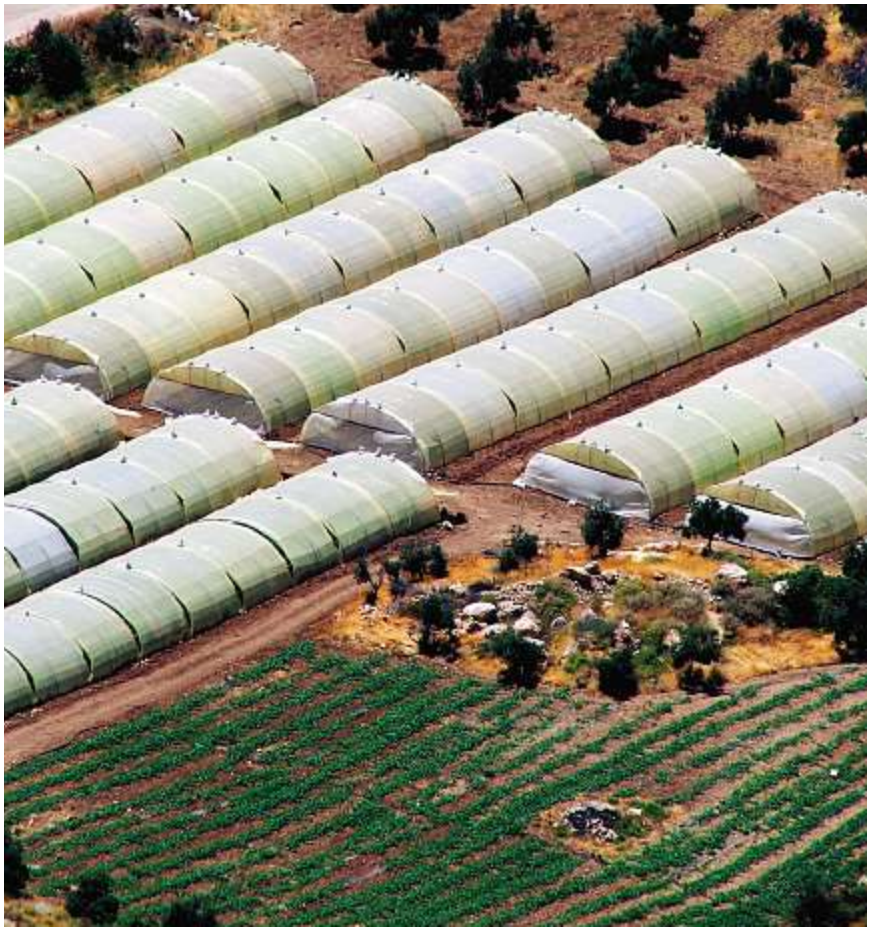
One of the operations under global authorisation concluded in 2006 was "Beltone Capital", which involved an EIB participation of 9% (equivalent in Egyptian pounds to EUR 5.6m) in the capital of the Egyptian investment company bearing the same name.

Beltone Capital will invest in fast-growing private sector enterprises located mainly in Egypt, to which it will offer strategic guidance and know-how on investment and operational matters.

This is the EIB's first essay into investing FEMIP risk capital resources in an open-ended investment company[17]. The innovative aspect of the structure is that it gives its shareholders protection similar to that provided by a traditional defined-life fund while preserving the advantages enjoyed by an investment company, such as the possibility of a stock market listing.

Microcredit helps to fight poverty and creates jobs.

Through the Horus Food and Agribusiness Fund, FEMIP will support agribusiness companies in Egypt.



FEMIP supports the agribusiness sector

Via an investment of up to EUR 8.5m in the Horus Food and Agribusiness Fund, FEMIP will help to improve the position of companies active in the agribusiness sector in Egypt. On a broader front, this operation will help to further develop Egyptian private equity as an instrument for financing companies' growth. The promoters' skills in both the agribusiness sector and the Egyptian market, combined with the Bank's leading role in the development of the Fund's documentation and governance, are expected to increase international investors' interest in the Egyptian private equity market.

[17] *Unlike an investment fund, whose size and life are limited, an open-ended investment company is able to undertake successive recapitalisations and to continue operating indefinitely.*

Review of FEMIP's portfolio of investment funds

FEMIP has conducted a review of the EIB's participations in investment funds in the Mediterranean region, which numbers 20 active funds[18], with a total capital of EUR 102m committed by the Bank. The objective was to survey the funds' portfolio not only from a purely financial and economic perspective, but also from a social, environmental and governance point of view. The review showed that:

- *The Bank has been able to leverage fivefold the amount invested. With an average share of 20% of the subscribed capital, the EIB participation, by virtue of being always committed early on in the fundraising process, has been able to help attract over EUR 450m of capital from other public and private investors in the region.*

- *The investments target SMEs' development. The investments have actively contributed to supporting the growth of small and medium-sized enterprises in the region. SMEs represent more than 90% of the companies targeted by the Bank's investment funds.*

- *The SMEs targeted by the funds outperform national averages in terms of their contribution to GDP. During the 2003-2005 period, the turnover of the funds' investee companies showed an average annual growth rate of 23% and an average increase in exports of 21%, above the average growth in GDP of economies in the Middle East and North Africa region.*

- *The surveyed investee companies of the 20 funds currently employ over 14 000 people. The average increase in employment over the period 2003-2005 was 14% per annum. In 77% of the cases these jobs were permanent and in 25% of the cases they involved women.*

- *The investments contribute to the reduction of poverty. The fund managers surveyed reported that investee companies are generally in compliance with international labour standards and provide benefits to their employees and/or their dependants in terms of healthcare, pension and education, thereby contributing to poverty reduction and improvement of welfare.*

The Bank's participation in investment funds contributes to supporting the growth of local SMEs.

[18] *This excludes one fund of funds and a guarantee fund.*

Exit from Commercial International Investment Company

In 2001, the EIB invested EUR 3.3m in Commercial International Investment Company (**CIIC**), a specialised local financial intermediary created in 1994. The investment was made through EFG-Hermes Holding Company (**EFGH**), one of the EIB's intermediaries with which the Bank co-invests.

Following a merger of operations between EFGH and CIIC, the initial investment was converted into EFGH shares. As a result of the combination of EFGH and CIIC resources and a successful restructuring in 2003, EFGH has become one of Egypt's leading investment banks. Based on market prices of 29 January 2006, EFGH's market capitalisation peaked at EGP 22.1bn (EUR 3.2bn).

The various options open to the EIB were identified and assessed in detail in January 2006. The due diligence concluded that a prompt sale was the preferred option.

Net proceeds of EUR 27.6m, after deduction of the broker's fees and the intermediary's share of the capital gain as provided for in the contract, were received by the EIB and transferred to the Community budget.

This exit enabled the Bank to realise a **net capital gain of EUR 24.28m** for the Community budget. In EUR terms this implies a multiple of 8.3 times the initial investment and an annual IRR of 67% (in EGP terms the multiple was 14.2 and the annual IRR was 90%).

With hindsight, not only was the **exit extremely well timed but it also signalled to external international investors that excellent business opportunities exist in the region.**

The Mediterranean region presents very good investment opportunities.

» Infrastructure - Energy

Energy constitutes a major challenge within the Euro-Mediterranean partnership. Since 2002, FEMIP has provided more than EUR 2 billion of financing for this sector, the objective being to contribute towards improving the access of local people to energy sources, assist the integration of the Euro-Mediterranean energy markets and promote the diversification of sources of supply.

EUR 310m for Egypt's energy sector

EUR 260m was lent to the Egyptian Electricity Holding Company for the construction of two gas-fired combined-cycle power plants[19], one situated north west of the Nile Delta and the other on the Mediterranean coast some thirty kilometres west of Alexandria.

This project is a response to the rapidly increasing demand for electricity in Egypt, which it is estimated will require an additional 6 925 MWe of capacity to be commissioned during the period 2008-2012. The two power stations (EL Atf and Sidi Kir), which will be fuelled by local natural gas, will generate electricity at a competitive cost and with a relatively small environmental footprint.

The EIB also lent EUR 50m to the Egyptian Natural Gas Holding Company to finance a new gas pipeline connected to Egypt's high-pressure gas transmission system. Running some 116 km alongside the Nile, from Abu Qurqas to Asyut, in the south of Egypt, this gas pipeline is intended to supply natural gas to industrial enterprises and power plants and so satisfy the demand for gas in central and southern Egypt.

Since October 2002, FEMIP has contributed to major investments in the energy sector in Egypt. The Gasco gas pipelines, the Nubariya combined-cycle power plants and the Idku and Damietta liquefied natural gas plants are among the main projects financed by FEMIP.

EUR 170m for rural electrification in Morocco

EUR 170m was lent to the Office National de l'Electricité (ONE) for the final phase of the national rural electrification programme, which aims to cover 98% of the rural population.

This project will benefit more than 300 000 households, or around 2 million people, in nearly 8 500 villages across the country still without a permanent connection to the electricity grid. It will contribute to an improved quality of life and economic development in the rural areas.

The different components of the project, construction of which will extend over the period 2006-2008, will help to satisfy the growing demand for electricity in Morocco. The Moroccan power grid is interconnected to the North African power transmission grid, comprising Morocco, Algeria and Tunisia; and this grid is linked up to the European Union via a power interconnection with Spain, for which the EIB provided a loan of EUR 80m in 1994.

EUR 114m for energy production in Tunisia

EUR 114m was advanced to Société Tunisienne de l'Électricité et du Gaz (STEG) for the construction of a combined-cycle natural gas-fired power plant in Ghannouch (Gabès region).

This project forms part of the Tunisian Government's priority programme to expand and upgrade STEG's generating capacity to keep pace with the country's constantly growing demand for electricity while at the same time optimising the efficiency of its facilities.

The 400 MWe plant, which is scheduled to begin commercial operation in 2009, will be equipped with single-shaft combined-cycle gas turbines, an energy-efficient technology with low environmental impact. It is designed to run on natural gas.

This fifth EIB loan for Tunisia's power sector since 1995 brings the total lent to EUR 310m.

Infrastructure – Transport A look back at a project signed in 2001

The Rabat-Tangier-Casablanca motorway

The EIB was involved in financing the key Tangier-Rabat-Casablanca-El Jadida motorway link, which should be seen as an extension of the Trans-European Networks. This coastal motorway is one of the Kingdom's major highways and will link the country's main economic and tourist centres. This section of motorway serves Morocco's most densely populated areas and has a total length of 360 km.

At the design stage and in the execution of the works the motorway company ADM made a special effort to protect the environment, despite a tight timetable and budget. Thus a number of civil engineering structures were chosen to minimise their impact on the local flora and fauna and the harmful effects for those living nearby.

With EUR 130m, the EIB invested in the construction of two sections totalling 110 km. The final sections of the motorway were opened at the end of 2006.

[19] *The loan is divided into two tranches of EUR 130 million each, one of which will be set against the ENP MED mandate.*

Mohammédia power plant in Morocco.

Gas pipeline in Jordan.

» Environment

The environment has always been a major issue in the Mediterranean region, not least because of the scarcity of water resources. In recent years FEMIP has stepped up its action in this sector, in line with the Millennium Development Goals in the field of water and sanitation, as defined at the 2002 Johannesburg World Summit.
Substantial funding has thus been channelled into projects for drinking water supplies, urban sewerage, wastewater treatment and decontamination of industrial sites. The Bank has also financed projects to reduce atmospheric pollution and improve the management of solid waste.
In 2006, the environmental sector was the second-biggest recipient of FEMIP finance, with a total of EUR 325 million. To the four operations signed in 2006 in favour of the environment a fifth has been added, in the form of a credit line intended to encourage Egyptian companies to reduce their pollution levels (see above). These figures serve to confirm the growing importance of this sector for FEMIP.

FEMIP has financed a number of wastewater projects in Lebanese coastal cities (Tripoli, Beirut, Sidon and Tyre).

ONE pumped storage power station, Afourer, Morocco.

EUR 200m for wastewater schemes in Israel

The EIB granted a EUR 200m loan to the State of Israel to finance municipal wastewater schemes. This loan will help to finance the construction of new sewage treatment plants and projects for wastewater recycling, as part of the national programme to protect the environment.

The beneficiaries are municipalities or municipal enterprises, with the priority focus of the projects being on small urban and rural localities. In total, the EIB's loan will make it possible to finance some 400 projects, mainly in regions with a low-income population, in the south and north of the country, and will benefit in particular the Arab population living in these regions.

The wastewater recycling projects will capture around 200 million cubic metres of water a year.

EUR 40m for sanitation in the Sebou basin in Morocco

EUR 40m was lent to the Office National de l'Eau Potable (ONEP) for sanitation systems in 17 urban centres located in the wadi Sebou basin, on the Atlantic coast.

Each of the 17 sub-projects involves the rehabilitation and extension of the wastewater collection and stormwater drainage network and the construction of a secondary wastewater treatment plant.

The project also provides for up to EUR 4m of technical assistance through the establishment of a Project Management Unit. A number of studies on ways of improving ONEP's performance and building its capacity on the sanitation front are also envisaged.

This project benefits from an interest subsidy financed from European Union budgetary resources and technical assistance in the form of a Project Management Unit.

Wastewater treatment, Tunisia.

EUR 40m for wastewater treatment in Tunisia

The EIB granted a loan of EUR 40m to the Office National d'Assainissement de Tunisie to finance wastewater collection networks and treatment plants in various localities in Tunisia.

This loan will go towards financing schemes located in Tunis, Hammamet, Kerkennah, Mahdia, Gabès, Médenine, Tataouine and Gafsa.

The project will help to improve the quality of service and living conditions for the inhabitants of Greater Tunis and various cities in the country's interior. It will also provide access to the sewerage system for some 280 000 people, including 40 000 living in the outlying areas of Greater Tunis not previously served.

This loan benefits from an interest rate subsidy and technical assistance to improve the monitoring of the project.

EUR 45m for rural water supplies and sanitation in Syria

The EIB granted a EUR 45m loan for the development of new water and wastewater infrastructure south of Damascus.

The project will provide drinking water and wastewater collection and management services to people who are currently unserved in two refugee camps, while extending and improving the quality of such services for 14 communities, benefiting a current total of over 200 000 people.

The project encourages more prudent and rational utilisation of natural resources by substituting new controlled groundwater sources for the over-exploited and possibly contaminated local groundwater sources currently in use in the affected communities, and by promoting tariff reforms that gradually signal to consumers the actual cost of providing the services.

The project is part of a broader sectoral reform strategy being implemented in cooperation with the European Commission and the German cooperation agencies (KfW, GTZ). Its goal is to improve water and wastewater service levels in the area while strengthening the water and wastewater service providers.

A technical assistance programme under FEMIP has been designed to ensure that adequate support is provided for the promoter through an adequately staffed Project Management Unit, as well as an Institutional Development Unit, contributing to the strengthening of its institutional capacity. This project also benefits from a EUR 5m interest rate subsidy from the European Commission.

The City of Sfax in Tunisia has suffered for years from a serious pollution problem resulting from the intense industrial activity in the region. Launched in 2004, the Assainissement du site de Taparura project intends to clean up the industrial site of Taparura. It forms part of a wider programme put together by the Tunisian authorities to tackle the primary sources of pollution in the region.

» Industry

FEMIP contributes to the development of industry in the partner countries through its credit lines, which provide financing particularly for SMEs in the industrial sector. In the case of major investment projects, it lends direct. It has, for example, financed advanced technology projects (agribusiness, biotechnology) as well as projects in the more traditional sectors of cement and steel.

EUR 200m to support the Egyptian petrochemical sector

The EIB has provided a EUR 200m loan to support the design, construction and operation of a world-scale methanol plant with a nominal capacity of 1.3 million tonnes per annum.

The project is located on a greenfield site in the industrial port of Damietta on the Mediterranean coast. It is in the form of a joint venture between the Methanex group, a global leader in the production and marketing of methanol, and a number of specialised Egyptian public sector companies.

EIB financial support for the development of the Egyptian petrochemical sector, based on efficient exploitation of natural gas reserves, will contribute to the country's economic development, poverty reduction and social stability .

The strong private sector involvement in this project will stimulate progress with other petrochemical projects in the pipeline and the development of a downstream processing industry, fostering private sector-driven economic growth in general.

The project will generate considerable direct and indirect employment both during construction and in the operational phase. Designed in line with environmental standards applicable within the EU, the project will allow for a transfer of technology, enhance local skills and expertise and underpin the introduction of international best practice.

The support provided by FEMIP to the cement industry in Algeria helps to meet local demand for cement and concrete for housing construction.

» Health

FEMIP attaches great importance to human capital and has therefore financed a number of healthcare and education projects. Examples include a loan to Jordan for the overhaul of the educational system (in 2003) and a loan to Tunisia for the upgrading and expansion of the infrastructure of thirty regional hospitals.

EUR 70m to improve the healthcare sector in Morocco

The Bank has provided a EUR 70m loan to support an ambitious hospital reconstruction, rehabilitation and equipment programme, comprising investments in 17 existing hospitals, as an integral part of a hospital reform programme launched at the initiative of the Moroccan Ministry of Health.

The project was implemented following a FEMIP technical assistance operation, which proved particularly successful in identifying the main priority areas for hospital reform.

The project will be accompanied by a range of new planning and delivery methods and tools, many of which have been developed as a result of the involvement of European and international institutions, particularly the European Commission and the World Bank.

Implemented in parallel with other healthcare reforms, the programme will improve the quality of hospital services across Morocco, including the accessibility of those services, the management of human and financial resources, clinical waste management and the implementation of scheduled maintenance programmes.

It is planned to improve the implementation of this project through a Project Implementation Unit, which will also liaise closely with other donors and programmes.

Health sector, Tunisia.

» Technical assistance

Port of Tartous, Syria.

Operation: Strengthening of the Tunisian microfinance association ENDA Inter-Arabe
Country: Tunisia
Sector: Microfinance
Status: Ongoing

A technical assistance operation has been accompanying the loan granted to the microfinance provider ENDA Inter-Arabe in order to enable this NGO to optimise management of its growth and successfully integrate with the local financial sector.

This operation has three principal objectives:

- *to optimise ENDA's governance structure;*
- *to strengthen the finance department and the financial management skills of its members;*
- *to improve control procedures and the IT system.*

Operation: Technical assistance to the Port of Tartous
Country: Syria
Sector: Infrastructure
Status: Ongoing

The EIB signed the Port of Tartous loan in May 2003, which was the Bank's first transport sector project in Syria. It comprises the modernisation and development of the multi-purpose Port of Tartous over the period 2002-2008.

Following a request from the project promoter, the Tartous Port General Company, a technical assistance operation was designed and launched, with the following four main objectives: facilitation of port passage procedures, improvement of port operations management, modernisation and organisation of port equipment maintenance, and port reorganisation.

Although implementation of the Port of Tartous investment project is still ongoing, the results achieved to date in improving the efficiency and capacity of the port are very positive. It should, however, be noted that this is also due to favourable economic developments in the region. At the time of appraisal in 2001, cargo traffic was expected to increase by around 4% per annum, but traffic has almost doubled over the four-year period 2002-2005. Further improvements in capacity and efficiency are to be expected upon completion of the investment project as recommendations under the technical assistance operation are implemented.

Operation: Horizon 2020 – Elaboration of a Mediterranean Hot Spot Investment Programme
Country: Regional
Sector: Environment
Status: Ongoing

FEMIP actively contributes to the European Commission's Horizon 2020 initiative to reduce the level of pollution in the Mediterranean Sea.

In this context, the Bank participated in the 3rd Euro-Mediterranean Environment Ministers' Meeting in Cairo in November 2006, which adopted a political declaration and the Horizon 2020 cleanup timetable.

The FEMIP contribution is focusing on creating a pipeline of investment projects, in close collaboration with the European Commission, the World Bank and the United Nations Environment Programme (UNEP)/Mediterranean Action Plan (MAP). In December 2006, a consultant was recruited to identify three to five of the most regionally polluting industrial and/or municipal sources in partner countries and to assess the need for a possible Mediterranean Hot Spot Investment Programme (MeHSIP).

FEMIP technical assistance: what is it for?

Technical assistance operations aim to improve the quality of lending operations by assisting promoters during all stages of the project cycle. These operations are financed by the FEMIP Support Fund, which uses non-repayable aid granted by the European Commission in support of EIB investment activities.

FEMIP technical assistance operations take several forms:

- pre-feasibility or feasibility studies for investment projects;
- Project Management Units during the implementation stage, to avoid common problems such as delays and cost overruns;
- evaluation missions to assess ongoing or completed projects.

2006 results

2006 was the third full operational year of the FEMIP Support Fund. Contracts totalling EUR 12.3m were signed with consulting companies for 22 new technical assistance operations.

This brought the total amount of contracts since the start of the FEMIP Support Fund in July 2003 to EUR 36.8m for 62 technical assistance operations, approximately 25 of which have been completed.

Evaluation exercise

The FEMIP Support Fund was subject to an external evaluation in 2006, which was carried out in close collaboration with the European Commission.

The evaluation showed that the Support Fund had been successfully implemented, while underlining the scope for improvement in the planning and monitoring of technical assistance activities. It confirmed the importance of well-defined terms of reference with precise general and specific objectives to increase the likelihood of successful technical assistance operations.

Three examples of ongoing technical assistance operations are provided above.

» FEMIP Trust Fund operations

Successful launch of FEMIP's internship programme

For the first time, the EIB is taking in students and young professionals from outside the EU under the FEMIP internship programme. A first batch of interns was selected at the end of 2006, and the internship programme has been running since January 2007.

Financed by the FEMIP Trust Fund, the internship programme is open to young graduates who are nationals of Mediterranean partner countries. It offers successful candidates the opportunity to gain professional experience within the EU's financial institution.

It has aroused considerable interest from candidates, with 310 applications being registered. It has also attracted a keen interest among a number of Bank departments, which between them have selected a total of ten candidates.

The launch of a second internship round is expected in the spring of 2007.

The FEMIP Trust Fund (FTF) was established in 2004 to enable donors to complement on a voluntary basis the resources available for the Mediterranean partner countries under FEMIP.

The purpose of the Fund is to foster private sector development in the Mediterranean region. To achieve this objective, two windows were defined: technical assistance and private sector support. At the end of 2006, 15 EU Member States and the European Commission had contributed a total of EUR 33.5m to the Fund.

The FEMIP Trust Fund's Assembly of Donors, which brings together representatives of all FTF donors, met three times in 2006 and approved seven operations totalling EUR 4.3m, including, for the first time, a risk capital operation.

Since the creation of the Trust Fund, 14 operations totalling EUR 7.7m have been approved, of which nine have already been completed or are currently ongoing, including the FEMIP Internship Programme and the Clean Development Mechanism project identification.

Evaluation exercise

An internal evaluation of the FTF was carried on by the Bank's independent internal audit in 2006. The evaluation report published in September 2006 concluded that the objectives of the FTF are relevant and contribute to FEMIP's goals.

The report underlined that, whilst it is still too early to assess the impact of the operations, ownership is largely ensured, with the active participation of Mediterranean partner countries at all stages of the operation and the active dissemination of the results. It also identified scope for improvement in the areas of management and policy dialogue.

Conference on Mediterranean migrants' remittances to their countries of origin held in Paris in March 2007, following on from the study on the same subject funded by the FEMIP Trust Fund.

Organisation and staffing

"For more than 10 years, the Barcelona Process has been the forum for dialogue and cooperation in various fields. Its aim is to establish a common area of peace, stability, security and shared prosperity in the Euro-Med area. It also aims to develop human resources and promote understanding between cultures ....

Modernising our economies is necessary to enable each member of the Euro-Med group to face the challenges of globalisation and to benefit from the opportunities it affords more effectively.

Consequently, deepening economic integration between the EU and the Mediterranean countries – alongside South-South regional integration – will form one of the key objectives over the coming years."

Mr Mauri Pekkarinen,
Minister of Trade and Industry of Finland,
Opening session of the 6th Euro-Mediterranean Ministerial Conference on Industry
Rhodes, 21-22 September 2006

The FEMIP team

The Mediterranean (FEMIP) Department continued to operate on the basis of the successive increases in staffing resources provided over the previous two years.

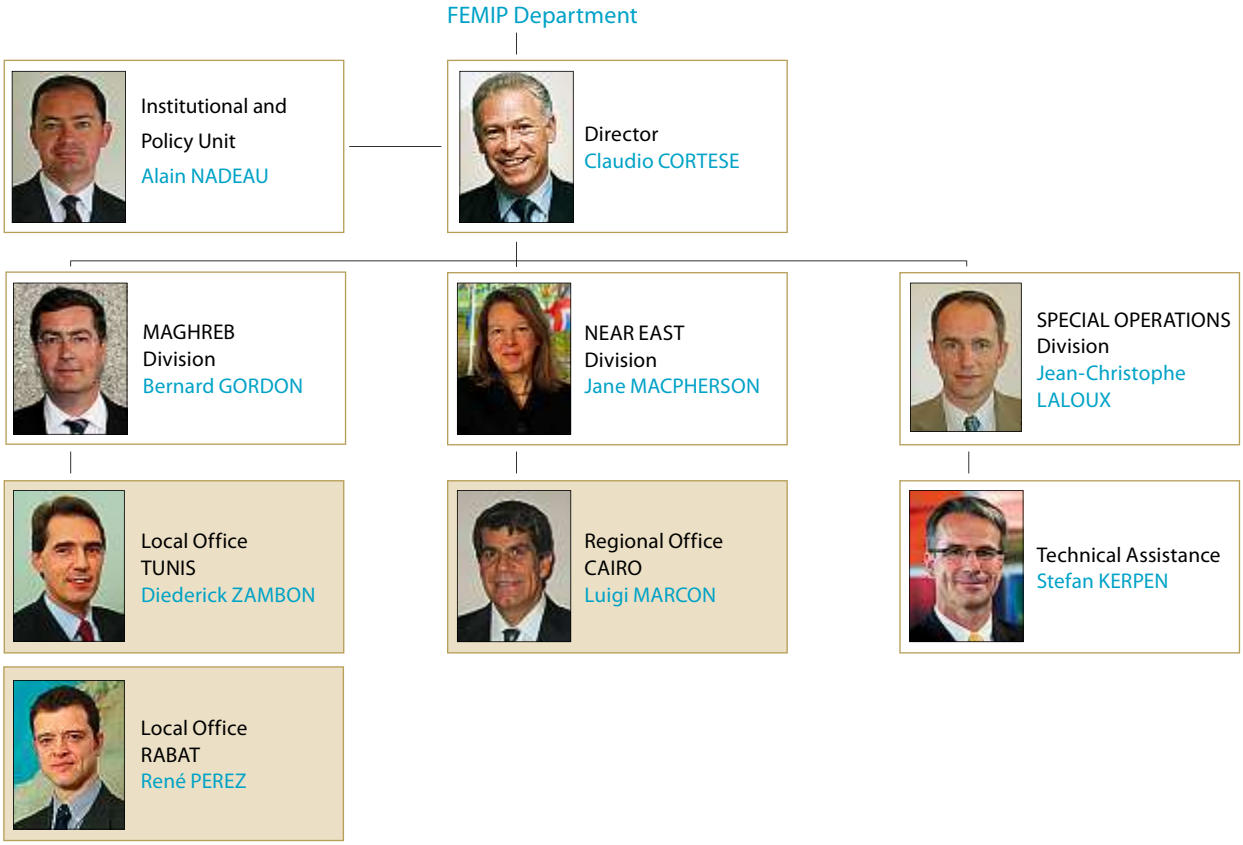
The Mediterranean (FEMIP) Department is attached to the EIB's Directorate for Lending Operations outside Europe and works closely with the Projects, Legal Affairs, Risk Management and Finance Directorates. It also uses the services of the EIB's support directorates.

The Mediterranean (FEMIP) Department has nearly 75 staff. It comprises three divisions – two geographical and one horizontal – plus a unit responsible for general policy and institutional matters.

The two geographical divisions cover the Maghreb and the Near East and are responsible for lending operations in the countries within their respective remits.

The horizontal division manages risk capital and technical assistance operations throughout the Mediterranean partner countries. This division was substantially reinforced by the recruitment of additional professional staff with private equity experience.

Organisation chart of FEMIP



The external offices

The EIB is now well established in the Mediterranean thanks to its three external offices, located in Cairo, Tunis and Rabat.

These offices perform a vital role by facilitating enhanced coordination with the local public authorities, borrowers, the banking sector and lenders.

Being close to the ground in this way gives these offices an effective vantage point for identifying projects and monitoring completed or ongoing operations. It also makes it easier for them to provide technical assistance.

The FEMIP team

Annexes

"We – from the landlocked countries in the midst of the continent – tend to think of the Mediterranean as the big barrier, as the big divide. But history has proven otherwise. The great French historian Fernand Braudel has written his main work not on the many battles that were fought on and around this inland sea; but on the economic and cultural development of the countries on its rim. He made us realise that the sea, far from being a barrier, had in fact functioned as a superhighway, closely linking the shores together into one economic and cultural unit. The boats on the Nile were built from the cedars of the Lebanon. Egyptian wheat was feeding hungry Rome. A diet of flat bread, olive oil and white cheese had become the standard fare. And religions all drew from the same sources."

Mr Winfried Braumann,
CEO of Frauenthal AG,
FEMIP Expert Committee, Vienna, 20 March 2006

Annex 1: List of operations signed (01/10/2002–31/12/2006)

Country	Region	Project Name	Amount signed EURm	Public/ Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
1 October to end-2002								
Algeria	Maghreb	ALGERIAN CEMENT COMPANY	62.0	Private	Loan & Risk Capital	Industry		
Morocco	Maghreb	ONE-INTERCONNEXIONS II	120.0	Public	Loan	Energy		
Morocco	Maghreb	ONEP IV PROTECTION DE L'ENVIRONNEMENT	20.0	Public	Loan	Environment		X
Tunisia	Maghreb	AUTOROUTE DU SUD	120.0	Public	Loan	Transport & other infrastructure		
Egypt	Near East	EGYPTIAN DIRECT INVESTMENT FUND	5.9	Private	Risk capital	Financial sector		
Total			**327.9**				**NA**[20]	**1**
2003								
Algeria	Maghreb	RECONSTRUCTION APRES TREMBLEMENT DE TERRE	230.0	Public	Loan	Transport & other infrastructure	X	
Morocco	Maghreb	AUTOROUTES DU MAROC IV	110.0	Public	Loan	Transport & other infrastructure		
Morocco	Maghreb	ASSAINISSEMENT VILLES MAROCAINES-OUJDA	30.0	Public	Loan	Environment	X	X
Morocco	Maghreb	FORMATION PROFESSIONNELLE MAROC	30.0	Public	Loan	Human capital		
Morocco	Maghreb	PORTS DU MAROC II	14.0	Public	Loan	Transport & other infrastructure		
Morocco	Maghreb	ASSOCIATIONS DE MICRO-CREDIT	10.0	Priv	Risk capital	Financial sector		
Tunisia	Maghreb	ENTREPRISES TUNISIENNES PG III	150.0	Priv	Loan	Financial sector		
Tunisia	Maghreb	SANTE TUNISIE	110.0	Public	Loan	Human capital		
Tunisia	Maghreb	STEG GAZ TUNISIE	55.0	Public	Loan	Energy		
Tunisia	Maghreb	STT- METRO LEGER DE TUNIS II	45.0	Public	Loan	Transport & other infrastructure		
Tunisia	Maghreb	TUNISACIER STEELWORKS	35.0	Private	Loan	Industry		
Egypt	Near East	IDKU LNG PLANT - ARTICLE 18 FACILITY	304.5	Private	Loan	Energy		
Egypt	Near East	NUBARIYA COMBINED CYCLE POWER PLANT II	150.0	Public	Loan	Energy		
Egypt	Near East	ABU RAWASH WASTEWATER	55.0	Public	Loan	Environment		
Egypt	Near East	REGINA FOR FOOD INDUSTRIES	0.6	Private	Risk capital	Financial sector		
Jordan	Near East	JORDAN EDUCATION	39.7	Public	Loan	Human capital		
Jordan	Near East	AMMAN RING ROAD	26.2	Public	Loan	Transport & other infrastructure	X	
Syria	Near East	PORT OF TARTOUS	50.0	Public	Loan	Transport & other infrastructure	X	
Syria	Near East	SME FUND	40.0	Private	Loan	Financial sector	X	
Regional	Regional	AVERROES FINANCE	3.5	Private	Risk capital	Financial sector		
Total			**1488.5**				**5**	**1**

[20] *The FEMIP TA Support Fund actually became operational in the second half of 2003.*

Country	Region	Project Name	Amount signed EURm	Public/ Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
2004								
Algeria	Maghreb	ALGERIAN CEMENT COMPANY - PHASE II	12.5	Private	Loan	Industry		
Morocco	Maghreb	ONE PARC EOLIEN DE TANGER	80.0	Public	Loan	Energy		
Morocco	Maghreb	INFRASTRUCTURES LOGEMENT SOCIAL	71.0	Public	Loan	Transport & other infrastructure	X	
Morocco	Maghreb	ONE- DEPOLLUTION CENTRALE MOHAMMEDIA	40.0	Public	Loan	Environment	X	X
Morocco	Maghreb	ASSAINISSEMENT VILLES MOYENNES (Safi)	20.0	Public	Loan	Environment	X	X
Morocco	Maghreb	ASSAINISSEMENT VILLES MAROCAINES-FES	20.0	Public	Loan	Environment		X
Morocco	Maghreb	ASSOCIATIONS DE MICRO-CREDIT II	10.0	Private	Risk capital	Risk capital		
Morocco	Maghreb	WELDOM MAROC	0.5	Private	Risk capital	Risk capital		
Tunisia	Maghreb	VOIRIES PRIORITAIRES III	65.0	Public	Loan	Transport & other infrastructure		
Tunisia	Maghreb	VOIRIES PRIORITAIRES IV	40.0	Public	Loan	Transport & other infrastructure		
Tunisia	Maghreb	ASSAINISSEMENT DU SITE DE TAPARURA	34.0	Public	Loan	Environment	X	
Tunisia	Maghreb	PRET GLOBAL CPSCL	25.0	Private	Loan	Financial sector		
Tunisia	Maghreb	SNCFT IV	20.0	Public	Loan	Transport & other infrastructure		
Egypt	Near East	EGYPTAIR II	290.0	Public	Loan	Transport & other infrastructure		
Egypt	Near East	DAMIETTA LNG PLANT - EUROMED II FACILITY	188.4	Private	Loan	Energy		
Egypt	Near East	TALKHA & EL KUREIMAT POWER PLANTS	160.0	Public	Loan	Energy		
Egypt	Near East	GL PRIVATE SECTOR DEVELOPMENT	60.0	Private	Loan	Financial sector	X	
Jordan	Near East	REGIONAL GAS PIPELINE	100.0	Public	Loan	Energy		
Lebanon	Near East	APEX GL MULTI-SECTOR	60.0	Private	Loan	Financial sector		
Lebanon	Near East	SOUTH LEBANON WASTEWATER	45.0	Public	Loan	Environment	X	X
Syria	Near East	DEIR ALI POWER PLANT	200.0	Public	Loan	Energy		
Regional	Regional	AFRICINVEST FUND	4.0	Private	Risk capital	Risk capital		
Total			**1545.4**				**6**	**4**

Country	Region	Project Name	Amount signed EURm	Public/ Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
2005								
Algeria	Maghreb	PROJET MAGHREB LEASING	10.0	Private	Risk capital	Financial sector		
Morocco	Maghreb	ADM IV TRANCHE B	70.0	Public	Loan	Transport & other infrastructure		
Morocco	Maghreb	ROUTES RURALES II	60.0	Public	Loan	Transport & other infrastructure	X	
Morocco	Maghreb	PRET GLOBAL BMCE BANK	30.0	Private	Loan	Financial sector		
Morocco	Maghreb	CAPITAL NORTH AFRICA VENTURE FUNDS	5.0	Private	Risk capital	Financial sector		
Morocco	Maghreb	AGRAM INVEST	4.6	Private	Risk capital	Financial sector		
Morocco	Maghreb	ATLAS EDEN	0.2	Private	Risk capital	Financial sector		
Morocco	Maghreb	SOCIETE IMMOBILIERE DE LA MER	5.0	Private	Risk capital	Financial sector		
Tunisia	Maghreb	TECHNOPOLES	80.0	Private	Loan	Industry	X	
Tunisia	Maghreb	PG ENTREPRISES TUNISIENNES IV	120.0	Private	Loan	Financial sector	X	
Tunisia	Maghreb	PG TECHNOPOLES TUNISIE	60.0	Private	Loan	Financial sector	X	
Egypt	Near East	IDKU LNG PLANT II	234.4	Private	Loan	Energy		
Egypt	Near East	GASCO GAS PIPELINES III	50.0	Public	Loan	Energy		
Gaza/West Bank	Near East	CREDIT GUARANTEE FUND	10.0	Private	Risk capital	Financial sector	X	
Gaza/West Bank	Near East	ELECTRICITY NETWORK UPGRADING	45.0	Public	Loan	Energy	X	
Lebanon	Near East	LEBANESE HIGHWAYS	60.0	Public	Loan	Transport & other infrastructure	X	
Lebanon	Near East	BYBLOS BANK GL	50.0	Private	Loan	Financial sector		
Lebanon	Near East	GREATER BEIRUT WASTEWATER	60.0	Public	Loan	Environment		X
Syria	Near East	DEIR AZZOUR POWER PLANT	200.0	Public	Loan	Energy	X	
Syria	Near East	RURAL TELECOMS	100.0	Public	Loan	Transport & other infrastructure	X	
Total			**1254.2**				**9**	**1**

Country	Region	Project Name	Amount signed EURm	Public/ Private	Nature of Operation	Sector	FEMIP TA	MEDA Interest Subsidy
2006								
Morocco	Maghreb	ASSAINISSEMENT DU BASSIN DE SEBOU	40.0	Public	Loan	Environment		X
Morocco	Maghreb	MOROCCAN INFRASTRUCTURE FUND	10.0	Private	Risk capital	Financial sector		
Morocco	Maghreb	ONE ELECTRIFICATION RURALE II	170.0	Public	Loan	Energy		
Morocco	Maghreb	SANTE	70.0	Public	Loan	Human capital		
Tunisia	Maghreb	ONAS IV	40.0	Public	Loan	Environment	X	X
Tunisia	Maghreb	STEG CENTRALE GHANNOUCH	114.0	Public	Loan	Energy		
Tunisia	Maghreb	ENDA	0.8	Private	Risk capital	Financial sector		
Egypt	Near East	EGYPTIAN POLLUTION ABATEMENT (EPAP) II	40.0	Private	Loan	Financial sector/ environment	X	X
Egypt	Near East	EL ATF AND SIDI KRIR POWER PLANTS[21]	260.0	Public	Loan	Energy		
Egypt	Near East	EMX METHANOL PLANT	200.0	Private	Loan	Industry		
Egypt	Near East	UPPER EGYPT GAS PIPELINE	50.0	Public	Loan	Energy		
Egypt	Near East	HORUS AGRIFUND	8.5	Private	Risk capital	Financial sector		
Egypt	Near East	BELTONE	5.6	Private	Risk capital	Financial sector		
Israel	Near East	BANK HAPOALIM GL	75.0	Private	Loan	Financial sector		
Israel	Near East	ENVIRONMENTAL PROGRAM LOAN	200.0	Public	Loan	Environment	X	
Syria	Near East	DAMASCUS RURAL WATER AND SANITATION	45.0	Public	Loan	Environment	X	X
Regional-Mediterranean	Regional-Mediterranean	EUROMED FUND	10.1	Private	Risk capital	Financial sector		
Regional-Mediterranean	Regional-Mediterranean	EUROMENA FUND	10.0	Private	Risk capital	Financial sector		
Regional-North Africa	Regional-North Africa	MAGHREB PRIVATE EQUITY FUND II	10.0	Private	Risk capital	Financial sector		
Regional-Mediterranean	Regional-Mediterranean	SGAM KANTARA FUND	10.0	Private	Risk capital	Financial sector		
Total			**1368.9**				**4**	**4**

[21] *The loan is divided into two tranches of EUR 130 million each, one of which will be set against the ENP MED mandate.*

Annex 2: List of technical assistance operations signed in 2006

Country	Activity	Promoter	Contract volume (EUR '000)
Morocco	Tariff study for Oujda wastewater project	RADEEO (Oujda)	68
Morocco	Microfinance study in Morocco	Ministry of Finance	5
Morocco	Social housing infrastructure – TA to Al Omrane holding company	Ministry of Housing and Urbanism	2996
Morocco	Health sector	Ministry of Health	180
Morocco	TA to DRCR for national rural roads	DRCR	1484
Tunisia	TA to EIB financial intermediaries of two "Technopoles" global loans	Intermediary banks	30
Tunisia	Microfinance	ENDA	200
Tunisia	"Technopoles" global loan – TA to intermediary banks and beneficiaries – balance	Intermediary banks	780
Tunisia	Training of managers of Tunisian SICARs receiving "Private Sector Support" conditional loan from risk capital	SICAR	98
Egypt	Private Sector Financing - Identification of potential for risk capital operations in Egypt	Ministry of Finance	124
Egypt	Egyptian Pollution Abatement Project EPAP II- Preparation	EEAA	200
Jordan	Amman Ring Road	Ministry of Housing and Public Works	1790
Lebanon	Private equity fund	Byblos Bank	166
Syria	PMU to telecom establishment	Governate of Damascus	2000
Syria	Feasibility study to develop new options for private sector investment financing - PHASE II	Ministry of Finance	1004
Syria	Tariff study for Syrian water sector	Ministry of Housing and Construction	139
Syria	Needs for cancer services Aleppo Cancer Center	Ministry of Health	140
Syria	Damascus rural water and sanitation project - Hydrogeological study	Ministry of Environment and Local Authorities	178
Regional	Private Sector Financing - Identification of potential for risk capital operations in Morocco and Tunisia	Ministry of Finance	195
Regional	Microfinance in Egypt, GWB, Jordan, Lebanon and Syria	Ministry of Finance	193
Regional	Microfinance in Algeria , Morocco and Tunisia	Ministry of Finance	147
Regional	Evaluation of FEMIP Support Fund	EIB/EC	165
Total			**12 282**

Annex 3: List of operations under the FEMIP Trust Fund

Name of operation	Country	Sector	Budget in EUR	FTF Assembly date of approval
Building capacity in the Mediterranean partner countries: the FEMIP Internship Programme	Regional	Human capital/education	470 000	March 2006
Clean Development Mechanism project identification in FEMIP countries	Regional	Environment/water	200 000	March 2006
Seed capital fund	Tunisia	Industry/finance	2 150 000	July 2006
Review of existing trade finance services	Regional	Industry/finance	80 000	July 2006
Analysis of tourism strategies and policies on the FEMIP countries and proposals for sub-regional tourism development	Regional	Industry	200 000	July 2006
Potential for biofuel production in FEMIP countries	Regional	Energy	200 000	December 2006
Private management and operation of the public irrigation system	Morocco	Environment/water	1 000 000	December 2006
Total			**4 300 000**	

Annex 4: Publications

Activity reports and brochures

- FEMIP for the Mediterranean: 2006 results, March 2007.
- FEMIP and the Mediterranean partner countries, March 2007.
- FEMIP Annual Report 2005, June 2006.
- FEMIP Trust Fund Activity Report 2005, June 2006.
- Overview of FEMIP 2005 Achievements, March 2006.
- FEMIP Annual Report 2004, June 2005.

Studies

- Feasibility Study to develop new options for private sector investment financing in the Syrian Arab Republic, March 2006.
- Study on improving the efficiency of workers' remittances in Mediterranean countries, March 2006.
- Sovereign Debt Markets in the EU Mediterranean partner countries – 2005, November 2005.

Thematic fact sheets

- Modernisation of procurement procedures in the Mediterranean region, June 2006.
- Study on remittances sent by Mediterranean migrants from Europe, June 2006.
- Partnership with the Euro-Mediterranean "FEMISE" university network, June 2006.
- How to face the energy challenge in the Mediterranean, June 2006.
- Capital Market Activities in the Mediterranean countries, June 2006.
- Environment and sustainable development in the Mediterranean partner countries, November 2005.
- Energy in the Mediterranean partner countries, November 2005.
- Transport in the Mediterranean partner countries, November 2005.
- Private sector in the Mediterranean partner countries, November 2005.
- Investment capital in the Mediterranean partner countries, November 2005.
- Technical assistance in the Mediterranean partner countries, November 2005.

Country fact sheets

- Financing provided by the EIB in Algeria, May 2007.
- Financing provided by the EIB in Egypt, May 2007.
- Financing provided by the EIB in Gaza and West Bank, May 2007.
- Financing provided by the EIB in Israel, May 2007.
- Financing provided by the EIB in Jordan, May 2007.
- Financing provided by the EIB in Lebanon, May 2007.
- Financing provided by the EIB in Morocco, May 2007.
- Financing provided by the EIB in Syria, May 2007.
- Financing provided by the EIB in Tunisia, May 2007.
- European Investment Bank loans in Turkey, October 2006.

Evaluation reports

- FEMIP Trust Fund: Evaluation of activities at 30.09.2006, February 2007.
- EIB financing with own resources through individual loans under Mediterranean mandates, July 2005.
- EIB financing with own resources through global loans under Mediterranean mandates, February 2005.
- Evaluation of EIB Financing of Airlines, June 2004.
- An Evaluation Study of 17 water projects located around the Mediterranean financed by the EIB, February 1999.

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

Professional training in Morocco. The EIB has funded in 2003 the creation and extension of some 30 professional training centres in the tourism, textile, and information and communication technology sectors.

Annex 5: Glossary of terms and abbreviations

ADEME:	Agence de l'Environnement et de la Maîtrise d'Energie
AFD:	Agence française de Développement
CDM:	Clean Development Mechanism
CIIC:	Commercial International Investment Company
Ecofin Council:	"Economic and Financial Affairs" Council
EDFI:	European development financing institution
EFGH:	EFG-Hermes Holding Company
EIB:	European Investment Bank
EPAP:	Egyptian Pollution Abatement Project
EU:	European Union
Euro-Med II mandate:	mandate entrusted by the EU Member States, from the Bank's own resources, in favour of the Mediterranean partner countries for the period 01/02/2000-31/01/2007
ENP MED mandate:	mandate entrusted by the EU Member States, from the Bank's own resources, in favour of the Mediterranean partner countries for the period 01/02/2007-31/12/2013
EVCA:	European Private Equity and Venture Capital Association
FDI:	foreign direct investment
FEMIP:	Facility for Euro-Mediterranean Investment and Partnership
FTF:	FEMIP Trust Fund
GDP:	gross domestic product
GNP:	gross national product
GHG:	greenhouse gas
GNI:	gross national income
GTZ:	Deutsche Gesellschaft für Technische Zusammenarbeit
IRR:	internal rate of return
KfW:	Kreditanstalt für Wiederaufbau
MAP:	Mediterranean Action Plan
MeHSIP:	Mediterranean Hot Spot Investment Programme
MFA:	Multi-Fibre Agreement
MPC:	Mediterranean partner country
NGO:	non-governmental organisation
ONAS:	Office National d'Assainissement
ONEP:	Office National de l'Eau Potable (Morocco)
NBE:	National Bank of Egypt
PPP:	public-private partnership
SMEs:	small and medium-sized enterprises
STEG:	Société Tunisienne de l'Électricité
TENs:	Trans-European Networks (major transport, energy and telecommunications infrastructure networks underlying the European Union's development and integration objectives)
UNEP:	United Nations Environment Programme

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