



The Political Economy of Governance in the Euro-Mediterranean Partnership

Deliverable No. 16
Working Package 13
Name of Working Package: Multilateral Institutions

**The Euro-Mediterranean Partnership:
Conditionality design and policy reform in a comparative perspective**

Working Paper Number 0808
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Date: December 2008

The Sixth Framework Programme
Contract No. 028386



www.go-euromed.org

1 - Introduction

Conditionality has been used to induce reform. The disappointing results of this technology at the multilateral level (IMF, World Bank) have led to a gradual redesign of aid contract. Three main difficulties were generally identified: the ownership of the reform by the recipient, the temporal horizon of the programs and coordination among donors for effectiveness purposes.

In the same time the EU's Mediterranean strategy developed numerous instruments, including use of trade, cooperation agreements, financial assistance,...The motivations of these mechanisms are also multiple : altruism, building security alliances, economic integration, promoting ideological and cultural values

So we faced at least a twofold problem of heterogeneity for cooperation in this region:

- at internal level, the governance of the EU complexity in its euromed partnership,
- at the external level, the compatibility and interaction between EU and multilateral agencies strategies.

In the light of the conditionality debate in the IFIs (IMF, World Bank) since late 1990's, we try to identify the relevance of the main conclusions for the EU strategy in the field of aid effectiveness. The expected originality of the approach is to mix tools and references from economics (economic analysis of aid effectiveness, sequencing of economic policy reform, adjustment program evaluation,...) and politics (political conditionality, political incentives to reform, security in a regional dimension,...). One or several case studies in the European Neighbourhood Policy (or EMP process) could be proposed as an illustration of convergence or conflict between aid agencies or cooperation schemes. The structure of the paper is as follows. In Section 2, we discuss conditionality evolution and its relevance for EU partnership. The Section 3 illustrates the great heterogeneity of programs and donors in Euromed area and offers an overview of reform in three MENA countries (Morocco, Egypt and Lebanon).In Section 4, we analyze the need for coordination among objectives and tools by the different donors supporting reforms. Section 5 concludes and presents some recommendations.

2 – The international debate on conditionality reform: Is there a consequence for EU's cooperation in MENA region?

21 – The legitimacy of conditionality¹

Most of aid mechanisms are linked with macroeconomic policy reform or structural adjustment (with notable exception of aid supporting investment project). What are the basic principles of aid conditionality? Two important features must be identified: one concerning the donor and the other, the recipient.

From the donor side and first of all, conditionality tries to solve moral hazard: the standard problem of ex post information asymmetry in a principal-agent model. It goes to ensure the good use of financing, in a way which is consistent with the initial commitment; it's the monitoring function. Here, the underlying problem is the relevance of the model which establishes the diagnosis of the crisis or the steps for economic convergence. The *Washington Consensus*, a mix of macroeconomic stability and liberalization, has been challenged in the past decade by external but also internal critics. Second and when there is a loan, conditionality secures repayment and by consequence the quality of assets of the IFI. It's significant for the risk premium assumed by the donor when market financing is used.

From the recipient side, two main arguments legitimate conditionality at external and internal level.

Firstly, it concerns the perennality of capital inflows, buying a durable credibility with the international community. The direct effect is to build a good visibility of the financial horizon in short and medium term, with sure disbursements according the respect of initial conditions. Moreover, in the case of IMF relationships, an agreement is the corner stone of a complex architecture permitting a country to benefit various debt arrangements (*Club de Paris*, HIPC initiative,...) and complementary financing. Generally speaking, it's a positive signal send to investors, a manner to upgrade the country risk notation and to reduce the ex ante information asymmetry.

Secondly and from “the political economy of the reform” point of view, conditionality offers a government some supports to go beyond domestic impediments. Three cases must be analysed: transitory costs of the reform, definitive losses for some groups and general weakness of governance. In the first and second cases, conditional financing ties the painful adjustment to compensations for loosing groups, leading to an acceptable path; so the

¹ For more details, see Qureshi & Ziegler (2007), Bird G. (2001), Dhonte P. (1997), Rodrik D. (1996).

theoretical optimality of the reform is preserved. In the third case, implicit conditionality gives the government the possibility of an irreversible commitment (tying the hands) when domestic support is too weak. The external agent plays the role of *bouc émissaire* (scapegoat) in apparently assuming the paternity of costly decisions.

22 – A reform of conditionality design

From the end of 1990's, overview of IFIs' conditional aid leads to a critical evaluation of practices. This work goes with a general rethinking about aid efficiency and international financial architecture. The old Washington consensus is going to be replaced by a new one: *Stiglitzian Consensus* focusing on poverty alleviation and quality of governance.

A new strategy based on poverty alleviation and sustainable development durable

At the turning of the 21^e century, some international initiatives in favour of development cooperation took place. We analyse two of them: the HIPC initiative (IMF and WB) and Development Millennium Goals (United Nations).

The HIPC initiative is global framework of debt reducing jointly launched by IMF and World Bank. After a first shot in 1996, the general assembly of Bretton Woods institutions held in September 1999 stated precisely the mechanism for the forty eligible countries (development and debt criteria). To benefit this assistance, a country must: face an unbearable debt charge (no solution with usual plan), operate reform supported by IMF and WB and finally specify a Poverty Reduction Strategy Paper. This new strategy is based upon five principles. First, the clear willingness of IFIs is to foster the domestic ownership of the reform, the internalization of policies by promoting the civil society participation. Second, the evaluation of programs will be focusing on final outcomes (and not tools or intermediate criteria) and actual capacity to reduce poverty. Third, the multiple dimension of poverty involves global policies: health, education, infrastructures, financing access. Coordination of actors (government, civil society, external donors) and long-term commitment are the last pillars. This new orientation was put in form by the implementation of a new concessional mechanism, the Poverty Reduction and Growth Facility.

Concerning the Millennium Development Goals, the declaration was adopted in September 2000. It specifies human progresses to be accomplished until 2015 in south countries. Eight

goals were set and for each of them, measurable targets and agenda². Without entering details, the main goals are following ones: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability and develop a global partnership for development. The last goal needs a specific attention because it is based on a more open international commercial and financial environment, claiming secure long term rules and non-discriminatory practices but also on an increasing Official Development Assistance. If developed countries expressed here commitments on commercial partnership and external financial support (ODA/GDP ratio going from 0,22% to 0,43%), developing countries admitted on their side the principle of a more selective aid, funded on governments' capacity in assuming institutional reforms like redesigning state functions, civil society inclusive governance and a private sector driven growth regime. These ideas were also present at the United Nations Conference on Development Financing (Monterrey 2002).

This comprehensive (but not exhaustive) view illustrates the new analytical and ideological background of international aid focusing on more long term challenges: human progress, sustainable growth and an improvement of the whole governance quality of partnership. But these fundamental adjustments (necessary but not sufficient conditions) were accompanied by a reflexion on conditionality formal reform.

A renewed operational framework³

How to obtain a better governance of aid, both from the recipient and donor points of view?

The deep involvement of governments in reforming is generally perceived as a key factor of aid efficiency. However, the evolution of conditionality during the late 1980s and 1990s didn't go in the right way, that is to say a good domestic ownership of adjustment policies. In fact, this period was characterized by an enlargement of conditionality coverage explained by two main features. First, the IMF was blamed to treat only short term dimension of crisis and thus establishing few macroeconomic performance criteria (budget deficit, inflation and external balance). The question of an adjustment with growth became recurrent and the

² See for example UNDP (2003), Human Development Report, Economica.

³ This point is developed from various theoretical analysis, in particular Collier P. et alii (1997), Khan M.S. & S. Sharma (2002), Svensson J. (2003).

institution was conducted to include sectorial and structural measures (liberalization, privatization), coming closer World Bank approach. A great complexity of conditionality was reached, illustrated by one figure: the mean number of criteria in adjustment programs went up from 21 in 1980-88 to 35 in 1989-91⁴. Second, the nature of countries negotiating with IMF was changing. It was not only developing countries facing macroeconomic disequilibria but more and more emerging or transition economies coping with institutional difficulties. An externalized fine tuning seemed to be a suitable answer for countries lacking administrative resources. But a risk of weak ownership by the recipient states could appear and the radical critic of economic sovereignty alienation of LDCs too. So, a simplified model with focused criteria would be able to encourage domestic appropriation of policy. The lightening of process could go far in the way of a quasi renouncement of explicit conditionality. IFIs would make an *ex ante* selection of countries based on criteria like institutional quality, anti-corruption measures and well advised economic policy. It was the sense of the Metzler Commission report, reforming the IMF.

From the donor side, definition of conditions and disbursement process can also spoil aid efficiency. The central idea is to replace conditionality on measures and intermediate goals of economic policy by conditionality on medium and long-term outcomes. This formula would reinforce the responsibility and good management of domestic governments. Concerning the disbursement technology, resources would be protected by an appropriate sequence privileging *a posteriori* paying out, after the achievement of some actions and results. Avoiding the costly disruptive practice of stop-go disbursement could be attained by giving up the current rigidity of *a priori* defined calendar. A flexible financing mechanism on a suitable time horizon would prevent suspension in cooperation and uncompleted reform. In such environment, the remaining problem is the credibility of threat in case of non-compliance of long term goals: the so called *good Samaritan dilemma*. The IFIs can hesitate to adopt a strict application of conditionality because it has a social function in the name of the international community. Empirical studies underline that there is no significant correlation between the rate of compliance of criteria and the rate of disbursements in IMF adjustment programs. Some analytical models indicate that, under numerous hypotheses, a collective mechanism of funds allocation introducing competition between countries (tournament model) could be seen as an optimal contract. Financing could thus be oriented to the most valuable countries in term of reform management and it would produce a credible penalty system in case of poor performance.

⁴ in Leandro J.E., Schafer H. & G. Frontini (1999), p 286.

A great number of objections exist for such extreme changes in conditionality conception, the most important being the international political and maybe ethical cost of defining *a priori* eligible countries or creating competition among developing countries.

23 - The relevance of the debate for Euromed perspective

Partnership versus asymmetric relationship

The Euromed partnership seems different by nature from IFIs' framework. On one hand, we have a partnership with supposed symmetric relationship between countries, with joint decision-making and mutual commitment. On the other hand, the IFIs develop an advice function with an incitation scheme permitting economic reform in a suitable way. The relationship is far from symmetric as the underlying model is external and the non-compliance of performance criteria leads to financing suspension or secession. In fact and as Phillipart (2003) says: "The MEDA regulation has established political and economic conditionality, a novelty in EU relations with the countries in the region. Funding can be suspended in the case of a violation of democratic principles and of the rule of law, as well as of human rights and fundamental freedoms. Besides, funds are allocated among other things on the basis of "progress towards structural reform"."

Conditionality has also affected the enlargement process since the creation in 1989 of a new relationship of the EC with Central and Eastern Europe countries through trade cooperation, cooperation agreements, and development assistance. As Pinelli (2004) points out: "A decisive step was the Copenhagen European Council settlement in June 1993 of 'political criteria' for accession in the EU of candidate countries: stability of institutions guaranteeing the democracy, the rule of law, human rights and respect for and protection of minorities." Conditionality shaped the whole enlargement process, revealing strong asymmetries between the parties involved. While Central and Eastern European countries shared a sense of there being no alternative to EU membership if future stability and prosperity were to be assured, the EU, in spite of an increasing commitment to enlarge, did not provide guarantees or timetables.

Explicit conditionality versus implicit conditionality

The actual distinction between IFIs' conditionality and EU's practices is that in the first case, the concept of conditionality is explicit and a clear technology of "gains and threats" tries to deal with standard results of the principal-agent model. In the second case, the concept of partnership doesn't permit directly this coercive approach but an implicit conditionality really exists. Dodini and Fantini (2006) offers an illustration with their analysis of ENP : "the opportunity for the neighbouring countries to benefit from closer relations with the EU and integration in some of its policies is not a one-sided offer, but should depend on progress towards basic EU political values and on implementation of economic and institutional reforms."

Basically, the same difficulties arise with international cooperation instruments and with EU's aid supporting policy reform at regional level; how can we increase the efficiency of mechanisms? How to obtain macro and structural convergence at a sustainable path? The current debate turns around two major components: restructured conditionality and extended conditionality. First, *restructured conditionality* concerns the internal logic of the incitation scheme; fostering the domestic ownership of reform, introducing flexibility in time horizon (short-term for actions support, medium and long-term for final outcomes), periodic assessment (performance-based aid) in spite of tranche-based lending (promise-based aid). Second, an impressive corpus of theoretical and econometric studies recently addresses the question of institutional conditions of aid efficiency⁵ and generally speaking good policies in emerging and less-developed countries. *Extended conditionality* to the political dimension is a possible response to this point: anti-corruption policy, accountability and rules of law, governance quality.

3 – Policy reform in MENA countries

31 - General overview of the development in MENA region

Despite its geopolitical importance, the MENA region's influence in the global economic system remains weak.

During the last five years, Middle East and North Africa (MENA) region faces a broad range of developmental challenges. Benefiting from the boom in oil and other commodity prices, the strong growth of the world economy and improved policy frameworks, the regional growth exceeded 6.3% in 2006, the highest performance during the last five years. In Qatar

⁵ See for example, Guillaumont & Chauvet (2001)

the real GDP growth attained 10.3%, followed by United Arab Emirates with 9.4% and Morocco with 8% during the year 2006. The projections for 2008 are even better, with a mean value for MENA countries which exceeds 6.5%. During the same period, the rich OCDE countries have moved into a situation of soft growth with rates between 1 to 3% with some few exceptions (United States, Ireland, Spain, New Zealand and Australia).

Growth was, however, accompanied by a pickup in inflation (7% in 2006), reflecting international food and fuel prices, depreciation of US dollar, booming domestic demand and increasingly necessary capacity constraints, particularly in the housing sector. Even if in Morocco large workers' remittances and only partially sterilized privatization inflows led to rapid monetary growth during the period 1999–2005, inflation have remained below 2 percent because of the appropriately rigid macroeconomic policies and increased subsidies on food and on fuel in Morocco kept inflation in check.. Similarly, massive inflows from oil exports have not caused a surge in inflation in Algeria (remained below 3% on average) or several other oil producing countries. On the other hand, despite relatively moderate money growth, Egypt did not succeed in reduction of price pressure, in 2006 attaining the level of 7.6% in inflation.

Strong domestic demand was driven by expansionary macroeconomic policies and sharp increases in private investment sustained by optimism about the region's medium term growth prospects.

The fiscal and monetary expansion and high import growth have generated fiscal and current account surpluses for the region as a whole from 7 to 19.2 percent of GDP during the period 2003-2006, strengthening public sector balance sheets and reducing external vulnerability.

The overall business climate remains weak with significant obstacles in doing business, especially in starting a new enterprise, investors' protection and enforcing contracts. Deficiencies in governance are visible. Political fragmentation, recurring conflicts, and authoritarian rule have hampered the development of democratic institutions and remain major obstacles to economic reform. The demarcation line between the public and private

sectors in many MENA countries is often unclear, encouraging conflicts of interest, rent seeking (i.e., lobbying policymakers for purely private gain), and widespread corruption.

In most countries, elections for representative legislatures are becoming more open and meaningful, and the political leadership is becoming more aware of the need for political reform. However, transparency in government is poor and accountability remains a problem. A large and inefficient public sector adversely affect the business and investment climate and increase the cost of doing business for both domestic and foreign investors.

Although a lot is known about the size of the central governments within the MENA region, not a lot is known with any certainty about the size of the overall public sector—which includes, among others, central government, local governments, and state-owned enterprises, in a majority of countries.

Since the early 1970s countries in the MENA region have faced with persistent deficits. In order to improve fiscal balances some of the countries initiated fiscal reforms in the mid-1980s. Moreover, some fiscal reforms have designed at reducing the cost of domestic resource mobilization by improving the administration of the tax system.

Although public ownership in itself is not necessarily a cause for inefficiency in activity, the full development of productive enterprises in an increasing competitive environment often demand for private ownership within the framework of corporate governance. Therefore, privatization of state-owned enterprises has been viewed as one approach to the rationalization of public sector activities. Nevertheless, the available data show that the privatization process in the MENA region has been rather slow.

Regarding the infrastructure in the MENA region there are extremely disparities across regions and sectors. In Lebanon, Jordan, Tunisia, and Morocco the infrastructure is well developed but less developed in others. While transportation infrastructure is highly developed in most MENA countries, the telecommunication services, especially through modern technologies are still insufficient developed.

The “good governance” agenda is closely linked by “anticorruption” agenda. However, governance is much more than combating corruption: making sure that human and financial resources are used efficiently towards the attainment of valued social ends, ensuring that services are delivered effectively to all citizens, creating an enabling environment for private sector led growth. The empirical studies indicate that, rather than “greasing the wheels,” corruption in fact exerts a heavy cost upon development. Corruption compromises the delivery of critical government services in areas such as health and education. It reduces the flow of private investment. Corruption exerts a particularly pernicious impact upon the poor, who are often forced to pay larger sums in relation to their income for services that they should receive for free. Over the last two years, a number of MENA countries have recently advanced to enhance integrity, combat corruption and improve the quality of governance.

The efforts to overcome those deficiencies have focused mainly on reforming public administration: improving efficiency in the delivery of high-quality public services and generating fiscal savings. Several countries have gone further, taking important steps to open up their political space.

The short-term outlook for the MENA region remains favourable in almost all sectors. In order to sustain the economic growth and bring per capita income closer to the emerging countries, reduce poverty and unemployment, there are required structural reforms in the financial and public sector systems. These reforms will play an important role in rising investments (including FDI) and fostering business climate.

32 - International organizations sustaining reforms in MENA countries: consistencies and complementarities in objectives and actions

As seen in the previous paragraph, the MENA region is preoccupied by sustainable development issues. Even if the region has made some progress in stability, security and economic development, the political situation in the region is still characterized by persistent tensions and slow economic growth. Middle East conflict, war in Iraq, terrorist activity, lack of political openness and political tensions in some countries in the region, are some of the issues that aware local governments and international organizations.

In the economic field the fast demographic and labor force expansion combined with the slow economic growth determine high unemployment and stagnating incomes. This situation is aggravated by the lack of freedom, the women's empowerment deficit and the lack of access to knowledge and education.

In response to political, economic and social challenges, the international organizations settled agreements and programs to support the sustainable development, the political reforms and the security and stability in the region. The main actors in MENA region are: European Union, World Bank, Organization for Economic Co-operation and Development, United Nations, United States Agency for International Development, etc. The question is: "*Do the programs converge or are complementary to each other? Which are the country specificities?*" In order to answer to these questions, a short review of the main programs and actors in the MENA region is done.

EU Support

The Mediterranean region is of strategic importance to the EU in the economic (trade, energy, migration) and political (security, stability) terms. Therefore, as the most interested in economical and political situation in the region, EU guides two coherent and complementary strategies:

- Euro-Med Barcelona Declaration at regional level (1995) and its bilateral Association Agreements and
- European Neighborhood Policy (2003) and its bilateral Action Plans.

Euro-Med Barcelona Declaration

European policy in the region for the period 2006-2009 was decided by the Heads of State at Euro-Mediterranean Summit in Barcelona (nov.2005) and relate 4 domains: political and security cooperation, sustainable socio-economic cooperation, education and culture, migration. The goals set out in Barcelona Declaration are:

- create an area of peace and security based on fundamental principles, including human rights and democracy;

- create an area of shared prosperity through sustainable and balanced socio-economic development and the progressive establishment of free trade between the EU and its partners and among the partners;
- improve mutual understanding among peoples of the region and the development of an active civil society.

The Association Agreements provide for:

- political dialogue;
- free trade in manufactured goods between the partner and the EU through tariff dismantling over a transitional period;
- various forms of economic cooperation.

European Neighborhood Policy

The objective of European Neighborhood Policy is the economic development and stability and better governance in the neighborhood of EU. European Neighborhood and Partnership Instrument (ENPI) was created by EU with the overall objective to provide assistance and financial support for the objectives of Barcelona Process, Association Agreements, European Neighborhood Policy and ENP Action Plans. ENPI promote enhanced cooperation and progressive economic integration between the EU and its neighboring countries.

World Bank Support

The second most important actor in the region is World Bank Group, a public international financial institution created at the end of World War II whose mission is to provide loans and credits to developing countries for projects that alleviate poverty and promote social and economic development. The World Bank Group mission in MENA countries is consistent and complementary with the objectives of EU. World Bank supports through investments and credits the economic and social objectives of EU strategies.

International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA)

The first component of World Bank Group consists of International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC) and Multilateral International Guarantee Agency (MIGA). In general, IBRD and IDA make loans for public sector projects. IBRD and IDA share the same staff, and must meet the World Bank's policies and procedures. IBRD aims to reduce poverty in middle-income and responsible poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions. IDA lends money on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. IDA provides grants to low income countries (Djibouti and Yemen).

International Finance Corporation (IFC) and Multilateral International Guarantee Agency (MIGA).

The second component of World Bank Group consists of IFC and MIGA which provide funding for private sector projects. MIGA's mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives. In Kuwait, Djibouti, Iran, Syria and Jordan are some active projects in petro-chemical industry, transport and telecommunications. IFC provides investments and advisory services to build the private sector in developing countries. IFC's operations in the Middle East and North Africa cover 19 countries. IFC's MENA strategy focuses on addressing the region's main challenges, including activities that have a positive impact on employment and improve the enabling environment of the business sector. Efforts to help governments open sectors of their economies and achieve sustainable levels of investment are important in addressing these challenges. In particular, IFC's strategy aims to:

- Invest in the financial, infrastructure, and small and medium enterprise sectors
- Provide targeted, high-impact advisory services for the financial sector, small and medium enterprises, the business environment, public-private partnerships, and privatizations
- Support investments and advisory services in frontier markets
- Support economic reform through investment and advice on global best practices

- Promote intra- and inter-regional (South-South) investments—developing country clients wishing to expand to other markets— to accelerate regional economic integration and business expansion

The code for corporate governance plays a key role in improving the corporate governance practices of banks and companies in the region by:

- raising awareness and building the business case for good corporate governance,
- driving legal and regulatory reform efforts and raising national corporate governance best practices,
- serving as a benchmark for monitoring and implementing corporate governance practices and policies at the corporate level.

To support this trend the Global Corporate Governance Forum (GCGF) and IFC (PEP-MENA) are joining efforts to provide countries of the region with technical assistance in developing, drafting, implementing and reviewing corporate governance codes according to internationally recognized best practices. Target countries include: Algeria, Bahrain, Egypt, Jordan, Lebanon, Morocco, Oman, Tunisia, UAE, and Saudi Arabia. Target audience include: Public and private sector stakeholders initiating or leading the process of developing a corporate governance code of best practice.

In March 2007, the Egyptian Institute of Directors, in cooperation with IFC, launched the 2007 Best Annual Report and Best Web Site competitions, inviting all listed companies in Egypt to participate. This initiative represents a joint effort to improve corporate governance practices in the country. It is expected to increase the quality of the information disclosed and the level of transparency within companies.

Knowledge Networks Agency for the Middle East and North Africa (KNA-MENA)

The support of World Bank Group in governmental reforms for MENA countries is offered through the Knowledge Networks Agency for the Middle East and North Africa (KNA-MENA) in Marseille. KNA-MENA is a joint venture between two units of the World Bank: the Operations Vice-Presidency for the Middle East and North Africa (MNA) and the World Bank Institute (WBI), with a dual objective:

- to promote activities on creation and sharing of knowledge on governance issues in the MENA region as a vital part of attaining better development outcomes;
- to build the capacity of country and regional knowledge institutions focusing on governance to ensure the sustainability of knowledge creation and knowledge sharing activities.

The KNA-MENA governance program focuses on three areas:

- public sector reform including public sector delivery: policy coordination, public expenditure management, budget cycles, civil service reform, including reform of human resources, and work on administrative and fiscal decentralization;
- transparency and integrity: the facilitation of a network of 20 universities, government training centers and research institutes with the objective to design, develop and deliver curricula, and case studies on transparency and access to information, in association with a number of counterpart institutions from the enlarged European Union;
- anticorruption.

The objectives and the actions of KNA-MENA governance program are in some way complementary with the initiatives of European Union in the region. Without governmental reforms the sustainability of economic and social development could not be obtained. In order to attract foreign investments and financial supports and to use them efficiently, it is necessary to create a proper environment to business. The reform of human resources and knowledge sharing activities are very important in MENA region in order to use properly one of the essential resources for sustainable development, namely the increasing labour force.

KNA-MENA provides narrowly focused, rapid response knowledge support to World Bank lending and technical assistance programs on governance in selected MENA countries.

UNDP-POGAR

The United Nations Development Program (UNDP), Regional Bureau for Arab States (RBAS) launched the Program on Governance in the Arab Region (POGAR) in early 2000. POGAR was developed at the request of Arab governments, and therefore specifically addresses national needs and concerns. POGAR is dedicated to the promotion and development of good governance practices and related reforms in the Arab states; it works in

partnership with key governance institutions including legislatures, judiciaries, and civil society organizations to identify needs and solutions.

POGAR's activities, which include providing policy advice, engaging in institutional capacity building, and testing policy options through pilot projects, revolve around three main concepts: participation, rule of law, transparency and accountability.

➤ **Initiative on Good Governance for Development in the Arab Countries (2006-2008)**

The Initiative on Good Governance for Development in the Arab Countries (2006-2008) is initiated by UNDP-POGAR and OECD in collaboration with regional Arab participants and international organizations. Thirteen MENA countries are involved in this program: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Syria, Tunisia, UAE, Yemen. The GfD Initiative intends to modernize public governance in MENA countries by:

- supporting the design, implementation and monitoring of public governance reforms;
- creation of a network for dialogue between policy makers from MENA and OECD countries;
- designing innovative solutions, adapted to the specific policy environments of each MENA country;
- assisting ministries and government agencies to cooperate and coordinate their work;
- reinforcing development initiatives supported by international, regional and bilateral donors.

International Republican Institute (IRI)

The International Republican Institute is a nonprofit, non-partisan organization promoting freedom and democracy worldwide. It supports the development of political parties, civic institutions, open elections, good governance and the rule of law. IRI offer assistance to Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, West Bank/Gaza in advancing democracy. Working with local and regional elected officials and grassroots development associations, IRI encourages and supports good governance practices: reinforcing the performance of elected government; facilitating increased dialogue between elected officials and communities that they represent.

These last two initiatives are coherent with the initiatives of EU and World Bank in the region. The dialogue between policy makers and other countries or international organizations, the transparency, the governance reforms, the support of development initiatives are common objectives of all actors implied in the region.

33 - Country studies (Morocco, Egypt and Lebanon): particularities and specificities in the programs sustained by international organizations

Morocco

The growth of GDP of Morocco, according to international institutions has been 8%, the highest in North Africa and the third on MENA region behind Qatar with 10.3% and United Arab Emirates with 9.4%. IMF concluded that the behavior of GDP of Morocco dues to the enlargement of tax base and strengthening tax administration. The optimistic trend of GDP, the controlled inflation and foreign direct investment increase have contributed to a slight decline poverty and unemployment. IMF support Morocco to improve its solid economic performance bringing its per capita income close to that of emerging countries of OECD and accordingly further reduce unemployment and poverty.

Over the medium term, IMF ask to Morocco for improving its public finances: the reduction of public sector wage bill, the reform of the system of subsidies for oil products and foodstuffs and the acceleration of tax reform with the main objective to bring the ratio of debt to GDP less then 50% (the standard adopted by EU countries). Morocco is considered in a good position for its governance (with the score of 91 for the reform progress) and the effect of the latter on the quality of its administration. A score of 78 was assigned to accountability in the public sector, knowing that the regional (MENA countries) average is 57 for reform progress and 63 for accountability.

In terms of administrative governance only Egypt is better classified with a score of 97 points while United Arab Emirates hit bottom with a score of 8 points. However, Egypt is badly classified with respect to what the World Bank calls on tariff reforms. Surprisingly, Algeria which is struggling to join the WTO is better qualified then Morocco and Tunisia, who are part of WTO, while this criterion would be an expression of their smooth integration into the global economy.

European Union

Morocco is a privileged partner of the European Union. The EU is Morocco's most important export market, its leading public and private external investor and its most important tourist market. Morocco also contributes to the EU's energy security as a strategic transit country for Algerian gas and as an exporter of electricity to Spain. Human exchanges are constantly expanding: the EU is the main destination of Moroccan migrant workers and an increasing number of Europeans choose Morocco as a place for holidays or even residence. Professional exchanges are also steadily increasing.

The first diplomatic relations between Morocco and the European Community were established in 1960 and the first co-operation agreement was signed in 1976. The EU-Morocco Association Agreement came into force on 1 March 2000 and forms the legal basis of EU-Morocco relations.

The essential objectives of the EU's external policy in Morocco are: better governance, effective promotion of democracy and human rights, economic freedom, political stability and economic development in the region, regular political dialogue in bilateral and international contexts on issues of common interest; the dialogue on scientific, technological, cultural, audio-visual and social matters to the benefit of both parties.

World Bank

World Bank offers support to Morocco through Country Assistance Strategy (CAS), approved by the Board on 2005. The main goal of its policy is increasing employment, generating growth and reducing poverty and marginalization. It will focus upon four objectives: (a) improve competitiveness and the investment climate; (b) increase access to basic services by the poor and marginalized groups; (c) improve the efficiency of the education system; and (d) improve water management and access to water services and sanitation.

International Finance Corporation's strategy for Morocco focuses on: (i) strengthening financial institutions, microfinance and SME lending; (ii) increasing private participation

in infrastructure; and (iii) supporting select investments in key sectors such as infrastructure, power, agribusiness, education and municipal finance.

Moreover, IFC is working with partners to help Morocco establish a *national code for corporate governance*. This code intends to: promote market confidence and transparency, combat corruption, limit the informal sector, develop efficient private sector, encourage the private-public dialogue, define companies responsibilities, increase inflows of domestic and foreign investment.

United States Agency for International Development (USAID)

United States Agency for International Development supports the reforms in Morocco through the program “Improvement Government Responsiveness to Citizens Democracy Conflict and Humanitarian Assistance (2004-2008)”. It helps the Parliament of Morocco shape policies and put into motion laws, norms, and standards that will set the environment for the national policy arena in the legislative branch of government. In order to promote and to support anti-corruption reforms, USAID/Morocco strengthens the capacity of the executive branch in public sector management and auditing.

Effective decentralization and devolution occurs when elected local government has the necessary level of qualified personnel and financial resources to formulate, implement, and enforce policy decisions, and to provide services transparently and efficiently. At regional and local government levels USAID helps ensure governance capacities based on democratic practices at these levels. At local level it brings government entities, civil society, and the private sector together to identify problems, prioritize needs and implement solutions, most particularly in the housing sector. In order to expand and improve access to economic and social infrastructure USAID offer loan guarantees.

Canadian International Development Agency

Canadian International Development Agency through “Local governance Morocco Project (2006-2011)” supports the improvement of governance in Morocco by: strengthening local

communities; enabling dialogue between government and civil society; broadening citizen engagement in the political process.

Egypt

Over the last 20 years Egypt has made substantial progress on rebuilding internal and external security and on economic reform. During the 1990s the economic growth was slowly but since 2004 it has improved his vitality. On the other hand, social reform has lagged behind, but is now seen as a priority.

Egypt continues to fortify its relations with international partners, especially with the EU for further political and economic development and modernization.

European Union

The Arab Republic of Egypt and the European Union as key partners and near neighbors reaffirm their commitment to deepen their political, economic and social relations.

Egypt continues to pursue its dynamic foreign policy aiming to strengthen its relations with its international partners in particular the EU, its commitment to further integration with the global economy, and its efforts for further political and economic development and modernization. The Action Plan between Egypt and EU within the ENP sets ambitious objectives based on joint ownership, common interests, reciprocal commitments, differentiation, shared values and implementation of national plans and reform programs.

The EU-Egypt Association Agreement forms the legal basis governing relations between Egypt and the EU, under Euro-Mediterranean Partnership Agreements. The agreement underlines the priority for:

- political stability and economic development of the region through the encouragement of regional co-operation;
- a regular political dialogue in bilateral and international contexts on issues of common interest;
- maintaining a dialogue on scientific, technological, cultural, audio-visual and social matters to the benefit of both parties.

The agreement put accent on peace, security, regional co-operation and the stability and prosperity of the Mediterranean region. Moreover, it includes provisions on freedom of establishment and liberalization of services, free movement of capital, competition rules, the strengthening of economic co-operation on the widest possible basis and the co-operation on social matters, supplemented by cultural co-operation.

World Bank

The Government of Egypt (GOE) and the World Bank can not be separated with regard to Egypt's key development challenges and reform agenda. The World Bank proposes to help the GOE achieve its goals by aligning its support over the period 2006-2009 to three key strategic objectives: private sector development, enhancing the provision of public services and promoting equity. The private sector development is achieved by improving the efficiency and receptiveness of financial sector, by implementing an international trade regime that features lower transaction costs and by creating a business climate that features lower transaction costs for initiating, running, and shutting down business operations. The development of public services means first of all to obtain the consistency between fiscal and monetary policies with the requirements of macroeconomic stability. The improvement of efficient infrastructure services (power, transport and telecommunications, among others), quality of education, quality of air and water and the efficient management of water resources, accountability of public sector and improvement of social insurance system are required as well for a sustainable development.

The World Bank and GOE look for promoting equity by improving the coverage and effectiveness of safety nets; reducing disparities between Upper and Lower Egypt; improving access and quality of the healthcare for the poor; reducing gender disparities. In March 2007, the Egyptian Institute of Directors, in cooperation with IFC, launched the 2007 Best Annual Report and Best Web Site competitions, inviting all listed companies in Egypt to participate. This initiative represents a joint effort to improve corporate governance practices in the country. It is expected to increase the quality of the information disclosed and the level of transparency within companies.

United States Agency for International Development (USAID)

United States Agency for International Development (USAID) support Egypt following a Strategic Plan for the period 2000-2009 which focuses on: improving the judicial system, including criminal courts; legal education; access to justice for women and disadvantaged groups. To strengthen civil society and local governance, USAID assists grassroots organizations in linking citizens with the government and increasing local transparency and accountability.

International Republican Institute

International Republican Institute through Advancing Democracy program identified three areas where it can provide support to Egyptians: a) election assessments for the presidential election in September 2005 and parliamentary elections in November/December 2005; b) national and local public opinion research; c) post-election political party capacity-building.

Canadian International Development Agency

The Canadian International Development Agency (CIDA) has been an active partner with the Government of Egypt, Egyptian civil society and the Egyptian private sector for almost 30 years. The purpose of the Participatory Development Program (2003-2008) is to identify and strengthen the capacity of promising Egyptian associations, foundations, federations and networks to effectively engage and represent their communities and dialogue with government and other development actors.

Participatory Development Program: supports the strengthening of networks, facilitates cross sector policy dialogue among Egyptian organizations, government and donors, and supports participatory research in order to reduce the gaps in knowledge of relevant and wider stakeholders. The expected outcomes of the PDP are: more initiatives targeting marginalized groups, especially women, children and youth, delivered by associations/foundations and government; better share and use of knowledge and enhanced dialogue and collaboration among associations/foundations, government and others.

Lebanon

Lebanon is a very special case. After its independence in 1943, it became a model for social and economic development in the Middle East with impressive growth, high investment incomparable social indicators. This period of prosperity was followed by a 15 years destroying Civil War (1975-1989) which caused massive economic, social and political damages. Most of the country infrastructure was destroyed, a quarter of the population was displaced, most of the professionals and skilled workers left the country and public institutions were weakened. After the Civil War, GDP per capita grew rapidly (\$5,510 in 2006 against \$1,200 in 1990), inflation was stabilized at 0.3% (compared to 15% in 1990) and social indicators attained the levels of the pre-war period (literacy rate of 96% and life expectancy of 72 years). The post war reconstruction was not completed when the country was stroked by a new military conflict of 33 days with Northern Israel, the so called July war (July-August 2006). This new war caused extensive damages in housing units, infrastructure, health facilities and natural environment. As it rebuilds again, Lebanon needs to strike a balance between maintaining fiscal stability and continuing to spend on development. Sustaining a healthy macroeconomic environment is critical and is contingent upon the reduction of the fiscal deficit.

European Union

Lebanon is one of the Mediterranean beneficiaries of community assistance through MENA Program. The EU is the leading donor to Lebanon. The short term agenda of Action Plan is ambitious but facing substantial constraints and capacity limitations in implementation. Therefore in order to encourage the government to follow the Agenda, ENP offer additional incentives such as: trade openings, participation in community programs, possibility of a better market access to the EU and targeted technical and financial assistance.

The main objectives of EC strategy with Lebanon for 2007-2013 are:

- Support for political reform in areas of democracy, human rights, good governance, security and justice;
- Support for social and economic reform sustaining the implementation of Action Plan;
- Support for reconstruction and recovery: economic and social recovery, reconstruction, local development.

World Bank

Over the last 15 years World Bank was one of major supporters of Lebanon in emergency reconstruction and rehabilitation after the Civil War. The support was offered principally in infrastructure, agriculture, health, education, transport, protection of cultural heritage, environment protection. For the period 2006-2009, the objective of Country Assistance Strategy was to help Lebanon transition from reconstruction to development: building efficient and accountable institutions to take the country from the macro-economic imbalances to fiscal stability. But, the July Conflict changed in some way the main objective of CAS, the first phase being the reconstruction and recovery after the conflict. The Year 2007 was a transition year, overwhelmed by uncertainty and unsure market conditions.

United States Agency for International Development (USAID)

After the conflict from July 2006 with Israel, United States Agency for International Development (USAID) launched a 3 year program (2007-2010) to diffuse tensions and to create avenue for citizens to build consensus on community issues. The aim of the program is to support democratic practices, economic prosperity and security and regional stability. The actions of USAID are slowed down by the anti-US sentiment which became more acute after the summer 2006 war with Israel. Even if many organizations are enthusiastic to work with US Government, some groups working on reform issues are not interested in the partnership with USAID.

International Republican Institute

International Republican Institute began working in Lebanon during the 2005 parliamentary elections, when it supported the country's first-ever exit polling. IRI encourage the development of more issue-driven party platforms and policy agendas. It works with its partners in Lebanon on the following topics: principles of internal party organization, developing organizational strength, election of party officers, public opinion research, communication skills, and public speaking and developing political party messages.

34 - Convergences or complementarities in international organizations programs?

Driven by the challenges of sustainable development, of rising macroeconomic stability and of improving the quality of governance in the MENA region, international organizations (European Union, World Bank, Organization for Economic Co-operation and Development, United Nations, United States Agency for International Development, etc.) offer financial support and assistance through international programs.

European Union programs offer support into area of security, stability, democracy, political dialogue and economic cooperation. World Bank came to offer financial support for projects that alleviate poverty and promote social and economic development. Therefore, these two main initiatives in the MENA region are consistent and complementary to each other. In the area of good governance, some new organizations like OCDE, UN, IRI came to support the dialogue between policy makers and other countries or international organizations, the transparency, the governance reforms.

At this level, the programs in the region complement each other and are coherent one to another. Some partnerships between different organizations are established in order to sustain the development of the MENA region (UNDP-POGAR program).

Besides there are some disparities between countries according to political and economical situation of each of them. In case of political instability in the country, the main objective of the programs will be to support the dialogue, democratic governance and the security and stability in the country. In case of less developed countries, the main objective of the programs will be to sustain the economic development through good governance, education development, health services etc.

In Morocco, because of the strong GDP growth, the international organizations offer support to improve the solid economic performance bringing its per capita income close to that of emerging countries of OECD. The transparency, anticorruption, decentralization, democratic governance institutions, dialogue between government and civil society, sustainable development are some of the main objectives of the programs in Morocco.

Over the last 20 years Egypt has made substantial progress on rebuilding internal and external security and on economic reform. Nowadays the main objectives in the countries, sustained by international organizations involved in programs in the country are: equity, dialogue, transparency and juridical system reform.

A very interesting and particular case is Lebanon which knew a very impressive social and economic development during 30 years after his independence (1943-1975) which was slowed down by the 15 years Civil war and the 33 Days July conflict. In this context of great political instability the main objectives of the programs in the country are the reconstruction after conflicts, building of secure, democratic and transparent environment in parallel with the social and economic development.

4 - The need for new coordination schemes between multilateral institutions

41 - Coordination of ideological background

Conflict and convergence between “Washington consensus” and “Bruxelles practices”

The EU has proposed an intervention logic which puts great emphasis on economic liberalization and an opening up to international trade. However, several elements indicate that, if strongly inspired by liberal views, the EMP is not following strict neo-liberal logic: the choice of a multidimensional approach; the (re)affirmation of the principle of ‘special and differential treatment’; the inclusion of anchoring devices; and the priority given to poverty reduction.

- Rejecting the one-dimensional approach of neo-liberal thinking, the EMP considers that security, socio-economic and cultural problems are conceived as multi-faced and interlinked. This choice presents one major advantage and one major difficulty: valuable flexibility by allowing participants to give more importance to trade, development or foreign policy; obligation to have proper overview of several logics of intervention unfolding simultaneously.
- The (re)affirmation of the principle of ‘special and differential treatment’ does not fit either with the quasi-naturalist conception of *laissez-faire* advocated by neo-liberals.

There was however no systematic effort to give an operational definition of what is a fair and equitable multilateral trading system. The range of differential treatments has not been thoroughly defined either. In line with WTO orientations, preferential market access will cease to be an option in the near future; so what options are left: transition periods and permanent exemptions, direct and indirect support on a temporary or permanent basis, preventive and corrective measures?

- The inclusion of anchoring devices is equally non neo-liberal. The liberal approach poses a serious problem of time inconsistency: the costs are immediate and certain and the benefits are distant in time and are uncertain. The EMP offers various arrangements that should function as anchors for policy change. That anchoring logic relies on a contractual method (bilateral treaty committing the country to specified reforms) and a financial method (compensating the country for the implementation costs). In addition, there should be a clear link between the level of EU funding and trade concessions on one side and the extent of reform undergone by the recipient country on the other.
- The priority given to poverty reduction is yet another indication that the EMP is not following a neo-liberal logic (trade liberalization in itself is not sufficient to combat poverty in developing countries). Liberalization and trade opening are seen as desirable only insofar as they lead to sustainable development; their pace and modalities must be defined according to that principle. Besides, assistance over infrastructures and social services are very much present in the EMP logic of intervention.

In summary, we can follow Phillipart (2003): “The EMP policy mix made of economic and political liberalism combined with a developmentalist agenda centred on poverty reduction is very much in line with the Bretton Woods (the Washington consensus) and UN evolution (the Monterrey consensus). That ‘normalization’ of EU approach to the region opens new synergy perspectives. The emergence of a dominant paradigm undeniably means less energy spent on theological debate and the possibility of defining a division of labour among donors based on their respective comparative advantages. That ‘value added’ approach has yet to be fully operationalized or respected”.

Existence of (need for) a specific EU conditionality scheme?

Using the ENP as a case study, it is interesting to note with Dodini & Fantini (2006) that, in principle, achieving aims in the economic area would not necessarily require binding closely to the EU, as each of the three growth-enhancing channels identified might be pursued through other means. “In fact, trade liberalization might just as well be achieved in multilateral fora (WTO), while structural reforms and macroeconomic stabilization are already the remit of the WB and IMF. Nevertheless, there are reasons to believe that, compared to the status-quo, the ENP offers value added in so far as it can be expected to provide:

- Stronger political incentives for economic reform in the neighbouring countries (NCs);
- And a series of practical advantages that would be expected to speed up and ease implementation of pro-growth policies.”

First, the ENP programme may offer stronger incentives in the following ways:

- a) *A richer offer.* The long-term aim of widening the borders of the internal market and strengthening relations goes beyond the prospects currently offered by multilateral trade negotiations (+ increased funds directed at cooperation with NCs)
- b) *Political communicability.* Convergence with the EU economic model may be more appealing and easier to communicate than adhering to the policies advocated by the international financial institutions, which have been the subject of some controversy. The regional dimension of the ENP might also help, by generating political pressure to avoid ‘falling behind neighbours’ and stimulating ‘peer pressures’ among NCs.
- c) *Package effect.* The broad range of the EU’s relations with the NCs allows it to profit in negotiations from a ‘package effect’, whereas proposals would not be accepted in isolation. Something which sectoral organizations (like Bretton Woods institutions) are less capable of doing.
- d) *Growing EU influence in the region.* The EU has gradually been boosting its foreign policy ambitions, particularly in its neighbourhood.
- e) *Less ground to cover on the way to membership.* All progress made in the ENP framework would reduce future efforts to prepare for EU membership.

Second and on practical basis, the ENP offers countries a ready-made regulatory framework. For countries wishing to put in place a modern regulatory environment, adopting the EU *acquis* as a reference is likely to be easier than developing a new one from scratch.

Taking the ENP as an illustration, EU seems to offer strong political incentives to reform. That is to say, the *acquis communautaire* approach could be seen as a credible alternative to the renewed *consensus de Washington*. But part of the incentives identified above (those linked to membership and reduction of trade barriers), apply more to the eastern neighbours than to the Mediterranean ones. Maybe the EMP is not so convincing because it doesn't offer a clear perspective of integration. It's probably one of the main stakes of the new "Barcelona process: Union for the Mediterranean".

42 – Coordination of tools

At internal level: EMP, ENP, "Union pour la méditerranée",...,what else ?

The European Neighbourhood Policy progressively launched since 2003 rapidly becomes the established vehicle for cooperation with these countries across a wide policy spectrum. The ENP is a partnership for reform that offers "more for more": the more deeply a partner engages with the EU, the more fully the Union can respond, politically, economically and through financial and technical cooperation. The funding available is not there to "buy reform", but to support a reform process already agreed upon (European Commission, 2006).

According to the European Commission (2008): "the new initiative will give a new impulse to the Barcelona Process in at least three very important ways; by upgrading the political level of the EU's relationship with its Mediterranean partners, by providing more co-ownership to our multilateral relations, and by making these relations more concrete and visible through additional regional and sub-regional projects relevant for the citizens of the region". The proposed decision to hold biennial summits of Heads of Government, complemented by a broad two-year work programme and Foreign Affairs Ministerial meetings between summits sent a clear signal illustrating the willingness to bring high level politics into the Euromed cooperation. A stronger partnership needs also improved institutional governance; two proposals have received support: establishment of a co-presidency (one of the co-presidents will be from the EU, and the other from the Mediterranean partner countries) and the setting-up of a joint secretariat. The project dimension is at the heart of the "Barcelona Process: Union for the Mediterranean". The selection process will take into account: the regional or sub-regional character of proposed projects, their size and interest for partners, their potential to promote balanced and sustainable development, their financial feasibility (including private

sector participation) and finally their maturity or degree of preparedness to be rapidly launched.

All these actions are more than symbols but on the ground, changes aren't so evident and financing would appear lightly disappointing. The mobilization of additional funding, beyond the ENPI budget line and existing FEMIP tool should come mainly from the following sources: private sector participation, bilateral cooperation from EU members, contributions from Mediterranean partners, IFIs. It seems like wishes instead of steady commitments.

Theoretically, an interesting articulation is growing up with the ENP managing economic reform for non-integrating countries backed on to “*acquis communautaire* model”, and the Union for Mediterranean handling the political and project dimensions in the region. But, it would be necessary to mitigate the optimistic view of European Commission (2007): “the ENP and the Euro-Mediterranean Partnership are mutually reinforcing; the bilateral frameworks of the ENP are better suited to promoting internal reforms, while the Euromed cooperation framework provides the regional context”. Another reading is possible. ENP and its strong incentives to reform on bilateral basis could be seen as a tool for further enlargement of EU, essentially conceived for eastern countries with nominal and real economic convergence as a prerequisite (policy-driven cooperation). For MENA countries, the integration is not at stake and strict economic dimension appears of lesser value compared to political, cultural and human ones. The symbolic of the Union for Mediterranean at the highest level (co-presidency, biennial summits of Heads of government) and concrete actions (project-driven cooperation) try to reach a more cautious ambition.

At external level (European institutions and other multilateral institutions)

Section 3 strongly underlines the numerous programs and institutions acting in MENA region for policy advice purpose. This can be seen as an advantage considering the great challenges faced by this area, but it could become a major problem if coordination is lacking, with emerging potential caveats and inefficiencies.

The paradigmatic convergence among donors active in the Mediterranean is indeed an important asset for parallel programming and much needed co-financing (Phillipart, 2003). But, when some improvements are stated in macro-economic stability, significant progress

has been made towards the establishment of a Euro-Mediterranean free-trade area and while human development indicators show improvements in health conditions and overall life expectancy, where are the responsibilities? What schemes contribute more to this result: multilateral ones (WTO, IMF, WB, UN) or regional ones?

5 – Conclusion and recommendations

Concerning conclusions, it's first important to remind what is at stake in this whole complex process of Euromed partnership: a common area of peace and stability, an area of shared prosperity mainly through free trade, human resources development, better understanding between culture and exchange between civil societies.

Second, the Euromed debate is that of a political offer between strict integration and lack of concern or benign neglect. The EU has to reinforce its ability to develop an external policy complementary to enlargement that is effective in promoting transformation and reform.

Third, the EU is not acting solely in this region and others institutions develop programs and help in implementing reforms and projects. It's a matter of interactive strategy and the arising questions are: is the EU offering a credible alternative and competitive reform management process (weak cooperative game between the EU and IFIs)? Or the search of efficiency is putting forward convergence and synergy with IFIs (strong cooperative logic but loss of sovereignty for the EU)?

Concerning recommendations, we conclude:

- *project aid versus policy reform aid* ; the former aspect should become a high priority because it's not very easy to maintain durable political mobilization only with concepts, painful reforms and long term macro outcomes.

- *real partnership versus implicit conditionality*; an ambiguity or an hesitation is perceived in the Euromed dialogue, a clarification is needed about the actual nature of relationship (symmetry or asymmetry) between the EU and its neighbourhood.

- *positive conditionality versus negative one*; we need to leave the penalty-performance logic and to enter into a positive discrimination for countries going ahead at steady pace.

- *specialization and subsidiarity of institutions and processes*: macro level and policy reform for IMF/WB and regional level and institutional or structural convergence for Euromed.
- *south-south integration or cooperation* as a prerequisite or permissive condition of a real Euromed partnership.

The last words are for a non-economic question. Where is the best place or what is the best instance for political dialogue in Middle East? The setback of EMP in the first basket is a reasonable negative clue. The Union for the Mediterranean, with its higher level political involvement could offer a strengthened framework to deal with, but will it be enough? A complementary question is whether it's possible to move forward on economic goals without solving the major problem of the region.

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