



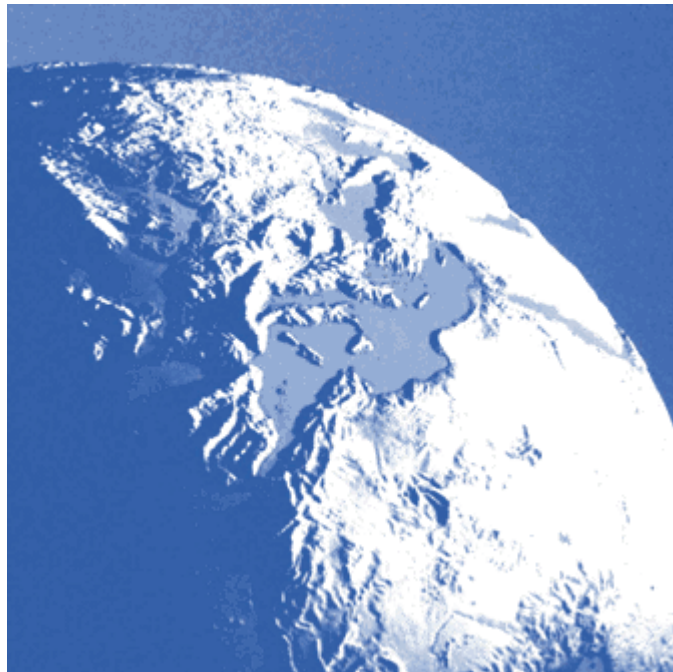
PNUE



MEDITERRANEAN COMMISSION ON SUSTAINABLE DEVELOPMENT

FINANCING AND CO-OPERATION FOR THE SUSTAINABLE
DEVELOPMENT

Outcome of the Regional Experts Workshop, Sophia Antipolis,
June 3rd and 4th, 2004: Observations and proposition tracks



Plan Bleu
Regional Activity Centre

Sophia Antipolis
June 2004

Financing and Co-operation for Sustainable Development

A MAJOR POLICY ISSUE

The **challenges** that the Mediterranean countries, most especially those of the southern- and eastern-rim and those in transition in the eastern Adriatic, will have to meet over the coming twenty years are enormous, i.e. facing up to growing job demands, fighting poverty and improving their citizens' standards of living. To meet these social and economic challenges, taking environmental considerations into account is incontrovertible, whether this means preventing increased degradations that have become extremely costly for national economies, efficiently managing scarce resources (water, soil, coastlines, etc.) that are the very basis of development or enhancing regional strong points in globalisation (regional quality, expertise, diversity, etc.). WIN/WIN scenarios (environment and development) are possible thanks to uncoupling and territorial valorisation. They can allow considerable gains much higher than the actual public aid for development (cf. MAP/Blue Plan report on environment and development). As an example, the "uncoupling" between economy and environment in the water field (better resources and demand management) would permit to avoid the construction of almost all the planned dams. Many Mediterranean territories also show that the future will be built on the capacity to create synergies and value added between heritage, tourism, agriculture and industry.

These challenges have a side that is not just national. Without reducing disparities in wealth between the two shores and a better integration of the environment into development, all **regional public goods** (stability, the quality of the Mediterranean Sea and its coastline, health and the region's exceptional biodiversity) will be ever more threatened and affected.

To meet these challenges fundamental changes are required in the **financing and co-operation mechanisms** in order to facilitate the needed orientation of actors towards win-win scenarios:

- the socio-economic development of the SEMCs,
- the uncoupling of the economy from the environment (the vital importance of looking ahead in the SEMCs, basically in the areas of water, energy, transport and coastlines, with the structuring choices still to be made for infrastructures),
- enhancing the Mediterranean's strong points in globalisation (the diversity and richness of natural and cultural heritage, the quality of the living environment; expertise, renewable energy potential; the EU's proximity, etc).

Alongside brainstorming done on the international scale, regional brainstorming, seen as a necessity by the MCSD, has been undertaken as part of a working group with the RAC/BP as a support centre. This analysis concerned all the rim-countries except France, Italy, Spain and Greece.

THE CONTRIBUTION FROM THE MCSD'S WORKING GROUP

The activity carried out has been substantiated by:

- a meeting of the steering committee on January 31st, 2003, including the representatives of the six volunteer countries and the European Commission (EuropeAid) for launching and directing the activity;
- carrying out a regional study (by Mr. George Corm) and 2 national studies (in Croatia and Morocco) which come on top of the case study on Egypt already done;

- the BP/RAC's detailed analysis of the available international data relating to financial flows (the OECD DAC's data bank);
- organising a regional workshop on June 3rd and 4th, 2004, bringing together 24 participants, i.e. experts from 4 countries and the European Commission, representatives from the 6 member countries of the group, donors and co-operation officials (MAP, EuropeAid, AFD), NGOs and financial bodies.

Surveys and the regional workshop have made it possible to establish a few observations and discussion points for the MCSD.

OBSERVATIONS

Analyses show how permanent are the major **obstacles** for passing from a non-sustainable mode to a sustainable mode of development, mainly, the insufficient **mobilisation of actors** (especially local governments and communities, the private sector and research and development institutes) and **capital** (domestic and international) for sustainable development in the Mediterranean and the **few incentives** there are **for integrating sustainable goals** into decisions of investment, funding and co-operation and for mobilising and rendering local and professional actors accountable.

1. COUNTRIES' DOMESTIC RESOURCES AND SUSTAINABLE DEVELOPMENT

Analysis of indicators and the regional report make it possible in particular to highlight the following:

- the **entrepreneurial deficit** and the **lack of innovation** in the Mediterranean economy (also existing in other developing countries, excluding southern and eastern Asian countries). This weakness owes a lot to the rent nature of the economy, i.e. exporting manpower and executives (brain-drain), the maximum exploitation of sources of rent (real estate, trade, excessive economy polarisation on mass tourism, etc.) at the expense of long-term productive activities,
- **weak fiscal resources, direct taxation and local taxation** (except in Spain, Italy and France). This is mainly the result of narrow tax bases and the widespread use of exemptions, which also have implications of the equitable distribution of the tax burden. The portion of expenditures on local officials as a percentage of total state expenses in the southern and eastern Mediterranean-rim countries is one of the lowest in the world (11% compared to world-wide average of 25%).
- the considerable amount of **emigrant remittances** (on the order of 180 billion dollars in the 1990s, to be compared to the 134 billion \$ public aid assigned from 1973 to 2002) which enable standards-of-living and consumption levels that largely pass beyond the productivity of local economies,
- a financial sector still dominated by a **banking system** that has a near-monopoly on savings in several developing countries and which has remained fairly traditional despite some progress made starting in the 1990s. This is expressed by high real interest rates, poor access by SMEs to financing, poor promotion of innovation, the difficulties in financing sustainable development costs like energy savings (that often represent immediate costs for deferred profits and call for innovative relay systems),
- the **very heavy burden of sovereignty expenses and debt servicing**. In most SEMCs, the costs devoted to civil servants' pay (11% of the GDP), interest payments (ranging from 1% of GDP in Syria to 18% of GDP in Lebanon, with the majority of countries at about 4-5% of GDP), subsidies and current transfers (6%) are greater than capital expenditures (5 to 8% of the GDP). Long-term debt (those Mediterranean countries covered by the World Bank data base) rose from 5.8 billion dollars in 1970 to 150 billion in 2000 (a very heavy burden especially in Turkey). In 2000 these countries paid 34 billion dollars to service their debt, or the equivalent of twice

the total net receipts received in the name of international finance. The region's tensions and conflicts moreover explain the sizeable portion devoted to expenditure on security and defence (between 3 and 7% of the GDP compared to a world-wide average of 2.3%).

- The **reduced available room for manoeuvre** for financing sustainable development. A very significant lack in public expenditure on research and development (0,6% of GDP in SEMCs, 1% in the eastern Adriatic, compared to a world average of 2,1%).
- **Insufficient mechanisms for incentives and taxation for sustainable development**, which is expressed in an over-exploitation of natural resources (e.g. the poor participation by tourists in maintaining the Mediterranean environment) and in the non-remuneration of the positive externalities of activities favourable to the environment (certain farming or forestry activities). An only marginally used fiscal instrument for sustainable development.
- and moreover, the **poor commitment by local and professional actors** (local governments and communities, private-sector firms, teaching establishments, etc.) for sustainable development that these weaknesses partially explain.

Despite structural weaknesses, **progress** has been registered over the past few years in all countries. For example, the following:

Tunisia has succeeded in uncoupling irrigated farming production from water consumption (cf. the findings of the MCSD/Blue Plan forum in Fiuggi). This was made possible by targeted incentives for farming (subsidies for water-saving irrigation equipment), raising prices and organising farmers (local associations).

Egypt ranks as the 6th country in the world for using natural gas in vehicles. Specific economic instruments have been implemented to this effect.

Integrated rural development programmes being tested in northern Africa (Morocco and Tunisia) with support from donors have enabled or at least hold out hope for progress in reducing poverty and fighting desertification. These programmes make local farming and livestock-raising communities accountable, seen as they are as partners and actors in development and protection (the clarification of access rights to natural resources, the regulation of usages, the implementation by communities of a part of the financial aid and support of projects by actors).

A vision of possible progress, the implementation of partnerships with local and professional actors, the implementation of innovative institutional and financial mechanisms and the continuity of action are among the keys to this success. A monitoring and evaluation system makes it possible to measure progress in time.

2. THE FLOW OF EXTERNAL RESOURCES, REGIONAL CO-OPERATION AND SUSTAINABLE DEVELOPMENT

Analysis of the total receipts net received (a total of public aid for development, other official income and direct and portfolio investments) for the Mediterranean countries (excluding EU-Med countries) from 1971 to 2001 shows:

- **increased total receipts net** (rising on average from 8 to 16 billion dollars per year between 1971 and 1980 and 1991 to 2002),
- **the Mediterranean's falling share in the world**: 8% of the total international payments from 1991 to 2002 compared to 17% from 1971 to 1980. This funding contributes less and less to economic growth (3% of the Mediterranean GDP (excluding Med-EU) compared to about 6%), and the developing Mediterranean has become the region where international financing per capita is the lowest relative to the world's other regions (just ahead of sub-Saharan Africa).
- the **relative weight of the EU (Commission, EIB and member countries**: France, Germany, Italy, ...) **and the United States**, who are the main donors with 49 and 37%

respectively of the funding received by the Mediterranean between 1991 and 2002, followed by Japan.

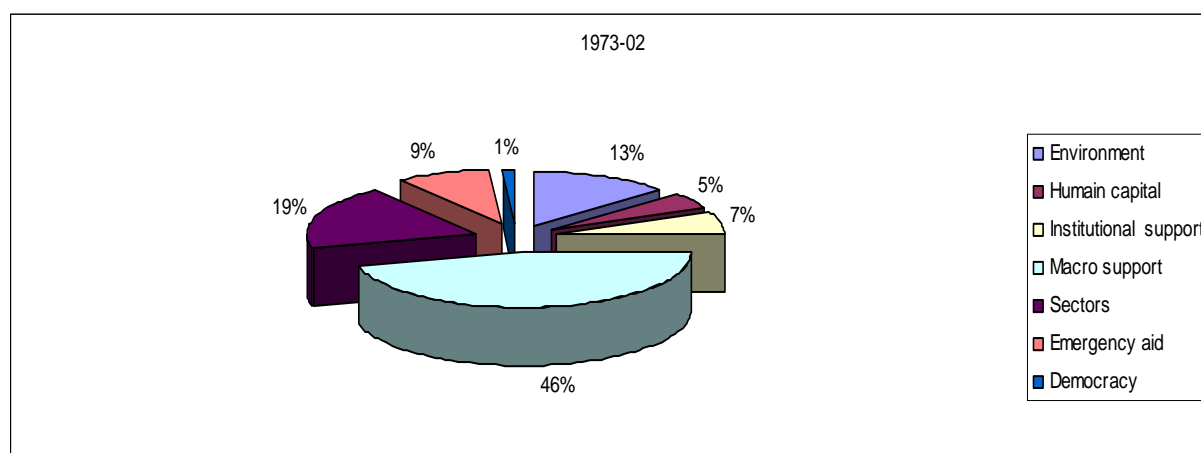
- **a major concentration of the aid and investments on a few countries.** For geo-strategic reasons, the United States sends 90% of its total financial support devoted to the Mediterranean to just three countries (Israel, Egypt and Turkey). Relatively better distributed among the countries, European aid has since the 1990s been shifted on the Balkan countries at the expense of other sub-regions.
- **Low Mediterranean attractiveness for direct foreign investment.** The region receives more public payments than private, i.e. 58% compared to a world average of 40%, and the FDIs are concentrated in only a few countries (Israel, Turkey, Egypt, Croatia and Slovenia).

Analysis of public aid from the sustainable development point of view calls for a more thorough-going analysis that can be tackled by exploiting the OECD's Development Assistance Committee (DAC) data bank. Despite certain drawbacks (lack of the paper's homogeneity, the irregularity of certain declarations particularly by the European Commission, the grouping of very different actions and occasionally questionable terminology), analysis makes it possible to get a pretty accurate idea of the public aid fields granted by the OECD countries to the Mediterranean countries between 1973 and 2002 (for a total of 134 billion dollars in that time). In particular the following information emerges:

- a strong **concentration of the ODA in a few fields:** macro-economic support (46%), emergency aid (9%) including food aid (5%), major irrigation (4%), aid for equipment imports (4%) and for a few **major projects** (1% of the projects consume 56% of ODA). Compared to the rest of the world, the relatively very large part devoted to emergency aid (humanitarian aid) these past few years and "programmes" (military aid for certain countries, i.e. Israel and Egypt) and the contrasting very small part of aid to the productive sectors (6.8% of the ODA between 1995 to 2000 compared to a world-wide average of 11%).
- the relatively high amount of **conventional sectoral aid:** energy (7.3%), water (7.7%), industry (3.5%) in particular the most polluting, transport (4.1%, fortunately including a not-insignificant portion for railroads: 41%), the financial sector, trade and telecommunications.
- **the weakness of the relative portion devoted to sustainable development.** The amount given to the "environment" (12 headings including renewable energy, research, management support, protective activities and urban development) came to 1.5% of the total, about 2 billion dollars (0,7 of which for urban development). If we add water and sanitation, forestry and fisheries, certain farming headings (education, soils and water), rail transport and rural development, we come to a total of 13%. Headings concerned with human capital (health, education, literacy, training and research) amount to a total of 5% and 1% for democracy. The sum of these three sets of headings comes to a **total of 19%**, which represents only very imperfectly what may be taken as contributing to sustainable development. Closer analysis would be required to gauge the effective contribution for sustainable development of these costs, of more conventional projects (infrastructures and industry) or of macroeconomic and institutional support.

Although the relative share devoted to the "environment" (in the broad sense) and human capital has risen over the past few years (in particular growth of the water and sanitation sectors), we must stress the still very low relative portion devoted to local integrated-development projects (rural and urban development and coastal area management), to uncoupling the economy from the environment (water and energy savings, renewable energies, collective urban transport, mobility management and biological farming) and cultural and local product enhancement. Yet these expenditures have a real strategic importance for triggering the process of sustainable development. This weakness seems to point up the difficulty of donors to shift from a major-projects rationale to an approach of major integrated-project programmes, mobilisers of local actors.

ODA and sustainable development. DAC donors



Donors and the major actors in regional and international co-operation are unevenly aware of the need to better integrate the goals of sustainable development with strategies and methods, although they refer more and more to international and regional documents and commitments that are related to it (the goals of Rio, Kyoto, the Millennium, Johannesburg and the EU's sustainable development strategy).

- The **economic reforms** undertaken upon the advice of international financial agencies and the European Union have focused much more on reducing the role of the state, liberalising trade, suppressing subventions and privatising than on improving the performance and competitiveness of local and professional actors or streamlining their relationships with the state in the success of a process of sustainable development.
- Although the **EU** is an imperfect but real example of attempts to reconcile free trade with sustainable development and maintaining regional and social cohesion (importance within the EU of the structural funds for agriculture and regional development and environmental directives), the goal of sustainable development has to date remained little integrated into the **Euro-Mediterranean Partnership**. Environmental issues in the Partnership have moreover been considered from a sub-sectoral angle (as part of the economic section), and they have been little or not at all integrated into association agreements and sectoral and economic programmes. Yet recent statements have acknowledged the need for a better integration of sustainability into the Barcelona Process, particularly a re-orientation of the SMAP in this sense. But the funds allocated to this programme are decreasing, and most of the aid earmarked for the environment have been given as part of national programmes. Moreover, the national programmes that consume most of the MEDA funds are being negotiated and managed more and more on devolved and bilateral bases (by EC delegations in each country), which does not necessarily facilitate sub-regional approaches and the indispensable strengthening of South/South co-operation.
- The better integration of sustainable development goals is also acknowledged by numerous **multilateral and bilateral donors**. The AFD, for example, is perhaps planning to shift from concentrating on "aid projects" to "aid programmes". It wants to strengthen its committed contribution in its fields of expertise by accompanying reforms (implementing reforms on water management), promoting techniques labelled "sustainable development" (direct sowing (zero tillage), renewable energies), promote FDI and encourage a coherent SME fabric (incubators, spin-offs, capital development and financial systems) and contribute to the better control of effects detrimental to the sustainable development of urban growth (transport). Although numerous donors feel that support for big-dam policies is no longer justified and that it better to urge demand-management policies, the required re-orientation of policies has been delayed in

certain countries by the call for other regional donors less concerned about integrating sustainability goals.

- One important issue for the future will be the level of awareness of the sustainable development goals in actions in the Mediterranean by the **EIB** (which is criticised by certain NGOs). These actions are going to increase strongly in the short term, rising on average from 1.2 to 2 billion euros per year, which means important opportunities for sustainable development. Of a total of 9.8 billion euros granted by the EIB between 1995 and 2003, 30% benefited the "environment" (in the broad sense suggested by the RAC/BP), i.e. large-scale water and sanitation (54% of the environmental expenditure), the protection of rivers, waste management, rail transport, wind energy, the rehabilitation of irrigation systems and funds for industrial pollution abatement and urban development (benefiting only Turkey). What must be mentioned however is the insignificant portion of renewable energies (less than 1%) of the funds devoted to energy and the modest portion of rail transport (16%) in the whole transport sector funds. Human capital (education and health) accounted for 3% of the total.
- Protecting and producing "**regional and global public goods**" in the Mediterranean, particularly the success of strategic action plans for fighting land-based pollution and for biodiversity will occur through a better mobilisation of professional and local actors and domestic and international capital.

Proposals submitted for consideration by the MCSD

- Thinking about financial and co-operative instruments for sustainable development cannot be dissociated from thinking about human, organisational and political aspects. Developing these instruments should thus be thought about depending on the **objectives** that could be set in these sustainable development strategies (the future regional strategy and national or local strategies) and by taking the diversity of national and local situations into account. In any case there is no "model" to be followed, and progress will come more from the "periphery" than the "centre". This calls for the duty to experiment and increase **partnerships** (between donors, states and local and professional actors) **that mobilise actors** (companies, professional organisations, unions, educational institutions, the media, local governments, rural communities and farmers). These partnerships are to be built according to targeted goals of sustainable development, particularly those seen as priorities on the Mediterranean-wide scale.
- To help in accelerating change, **qualitative leaps** will be necessary in co-operation procedures so as to emerge from bureaucratic habits as part of the tradition for giving centralised aid from state to state and evolve towards **more decentralised aid**, resulting in new types of partnership (e.g. the implementation of regional natural parks designed as "laboratories" for sustainable development, Agenda 21s, etc.). Pilot experiments could be done to show the legitimacy of these new bases, then made more general.
- Big changes in **taxation** and the **rationalisation of public expenditure in countries** are called for. Broadening the tax base and lowering taxation rates, suppressing exemptions, strengthening local taxation, taking the negative and positive externalities of activities into account in terms of sustainable development in fiscality, pricing resources and public subsidies are directions that should be promoted. **Specific mechanisms** (the implementation of relay financial systems and economic and institutional instruments) must be invented to reach targeted goals of sustainability (water and energy savings, clean industry, integrated rural development, urban development, the integrated management of the littoral, tourism's contribution to maintaining the Mediterranean environment, a system of equalisation between communities and cities and rural spaces, etc.) and in taking the differences in context into account. An important goal for numerous countries should be research into mechanisms enabling the passage to the formal economy of small, informal companies, which implies offering them sufficient advantages in return. Subcontracting with big companies and generalising micro-credit equations could contribute to this.

- Big changes must also be imagined and encouraged on the **regional level**.

Greater awareness of the region's major issues of sustainable development, the reasons for impediments to its implementation, current progress and the diversity of examples of good practices seems indispensable for the economic and political decision-makers of the Euro-Mediterranean Partnership. **Euro-Mediterranean ministers of the economy** and finance would gain by making it a topic of shared reflection for the possible benefit of this awareness-raising.

The new committees created in the frame of the Euro-Med partnership : Cooperation and Economic Dialogue Committees to the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and for economic dialogue (MEDA), are an opportunity to mobilise the economic ministries around a win/win solution of the sustainable development.

Monitoring progress seems indispensable and could contribute to this awareness-raising.

The **MAP** could offer to adopt and monitor a few **financial indicators** as part of future strategy as well as working out a regular compendium of examples of good practice. In liaison with group members, the BP/RAC could think about this and propose a discussion point during the regional "indicators" workshop planned for the spring of 2005. These indicators and monitoring progress over time will gain by being organised topic by topic, like the workshop organised in Fiuggi on water-demand management. This would mean, for example, continuously measuring the relative portion of international and domestic capital devoted to energy implemented for promoting the efficient use of energy and renewable energies, the obstacles to overcome and the implemented solutions.

Various **donors** should also try to ensure better measurement of efficiency in aid from the point of view of sustainable development (a growing imperative of measurability, i.e. *ex ante* and *ex post* evaluation, changes in terminology and the transmission of the data to the OECD).

- Various paths have been proposed for thinking about **strengthening action on the regional level**.

Strengthening public aid to development, designed for reaching substantial goals of sustainable development, appear indispensable for helping developing or transitioning Mediterranean countries meet the challenges confronting them. This strengthening is especially justified by the considerable international and regional public goods in play in the Mediterranean (peace and security, prosperity and environmental integrity) and by the need to supervise the implementation of the free-trade Euro-Mediterranean zone through reinforcing governance so as to reduce the possible negative impact and maintain consistency.

Joint and differentiated approaches have to be thought up and implemented especially for conserving environmental public goods (marine pollution abatement, fighting desertification, promoting biodiversity and coastal protection, etc.). Regionalised applications of the Kyoto Protocol could lead to implementing a regional mechanism for clean development.

Mechanisms for **converting debt** into research and development (to staunch brain-drain and give countries the capacity of their future development), clean technologies and development programmes for mobilising local actors and companies on both shores should be looked at. Despite their small number, the examples of the bilateral agreements reached between Morocco and France on the one hand and Spain and Morocco on the other might be cited (90 million euros in 2003 for the latter), which made it possible to convert debts into public and private local investments where French and Spanish companies would operate.

Suggested brainstorming paths to be explored would be the issuance of "Euro-Mediterranean" bonds guaranteed by the EU on the major European markets (along lines of the Brady Bonds model with their issuance facilitated by the US), setting up a "Euro-Mediterranean Fund" for sustainable development, "Mediterranean taxes" imposed on tourism and transport and the

implementation of a **regional agreement on investments** including environment and social considerations for promoting stronger mobilisation of private funds for the benefit of the region's sustainable development.

- Improved **decentralisation of financial co-operation** would be very useful. Financial twinning between towns on both shores (to enable access to credit by those on the southern shore with guarantees by those on the northern shore) could be promoted.
- **With the present organisation of the Euro-Mediterranean Partnership, a short-term priority could be to better supervise the required commitment of the EIB and MEDA for sustainable development in the Mediterranean** by taking substantial progress goals into account (win-win options), identified on the regional level (Report on environment and development in the Mediterranean and the future sustainable development strategy). Other than support for projects and programmes favourably disposed to these orientations, the goal should be to strengthen capacities in countries (implementing strategies and changing policies, especially fiscal) for surpassing the project scale and facilitating the appropriation of sustainable development by various sectoral policies and by all local and professional actors. The Euro-Mediterranean Partnership will also gain by promoting **sub-regional approaches** that contribute to promoting South-South co-operation, the insufficiency of which is one of the primary barriers to sustainable development in the region.
- **The changing EU action in the region has to be compared to its outlook of enlargement and its "neighbourhood" policies.** Although for the Balkan countries and Turkey "the European outlook" is possible, the EU is offering the other Mediterranean partners (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, Syria and Tunisia) new perspectives for **strengthening** Euro-Mediterranean integration as part of its **"new neighbour policy"**. This could be an occasion for improving governance (including environmental governance) in these countries through policies of technical aid and twinning and creating a strong message effect for the other actors. This policy could lead to reaching much more ambitious "neighbourhood agreements" than the association agreements, implying both greater financial commitment by the EU and a clear political commitment by countries for institutional reforms aimed at better mobilising actors and capital around goals of sustainable development.