

Report on FEMIP Technical Assistance (TA) Support Fund: Objectives, Strategy and Scope of Activities

1. *Introduction*

The purpose of this note is to report on the **state and strategy of FEMIP technical assistance (TA)** support fund activities, in response to the request of the Management Committee. In the implementation plan for the Reinforced FEMIP¹, a short version of the strategy and the implementation of TA activities under FEMIP has already been presented. Technical assistance activities play a crucial role in the development of new areas of Bank's intervention in the Mediterranean Partner Countries such as privatisation services, small business lending and project upstream work. An outline of these activities and related instruments will be presented at the FEMIP's 2004 Ministerial Meeting in Alexandria on 7 June.

2. *Objectives of TA activities*

2.1 The TA component of FEMIP provides the EIB with a strong instrument to improve the **quality** and the **development impact** of its lending operations in the Mediterranean region. The aim of TA funds is to make thorough preparations for investments and to undertake investment projects more effectively. For this purpose, EUR 105 m from 2003 to 2006² will be provided in grants from the EU MEDA budget for the Mediterranean Partner Countries.

2.2 Technical assistance activities aim at improving the capacity of FEMIP partner countries and private promoters to better prepare investment operations, manage and supervise them. This will contribute to improved prospects for sustainable growth through firstly, the development of the private sector and its enabling environment and secondly, also by strengthening the management capacities of local partners in the medium and long term. EIB operations concern both **direct support to the private sector** in particular through the provision of privatisation services and improved access to credit for small and medium sized enterprises, and **indirect support**, through investments in infrastructure, environment/water, energy, education and health. To be effective, technical assistance at project level must dovetail with policy reform and institution and capacity building for which assistance is provided by the European Commission, the Bretton Woods institutions and other organisations, with which close coordination is essential.

3. *Strategy and scope of TA activities*

3.1 The TA funds will be used primarily for project identification, preparation and implementation activities in accordance with the Framework agreement between the European Commission and the Bank. The project implementation measures absorb substantial TA resources through the establishment of Project Management Units: so far, this is most often the case with **infrastructure projects**. It should be emphasized that a well-developed infrastructure is vital in enabling a country to attract private sector investment and to achieve high economic growth rates. In the Mediterranean region, infrastructure investment needs are particularly pressing in a number of areas such as environment, water, energy, urban infrastructure, human capital and transport. Although there are certainly deficiencies in physical infrastructure on account of lack of finance, the availability of physical infrastructure is only a necessary, though not a sufficient condition for the effective provision of infrastructure services. In this regard, full economic benefits are not being reaped from existing infrastructure due to weaknesses in legal, regulatory and institutional environments; policy reforms are required to create a transparent regulatory framework, effective competition and to encourage broad-based private participation in infrastructure. The EIB can play a more active role in institution building through its links with the European Commission, World Bank, other IFI's and bilaterals.

¹ "Implementation Plan for the Reinforced FEMIP", Document 04/104, CA/375/04 of 30 March 2004.

² EUR 25 m will be provided from 2003 to 2005 and EUR 30 m in 2006.

3.2 As for direct support for the private sector, a major area of intervention since the launch with the European Commission of the FEMIP support fund in May 2003 (see below paragraph 4), the strengthening of lending and credit risk capabilities of banks with which the EIB already cooperates in the frame of **global loan operations**. This orientation appears to be particularly appropriate on account of:

- **comparative advantage** (build on existing experience and expertise)
- **feasibility** (can be implemented rapidly within existing partner network) and
- **resource utilisation** (these operations can be implemented with existing FEMIP staff).

If, in addition, future global loan operations were more focused on **small business lending**, this would substantially increase the **development impact** (employment and income generation, social stability, etc.) and the **visibility** (creation of success stories, positive effect on image) of the Bank's operation in the Mediterranean region. The strengthening of existing credit departments of intermediary banks would absorb substantial amounts of the technical assistance fund. It is proposed to further analyse the potential of small business lending within the next months, to discuss the specific needs with the Mediterranean partners and to assess best practice in international cooperation³. To be successful, the partners have to be involved from the very beginning in the design of these operations.

3.3 Another key area for the use of TA funds is the provision of **privatisation services** for the Mediterranean region. The Bank's experience in Tunisia will be further polished to be offered as a service package to other Mediterranean partners who are willing to make progress in privatisation. As there are ongoing privatisation programmes in most Mediterranean Partner Countries funded by the World Bank and the Commission, the Bank will put special attention to the privatisation of medium-sized enterprises and public utilities. The service package will be tailor-made to the specific needs of individual clients and delivered through Bank's expertise and through the provision of highly qualified external consultants.

3.4 **Project upstream work** will be delivered through advisory services to central banks and banking supervision authorities in close cooperation with the IMF, feasibility studies on the creation of new financial instruments (risk capital, etc.), analysis of the potential of private participation in infrastructure (Private public partnership, concessions, BOT schemes, etc.) and studies on opportunities and instruments for investments on the regional and sub-regional levels. Project upstream work will support the shift of the Bank's operation toward direct private sector support. This will be implemented gradually and it will take time to create a new lending portfolio that is in line with the expectations of the Mediterranean partners, Bank's shareholders and key partners such as the European Commission and the World Bank. Project upstream work can be implemented with relatively limited TA resources but it is crucial for the success of investments with an increased development impact.

3.5 The overall success of the TA strategy will depend largely on **mainstreaming technical assistance activities**, i.e. TA becoming an integral part in the project appraisal process from a very early stage. The development of new areas of intervention such as small business lending, privatisation and increased project upstream work requires an additional effort from the Bank staff as these activities come partly on top of normal business. There is a need to build up new expertise within the Bank, even if most services described above will be provided through external consultants. Technical assistance assignments require sound preparation (especially well prepared terms of reference), continuous dialogue with partners, close follow-up (monitoring) of activities, final evaluation of results, guidance for project partners and supervision of consultants⁴. This can only be assured by competent and available in-house staff managing both lending operations and related TA assignments⁵.

³ The Russia Small Business Fund launched by EBRD in 1994 is considered as a success story. Between 1994 and mid 2001, more than 55.000 loans with a volume of USD 603 m have been disbursed to micro and small and medium sized enterprises. Micro loans have been provided for amounts up to USD 20.000, borrowers typically have up to 20 staff. The Small loans component has offered loans up to USD 125.000, borrowers typically have up to 100 employees. Other donor organizations such as the German Kreditanstalt fuer Wiederaufbau (KfW) have launched similar small business lending programmes in Eastern Europe and the Mediterranean region.

⁴ The local Bank's office in Cairo and future offices in Rabat and Tunis should play an important and active role concerning the identification and monitoring of technical assistance projects in close cooperation with the responsible Division in Headquarters.

⁵ Multilateral development banks (MDB's) have sufficient staff resources available for the management of lending operations and related TA activities. In EBRD, over 20 professionals are directly involved in the management of donor resources, Technical co-operation funds, selection and contracting of consultants, financial monitoring and project evaluation.

4. The development of FEMIP TA to date

4.1. In May 2003, two **Framework agreements** concerning the management of the FEMIP support fund were signed between the European Commission and the Bank (one framework agreement related to the Mediterranean Partner Countries was signed with the EuropeAid Co-operation Office and another agreement related to Turkey was signed with DG Enlargement). Each year, a request for a yearly allocation is submitted by the Bank to the Commission accompanied by a short description of the Bank's priorities in terms of operations for the respective year.

4.2 The preparation of TA activities effectively started in September 2003. These are driven by Ops B loan officers and relevant PJ staff. The Bank has created a new **Technical Assistance Unit (TAU)** within the Directorate for Lending Operations outside the EU / Development Economics Advisory Service (OPS B/DEAS). The TAU became operational in September 2003. The tasks of the TAU are:

- to liaise with Commission services on all issues related to technical assistance projects under FEMIP,
- to report on the overall progress of TA operations,
- to co-ordinate and to manage all administrative, financial and technical aspects of the FEMIP support fund,
- to advise project managers and other Bank staff on procedures,
- to ensure the efficient organization and transparency of the tendering process,
- to liaise with Bank staff and consultants during the tendering process and
- to monitor the overall progress of TA project implementation.

4.3 In Article 2 of the Framework agreement, the **eligibility** of technical assistance assignments has been defined as follows: activities being financed under this fund support beneficiaries during different stages of the project cycle that is, project identification, preparation and implementation, excluding self-standing activities without any link to a potential lending operation. **Therefore, project upstream work without any established link to a lending operation could be financed under the future Trust fund arrangement in the frame of the reinforced FEMIP.** This matter will be covered accordingly in a separate note to the Board of Directors.

4.4 **Procurement** of consultants has to follow the same rules applicable to the Commission under the MEDA regulation. For TA projects with a volume below EUR 0.2 m, the Bank uses a list of pre-qualified consultants under the Framework contract AMS 451 of the European Commission, that allows rapid and simplified recruitment of consultants. TA assignments with a volume above EUR 0.2 m have to be published in the Official Journal during the different stages of the tendering process.

4.5 In the last quarter of 2003, the Technical Assistance Unit (TAU) established the **Guidelines** for the use of external consultants under the FEMIP support fund. The forms to be used have been compiled in a TA manual and will be published on the Ops B Intranet. Information for the public including the application form for TA FEMIP contracts has already been published on the Bank's FEMIP website. It is estimated that 16 TA projects with an overall value of 18 MEUR will be contracted with consulting firms by the end of 2004, which is a rapid rate of commitment given that TA operations only began in September 2003 and taking account the time needed to prepare and to tender properly a technical assistance activity.

4.6 The **geographical and sector-based forecast** of the FEMIP TA projects to be financed under the 2003 and 2004 budgets is summarized in table 1:

Table 1: Forecast of FEMIP TA support fund in 2003 - 2004 (million EUR)

	Maghreb	Mashrek	Turkey	Total
Environment/Water	9.8	7.7	4.4	21.9
Human Capital	1.2	0.6	-	1.8
Infrastructure	8.0	6.5	2.7	17.2
Industry / Finance	3.8	4.5	5.5	13.8
Total	22.8	19.3	12.6	54.7

4.7 Technical assistance activities in the fields of environment/water and infrastructure require substantial amounts of resources from the FEMIP TA budgets 2003 and 2004. So far, most of the activities are related

to **project implementation measures** that normally absorb large resources from the TA fund. In comparison with METAP (Mediterranean Environmental Technical Assistance Programme), the shift to project implementation activities means that there is a quantum leap in financial and staff resources dedicated to technical assistance: by the end of 2004, EUR 18 m will be contracted with consulting firms compared with less than EUR 8 m contracted during the last 8 years under METAP III⁶.

4.8 An additional effort has to be made by the Bank to shift its technical assistance activities gradually to **direct private sector support** and **project upstream work**. It will take time to create this new portfolio of projects given the available staff resources and the time needed to prepare and to tender properly a technical assistance project⁷. To be successful, a technical assistance assignment has to take into account the specific needs of each project partner. Furthermore, a closer cooperation with the European Commission, the Bretton Woods institutions and other organisations is crucial to ensure complementarity between donor programmes.

5. Conclusions

- The TA component of FEMIP provides the EIB with a **strong instrument** to improve the quality and the development impact of its lending operations in the Mediterranean region. In volume terms, the amounts made available represent a quantum leap from past Bank experience, which will require adaptation.
- The development of new areas of intervention such as **privatisation services, small business lending** and **project upstream work** requires an additional effort from Bank staff as these activities come partly on top of normal daily business. There is a need to build up new areas of expertise within the Bank in order to ensure the quality of lending operations and related TA activities, to provide guidance for clients and to supervise consultants.
- It will take time to create this **new portfolio of projects** given the limited staff resources and the time needed to get a technical assistance activity operational. In a nutshell: to be in a position to present a number of new projects with a volume above EUR 0.2 m in the second half of 2005, project identification work has already started.
- The success of the TA strategy will depend largely on **mainstreaming TA activities**, i.e. making them an integral part of the project appraisal process from a very early stage, and an appropriate monitoring and evaluation effort. Continuous policy dialogue with the Mediterranean Partner Countries is necessary to prepare the ground for future operations and to build ownership for specific projects.
- To be effective, TA at project level will have to **dovetail with policy reform and institution and capacity building** for which assistance is provided by the European Commission, the Bretton Woods institutions, other IFI's and bilaterals. Close coordination will be essential to maximise the impact of public funds and to avoid overlapping of activities.

⁶ It should be noted that the Bank participates in METAP IV with its FEMIP TA activities in the environment/water sector, "Report on METAP activities", Document 04/116, CA/375/04 of 30 March 2004.

⁷ Under the international restricted procedure for projects above EUR 0.2 m, it takes between 6 and 9 months to tender a TA project. This does not include the time for the preparation – especially the elaboration of terms of reference with clear defined objectives, results, indicators and activities requires an enormous effort – of these activities.