**FEMIP for the Mediterranean**

FEMIP brings together under one roof the whole range of services provided by the European Investment Bank (EIB) in the southern and eastern Mediterranean countries.

Operational since October 2002, FEMIP is now the key player in the financial partnership between Europe and the Mediterranean.

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

FEMIP therefore has two priorities: supporting the private sector and creating an investment-friendly environment.

FEMIP also represents a forum for meetings and dialogue between the Euro-Mediterranean partners.
Follow-up to the conclusions of the 7th FEMIP Ministerial Meeting

The 7th FEMIP Ministerial meeting took place in Limassol, Cyprus, on 13-14 May 2007. This meeting brings together once a year the Economy and Finance Ministers of the 37 European and Mediterranean countries to discuss strategic orientations and sectoral matters relating to the Facility. On this occasion the participants reviewed the results achieved by FEMIP in 2006. They also approved the action plan defined in accordance with the decision of the European Council in December 2006 to further reinforce FEMIP. The following provides an overview of the main orientations adopted by the Ministers and the follow-up actions undertaken by the Bank.

Reinforcement of operational instruments

Support for the private sector and infrastructure projects conducive to the creation of an investment-friendly environment were confirmed as the main priorities for FEMIP. A broad range of financial instruments building on those available in the EU Member States, but adapted to recipient country needs, were requested by the participants. The revised Guarantee Agreement between the EIB and the European Commission, which is linked to the new generation of external lending mandates, allows FEMIP to offer new financial products:

➾ Regarding guarantees, the EIB is currently reviewing the experience obtained in other regions, defining products, identifying possible operations and formulating operational guidelines. A first discussion in the FEMIP Committee took place in April 2008.

➾ In addition to participation in investment funds, FEMIP is prepared to commit itself to direct equity participation.

➾ FEMIP has started to liaise with specialised intermediaries on the financing of microfinance activities and will continue to work in this area. A study proposal on the economic and social impact of microfinance with specific reference to the Mediterranean region was launched through the FEMIP Trust Fund.

➾ Regarding public-private partnerships (PPPs), FEMIP has submitted an information note to the members of the FEMIP Committee and is currently examining the possibility of launching a study on the prospects for promoting PPPs in the region through the FEMIP Trust Fund. The first PPP project was signed in 2007 and received the EMEA desalination/water Deal of the Year prize from Project Finance Magazine.

Reinforcement of partnerships

The Ministerial meeting requested the continuation of the policy of involving all economic players in the process of discussing economic reforms that will help the region to develop.

In line with the Ministerial meeting’s approach of focusing on tourism and microfinance, the FEMIP Conference on Tourism took place on 6 March 2008 in Berlin and the FEMIP Conference on Microfinance was held in Tunis on 5 May 2008. The FEMIP Committee will follow-up on the implementation of the recommendations of these two conferences.

It was also decided to include on the agenda of the next Ministerial meeting a three-year operational plan that was discussed by the FEMIP Committee in November 2007. The detailed operational plan will be submitted to the Ministers in October 2008.
In the previous edition of this activity report I referred to 2006 as a landmark year for FEMIP. For 2007, I admit that I am hesitating between describing it as the year in which FEMIP reached maturity and a year of transition …

Maturity, because the volume of financing increased to EUR 1.4 billion, slightly higher than in 2006, thus confirming FEMIP as the leading investor in the Mediterranean region. Last year also saw FEMIP’s efforts since 2002 bear fruit, with two thirds of its financing being earmarked for the first time for private sector development. In this connection, thanks to the Special FEMIP Envelope, three new operations involving greater risk-taking were signed, confirming that this instrument has now found its niche among the Bank’s loan offering.

In 2007, equity injections in Mediterranean companies exhausted the available resources. This is another area where FEMIP has become a key player, with a say in most of the investment funds operating in the region. Because of this acknowledged expertise, it is able to give a direct boost to the equity of growing SMEs or back pioneering initiatives, such as a privately managed seed fund. With regard to technical assistance, 2007 saw the highest volume of contracts financed to date in the Mediterranean countries, this support now forming an integral part of FEMIP’s product range.

At the institutional level, the countries of the Mediterranean and Europe now discuss their common policies in a joint committee. This exchange of ideas is based in particular on two annual conferences, involving the private sector and academics, which provide us with food for thought on the main issues facing the Mediterranean region.

2007 could also be described as a year of transition, as the debate on the planned Union for the Mediterranean showed that the peoples of both Europe and the Mediterranean aspire to a strengthened and renewed partnership. Strengthened, in order to respond more effectively and more rapidly to the major economic, social and environmental challenges facing the region. Renewed, so that the journey embarked upon in 1995 can be taken a stage further and the relationship between partners can genuinely be placed on an equal footing and extended to embrace the whole of civil society, local authorities and especially the private sector.

FEMIP today has the necessary maturity to support this transition.

Philippe de Fontaine Vive Curtaz
EIB Vice-President
responsible for FEMIP
April 2008
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Note: FEMIP’s private equity activities also include signatures under global authorisations, which are not usually booked as “new” signatures. Such operations have been included in the total amount for FEMIP’s activities.
Overview
Facts and figures

Results in 2007

A total of EUR 1.4bn
invested in the Mediterranean partner countries

18 projects financed
with a direct impact on the economy and the improvement of living conditions in the partner countries

EUR 1bn earmarked for private sector development
in the form of credit lines in support of SMEs, private equity operations and the financing of energy and environmental projects undertaken by private promoters

The Mediterranean partner countries are Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia. Following its elevation to the status of an EU Accession Country, Turkey still participates in the institutional dialogue initiated under FEMIP. Operationally, however, activities carried out in Turkey now come under the South-East Europe Department.

**FEMIP operations in 2007 by sector**

**EUR 625m**  
_in the form of credit lines in support of SMEs_  
advanced to local intermediary banks

**EUR 48.5m**  
_in private equity, mainly in support of SMEs_  
in the form of equity participations in local firms or via investment funds

**EUR 465m**  
invested in the energy sector  
for the construction and modernisation of gas pipelines, power plants and distribution networks

**EUR 180m**  
for the transport sector  
to improve the mobility of people and goods

**EUR 120m**  
for environmental protection  
to enhance water resource management capacity

**FEMIP 2007 Signatures: Breakdown by Sector**  
EUR 1.438bn

**FEMIP 2007 Signatures: Breakdown by Region**  
EUR 1.438bn
Results in 2002-2007

FEMIP, leading investor in the Mediterranean

Total FEMIP signatures
(October 2002 - December 2007) Over EUR 7.3bn

-> Since its launch in October 2002, FEMIP has advanced over EUR 7.3bn to finance 105 capital projects in the Mediterranean partner countries.

-> The amount of disbursements, which is a very good indicator of the actual implementation of capital projects on the ground, has continued to increase in recent years from EUR 630m in 2003 to over EUR 1bn in 2007.

Sectoral and geographical breakdown

The infrastructure sector (energy, transport) is the main beneficiary of FEMIP financing. Support for SMEs and the environment are in second and third position respectively.

FEMIP support for the Mediterranean partner countries is evenly distributed between the Maghreb and Near East regions.

FEMIP signatures by sector

FEMIP signatures by region
Increased private sector support

- Between 2003 and 2007, FEMIP channelled over EUR 2.9bn into private sector projects out of a total of EUR 7.3bn provided to the region (40%).
- This amount represents a substantial increase compared to the period 1998-2002, as shown below:

FEMIP private v/s public financing in the Mediterranean region

Between October 2002 and December 2007, EUR 1.3bn was channelled to local SMEs via credit lines, representing 45% of the volume provided to the private sector.

Direct long-term loans to private sector companies in the energy, industry and environment sectors accounted for 48% of private sector operations.

Private equity and microfinance accounted for 7% of total private sector financing volumes.

- Some 1,900 allocations were provided to 1,630 SMEs in the region through EIB credit lines between 2002 and 2007. This funding served to finance small firms with fewer than 50 staff as well as medium-sized companies and helped to generate or preserve more than 15,500 jobs in the Mediterranean partner countries.
A pioneering role in the private equity industry

- FEMIP has actively supported the development of the nascent private equity industry in the region. The Bank pioneered the first operations and acted as a catalyst for the fund-raising of all major fund initiatives promoted by local companies.

- FEMIP is now the leading private equity investor in the region with a portfolio of over EUR 430m spread across 500 investments.

- FEMIP also grants loans in local currency to microfinance institutions. It is now the third-largest microfinance lender in the Mediterranean partner countries.

Private equity signatures between October 2002 and December 2007

The impact of private equity operations is significant as they all involve direct, unsecured financing of the private sector.
Contributing to the transfer of expertise via technical assistance

Technical assistance operations complement FEMIP’s financing projects and are aimed at improving the quality of lending operations and increasing their development impact.

Since the introduction of technical assistance in 2004, FEMIP has signed over 92 operations amounting to EUR 63m financed from the EU budget.

As far as the geographical breakdown is concerned, the three main countries to benefit from technical assistance are Syria, Tunisia and Morocco, followed by Egypt and Lebanon.

The infrastructure, environment and human capital sectors are the leading beneficiaries of technical assistance with a total of 67% of available funds allocated to these sectors. The financial sector absorbs 18% of the available resources.

Human capital (health, education) has absorbed 15% of the technical assistance resources.
FEMIP’s remit: promoting innovation and developing synergies

The new generation of FEMIP loans granted under the European Neighbourhood Policy was launched in 2007. EUR 12.4bn will be provided to Europe’s partner and neighbouring countries\(^1\) between 2007 and 2013, of which EUR 8.7bn is earmarked for the Mediterranean partner countries. This is the largest amount ever granted until now in the region and a further EUR 2bn will be deployed under the Mediterranean Partnership Facility II.

On the operational front, the results achieved exceeded expectations. With 68% of financing going to the private sector, 2007 was a record year for FEMIP. Greater risk-taking, innovation and diversification were the policies developed during this year.

On the institutional front, 2007 was marked by the creation of the FEMIP Committee and this new advisory body and thinktank represented another step towards giving the partner countries a greater say in defining FEMIP policy.

Five years after its launch, FEMIP remains the leading financial partner of the Mediterranean region with more than EUR 7.3bn invested since October 2002. The successive reinforcements of FEMIP in 2003 and 2006 have enabled it to broaden the range of its instruments and deepen the partnership with the Mediterranean countries.

The adoption of the new external mandate for the 2007-2013 period confirmed FEMIP’s central role within the European Neighbourhood Policy. This policy, which was developed in 2004, is aimed at increasing the prosperity, stability and security of both the EU Member States and Europe’s neighbours. FEMIP is one of the main economic and financial instruments of the Barcelona Process and the Euro-Mediterranean Partnership and still comes under their aegis.

This commitment to the Euro-Mediterranean Partnership has been reaffirmed by the FEMIP Committee, which held its first meeting in March 2007. This Committee brings together representatives of the 37 European and Mediterranean countries and the European Commission. It can be defined as FEMIP’s “advisory body”. Its work in 2007 focused, in particular, on determining a three-year strategy for FEMIP and enhancing its operational instruments.

2007: massive support for the private sector

Of the EUR 1.4bn accorded to the Mediterranean partner countries in 2007, 68% went to private enterprises. This proportion of private sector support had never previously been attained by FEMIP and reflects its strategy, which is in line with the recommendations of the European Council.

FEMIP has also raised the risk profile of its operations by financing three projects via the Special FEMIP Envelope. This trend of greater risk-taking is likely to continue in the coming years.

For the first time, FEMIP helped to put together two public-private partnership (PPP) projects in the region. The first, signed in 2007, involves the construction of a desalination plant in Israel. The

\(^1\) Europe’s partner and neighbouring countries comprise the nine Mediterranean partner countries and Armenia, Azerbaijan, Georgia, Belarus, Moldova, Ukraine and Russia (EIB financing to Belarus is subject to a future Council decision).
second – the extension of the Tangiers-Med port in Morocco – will be signed in 2008. Both projects benefited from the expertise gained by the Bank in the PPP field in Europe.

FEMIP also maintained its support for the private equity industry in the region. In this connection, it started the first privately managed investment fund specialising in the launch of innovative enterprises in Tunisia, the Phenicia Seed Fund.

FEMIP likewise continued to invest in and promote microfinance, granting a loan in local currency to the NGO Enda-Inter Arabe.

2007 was marked by the resumption of lending operations in Jordan. A line of credit for SME financing was granted to a local bank under the FEMIP Special Envelope.

In Lebanon, FEMIP continued its backing for the government’s reform and reconstruction policy. In accordance with the undertakings given at the International Conference for Support to Lebanon in January 2007, two initial loans for SMEs were signed in 2007 in addition to a private equity operation aimed at supporting innovative enterprises.

The EIB also attended the International Donors Conference for the Palestinian State held in Paris in December 2007, where it undertook to provide a total of EUR 90m for the rehabilitation of infrastructure and the private sector.

A better understanding of FEMIP’s impact

In order to better assess the impact of its lending operations, an Economic and Social Impact Assessment Framework (ESIAF) was developed by the Bank in 2007. This will apply to all new operations outside the European Union, including in the Mediterranean region.

It will be used to assess the social and economic impact of projects in terms of, for example, job creation, capacity-building and contribution to the Millennium Development Goals. It will help to enhance the transparency and value added of the Bank’s operations.

This new mechanism will get under way in 2008. In the medium term, it should help to boost FEMIP’s contribution to the economic development of the partner countries. It will be possible to make a first assessment when the new mandate is reviewed in 2010.
### FEMIP products

FEMIP offers three main types of product:
- loans
- private equity
- technical assistance

<table>
<thead>
<tr>
<th>Products</th>
<th>Objectives</th>
<th>Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>To develop small and medium-sized enterprises (SMEs) via credit lines granted to EIB partners – commercial banks or development financing institutions, which then on-lend the funds to their own customers.</td>
<td>SMEs</td>
</tr>
<tr>
<td>Individual loans</td>
<td>To develop the economic infrastructure of the Mediterranean partner countries, with special emphasis on private sector growth and the creation of a business-friendly environment.</td>
<td>Private and public sector promoters</td>
</tr>
</tbody>
</table>
| Private equity  | To promote the creation or strengthening of the equity base of productive enterprises, particularly those set up in partnership with EU-based companies. | - SMEs  
- Private mid-cap companies  
- Investment funds  
- Microfinance institutions |
| Technical assistance | To improve the quality and development impact of FEMIP operations by:  
- strengthening the capacity of Mediterranean partner countries and promoters,  
- financing upstream studies and activities directly or indirectly fostering private sector growth. | All FEMIP clients                                  |

FEMIP supports small and medium-sized enterprises via credit lines granted to local banks, which then on-lend the funds to their own customers.
Financing facilities

Loans during the period 2007-2013 will chiefly come from the Bank's own resources in the framework of the Mandate conferred on it by the Member States under the European Neighbourhood Policy. These loans will be covered by the EU Guarantee Fund for political and, in some cases, commercial risks.

This package will be supplemented by EUR 2bn under the Mediterranean Partnership Facility II, which is not covered by the Guarantee Fund. In addition, there will be EU budget resources for private equity and technical assistance operations as well as resources made available to FEMIP under the Trust Fund.

<table>
<thead>
<tr>
<th>Name</th>
<th>Type of financing</th>
<th>Amount in EUR</th>
<th>Period</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENP-MED Mandate</td>
<td>Mandate conferred by the Member States, from the Bank’s own resources</td>
<td>8.7bn</td>
<td>1 February 2007-31 December 2013</td>
<td>Contributing to the development of the private sector and infrastructure in the Mediterranean partner countries</td>
</tr>
<tr>
<td>Mediterranean Partnership Facility II</td>
<td>Own resources</td>
<td>2bn</td>
<td>2007-2013</td>
<td>Supporting well-defined priority projects of particular relevance to both the EU and the partner countries (regional development, sectoral policies, environment, support for EU enterprises, etc.)</td>
</tr>
<tr>
<td>Risk capital and technical assistance envelope(^2)</td>
<td>EU budget</td>
<td>Around 128m</td>
<td>2007-2010</td>
<td>Fostering the creation or strengthening of equity and quasi-equity resources for SMEs in the Mediterranean partner countries</td>
</tr>
<tr>
<td>Technical Assistance Fund</td>
<td>EU budget</td>
<td>105m</td>
<td>2003-2009</td>
<td>Helping the partner countries and private promoters to improve the preparation, management and supervision of their investment projects</td>
</tr>
<tr>
<td>FEMIP Trust Fund</td>
<td>Contributions from the Member States and the European Commission</td>
<td>34.5m</td>
<td>Operational since 2005</td>
<td>Gaining a deeper understanding of the region’s major economic challenges by financing technical assistance and sectoral studies. Supporting the private sector by providing equity and quasi-equity finance for innovative operations or operations with an unusual risk profile.</td>
</tr>
</tbody>
</table>

\(^2\) Additional resources are expected to be provided from reflows from previous operations. The risk capital and technical assistance envelope will be re-examined in 2010 as part of the mid-term review of the Mandate.
During the last few years, Mediterranean partner countries have experienced strong macroeconomic performances, driven to a large extent by high oil prices and a favourable global environment. Furthermore, structural policies, although gradual, are facilitating economic development. The role of the private sector in the economy is expanding as governments are privatising state-owned corporations in the banking, telecommunications and utilities sectors. An important component of this transformation has also been increasing integration, within the region and with the rest of the world, as the economies of the Mediterranean partner countries have become more open. Legislation relating to labour practices, foreign investment, corporate governance and transparency is being updated. Nevertheless, despite these positive developments, generating sufficient jobs for the region’s expanding labour force remains a major challenge. Despite the declining unemployment trend, unemployment still remains above 10% in many countries. To meet the employment challenge, the Mediterranean partner countries will have to maintain advanced structural reforms that will improve the competitiveness of their economies, enhance public sector governance and strengthen the role of the private sector.

Underpinned by high oil and non-oil commodity prices, steady global growth and sound policies in many Mediterranean partner countries, the region continued to grow by 5% in 2007 and is expected to grow by 5.1% in 2008.
Macroeconomic developments

Underpinned by high oil and non-oil commodity prices, steady global growth and sound policies in many Mediterranean partner countries, the region continued to grow at 5% in 2007, matching the decade-high pace of 5.3% achieved the preceding year, and it is expected to grow by 5.1% in 2008. Growth was mainly supported by a continued rise in hydrocarbon receipts among the region’s oil exporters, as world oil prices almost approached USD 100 a barrel towards the end of 2007. Despite the severe drought that mainly affected the Maghreb region, a recovery in European demand helped strengthen exports for resource-poor countries in the region, such as Jordan and Morocco, and for Egypt as well (where a depreciation of the EGP against the EUR also helped).

Surging domestic demand, ambitious fiscal spending programmes, and supply constraints – particularly for housing – have fuelled higher inflation rates across the region to 4.6% in 2007, up from 3.7% in 2006. Price levels have also been affected by rising import costs due to the weakness of the USD, as well as higher international costs for commodities such as food. Nevertheless, 2007 consumer prices tended to be in one-digit levels, with the exception of Egypt (10.9%) where inflation has trended higher because of domestic supply shocks – for example the partial elimination of subsidies in September 2006.

Substantial increases in spending on investment and consumer products of oil-exporting countries led to stronger growth in imports and therefore to a worsening of the Mediterranean partner countries’ regional current account surplus: it declined from 6.4% of GDP in 2006 to 4.2% of GDP in 2007 (Figure 1). Although the bulk of the region’s trade surplus is derived from oil exports, the external accounts of the oil importers (resource-poor countries) benefited from increased trade and tourism activity, along with the remittances of their nationals working in oil-exporting countries. However, the Mediterranean partner countries’ external sector remains vulnerable to any major downturn in oil prices, although the region is now less vulnerable to external shocks than in the past thanks to greatly improved domestic and external finances. In particular, the region’s rapidly rising foreign-exchange reserves and other external

Figure 1: External position of Mediterranean partner countries
% of GDP, 2006-2007

![Figure 1: External position of Mediterranean partner countries](image1)

* MPC average is GDP weighted and does not include West Bank and Gaza. Source: IFS.
assets provides it with a substantial cushion against external setbacks.

Capital flows to the Mediterranean partner countries seem well placed to withstand the pressures caused by the recent turmoil in the US credit market, although the impact on the financial environment is present. After a record USD 11.5bn, net private capital flows to Mediterranean partner countries declined in 2007 to USD 8.7bn (Figure 3). This decline in overall private flows is more than fully accounted for by a decline in net lending by commercial banks, which experienced serious fallout on the capacity to lend. On the other hand, the region experienced an increase in FDI flows to USD 20.1bn, a 5.7% increase from 2006. This is due to the completion of major privatisation deals and increased investment in the energy sector. Moreover, FDI from the Gulf countries to the Mediterranean region increased also in infrastructure, real estate and tourism. Egypt was the largest net FDI recipient and in 2007 it accounted for 50% of total flows in the region.

The government intensively continues with its programme to increase the economic role of the private sector mainly in banking and telecommunications. FDI in oil and gas is expected to increase further in the coming years. Morocco, the second largest recipient of FDI flows in the region, benefited mainly from privatisation in the telecommunications sector.

<table>
<thead>
<tr>
<th>Figure 3: Net private capital and net FDI flows in Mediterranean countries 2000-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Figure 4: FDI flows as a share of GDP in Mediterranean partner countries 2006-2007</strong></td>
</tr>
</tbody>
</table>

* Data do not include Israel and West Bank and Gaza.

Source: IFS.

* MPC average is GDP weighted and does not include data for Israel and West Bank and Gaza.

Source: IFS.

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7 Data do not include Israel and West Bank and Gaza.

6 In December 2007, bids were submitted to purchase a 67% stake in Banque du Caire, Egypt’s third-largest state-owned bank, a smaller share than the 80% stake previously announced. Bank of Alexandria, the first bank to be privatised, in 2006, was due to sell 15% of its remaining shares in an IPO in December, but the divestment has been postponed until early 2008, following a big IPO by the Talaat Mustafa Group (a construction and real estate company), which absorbed much of the stock market’s liquidity. The state-owned Telecom Egypt’s monopoly on fixed-line phone services is also due to end, with the National Telecommunication Regulatory Authority (NTRA) planning to offer a second fixed-line licence through a public auction in early 2008. A number of big regional companies, such as Zain of Kuwait and Eibislat of the UAE, expressed their interest.

7 During 2007-2008, privatisations include the State’s remaining 20% stake in the tobacco firm, Régie des tabacs, RDT; its remaining 34.1% stake in Maroc Télécom, MT; a strategic stake in the national carrier, Royal Air Maroc; the state shipping line, Comanav; Banque Centrale Populaire; and a stake in the state postal service, Barid al-Maghrib.
Nevertheless, there are a number of reasons to be cautious about the prospect for FDI in the region. In 2007, net direct investment represented only 9.7% of total FDI flows in developing countries and FDI as a share of GDP decreased in all Mediterranean partner countries except Egypt (Figure 4). Although evidence suggests that FDI continues to flow into the region, FDI activities are likely to be discouraged by growth-constraining structural weaknesses and financial vulnerabilities, as well as political tensions in the region.

Fiscal balances across the region in 2007 ranged from a surplus of 11% of GDP in Algeria to a deficit of 12% of GDP in Lebanon. In general, the fiscal situation in the region worsened from a deficit of 0.6% of GDP in 2006 to a deficit of 1.6% of GDP in 2007. Rising food and energy costs as well as increased global production dedicated to biofuels present difficulties for a number of economies, causing strains on fiscal positions from widespread subsidies covering fuels and cereals.

### Structural reforms

Oil revenues and oil-related wealth along with the satisfactory overall performance support the current robust growth in the region over the short term. However, to meet the region’s fundamental challenges – creating sustainable employment – countries will have to implement major structural changes. There has been steady progress towards trade liberalisation in the region since 2000: while simple average tariffs stood at almost 23% in 2000, they fell to 16.8% by 2006, narrowing the gap with the rest of the world. Furthermore, in July 2006, Morocco, Israel, Egypt and Jordan adopted the new

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**Table 1: Trade policy in Mediterranean partner countries in 2006**

<table>
<thead>
<tr>
<th></th>
<th>Average tariff</th>
<th>Average time for exports clearing (days)</th>
<th>Average time for imports clearing (days)</th>
<th>Overall trade policy (index 1-100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>18.7</td>
<td>15</td>
<td>22</td>
<td>68</td>
</tr>
<tr>
<td>Egypt</td>
<td>9.1</td>
<td>20</td>
<td>25</td>
<td>60</td>
</tr>
<tr>
<td>Jordan</td>
<td>11.8</td>
<td>24</td>
<td>22</td>
<td>44</td>
</tr>
<tr>
<td>Lebanon</td>
<td>5.4</td>
<td>22</td>
<td>34</td>
<td>50</td>
</tr>
<tr>
<td>Morocco</td>
<td>26.2</td>
<td>18</td>
<td>30</td>
<td>52</td>
</tr>
<tr>
<td>Syria</td>
<td>19.6</td>
<td>40</td>
<td>49</td>
<td>2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>26.9</td>
<td>18</td>
<td>29</td>
<td>53</td>
</tr>
<tr>
<td>MPCs</td>
<td>16.8</td>
<td>22</td>
<td>30</td>
<td>47</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>6.8</td>
<td>29</td>
<td>37</td>
<td>50</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>9.4</td>
<td>22</td>
<td>28</td>
<td>64</td>
</tr>
<tr>
<td>South Asia</td>
<td>15.0</td>
<td>34</td>
<td>41</td>
<td>28</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>13.7</td>
<td>40</td>
<td>52</td>
<td>26</td>
</tr>
<tr>
<td>High-income OECD</td>
<td>4.2</td>
<td>11</td>
<td>13</td>
<td>84</td>
</tr>
</tbody>
</table>

Note: Data on Israel and West Bank and Gaza not 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.

Pan-Euro-Mediterranean Protocol of Origin, which extends the pan-European system of origin cumulation to the Mediterranean region. Association agreements with the EU have entered into force in Algeria, Morocco, Jordan, Lebanon and Egypt, adding to the existing ones with Tunisia and West Bank and Gaza. Action Plans under the European Neighbourhood Policy have been agreed with Jordan, Morocco, West Bank and Gaza, and Tunisia. In January and March 2007, Action Plans were also adopted by Lebanon and Egypt. Nevertheless, although the region has made strong progress with tariff reform, trade is still burdensome in terms of time, costs, and the number of procedures involved in trading across borders. Syria remains at the top of the list of an index measuring difficulty in trading.

In contrast with the Mediterranean partner countries’ efforts to integrate with the rest of the world, economic integration within the region is embryonic. Regional initiatives such as the Agadir agreement (establishment of a free trade area between Morocco, Tunisia, Jordan, and Egypt) are hampered by implementation problems and the modalities to address non-tariff barriers. In order to increase the competitiveness of the region, trade liberalisation needs to go beyond just free trade in goods and services and include convergence in trade and regulatory areas and trade-facilitating customs measures.8

Over the past few years, the Mediterranean partner countries have taken important steps to address the region’s deficiencies in governance. Many of these efforts have focused on reforming public administration in order to improve efficiency in the delivery of public services. Reforms in Jordan and Morocco have been backed by a strong government commitment towards improving the quality of services delivered by the public administration. There has been additional progress to improve economic transparency. Morocco, Egypt, Algeria and Jordan recently passed banking regulatory laws in order to increase the transparency of banking operations. These countries also recently enacted anti-corruption legislation and Morocco has also adopted a law on money laundering. Despite the

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efforts, public administration reforms are a slow process which will show results only over time. The Mediterranean partner countries still lag behind the EU and Asia in all aspects of governance (Figure 5). However, in terms of government effectiveness, regulatory quality, rule of law, and control of corruption they perform better than Latin America.

The Mediterranean partner countries are facing a challenge to create sufficient job opportunities for the region’s rapidly growing labour force. With diminished employment opportunities in the public sector, the most important driver for sustainable job growth will be the private sector. Over the past few years, almost every country in the region has taken several steps to improve the business environment. According to the World Bank’s Doing Business survey, Egypt is the top reformer for 2006/07. Egypt made starting a business easier, reducing the minimum capital requirement from EGP 50 000 to EGP 1 000 and halving the startup time and cost. Fees for registering property were reduced from 3% of the property value to a low fixed fee. With more properties registered and less evasion, revenue from title registrations jumped by 39% in the six months after the reform. New one-stop shops were launched for traders at the ports, cutting the time to import by seven days and the time to export by five. The first private credit bureau was established. Furthermore, builders now face less bureaucracy in getting construction permits.

Prospects for the Mediterranean partner countries remain bright, with real GDP growth projected to reach 5.1% in 2008. Despite uncertainties in the external environment related to the US subprime mortgage crisis, growth in the region will be backed up by increased domestic demand. Furthermore, oil prices are likely to remain at high levels and thus oil revenues will be able to support large, project-related expenditures. Notwithstanding this, the long-term prospects for the region depend on the ability to create jobs through broad-based structural reforms.

Despite recent efforts in business climate reform, the overall state of the business environment in the Mediterranean partner countries is poor. In a worldwide ordering of 178 countries based on the overall business climate, the Mediterranean partner countries rank in the lower half with the exception of Israel in 29th place, followed by Jordan in 80th place and Lebanon in 85th place. Syria in 137th place has the worst ranking within the region. Thus, further improvements, especially in areas such as high licensing requirements and inefficient courts, are needed in order to develop a productive and competitive private sector.

Besides Egypt, there were also other reformers in the region. In order to ease business start-up, Morocco introduced one-stop shops. Getting credit became easier in Tunisia, where credit registries now record all loans, expanding coverage of borrowers by 25%. West Bank and Gaza tripled coverage with a similar reform. Morocco now has legislation in place for a bidding process to establish one or more private bureaus. In order to lower registry costs, Tunisia digitised property records, allowing notaries to check files more efficiently. Paying taxes became easier in Syria, which made major revisions in their tax codes.

The Mediterranean partner countries are facing a challenge to create sufficient job opportunities for the region’s rapidly growing labour force. With diminished employment opportunities in the public sector, the most important driver of sustainable job growth will be the private sector.
While the Mediterranean partner countries differ in the level of financial sector development, in general the financial sector plays a significantly smaller role than in other countries of similar income levels. Nevertheless, there is significant demand for microfinance instruments in the region, and the potential to develop this segment of the financial sector is important: of the estimated 4 million people needing microfinance (amounting to about USD 1.4bn), only around half actually got a loan in 2006 (Table 1).

Microfinance in the Mediterranean region is mainly credit-oriented. Savings and insurance products are not generally made available; in many cases they are prohibited by regulation because microfinance institutions (MFIs) do not have the necessary status as banks. Yemen is an exception where savings schemes are growing rapidly. In the region as a whole, there is relatively little diversity of products in comparison with Asia and Latin America where some markets have developed a wide range of products, such as consumer credit, to meet the needs of the poor.

Morocco is the largest microfinance market in the region and accounts for almost half of the total client base. It has achieved strong growth notably through two key players: Al Amana and Zakoura. Zakoura is the larger of the two and has financed the bulk of its operations from the private sector with relatively little donor funding and technical assistance. In the region as a whole, 60% of clients are women, but this is largely due to Morocco where women make up 75% of the client base. Excluding Morocco, the majority of the clients are still men (54%). In terms of their outreach, there are considerable differences between countries. Morocco, for example has a relatively well-developed financial sector which serves the majority of the population and therefore microfinance tends to focus on the poorer segments. However, in Syria the financial sector as a whole is not so well developed and as a result microfinance is attractive to a wider range of businesses that do not have access to formal finance.

The typical MFI in the region disburses the smallest loans in the world. In fact, loans from MFIs in other

Table 1: Overview of 2006 microfinance market

<table>
<thead>
<tr>
<th>(millions)</th>
<th>Total Assets (USD)</th>
<th>Loan Portfolio (USD)</th>
<th>Deposits (USD)</th>
<th>Commercial Borrowings (USD)</th>
<th>Borrowers</th>
<th>Voluntary Savers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>2,402</td>
<td>1,371</td>
<td>1,173</td>
<td>254</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Asia</td>
<td>10,601</td>
<td>6,971</td>
<td>5,537</td>
<td>961</td>
<td>36</td>
<td>41</td>
</tr>
<tr>
<td>Eastern Europe / Central Asia</td>
<td>6,687</td>
<td>4,636</td>
<td>2,141</td>
<td>2,809</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Latin America</td>
<td>12,391</td>
<td>9,668</td>
<td>3,558</td>
<td>2,453</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>MENA</td>
<td>765</td>
<td>637</td>
<td>2</td>
<td>341</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32,846</strong></td>
<td><strong>23,283</strong></td>
<td><strong>15,410</strong></td>
<td><strong>6,818</strong></td>
<td><strong>52</strong></td>
<td><strong>56</strong></td>
</tr>
</tbody>
</table>

Source: Microfinance Information Exchange (MIX).  

The data in this section refers to MENA countries, which along with the Mediterranean partner countries include the Arab Gulf countries and Yemen. However, in terms of microfinance, the MENA region is largely congruent with the Mediterranean partner countries.

Microfinance Information Exchange (MIX) is an information platform on global MFI performance. To be listed in MIX, MFI must comply with certain documentation standards and transparency.
regions are at least twice the size, with the exception of Asia. Furthermore, despite less reliance on commercial funding for on-lending than the global norm (Figure 1), MFIs nearly doubled the share of commercial debt and deposits in their capital structure from 2005.

The NGO MFI sector in the region attracted commercial funding. Once concentrated in leading Moroccan MFIs, commercial borrowings had a greater share in all three of the region’s most active markets: Morocco, Egypt and Jordan. The leading MFIs are now leveraged beyond global norms. Unless they are transformed into shareholding companies or receive fresh injections of other forms of capital, these MFIs are likely to soon hit the ceiling as to how much commercial lending the market will support.

Government-sponsored programmes are significant in Tunisia and Syria. These programmes have specific objectives which do not include the financial sustainability of the MFI (i.e. loans are subsidised). In Tunisia BTS has specific employment creation and rural deve-
Figure 2: Indicators of financial performance and outreach of commercially-oriented MFI in the MENA region, 2006

Performances of MIX-listed MFIs in the region are encouraging. They have a low delinquency rate, with a Portfolio at Risk over 30 days (PAR-30) at 2.9%. In terms of efficiency and outreach they also perform well as they are close to the global average with 105 borrowers per staff and 110% operational self-sufficiency. However, returns on equity were negative in 2006 as commercial lending increased its share in rapidly growing portfolios and thus increased financial expenses.

In addition, Banks for the Poor was initiated by the Arab Gulf Programme for United Nations Development Organisations (AGFUND). These banks provide subsidised credit to the poorest of the poor (along with programmes to encourage social development and savings of the poor). AGFUND has established one bank in Yemen and is in the process of setting up in Jordan, with discussions under way in other countries.
Microfinance contributes significantly to improving the income of households and the profits and revenues of micro-enterprises.
Due to the region's natural and cultural resources, a desirable climate, and a location close to key markets, tourism is an important growth sector in most of the Mediterranean partner countries. However, there are large differences between the countries: while Egypt, Jordan, Tunisia and Morocco are experiencing substantial tourism development, Lebanon, Israel, Algeria, and Gaza and West Bank are facing lower and even negative growth rates.

Despite political unrest in some of the Mediterranean partner countries, the total annual tourism growth rate in 2006 was 12%, measured in terms of tourist arrivals, and 13%, measured in terms of tourist expenditures (Table 1). While Egypt recorded the highest tourist arrivals, Syria had the highest growth rate by value, followed by Morocco and Jordan.

Although these growth rates are impressive (double the world average), the Mediterranean partner countries make up only 4.5 percent of world tourist arrivals. Egypt, Syria, Tunisia and Morocco account for 80% of all tourist arrivals and create 81% of tourist expenditures in the region.

Tourism in the Mediterranean partner countries is often the biggest single source of foreign exchange and generates the largest private sector activity in the economy, especially for Egypt, Morocco, Syria and Tunisia (Table 2). As tourism is an important creator of income and employment, governments treat tourism as a priority economic sector.

The particular potential of tourism development has been understood by the governments as well as by private sector operators and investors. The development that has already taken place is just a beginning and tourism growth can be expected to accelerate in the coming years (Table 1). According to governments’ predictions, the number of tourist arrivals should almost double by 2010 and the region could achieve 5.5% of world tourist arrivals. However, economic and political stability in the

<table>
<thead>
<tr>
<th>Tourist Arrivals in Millions</th>
<th>Annual Average Growth % 2001 to 2006</th>
<th>Tourist Expenditures in USD million, 2006</th>
<th>Annual Average Growth % 2001 to 2006</th>
<th>Tourist Arrivals in Millions 2010</th>
<th>Annual Average Growth % 2006 to 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>1.4</td>
<td>11.2</td>
<td>173</td>
<td>11.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Egypt</td>
<td>9.1</td>
<td>14.8</td>
<td>6,896</td>
<td>8.9</td>
<td>12.2</td>
</tr>
<tr>
<td>Gaza/West Bank</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
</tr>
<tr>
<td>Israel</td>
<td>1.8</td>
<td>13.3</td>
<td>1,912*</td>
<td>8.9</td>
<td>2.4</td>
</tr>
<tr>
<td>Jordan</td>
<td>3.2</td>
<td>6.5</td>
<td>2,004*</td>
<td>17.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Lebanon</td>
<td>1.1</td>
<td>11.7</td>
<td>Na</td>
<td>Na</td>
<td>1.6</td>
</tr>
<tr>
<td>Morocco</td>
<td>6.6</td>
<td>8.5</td>
<td>6,276</td>
<td>18.8</td>
<td>10</td>
</tr>
<tr>
<td>Syria</td>
<td>8.0*</td>
<td>24</td>
<td>2,332*</td>
<td>23</td>
<td>12.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>6.6</td>
<td>5.4</td>
<td>2,193</td>
<td>5.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Total</td>
<td>37.8</td>
<td>11.9</td>
<td>21,803</td>
<td>13.3</td>
<td>54.9</td>
</tr>
</tbody>
</table>

* Data are from 2005. Source: WTTC, Mediterranean partner countries’ governments forecasts for tourist arrivals in 2010.
region as well as further development of tourism facilities are prerequisites to achieve this target.

All Mediterranean partner countries have product diversification as a key strategy, with the aim of increasing competitiveness and added value. The objective is to develop higher income market segments and increase tourism employment. Another important trend is the combination of real estate business and tourism, a practice fairly well developed in Egypt, Morocco, and recently in Algeria.

However, there are still certain constraints to tourism growth which must be addressed. For example, weaknesses in promotion, marketing and branding programmes result in failures in the delivery of promotional activities. As private operators are the main driving force in tourism marketing, their participation is crucial to tourism growth. Secondly, although most of the countries have official systems for human resource development, they are mainly focused on management teaching, but they avoid hands-on, vocational and language training, which are essential for the tourism industry. Again, collaboration with the private sector is vital and most countries can learn from best practices within the region or worldwide experience.

SMEs could also be an important driver of tourism growth, and thus SME development, particularly in connection with cultural and natural sites, must be encouraged.

Institutional systems, along with peace and safety are the most important issues for tourism development. The need for strong political support for tourism, and at the same time an institutional structure building on private-public collaboration, is one of the key determinants for tourism development.

Countries with limited growth prospects because of the present political situation have the possibility of rapid tourism development when the situation may improve. These countries would be able to learn from other countries’ experience so as to avoid the factors inhibiting tourism development.

<table>
<thead>
<tr>
<th></th>
<th>% of Export</th>
<th>Rank</th>
<th>% of GDP</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>9.3</td>
<td>8</td>
<td>1.8</td>
<td>9</td>
</tr>
<tr>
<td>Egypt</td>
<td>31.8</td>
<td>2</td>
<td>8.5</td>
<td>2</td>
</tr>
<tr>
<td>Israel</td>
<td>7.2</td>
<td>9</td>
<td>2.4</td>
<td>7</td>
</tr>
<tr>
<td>Jordan</td>
<td>22.8</td>
<td>5</td>
<td>6.3</td>
<td>4</td>
</tr>
<tr>
<td>Lebanon</td>
<td>52.1</td>
<td>1</td>
<td>3.6</td>
<td>6</td>
</tr>
<tr>
<td>GWB</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Morocco</td>
<td>29.6</td>
<td>3</td>
<td>9.5</td>
<td>1</td>
</tr>
<tr>
<td>Syria</td>
<td>24.1</td>
<td>4</td>
<td>2.1</td>
<td>8</td>
</tr>
<tr>
<td>Tunisia</td>
<td>22.1</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 2: Economic importance of tourism in the Mediterranean partner countries

* Figure is distorted due to special political situation in Lebanon. Source: WTTC.
Activities in 2007
Forward through dialogue

Ministerial Council, Advisory Committee, FEMIP Conferences: the FEMIP partnership’s three-level structure was confirmed in 2007. In particular, it has facilitated the ongoing dialogue within FEMIP between all the players involved, whether they are from governmental institutions, the private sector, university circles or civil society.

Ministerial meeting in Cyprus

The 7th meeting of the FEMIP Ministerial Council was held on 13 and 14 May 2007 in Limassol (Cyprus). This Council, which brings together the Finance Ministers of European and Mediterranean countries, is the highest level forum for the dialogue promoted by FEMIP.

At this meeting, the Council commended the achievements in 2006 and set the objectives for the coming years.

Firstly, in order to support investment and job creation, the Council wished to see the range of FEMIP financial instruments broadened, especially through the establishment of local currency loans and guarantee funds to mitigate the risks borne by SMEs.

Secondly, it called for the policy of involving all economic players in the deliberations on socioeconomic reform to be continued. Consequently, the Ministers chose tourism and microfinance as themes for the FEMIP conferences to be held in 2008.

The Committee brings together the representatives of the Member States, the partner countries and the European Commission. It met three times in 2007 at the Bank’s headquarters in Luxembourg.

In its first year of existence, the FEMIP Committee showed that it can make a major contribution to the FEMIP dialogue. Its work focused, in particular, on preparing the Ministerial meeting in Cyprus, defining FEMIP’s sectoral strategy and improving the products offered.

Financial transfers from migrants: a lever for development?


These two days brought together some 350 participants including around fifteen chairmen of European and Mediterranean banks and the representatives of central banks, international organisations, microfinance institutions and migrant communities.

The Conference identified three priority areas: reducing user transaction costs, rationalising partnerships between banks in the South and the North and strengthening the connection between financial transfers and investment in the countries of origin.

The FEMIP Committee’s first year of existence

This Advisory Committee set up at the beginning of 2007 is FEMIP’s “steering committee”. This thinktank enables the partner countries to play a substantial role in defining FEMIP policy.
Albania and Mauritania join the Euro-Med Partnership

Albania and Mauritania were welcomed to the Euro-Med Partnership as “regional partners” at the 9th Euro-Mediterranean meeting of Ministers of Foreign Affairs held in Lisbon, on 5-6 November 2007.

Albania and Mauritania will participate in multilateral meetings, forums and regional programmes and activities. Both countries will therefore be invited to participate in all FEMIP institutional activities.

On the operational level, they will continue to benefit from separate financial instruments. Albania will still receive financial support under the Instrument for Pre-Accession Assistance and Mauritania will maintain its status as a member of the African, Caribbean and Pacific countries group, which are financed under the Cotonou Investment Facility.

Euro-Mediterranean meetings

FEMIP participated fully in the main Euro-Mediterranean conferences and meetings, including:

- Euro-Med Investment Conference, La Baule, France, 27-29 June 2007
- 1st International Conference of Euro-Mediterranean Post Offices, Marseilles, 9-10 July 2007
- Euro-Med ECOFIN Ministerial meeting, Porto, 15 September 2007
- 9th Euro-Med Conference of Ministers of Foreign Affairs, Lisbon, 5-6 November 2007
- 2nd Euro-Mediterranean Symposium on Innovation, Cairo, November 2007
- Mediterranean Economy Week, Marseilles, 19-24 November 2007

The 7th FEMIP Ministerial Meeting in Cyprus, Limassol, May 2007. From left to right: Jean-Louis Biancarelli, Director General; Michael Sarris, Minister of Finance of Cyprus; Philippe Maystadt, EIB President; Tomas Mirow, German Secretary of State for Finance; Philippe de Fontaine Vive, EIB Vice-President; Claudio Cortese, Director.

Overview of the Cyprus Ministerial Meeting.
Fostering debate: FEMIP Trust Fund studies

Because understanding the economic realities remains a prerequisite for action, FEMIP has made a greater contribution to the debate on the main challenges facing the Mediterranean region. This has been possible thanks to the establishment of the FEMIP Trust Fund in 2004.

A Trust Fund for the Mediterranean

The FEMIP Trust Fund was created in 2004, following a decision by the Ecofin Council to establish a fund dedicated to the Mediterranean partner countries.

The purpose of the FEMIP Trust Fund is to direct resources to operations in certain priority sectors in order to foster private sector development in the region. To attain this objective, two windows were defined: upstream technical assistance and support for private equity.

By December 2007, 15 Member States and the European Commission (EC) had contributed EUR 34.5m. As of December 2007, 18 operations for a total amount of EUR 6.9m had been approved.

The FEMIP Trust Fund has been instrumental in financing upstream studies with a broad strategic view on economic and financial issues in the region. It has also played an important role in supporting the development of the nascent private equity industry in the region.

Over the years, the FEMIP Trust Fund’s Assembly of Donors has proved to be an excellent forum for discussion, both among donors and between donors and the Bank, on issues often going beyond simple Trust Fund matters and concerning the broader economic and financial development of the region. It has allowed contributing Member States and the European Commission to become more involved in the Bank’s activities in the Mediterranean region and express more closely their support for the Barcelona Process.

Promoting sustainable tourism strategies

FEMIP Trust Fund Study

The FEMIP countries have seen outstanding tourism development over the last five years. The average growth rate has been 12.2%, with tourist expenditure increasing even faster. These growth rates are more than double the world average. Nevertheless, total tourist arrivals in FEMIP countries in 2006 only accounted for 6.8% of the world total. There is therefore still significant potential for growth in the sector.

In order to address this issue, the FEMIP Trust Fund financed a study analysing tourism strategies and

Donors’ contributions to the FEMIP Trust Fund

<table>
<thead>
<tr>
<th>Member States</th>
<th>Total contribution in euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>999,950</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1,000,000</td>
</tr>
<tr>
<td>European Commission</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Finland</td>
<td>999,950</td>
</tr>
<tr>
<td>France</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Germany</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Greece</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Italy</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Malta</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Portugal</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Spain</td>
<td>10,000,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3,015,891</td>
</tr>
<tr>
<td><strong>Total at 31 December 2007</strong></td>
<td><strong>34,515,791</strong></td>
</tr>
</tbody>
</table>
policies in the FEMIP countries, which was published in March 2008.

The study presents several proposals for sub-regional tourism development including improving the training of human resources and creating awareness within governments and the political elite, among potential employees/students, and at the general public level. It highlights the importance of rooting tourism in the local economy and underlines the risk of losing value added if SME development is ignored, particularly in connection with cultural and natural sites.

➾ A FEMIP Conference entitled “Promoting sustainable tourism in the Mediterranean: how to address the economic and environmental challenges” was held on 6 March 2008, on the fringes of the International Tourism Fair in Berlin.

Climate change: what are the alternative scenarios?

The Mediterranean region is expected to be one of the areas most affected by climate change and global warming. An average hypothetical increase of 1°C worldwide could entail modified rain cycles leading to more severe droughts in the South and floods in the North and increasingly extreme meteorological events.

In order to contribute to the ongoing reflections on this issue, in 2007 the EIB launched a study programme in conjunction with the Blue Plan designed to develop a prospective view on the likely costs of climate change in the region and propose scenarios for adaptation, including cost estimates.

The first phase of the study has taken place, leading to a presentation of the preliminary results at the EIB Forum on Energy and Climate Change in September 2007 in Slovenia. The second phase is ongoing and final conclusions are expected for mid-2008.

Improving mobility for people and goods

The FEMIP Trust Fund has funded a study on Euro-Mediterranean logistics platforms, which can be defined as focal points for trade interchanges between partner countries and the EU and within the Mediterranean region. The study analyses the factors and conditions that could contribute towards developing logistics platforms in the region.

A presentation of the preliminary findings of the study took place in Casablanca on 30 October 2007 on the occasion of an International Logistics Seminar. The final report is expected to be published in 2008 and will be followed by presentations at both regional and national levels.
European Investment Bank looking for young Mediterranean talents

For the second year in a row, the FEMIP Internship Programme received an encouraging response with 184 applications received mostly from Turkey, Lebanon, Morocco and Gaza/West Bank. At the end of the selection process, 16 students and young professionals from the Mediterranean partner countries were offered intern positions within various departments at the EIB.

The programme, which targets talented young people from the Mediterranean region, is funded by the FEMIP Trust Fund. It is a first in the Bank’s history as it is open to students from outside the EU. To be eligible, candidates must have a degree from a higher education institution or be in their final year of study. They must be specialised in a field relevant to international development banking.

As part of the initiative, a conference on “The Role of Human Resources for Private Sector Development in Mediterranean Partner Countries” is scheduled to be held in Luxembourg in the second half of 2008. It will address issues relating to human capital and the labour market in the partner countries.
A network of partners

FEMIP continued to strengthen its coordination with development finance institutions on the basis of the Memoranda of Understanding signed in previous years in order to improve the value added and effectiveness of its financing activities.

In line with the December 2006 European Council recommendation, the EIB has actively pursued its policy of increased interaction at operational level and knowledge-sharing at policy level.

It has strengthened its cooperation with the European Commission and both institutions are working on a Memorandum of Understanding that will further enhance the consistency of EIB financing operations with EU policy objectives.

Cooperation with other development finance institutions was reinforced with the aim of maximising synergies and ensuring a reasonable sharing of costs and risks. In this framework, the EIB has broadened its network of partner development institutions by signing a letter of intent with the Japan Bank for International Cooperation (JBIC) in March 2007. Cooperation will take the form of a more intensive exchange of information on rules and procedures and the promotion of co-financing activities.

The Memorandum of Understanding signed by the Bank, the European Commission and the International Bank for Reconstruction and Development (IBRD) in May 2004 regarding their partnership in the Mediterranean region was extended to the International Finance Cooperation (IFC) in September 2007. This closer cooperation with the IFC is expected to generate more co-financing opportunities for the development of the private sector in the region.

On a broader level, in October 2007 the EIB signed a Statement on Corporate Governance in Emerging Markets together with 30 development finance institutions. The Statement presents a common approach to corporate governance issues and applies to equity investments in private sector companies’ operations in emerging markets. It highlights the increased role of good corporate governance as a facilitator of international capital flows to emerging market companies.
Policy coordination and exchange of information

Alongside regular participation in donor coordination meetings at field level, cooperation with development finance institutions continued through a series of meetings at departmental and top management levels:

➾ A series of trilateral meetings with Agence Française de Développement (AFD) and KfW Entwicklungsbank (KfW) was held throughout the year in Luxembourg, Washington and Berlin.

➾ Coordination meetings between the EIB and the World Bank Group were held at the EIB’s headquarters in Luxembourg throughout the year.

➾ A bilateral meeting on African infrastructure was held with the African Development Bank in December 2007.

➾ The EIB attended the annual meeting of EDFIs and Interact members (EIB, AFD, KfW), which was hosted by FMO, the Dutch Development agency, on 10-11 May 2007 in Amsterdam.

➾ The EIB attended the Multilateral Development Banks’ roundtable on Trust Funds that was organised by the World Bank in Washington in October 2007.

Co-financing

Several projects in Morocco, Tunisia and Egypt were co-financed with international and regional development finance institutions:

➾ A motorway construction project between Fez and Taza in Morocco co-financed with the Islamic Development Bank, AFESD, Abu Dhabi Fund for Development and the Kuwait Fund for Arab Economic Development.

➾ A project carried out by Office Nationale de l’Electricité in Morocco aimed at lowering the cost of producing electricity and reducing atmospheric pollution, co-financed with KfW and AFESD.

➾ The construction of two power plants in El Atf and Sidi Krir in Egypt, co-financed with AFESD and the Kuwait Fund for Arab Economic Development.

➾ Financing of the Tunisian microfinance association ENDA Inter-Arabe in conjunction with the IFC.

➾ Participation in the Altermed private equity fund together with the IFC.
Power transmission, Morocco.

Casablanca – El Jadida motorway, Morocco.
FEMIP operations in 2007

The results achieved show an increase compared to 2006 in terms of the volume of approvals, signatures and disbursements. In total, 18 new operations were signed in 2007 amounting to EUR 1.4bn in addition to three operations signed under the global authorisation.

Several “firsts” were recorded in the history of the Bank’s activity in the region in 2007, such as the signature of the first PPP operation in the region and the launch of the first ever private seed capital fund in Tunisia. Half of the signed operations were contracted with new promoters.

More than 44% of the total volume of operations involved support for small and medium-sized enterprises via local banks in Jordan, Lebanon, Syria and Tunisia. Also promoting the private sector, 3% of the total amount consisted of equity stakes in companies, as in Algeria, or in investment funds, in Lebanon, Morocco and Tunisia.

FEMIP also continued to support major infrastructure projects in the partner countries, with EUR 465m (32% of the total) being provided for energy infrastructure, with the construction of two natural gas-fired power stations in Egypt, the increase and optimisation of electricity generating capacity in Morocco, and the expansion of the Transmed gas pipeline, connecting Algeria to Italy via Tunisia. The last of these projects is one of the priority energy TENs.

Transport infrastructure accounted for 13% of the total, with the construction of a section of motorway linking Fez and Oujda in Morocco, completing the country’s motorway network. FEMIP also backed the construc-
tion of a desalination plant in Israel, bringing its support for water infrastructure and sanitation to 8% of the lending volume.

With regard to the geographical breakdown, 51% of the total volume was allocated to the Maghreb region (EUR 728m) and 47% to the Near East (EUR 680m), while 2% had a regional dimension. For instance, the Altermed investment fund, in which FEMIP invested EUR 8m in December 2007, is dedicated to SMEs in both Tunisia and Morocco (and, to a lesser extent, Algeria and Egypt).

Private equity operations

Private equity operations amounted to EUR 48.5m. Seven new operations for a total volume of EUR 46.5m were signed from budgetary resources in addition to one operation amounting to EUR 2m from FEMIP Trust Fund resources.

Signatures under the global authorisation amounted to a total of EUR 0.8m realised in three co-investments with local intermediaries.

The pages that follow present an overview of FEMIP operations signed in 2007, broken down according to sector of activity.

The Special FEMIP Envelope, for operations with a higher risk profile

The Special FEMIP Envelope (SFE) was set up in August 2005 to provide loans for private sector operations with a higher risk profile than those generally accepted under “standard” EIB operations, or for which acceptable third party guarantees are not available (or too expensive, or insufficient).

The SFE is designed to target the local financial sector, milestone industrial and infrastructure projects and selected initiatives in the tourist sector. To cover additional risk, SFE loans are priced according to the risk, and a special reserve of EUR 200m was established to cover loans up to around EUR 1bn.

A total of three SFE operations amounting to EUR 365m were signed in 2007: two credit lines to local banks in Lebanon and Jordan, and one loan to a desalination plant in Israel. This brings the total volume of signed SFE operations since 2005 to EUR 445m.
In addition to loans and private equity, FEMIP provides technical assistance to support 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 2007, 22 technical assistance operations with an overall value of EUR 17.5m were contracted in the Mediterranean partner countries under the FEMIP TA Support Fund.

Over 83% of the funds were allocated to the infrastructure, water and wastewater sectors, reflecting to a large extent the Bank’s traditional areas of activity in the region.

Support for the industrial and financial sectors absorbed 10% of the TA funds while human capital received 7%.

Two examples of ongoing technical assistance operations are provided below.

Project: Establishment of the CAPMEZZANINE Fund  
Country: Morocco  
Sector: Private equity  
Status: under way

Given the innovative nature of this project, technical assistance has been provided to assist the fund’s structuring and start-up phase.

The purpose of this technical assistance is to provide the fund management company with the necessary backing to ensure that best international practice is implemented (internal audit, investment and divestment procedures, conduct of mezzanine operations, etc.). It also involves providing the management team with appropriate training to enable it to improve the structuring and monitoring of financing operations.

Project: Project Management Unit for Syrian Telecom Establishment  
Country: Syria  
Sector: Telecommunications  
Status: under way

Under its “Third Rural Telecos Project”, the Syrian Telecom Establishment (STE) is carrying out a number of projects to expand fixed network coverage and the services it offers, and also to replace outdated equipment.

The EIB is financing selected parts of this rural network expansion through a EUR 100m loan signed in December 2005. The project involves the extension of the fixed line telephone network to poorly served areas of Syria. 430 000 new customers in 4 300 villages located in mostly rural areas across the country will be connected to the network through the installation of suitable access technologies based on copper, fibre or wireless solutions.

A technical assistance operation is accompanying this project with the aim of supporting and strengthening the Syrian Telecom Establishment in its ability to structure, manage and monitor timely project implementation in the most effective manner.
Support for SMEs

Improving SMEs’ access to financing lies at the heart of FEMIP’s mission. Between 2003 and 2007, over EUR 1.5bn was given over to SME financing via two instruments: credit lines and private equity operations.

Credit lines are arranged in cooperation with local partner banks, which onlend the funds to SMEs. The advantage of this instrument is that it enables SMEs to receive financing at the Bank’s favourable interest rates, to which they would not have access via direct loans.

Private equity operations take the form of equity participations in companies or investment funds. They can also be co-investments alongside local intermediaries. The advantage of these types of operation is that they always consist of unsecured finance, more often than not in local currency. Such operations have a very considerable leverage effect since they can attract other sources of finance.

Conscious of the need to tailor its products more to the requirements of SMEs, FEMIP is seeking to target micro and small enterprises more effectively by modulating the interest rates attaching to credit lines. It also aims to develop loans in local currency and new products such as guarantees. Its private equity strategy involves continuing to diversify its offering by developing innovative financial products, e.g. the subordinated participating loan in local currency granted to Nouvelle Conserverie Algérienne.

Tunisia

- **Project:** Tunisian Enterprises V credit line
- **Amount:** EUR 200m
- Provides for interest rate subsidies for SMEs

The EIB granted credit lines amounting to EUR 200m to five Tunisian banks: Amen Bank, Arab Tunisian Bank, Banque de l’Habitat, Banque Internationale Arabe de Tunisie and Union Bancaire pour le Commerce et l’Industrie.
Review of a project signed in 2005

Tunisian Enterprises IV credit line

Eight financial intermediaries (five banks and three leasing companies) signed the Tunisian Enterprises IV credit line in December 2005 and two new ones (a bank and a leasing company) joined in June 2007.

The loan was split into two tranches: tranche A for the leasing companies (EUR 50m) and tranche B for the banks (EUR 70m). Tranche B was fully allocated within 16 months and tranche A is 30% allocated.

To date, 344 projects have been financed through this credit line for a total investment cost equivalent to EUR 279m. More than 3,800 jobs have been created so far.

This credit line includes technical assistance from the FEMIP Support Fund. The programme has proved to be a great success, both for the financial intermediaries and the final beneficiaries.

These banks are required to pass on FEMIP’s favourable terms to their borrowers. For the first time, a 15 basis points interest rate subsidy will be accorded to SMEs.

This is the sixth loan of this kind advanced by FEMIP in Tunisia since 1998, increasing its total commitment in support of Tunisian SMEs to EUR 700m. These credit lines have helped to finance more than 1,200 projects, of which 90% undertaken by SMEs, which have generated over 12,000 jobs.

► Project: ENDA Inter Arabe
► Amount: EUR 2m
► Loan advanced to a microfinance institution

At the end of 2007, the EIB granted a long-term local currency loan of nearly TND 3.6m (EUR 2m) to
In Tunisia, companies of up to 300 employees constitute a SME. 90% of the allocations under tranche B for the banks went to SMEs, predominantly in the industrial and tourism sectors. 38% went to small SMEs with up to 50 employees and 25% to SMEs with 51-100 employees.

Breakdown of allocations per allocation amount:

<table>
<thead>
<tr>
<th>Allocation amount (€)</th>
<th>Number of allocations</th>
<th>Average per allocation (€)</th>
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<tbody>
<tr>
<td>0 – 300 000</td>
<td>291</td>
<td>59 306</td>
</tr>
<tr>
<td>300 000 – 1m</td>
<td>32</td>
<td>529 700</td>
</tr>
<tr>
<td>1m – 7.4m</td>
<td>21</td>
<td>2 500 888</td>
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</table>

Tranche B - breakdown by size of company:

<table>
<thead>
<tr>
<th></th>
<th>Food &amp; agriculture industry</th>
<th>Construction industry</th>
<th>Other industry</th>
<th>Tourism</th>
<th>Health &amp; education</th>
<th>Transport</th>
<th>Other</th>
<th>Total</th>
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</thead>
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<td>9</td>
<td>6</td>
<td>1</td>
<td>2</td>
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<td>1</td>
<td>1</td>
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<tr>
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<td>301 – 500</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
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<td><strong>12</strong></td>
<td><strong>18</strong></td>
<td><strong>28</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>76</strong></td>
</tr>
</tbody>
</table>

the Tunisian microfinance association ENDA Inter-Arabe.

This is the EIB’s second loan to this association, a first loan of EUR 750 000 having been signed in June 2006.

This loan will enable ENDA to provide over 50 000 micro-credits, which, among other things, will foster the creation of jobs and small businesses. The EIB’s renewed vote of confidence in ENDA Inter-Arabe is also expected to have an additional catalytic effect on local investors, so helping the association to achieve its growth objectives.

Microfinance is one of the priorities of FEMIP, whose objective is to ensure the long-term future of microfinance associations by helping them to establish appropriate governance structures and achieve the
stability to enable them to raise funds from banks independently.

➾ Project: Tunisian Seed Capital Fund
➾ Amount: EUR 2m
➾ First privately managed seed capital fund in Tunisia
➾ First private equity operation financed via the FEMIP Trust Fund

The EIB provided almost EUR 2m to help establish a fund called the Phenicia Seed Fund, which is targeted at innovative Tunisian start-ups or firms that are less than five years old. This Fund will be managed by a newly created local management company and will benefit from FEMIP technical assistance.

It will support projects launched by individuals, private enterprises, university departments, business incubators or technopoles. Set up and promoted by the EIB and the Tunisian Finance Ministry in 2004, the Fund was established in association with the Tunisian authorities and CDC Entreprises (Caisse des Dépôts Group).

The fund's capital is TND 10m (+/- EUR 6m) subscribed by investors from both the North and the South. Its principal shareholder is the EIB, with 33%, while CDC Entreprises holds 17%. The remaining 50% of the capital has been subscribed by Tunisian institutional investors, which represents a fine example of North-South and South-South cooperation.

The EIB is financing this dual operation (equity participation and technical assistance) via the FEMIP Trust Fund, which was set up by the EU Member States and the European Commission.

Algeria

➾ Project: Algerian Fruit Juice Company
➾ Amount: EUR 3m
➾ Participating loan in local currency

In December 2007, the EIB provided finance in local currency of nearly DZD 300m (EUR 3m) to the family firm Nouvelle Conserverie Algérienne Rouiba.

This operation will serve to finance a major growth and modernisation programme launched by the firm, which is one of the leading fruit juice producers on the Algerian market.

The operation takes the form of a subordinated participating loan. This long-term (8-year) funding instrument – which will be remunerated partly on the basis of the company's performance – is particularly suited to the requirements of SMEs and is not available on the local financial market.

Morocco

➾ Project: Capmezzanine Fund
➾ Amount: EUR 6m
➾ Mezzanine finance

In July 2007, the EIB provided EUR 6m for a new investment fund, Capmezzanine SA, which was created on
the initiative of Morocco’s Caisse de Dépôt et de Gestion. This fund will acquire equity stakes in Moroccan SMEs or provide them with mezzanine loans.

Mezzanine loans are a form of intermediate finance between short-term debt and a company’s equity that is only repaid after traditional debt. As this type of financial product is relatively new in Morocco, the EIB will also support the fund management team with technical assistance provided by an external consultant specialising in mezzanine finance.

A study published by FEMIP in June 2007 on promoting private saving in Morocco showed that Moroccan firms should see significant growth in the years ahead. Mezzanine finance, which is particularly favoured by companies during the external expansion, shareholder reorganisation or recapitalisation stages, is expected to help drive this growth.

Lebanon

In an effort to support the revival of the SME sector in Lebanon, the EIB has financed two projects totalling EUR 300m as part of the EIB’s pledge at the Paris III conference to underpin the Lebanese recovery and reconstruction programme.

- **Project: Private Sector Facilities**
  - Amount: EUR 195m
  - Financed under the Special FEMIP Envelope

Under the Private Sector Facilities project, the Bank has provided credit lines totalling EUR 195m to five top tier private Lebanese banks: Bank Audi, Byblos Bank, BankMed, Fransabank and Banque Libano-Française.

The selected banks were chosen on the basis of their financial performance, their position in the Lebanese market and their ability to reach and serve varied and complementary pools of local SMEs.

This operation was conducted under the Special FEMIP Envelope (SFE), whereby the banks bear more risk than usual. It follows the highly successful example of the direct SFE credit line to Byblos Bank in 2005 that was fully allocated within a period of ten months.

- **Project: SME Reconstruction Facility**
  - Amount: EUR 100m
  - Provided together with an interest rate subsidy

The SME Reconstruction Facility project, amounting to EUR 100m, will finance the rehabilitation, reconstruction, extension and modernisation projects carried out by private sector companies affected by the July 2006 conflict.

Targeted sectors are industry and services, including agro-industry, tourism, health and higher education, IT and the knowledge-based economy.

The credit line is accompanied by an interest rate subsidy provided by the European Commission that is specifically tailored to companies affected by the 2006 conflict.
Project: Building Block Equity Fund

Amount: EUR 5m

Lebanon has a relatively developed banking sector, dominated by private institutions. Despite the relative dynamism and sophistication of its banking sector, the country does not have a private equity industry.

In order to encourage the development of private equity in Lebanon, the EIB invested EUR 5m in a new investment company, the Building Block Equity Fund. This fund, which is managed by a newly created company based in Beirut, will make equity investments in innovative SMEs in Lebanon.

The driving force behind this Fund is the Lebanese organisation Bader, whose goal since May 2006 has been to promote business start-ups and an entrepreneurial culture in Lebanon.

The Fund’s capital is USD 17m (EUR 12.3m). The EIB and Averroës Finance are the two main shareholders. The remainder of the capital has been subscribed by a number of members of Bader and eight Lebanese banks who have joined in this initiative to encourage and develop investment activity for the benefit of the Lebanese economy.

Jordan

Project: HBTF credit line

Amount: EUR 50m

Financed under the Special FEMIP Envelope

The Bank has provided a EUR 50m credit line to the Housing Bank for Trade and Finance (HBTF), the second largest bank in Jordan, to finance small and medium-sized investments of private sector companies. This project, which falls under the Special FEMIP Envelope, targets a wide range of sectors including industry, agro-food, health, education and services.

Partly as a result of the programme of sector reforms implemented over the last few years, Jordan’s financial sector is currently one of the most developed among the Mediterranean partner countries. Financial savings in Jordan are primarily intermediated through the fully privately-owned, profitable and efficient banking sector.

However, whilst Jordanian banks are generally very liquid, the majority of their loan portfolios is short-term. The EIB credit line will give HBTF access to long-term funding to promote medium to long-term financing for investment projects in Jordan and Gaza-West Bank.

Syria

Project: SME Fund II

Amount: EUR 80m

The SME Fund II operation will finance investments carried out by private sector SMEs in a number of sectors, comprising industry, services, infrastructure, tourism, environmental protection, health and education.

This operation builds on the SME Fund I operation that was signed in September 2003 for an amount of EUR 40m. Soon to be fully disbursed, this was the first EIB credit line in Syria and the first operation directly targeting private sector companies in the country.

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

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

**Regional projects**

- **Project: Fund for the Mediterranean**
  - **Amount:** EUR 15m

  The EIB has taken an equity participation in the Fund for the Mediterranean, a multi-sector investment fund targeting private sector companies located in Morocco, Tunisia and Algeria.

  Based in Barcelona, the Fund will act as a bridge between European and Mediterranean companies. It will rely on the experience and services provided by a major Spanish financial and private group, Riva y García, to finance the expansion of local SMEs and joint ventures between European and Maghreb companies. The Fund will help the transfer of know-how and best industry practices from the North to the South of the Mediterranean.

  The two main sponsors of the Fund are Spanish public entities, the Institut Català de Finances Holding (ICFH) and the Instituto de Crédito Oficial (ICO). In addition to ICFH and ICO (EUR 15m each), for which the Fund would represent the first private equity investment in the Maghreb, other private investors will be participating in the first closing (Caixa de Catalunya with EUR 5m, Repsol YPF with EUR 4m, La Caixa with EUR 3m, Telefónica with EUR 3m and Gas Natural with EUR 2m).

- **Project: Byblos Private Equity Fund**
  - **Amount:** EUR 7.5m

  The EIB has supported the first move in private equity of a major and experienced Lebanese commercial bank, Byblos Bank, by acquiring a EUR 7.5m participation in a multi-sector investment fund launched by Byblos.
This participation is accompanied by technical assistance that will contribute towards developing local governance and documentation standards in line with best international practices.

This operation signals confidence in the potential of private equity in Lebanon and possibly other Middle East countries and will help to overcome the scepticism of foreign private equity investors towards the Near East region.

The Fund’s focus will be on small to medium-sized equity and quasi-equity investments, normally not covered by international investment banks or other larger funds. The target market will be Lebanese companies and also, to a limited extent, companies located in Jordan, Syria, and Egypt.

**Project: AlterMed**  
**Amount: EUR 8m**

The Bank has taken an equity participation of EUR 8m in AlterMed, an equity fund investing in minority shares of small and medium-sized private sector companies in the Mediterranean region, including Morocco and Tunisia.

The Fund displays several innovative features, such as investing in leveraged buy-outs in Morocco, thereby supporting a niche not fully covered by other funds in the country. In Tunisia, it supports companies aimed at a listing on the Tunisian alternative market, an initiative implemented at the end of 2007 and strongly supported by the Tunisian Government as an opportunity to substantially increase the capitalisation of the stock market, which is still in its infancy.
The Mediterranean partner countries are experiencing a serious energy squeeze, which is set to get worse over the coming years. By 2025 the growth in energy demand in these countries will be four times as high as in European countries. This is due to many factors, including economic development and the needs of a rapidly expanding population.

In line with the broad policy of the European Union, FEMIP assists the Mediterranean partner countries in their efforts to meet the energy challenges facing the region.

Since October 2002, FEMIP has provided the energy sector with over EUR 2.8bn, equivalent to over a third of the finance granted over the past five years.

It focuses on three main types of action: improvement of the local population’s access to energy; integration of the Euro-Mediterranean energy markets; and diversification of the sources of supply, particularly through the use of renewable energy.

**Morocco**

- **Project:** ONE – Hydroelectric projects II
- **Amount:** EUR 150m

In December 2007, the EIB granted a EUR 150m loan to Morocco’s Office national de l’électricité (ONE) to finance a set of schemes aimed at optimising electricity generation.

ONE owns and operates total power generation capacity of 5300 MWe, of which 33% is based on hydropower used mainly for peak and medium demand. However, it is experiencing rapid growth in demand (on average above 6% per year) and must therefore continue expanding its generation, transmission and distribution capacity in the coming years.

The project will contribute to optimising the operation of the power generation system and lowering the cost.
of production, particularly by enabling energy generated in base load plants to be stored for later use at peak times.

This project will also serve to improve the technical management of most of the hydropower plants. Lastly, it will help to finance the construction of a new hydropower plant, thus reducing atmospheric pollution through the use of renewable energy. This component of the project is being co-financed with KfW.

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**Tunisia**

- **Project: Transmed Pipeline Expansion**
- **Amount: EUR 185m**
- **One of the TENs priority projects**

Financed by the EIB under the Mediterranean Partnership Facility II to the tune of EUR 185m, this is a priority TEN project of common interest in the energy field.

It consists of the extension of the Tunisian section of the Transmed pipeline system linking Algeria to the Italian gas grid in Sicily through the upgrading of existing compressor stations and the construction of two new compressor stations.

The project will increase the annual capacity of the pipeline system and contribute to meeting Italy’s growing gas demand. It will improve the competitiveness of the European internal market by making the entire import capacity increase available to the competitors of the main operator on the Italian market (ENI).

It will also enhance energy efficiency and reduce the environmental impact of the existing compressor stations. Tunisia will benefit from major opportunities in terms of jobs, training of local staff employed by the operating company and additional transit fees.
Egypt

➾ Project: El Atf and Sidi Krir power plants B
➾ Amount: EUR 130m

A EUR 130m loan was granted in December 2007 to Egyptian Electricity Holding Company for the construction of two gas-fired combined-cycle power plants. This loan supplements an initial loan of EUR 130m provided in 2006.14

This project will help to meet the rapidly increasing demand for electricity in Egypt. The two power plants at El Atf and Sidi Krir, which will use local natural gas as fuel, will generate electricity at a competitive cost and have a relatively low environmental impact.

The first power plant is located north-west of the Nile delta and the second on the Mediterranean coast about 30 kilometres west of Alexandria.

14 Both tranches of EUR 130m each had originally been included in the 2006 signatures under the Euromed II mandate. However, as that mandate had been deployed in full, the second tranche of the loan, amounting to EUR 130m, was carried over to the 2007 signatures under the ENP/MED Mandate.
The creation of an efficient integrated Euro-Mediterranean transport system is crucial for the development and socioeconomic stability of the region. Accordingly, FEMIP dedicated its first conference held in Monaco in November 2006 to this subject.

The priority for FEMIP – which played an active role in the work of the High Level Group led by European Commissioner Loyola de Palacio – is therefore to extend the core trans-European networks to the countries of the Mediterranean region and improve the transport links between the Mediterranean partner countries themselves, which is a pre-condition for enhanced South-South integration.

Between 2002 and 2007, FEMIP provided this sector with EUR 1.5bn, i.e. more than 20% of all its financing over that period. The roads sector has, to date, been the main beneficiary, followed by urban, air, rail and sea transport.

One of the key challenges for FEMIP is to increase the private sector’s involvement in the construction of infrastructure and provision of public utilities, particularly via PPPs.

Morocco

Project: Moroccan Motorways V
Amount: EUR 180m

In 2007, the EIB granted a EUR 180m to Société des autoroutes du Maroc for the construction of the Fez-Taza motorway section.

The project is an extension of the Rabat-Fez section, which was financed by the Bank in 2001. This 126 km-long stretch forms part of the overall Fez-Oujda motorway, which will link up with Algeria’s east-west motorway, currently under construction.

The development of a continuous motorway link from Casablanca and Rabat to Oujda via Meknes and Fez will
provide a first-class road connection between key centres of economic growth in the country and will foster regional integration.

This project forms part of the south-west artery identified among the five major routes connecting the EU with its neighbouring countries in the report of the High Level Group chaired by Loyola de Palacio in November 2005. It is being co-financed with Arab lenders such as the Islamic Development Bank, AFESD and the Kuwait Fund for Arab Economic Development.
Environmental protection is one of FEMIP’s top priorities. Between 2002 and 2007, FEMIP provided over EUR 1.1bn to support projects that safeguard and rehabilitate the environment, reduce pollution and improve the quality of life.

FEMIP environmental lending benefits from the strong cooperation between the EIB and the European Commission and the blending of the EIB’s funds with resources from the EU budget, especially interest subsidies.

An overview of FEMIP’s financing to this sector shows that more than half of the volume lent between 2002 and 2007 went to projects aiming to improve wastewater treatment and the supply of drinking water.

In addition to loans, FEMIP contributes to the environmental sector by providing technical assistance to accompany the preparation, implementation and supervision of projects. It is noteworthy that 35% of the resources available under the FEMIP Technical Assistance Support Fund have been allocated to the environmental sector.

In this framework, FEMIP actively contributes to the European Commission’s Horizon 2020 initiative to reduce the level of pollution in the Mediterranean Sea. The FEMIP contribution is focusing on identifying three to five of the most regionally polluting industrial and/or municipal sources and 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).

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**Israel**

- Project: Hadera Desalination Plant
- Amount: EUR 120m
- First PPP in the region
- Project implemented under the Special FEMIP Envelope
The Hadera Desalination Plant project concerns the construction of a seawater desalination plant on the Mediterranean coast at Hadera some 50 km north of Tel Aviv.

The purpose of the project is to help to increase the State of Israel's freshwater resources and lower the average salt content in the national water supply system, thus enabling (i) the protection and replenishment of over-exploited groundwater aquifers, and (ii) the improvement of groundwater quality by reducing salinity.

This project is the first PPP financed by the EIB in the region. It comes under the FEMIP Special Envelope and is a “project finance” operation, without recourse to third party guarantees, which exposes the Bank to project risk during both the construction and operation phases.

This project is also the first PPP in Israel to receive funding from a development finance institution and international commercial banks. This reflects the Israeli Finance Ministry’s desire to broaden and deepen potential sources of finance for such projects, which until now have been financed exclusively by Israeli banks and local institutional investors.

This project is one of the five EIB projects to be awarded a “Deal of the Year 2007” prize by Euromoney Project Finance magazine. This award recognises innovation and excellence in project finance and was granted to the Hadera Desalination Plant in the category “Water Deal of the Year.”

Environmental protection is one of FEMIP’s top priorities. Between 2002 and 2007, FEMIP provided over EUR 1.1bn to support projects that safeguard and rehabilitate the environment, reduce pollution and improve the quality of life.
Organisation and Staffing
The FEMIP team

The new European Neighbour and Partner Countries Department covers the nine Mediterranean partner countries (FEMIP) and the neighbouring and partner countries to the east of the European Union as defined under the European Neighbourhood Policy. By virtue of this reorganisation, the Bank is in line with the external mandate conferred on it by the Member States in December 2006.

The Department continues to be attached to the EIB’s Directorate for Operations outside the European Union and Candidate Countries and works closely with the Projects, Legal Affairs, Risk Management and Finance Directorates. There are 42 staff directly responsible for FEMIP operations.

In terms of internal organisation, an additional division has been attached to the Department. It now comprises four divisions – three geographical and one horizontal – plus a unit responsible for institutional matters.

The three geographical divisions cover the Maghreb, the Near East and the neighbouring and partner countries in Eastern Europe and are responsible for lending operations in the countries within their respective remits.

The horizontal division manages private equity operations throughout the Mediterranean partner countries.

The role of the unit responsible for institutional matters is to develop partnership relations with the Mediterranean countries and liaise with the European Commission and the other development finance institutions.

Organisation chart of the FEMIP team

15 Armenia, Azerbaijan, Georgia, Belarus, Republic of Moldova, Ukraine and Russia (EIB financing in Belarus is subject to a future Council decision).
The EIB is present in the Mediterranean thanks to its network of offices located in Cairo, Rabat and Tunis. These offices serve as a link to the local public authorities, the private sector and other cooperation agencies and institutions. The local teams summarise below their offices’ role as “facilitators” and describe the ties forged with the various partners on the ground:

---

**Cairo**

Operational since 2003, the EIB Regional Office for the Near East in Cairo continues to support and complement the work of the Bank’s services at EIB Headquarters in Luxembourg, both during the project identification phase and with the day-to-day management of the lending portfolio, equity participations and technical assistance.

The presence of the office has further facilitated contacts between the Bank and its local and regional counterparts and naturally ensures logistical assistance for visiting missions and help with the organisation of EIB events such as the FEMIP Trust Fund Tourism Workshop which took place in Cairo in May 2007. The office is also a major contributor to the close follow-up of the Technical Assistance programmes on the ground, to EIB representation in events relating to ongoing private equity operations and to coordination with the international donor community.

The importance of the role of the EIB as a major international financial institution was underlined in 2007 by the large number of invitations for EIB Cairo-based staff to attend and take part in a great variety of events ranging from conferences and roundtables, organised by ministries, central banks, business associations, various European chambers of commerce in Cairo and international donors, to high level meetings and working dinners with Egyptian ministers and visiting European Commissioners.

Looking back at the events in which the Bank actively participated, it is clear that the focus of 2007 lay largely in two main areas: the development of private sector initiatives and financing in the energy sector with particular emphasis on renewable energy sources.

It is, of course, anticipated that through its regional presence the EIB will build on its carefully forged partnerships to ensure the most effective promotion and application of EIB financial instruments during 2008 and beyond.

*The Cairo Team*

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**Rabat**

The Rabat Office acts as an excellent conduit between the operational teams and other departments at the headquarters and the rapidly changing realities on the ground.

Thanks to its permanent local presence, the office is almost immediately abreast of local events. Apart from being quicker off the mark to identify new operations to be financed, this presence enables the Bank to participate regularly in the different discussions concerning it. In 2007, the Rabat Office attended a number of conferences and round table events on such diverse topics as growth through increased trade, emigrants’ remittances and energy efficiency.

Furthermore, through its privileged relations and contacts with the local authorities and the financial
and industrial community, the Rabat Office serves as a facilitator and advisor providing both a more concrete overview of the situations to be addressed by the Bank and greater effectiveness in the execution of its activities.

The Rabat Office helps to publicise and promote locally the Bank’s role with respect to private investors. In October 2007, in association with the recently-formed European Union of Chambers of Commerce and Industry, it organised a conference intended to raise the profile of the EIB’s financing instruments and the Bank’s partnerships with local financial intermediaries. This event brought together more than 250 people, entrepreneurs, bankers and journalists.

Lastly, the office liaises closely on the ground with the other cooperation agencies and institutions, starting with the European Commission. Thanks to these constant efforts, there is greater coherence and complementarity between the Bank’s activities and those of other lenders, which is entirely consistent with the directives of the European Council and the Paris Declaration on Aid Effectiveness.

René Perez, Head of the Rabat Office

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Tunis

The Phenicia Seed Fund, an innovative operation financed under the FEMIP Trust Fund, was signed on 13 July 2007 in the Bank’s Tunis Office. However, the role played by the local office in the development of the initiative was not limited to simply facilitating the signing ceremony for the fund as, since its opening at the end of 2004, the Tunis Office was closely involved in the process of creating the fund; and its role will continue in the future.

This role consists of a variety of actions to facilitate, support and promote the project. These actions involve close and permanent cooperation with the local authorities, with external experts mobilised under the technical assistance programme of the Bank, with the local financial sector, with the managers of the fund and with the press. In parallel, the office informed other international financial institutions about the project in order to coordinate various private equity initiatives, but also with a view to possible interest in participating in the new fund or developing similar initiatives.

This illustrates the many ways in which the Tunis Office is involved in the successful achievement of the Bank’s operations. More eye-catching are the many public interventions and presentations which are carried out by the office about the EIB’s activities, instruments or areas of interest. In 2007 these again reached a variety of audiences with subjects such as regional financial sector development, the effects of migration, global warming, the creation of the EU-Tunisia Free Trade Zone and trans-Mediterranean transport systems.

The activities undertaken by the local office ensure that the Bank can continue its intervention in the region with the highest degree of efficiency in response to identified needs. The office, as the tangible local representation of a leading international lender, became an entity providing undeniable added value to the daily operational functioning of FEMIP in line with the political objectives set and in favour of its beneficiaries. This function will also be continued in the future.

Diederick Zambon, Head of the Tunis Office
Annexes
# List of operations signed (01/10/2002–31/12/2007)

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<th>Region</th>
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**2006 Signatures**

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**2007 Signatures**

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List of technical assistance operations signed in 2007

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### List of operations approved under the FEMIP Trust Fund

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<td>Securitisation of workers’ remittances</td>
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<td>Identification and removal of obstacles to the extended use of wastewater in agriculture</td>
<td>Regional</td>
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Publications\textsuperscript{16}

Activity reports

\begin{itemize}
\end{itemize}

Brochures

\begin{itemize}
  \item FEMIP and the Mediterranean partner countries, February 2008.
  \item FEMIP for the Mediterranean: 2006 results, March 2007.
  \item Overview of FEMIP 2005 Achievements, March 2006.
  \item Europe and the Mediterranean, June 2004.
  \item EIB set to increase cooperation with the Mediterranean partner countries, April 2002.
\end{itemize}

Country fact sheets

\begin{itemize}
  \item Financing provided by the EIB in Algeria, February 2008.
  \item Financing provided by the EIB in Egypt, February 2008.
  \item Financing provided by the EIB in Gaza and West Bank, February 2008.
  \item Financing provided by the EIB in Israel, February 2008.
  \item Financing provided by the EIB in Jordan, February 2008.
  \item Financing provided by the EIB in Lebanon, February 2008.
  \item Financing provided by the EIB in Morocco, February 2008.
  \item Financing provided by the EIB in Syria, February 2008.
  \item Financing provided by the EIB in Tunisia, February 2008.
  \item European Investment Bank loans in Turkey, March 2005.
\end{itemize}

Thematic fact sheets

\begin{itemize}
  \item FEMIP for the Mediterranean: promoting tourism development, February 2008.
  \item Modernisation of procurement procedures in the Mediterranean partner countries, June 2006.
  \item Study on remittances sent by Mediterranean migrants from Europe, June 2006.
  \item Partnership with the Euro-Mediterranean “FEMISE” university network, June 2006.
  \item How to face the energy challenge in the Mediterranean, June 2006.
  \item Capital Market Activities in the Mediterranean Countries, June 2006.
  \item Environment and sustainable development in the Mediterranean partner countries, November 2005.
  \item Energy in the Mediterranean partner countries, November 2005.
  \item Transport in the Mediterranean partner countries, November 2005.
  \item Private sector in the Mediterranean partner countries, November 2005.
  \item Investment capital in the Mediterranean partner countries, November 2005.
  \item Technical assistance in the Mediterranean partner countries, November 2005.
\end{itemize}

\textsuperscript{16} These publications are also available on the EIB’s website: http://www.eib.org/publications, under the heading MED/FEMIP.
Studies

- Study on improving the efficiency of workers’ remittances in Mediterranean countries, March 2006.

Evaluation reports

- EIB financing with own resources through individual loans under Mediterranean mandates, July 2005.
- EIB financing with own resources through global loans under Mediterranean mandates, February 2005.
**Glossary of terms and abbreviations**

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<td>AFD</td>
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<td>AFESD</td>
<td>Arab Fund for Economic and Social Development</td>
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<td>CDC</td>
<td>Caisse des Dépôts Group</td>
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<tr>
<td>Ecofin Council</td>
<td>Economic and Financial Affairs Council</td>
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<tr>
<td>EDFI</td>
<td>European development financing institution</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ENI</td>
<td>Italian oil group</td>
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<td>FEMISE</td>
<td>Euro-Mediterranean Forum of Economics Institutes</td>
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<td>FMO</td>
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<td>HBF</td>
<td>Housing Bank for Trade and Finance</td>
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<td>International Finance Corporation</td>
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<td>Institutional Finance Service</td>
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<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
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<td>Organisation for Economic Cooperation and Development</td>
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<td>small and medium-sized enterprises</td>
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<td>Syrian Telecom Establishment</td>
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<td>STEG</td>
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