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ECONOMICS TRENDS AND MEDITERRANEAN STABILITY

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Paper presented at the International Conference on "The Mediterranean: Risks and Challenges"

Rome, 27-28 November 1992

ISTITUTO AFFARI INTERNAZIONALI

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Introduction

This paper is an overview of current development issues, problems and prospects for the Southern Rim of the Mediterranean Basin as they affect the countries in the Northern Rim. From the outset, it appears clear that the situation and prospects of the two groups of countries are quite different. The countries of the Northern Rim have high average per capita income and living standards and have experienced sustained growth during 1982-89; after a slowdown since 1989, prospects are for a robust expansion to resume as of the mid-Nineties. In the Southern Rim, instead, the countries have by and large experienced an unprecedented crisis during the Eighties due to declining terms of trade, heavy population pressure, natural resources erosion and in certain cases even depletion. The Gulf War has worsened both the situation and the prospects. The widening gap between the two groups of countries makes the Mediterranean a highly vulnerable area.

The paper is made up of three sections: a) an update on development issues and prospects of the Region after the Gulf War ; b) a review of the activities of the main multilateral financial institutions operating in the Region ; c) an indi-

cation of new potential opportunities in terms of additional financial flows , possible new financing techniques and priority sectors and areas of operations .

These subjects are both very broad and quite deep. Their exhaustive treatment is not feasible within the scope of this paper . Thus, they will be dealt with in a highly selective manner. This paper's aim is not to be comprehensive but to provide the main elements for a productive discussion to help set the stage for further research and analysis of certain specific topics as well as to provide an agenda for future studies.

The Southern Rim of the Mediterranean Region after the Gulf War

Before the Gulf War, reviews of the main development issues and prospects of the Mediterranean Region in the Nineties had been provided in several documents. Of these, an interesting and perceptive study is the basic background paper put forward in the November 1990 for the Mediterranean Financial Club (1). The study's main conclusion was that a strengthened cooperation between the Southern Rim of the Mediterranean Region and the European countries in the Northern shores is required in view of : a) the complementarity of the two groups of countries and their common heritage ; b) the increasing migration , trade and financial flows ; and c) the opportunity of the most effective use of joint human , financial and natural resources . The paper supported whole-

haertedly the proposal of establishing a new multilateral financial institution for the development of the Region : this institution was seen to parallel the European Bank for Reconstruction and Development (EBRD) , which at that time was being established with the objective of helping transition of the countries of Eastern and Central Europe from a command economy to a market system.

Roughly at the same time , similar recommendations were put forward in a paper on European security across the Mediterranean (2) and in a set of regional and country studies carried out as a part of the work on the external debt of developing countries entrusted by the U.N. Secretary General to former Prime Minister of Italy, Mr. Bettino Craxi (3).

In particular , the paper on European security suggested that "the proposal for a Mediterranean Development Bank has been given further support by the establishment of the EBRD"; "more generally speaking , the various proposals now being discussed for renewed financial cooperation within the Mediterranean countries are influenced by the concern to prevent a Mediterranean perception that is competing with Eastern Europe for European development funds". The paper also stressed that "a diversion of multilateral funds towards the East would actually be detrimental to European security in the Mediterranean. So would any perception that" the Eastern European countries might be accorded preferential treatment" (over the Mediterranean countries).

The country and regional studies carried out in support of Mr. Craxi's U.N. assignment emphasized the need for closer financial cooperation between the Southern and the Northern Rim of the Mediterranean Basin . Specifically , the report put forward by Mr. Craxi to the U.N. General Assembly (4) reached the following conclusions for the Region : "debt and development in Mediterranean Africa are a problem of common concern for Europe and Africa. A Regional Development Bank able to operate on the pattern of the Inter- American Development Bank and of the Overseas Co-operation Fund of Japan seems indispensable for channelling towards those countries new financial resources for infrastructural investments and for supporting productive investments by means of insurance guarantees and co-financing." The document gives considerable attention to the need for "new and innovative financing" geared to the Mediterranean countries' prospects and potential.

The case for a strengthened and extended financial cooperation takes into account that for many years to come, it would be difficult to expand exports from the countries of the Southern Rim toward the Northern Rim of the Mediterranean Region: especially in the areas of citrus fruits, agricultural processed goods, textiles and light manufactures, existing European Economic Community trade barriers, especially non- tariff barriers, are likely to be removed very gradually, even on the assumption that the ongoing "Uruguay Round" of multilateral trade negotiations would have a favourable

outcome. Similarly, for the time being only a slow and gradual improvement in the terms of trade can be foreseen because most forecasts project a steady decline of real term prices for oil, phosphates as well as for the main semi-manufactures and manufactures produced in the Southern Rim.

Are these indications , suggestions and proposals still valid after the Gulf War? This is a key question to address because the War has had several implications on the politics and on the economics of the region. Now, two years after the War, these ramifications can be analyzed in their salient quantitative terms.

First of all , the Gulf War has vividly shown how fragile is the equilibrium in the area and how disequilibria and conflicts in the Mediterranean Basin , North Africa , the Middle East and the Red Sea cannot but have world wide implications particularly acute for Western Europe. This has , no doubt, further strengthened the case for cooperation as well as for innovation , especially in the financial field.

Secondly ,the Gulf War has changed the economic prospects of individual countries , specifically in terms of their progress in the reform strategies initiated in the mid- Eighties. Among the many studies carried out of the situation and prospects in the area after the Gulf War , four are particularly stimulating and provocative as they offer different and to a certain extent diverging views of the impact of the War on the area.

Of these studies, two were carried out immediately after the conclusion of the War and the other two more recently. An analysis conducted by Wharton Econometric Forecasting Associates - WEFA (5) pointed out that the picture seemed to appear brighter than it was in 1990. The export revenue profiles had improved, especially for the oil producers (Algeria, Libya, Egypt); there had been a relaxation of import restriction which had made for a better business environment as compared with the pre-War period; the external debt situation had become much lighter not only for Egypt, the main beneficiary of a major multilateral debt relief initiative, but also for Morocco and for Algeria.

Another study is the research paper by the Fintesa studi Paese (6), a Milan-based think tank promoted by the Italian Banking Association to monitor "country risk" in the developing world: it purports an additional external finance inflow may result from the aftermath of the Gulf War but this may slowdown the structural adjustment process started in the mid-Eighties under the auspices of the International Monetary Fund and of the World Bank. In the medium and longer term, this would cause further difficulties for the comparatively more populated and lower income countries of the Region.

Whilst the WEFA paper specifically indicated that the Gulf War has not lessened the need for new multilateral financial instruments, the Fintesa document concluded that "a close multilateral coordination of Arab and Western development

support , and in particular of EEC assistance, appears to be the most effective instrument to help economic reforms and economic liberalization in several countries of the Region ".

More recent analysis is provided in the World Bank and UNCTAD 1992 Annual Reports (7), both published in the Fall of this year. The World Bank summarizes the current situation and prospects as follows: "In 1991, economic development in the countries of the Region were largely shaped by the Gulf crisis. Beyond, the physical destruction inflicted upon the countries directly involved, other countries were hurt by trade disruption , a fall in tourist receipts, reduced aid flows (for some), and a return home of the migrant workers from the Gulf". The World Bank also indicates that long term development challenges are becoming more acute, especially in terms of unemployment and natural resources management. UNCTAD emphasizes the "environmental damage inflicted" by the Gulf War, "the millions of refugees and displaced persons", the weakened banking's system, the halt to tourism, the "shortages of basic consumer goods", "the diversion of funds to new purchases of arms", the acceleration of inflation. Briefly, the World Bank and UNCTAD mid-1992 documents provide a much less optimistic outlook than that depicted by WEFA and Fintesa in the Spring- Summer 1992.

In the major countries of the Southern Rim of the Mediterranean Region , the salient features are as follows (8) :

a) Algeria . In spite of severe domestic difficulties , the

Government has been pursuing a liberalization policy of the country's external sector as shown ,inter alia, by the decision to facilitate joint ventures and to allow private savings in international currencies. In 1991, real GDP growth was positive as compared with a 2.3% decline in 1990, revenue from petroleum exports increased and the current accounts registered a considerable surplus. The 1992 Financial Law set out further measures to reform the economy such as a simplification of the tariff structure and an overhaul of the tax system. At the same time, restructuring of public enterprises and of banking was initiated. Although there are many political uncertainties on the future of the country, if Algeria continue to pursue structural reforms and if the petroleum prices do not fall any further, Algeria ought to be able to increase real growth and employment in the not too distant future.

b) Cyprus is in the process of transition to meet the challenge of the impending unification of the European Community. The Government's policy is addressed to the needs of increasing competitiveness within the Single European Market and places emphasis on diversifying the economic base, fostering exports and protect environment, especially the country's coastal waters.

c) Egypt has been the beneficiary of a major debt reduction operation which has cut by nearly 50% her annual debt service obligations to official institutions of creditor coun-

tries. In parallel with this development, overall economic and financial prospects in general are improving due to the increase in foreign reserve holdings by the central bank and a strengthened export outlook. The background to these developments is the comprehensive adjustment programme being carried out since 1990. The World Bank states that performance under the programme has been more favourable than anticipated in terms of both output growth and prices increases. Public finances remain weak with an overall deficit of 20% of GDP and unemployment rate is extremely high. The challenge to policy makers is to accelerate the pace of reform, establish firmly the credibility of the programme and to elicit a supply and employment response.

d) Libya has benefitted from the increase in oil prices as well from a strengthened and improved relationship with Algeria and Tunisia . In parallel with these developments , the process of economic liberalization has progressed on the pace and schedule set in late 1988.

e) Malta is continuing to develop an off-shore business center capability and to free foreign trade. This is being facilitated by the upgrading of infrastructure (an avant-garde telecommunication network , a new power station , water desalinisation plants , and a new international airport)

f) Morocco The country has suffered from the decline in tourism due to the Gulf War: the decline in receipts has been nearly 25%. Also , due to the economic transformation in

Eastern Europe, world demand for Morocco's phosphate weakened considerably. In 1991, the negative impact of these developments was partly mitigated by record cereal harvest, a major inflow of external assistance and good exports of agro-industrial products and manufactures. In 1992, however, a severe drought is having a negative impact on overall growth and is depressing fiscal revenue, thus raising the budget deficit above the targets originally established in the Financial Law in agreement with the international financial institutions.

g) Tunisia was also adversely affected by the Gulf crisis: foreign exchange earning from tourism decreased by 33% and other exports dropped as a result of the disruption of trade within the area in the first quarter of 1991. In addition, the country might suffer from a reduction in U.S. assistance due to her apparent pro-Iraq's stand during the Gulf War. However, this is likely to be partly off-set by expanded European financial support. More significant than these external developments is the pace of domestic reform. The tax system has been made more efficient and equitable. The liberalization of trade and financial system are actively being pursued.

h) Turkey The new Government, installed in November 1991, inherited a public sector deficit equivalent to 13% of GDP and a 70% annual inflation rate - two heavy legacies accentuated by the aftermath of the Gulf War. The external current account, however, shifted into surplus at the end of 1991 as

a result of i) a sharp slowdown in economic activity and the receipt of special external grants as well as ii) the export sector's success in finding new markets for its goods and services to replace those that had been lost in the Middle East because of the Gulf crisis. The Government has put forward a policy of accelerated reform and privatization of public enterprises and of curtailment of the budget deficit.

All in all , these country specific highlights confirm the view that in the major countries of Southern Mediterranean Region economic adjustment and reform programs are rather firmly underway . These programs have the broad objective not only to restore fiscal balances and external equilibria but also and more importantly to bring the domestic structure of production in line with the international structure of production.

Nonetheless , even though development prospects might have improved , the countries will continue to be adversely affected by severe population pressure , rapid demographic growth and acute unemployment : a recent study contends that for unemployment to remain at the present staggering high average rate of about 20% of the labour force , GDP rates in the modern sector should approximate 12.2 % p.a. in Algeria , 8.8% p.a. in Tunisia , 12.7% p.a. in Morocco and 11.0 % p.a. in Egypt (9). As a comparison, during 1965-89 , the annual GDP growth rates registered in Algeria , Tunisia , Morocco and Egypt have respectively averaged 2.5% , 3.3% , 2.3% and

4.2%.

The migration flows stemming from rapid demographic growth and the increasing unemployment are causing heavy pressures on the labour markets of the countries of the Northern Rim of the Mediterranean Region, especially of France, Italy, Portugal and Spain. In these countries, the unemployment rate already exceed 10% of the labour force; since the mid-Eighties, the relevant Governments have been groping with proactive policies to create jobs, to promote the employment of youngsters and to absorb long-term unemployed (10).

Furthermore, the pressure on natural resources is causing severe environment degradation with implications for the entire Mediterranean Region, especially in the area of water management.

Thus, the real challenge for development and for development finance is how to address the employment and the environment issues in the countries of the Southern Rim of the Mediterranean Basin.

Facing the challenge would be a more difficult task in the Nineties than it has been in the Eighties. In the next years to come, in fact, the "pull factor" from the countries of the Northern Rim of the Basin is likely to be much weaker than it was during 1982-89 because prospects are for a gradual and sluggish recovery after the slowdown in 1989-92. Recent OECD projections are that France, Greece, Italy, Portugal and Spain will grow only by some 2 - 2.5% p.a. in the mid-Nineties and at a not much faster rate thereafter. This group of

countries will struggle with severe domestic problems of financial and structural adjustment, high interest and low saving rates as well as acute unemployment.

Thus, the Southern Rim would most likely need to rely only or primarily on its own domestic policies and on international finance to address the employment and natural resources issues referred to above.

Multilateral development finance in the Southern Mediterranean Basin - Issues and prospects

In 1990, the flow of long-term public and publicly guaranteed external capital to the countries of the Southern Mediterranean Basin reached nearly \$ 10 billion, whilst official development assistance was less than \$ 3 billion and private non guaranteed external capital flows barely touched \$ 200 million (11). The bulk of capital market borrowing - viz. nearly two third of the total - was carried out by Algerian public sector institutions (nearly \$ 3.5 billion) predominantly for the industrial field, whereas over half of the private non guaranteed external capital flows was channeled to Egypt, mostly in manufacturing and in the tourism sector.

The World Bank and the International Monetary Fund - the Bretton Woods institutions - account for nearly two third of the multilateral funds devoted to the Southern Rim of the Mediterranean Basin; thus, their policies and practices colour very heavily multilateral development lending to the countries under review. The other main sources of multilate-

ral finance to the Region are , in this order, the European Investment Bank , the African Development Bank and Fund , the International Fund for Agricultural Development and the Arab multilateral development institutions (namely, the Islamic Development Bank, the OPEC Special Fund and the Arab Fund of Economic and Social Development) . They help shape projects , especially in certain specific fields (viz. environment, rural development , multicountry initiatives) ; as a consequence, they play a useful but not a critical role in overall external financing to the Region (12).

Furthermore, there is a rather clear- cut distinction of roles and functions between the International Monetary Fund and the World Bank multilateral financing , on the one hand , and development finance from the other multilateral sources , on the other : the Bretton Woods institutions give priority to financial stabilization and structural adjustment and place a very strong policy emphasis on both overall strategies and individual lending operations whilst the other multilateral agencies are essentially geared to the support of individual projects mostly on the basis of their financial , technical and micro-economic merit rather than on their policy concern.

The importance given to policy formation and implementation is depicted in the latest World Bank annual report on the July 1991- June 1992 activities. The period marked a turning point from development lending for structural and sectoral

adjustment to project specific lending with a high employment and environment content as well as to operations aimed at lessening the cost of structural adjustment on low income groups. The individual operations, however, have a very strong policy focus, closely related to structural and sectoral adjustment lending in the second half of the Eighties (13).

This appears also quite clearly from the analysis of the single most important long term program developed by the World Bank as a joint venture with the European Investment Bank : "The environment program for the Mediterranean" (14). The areas of interest of the two institutions differ somewhat : the World Bank is more active in addressing water, land and rural management issues through a broad range of agricultural and forestry projects , whilst the European Investment Bank has lent primarily for water management and pollution control . More significant than these differences of emphasis in lending operations is the fact that leadership in policy dialogue and institution building (and related regulatory , tariff and pollution compensation issues) is de facto entrusted to the World Bank with the European Investment Bank having a secondary , if not an outright subsidiary , role.

In the countries of the Southern Rim of the Mediterranean Region , the International Fund for Agricultural Development has attempted to have a well- defined policy function in the field of addressing small farmers' needs and priorities . Certain success cases are reported (15) , but overall lending

has been so small that it has not had any noticeable impact on the key development issues and prospects of the Region. Similar comments can be made on the African Development Bank and Fund financing (16) and on Arab multilateral fund support : the former have placed emphasis on directly productive projects , mostly in cash crops and manufacturing, and the latter on operations with regional relevance and dimension (17).

Financial stabilization and structural adjustment lending , on the one hand , and project financing , on the other, are, no doubt , two complementary activities to be closely intertwined and fine-tuned with one another for efficient and effective positive impact on the recipient country(ies) . Also , in terms of policy analysis skills, few places in the world equal the four blocks in Washington D.C. where the World Bank and the International Monetary Fund work side-by-side (18). The key question is not whether a stronger distinction should be envisaged between the functions of the Bretton Woods institutions and those of the other multilateral financial organizations operating in the area , but whether the resulting mix of multilateral policy and project financing is adequately addressing the employment issue . As we have seen, this is the central development issue for the countries of both the Southern and the Northern Rim of the Mediterranean Region , also on account of the migration pressure and flows it generates (19). A related question is

whether under present decision making arrangements such an employment issue can be given sufficient attention by the policy making bodies of the relevant multilateral institutions.

It is difficult , if not outright impossible , to find the hard evidence required to provide a definite and a definitive answer to these questions.

Let us tackle the latter in the first place. France, Greece, Italy, Portugal and Spain command , together , about 10% of the voting power in the International Monetary Fund and in the International Bank for Reconstruction and Development , less than 7% of the voting power in the African Development Bank and about 20% of the voting power in the International Development Association and in the African Development Fund. Algeria , Cyprus, Egypt , Libya, Malta, Morocco, Tunisia and Turkey overall voting power is some 2% of the total in the International Bank for Reconstruction and Development and about 16% of the total in the African Development Bank. Even if the countries of the Northern and the Southern shores of the Western Mediterranean Basin were to join forces and votes on every single issue, in the Bretton Woods institutions they would total less than 10% of the aggregate voting power and in the African Development Fund they would represent only some 25% of the total voting power (20). Thus, their influence on the overall policies of these multilateral institutions would be only a minor one.

As depicted in this previous section of this paper ,

structural adjustment has been the thrust of the policies , strategies and programs promoted by the Bretton Woods institutions in the Mediterranean Basin. On the policy side , the European Investment Bank , the African Development Bank and Fund and the International Fund for Agricultural Development have followed suit on the path set by the World Bank and the International Monetary Fund. Therefore, the central issue is the role of employment promotion in structural adjustment .

On the basis of experience in the Eighties and of available comparative and monographic studies, it is possible to draw the main elements of structural adjustment programs in the Region as follows (21):

a) an increase in tax revenue together with control over public expenditures as as to contain public sector deficits and aggregate domestic demand as well as to slowdown inflation;

b) the implementation of measures to bring the exchange rate in line with that representative of the scarcity of foreign exchange so as to promote exports and open up the domestic economy to the international system ;

c) the revision of prices and other incentives so as to promote a supply side response and increase output of internationally tradeable goods and services;

d) the introduction of measures to increase effectiveness and efficiency of public and private investment and consumption so as to make the entire domestic economy more

competitive internationally.

In the Mediterranean Basin , structural adjustment programs have had short term costs in terms of income distribution and services to the lower income groups . Furthermore , recent studies have shed doubts on the effectiveness of major exchange rate adjustment (22). In any event , employment growth has not been the primary focus of structural adjustment policies , strategies and programs . On the contrary , a slowdown in employment expansion has often been accounted among the short term costs of the adjustment process . Whilst such a slowdown may be easily absorbed in other developing countries, it has very severe implications in the Southern Mediterranean Region where ,as indicated , unemployment rates are already staggering (23).

Neither does employment seem to be one of the main concerns of project micro-analysis . A thorough examination of this subject would go well beyond the scope of this paper and would require a detailed research based on the ex-ante appraisal reports and the ex-post performance audit and evaluation studies. However, some impressions can be drawn from a recent research on ex-post evaluation carried out for the Italian Ministry of Foreign Affairs (24) as well from a sample of World Bank projects in the industrial and public enterprises sectors in the Mediterranean Basin (25) . Both of them do indicate that, even though official development assistance can be a very powerful tool to promote jobs and reduce migration (26), employment creation has not been one

of the main criteria for project development : unit capital costs for job established and / or maintained under the projects are very high , little effort has been made in shadow pricing labor in the project's economic analysis , only limited attention has been given to intermediate technologies with high employment content , seldom the employment externalities and linkages are examined and taken into account as a part of the project development process and cycle.

In view of the centrality of the employment issue as well of its dramatic ramifications in terms of migration pressures on the Northern Rim of the Mediterranean Basin, there is clearly a double major challenge (27) :

a) on the one hand , at the macro level , employment growth must be explicitly set among the objective of structural adjustment and related multilateral finance

b) on the other hand , at the micro level , employment must become one of key criteria for project review, appraisal and selection.

These may require revisions in the operational policies and practices of existing multilateral financial institutions or the establishment of a new multilateral financial institution especially designed to meet these challenges.

It is important to clarify that in the area of natural resources policy formation and project design and analysis the problem is not so severe because, over the years, the international financial institutions have fine tuned their

methologies so as to develop techniques and procedures to develop programs and projects consistent with both growth and environment (28).

The employment challenge and multilateral finance

To meet the employment challenge, two orders of revisions are required in the operational policies and practices of multilateral financial institutions : a) at the macro- level of the analysis and definition of structural adjustment programs ; b) at the micro- level of project development and analysis.

To set employment growth among the priority objectives of structural adjustment , the way structural adjustment programs are currently worked out may need to be changed quite drastically. In a stylized manner , it can be said that structural adjustment programs are now defined on the basis of the savings and investments necessary to restore domestic and external financial equilibria , within a specified time span , in view of the overall external resources likely to be made available to the country on the basis of its export and commercial borrowing potential as well as of its attractiveness for concessionary finance (28). Similarly to the proposals made by David Knox for structural adjustment and debt reduction in Latin America (29) , this approach must be reversed : structural adjustment plans should be devised and assessed on the basis of their capacity to create and maintain productive employment and , consequently , the plans judged

credible and feasible should be supported even by allowing "conciliatory defaults" (30) - viz. default on foreign obligations without sanction in terms of new finance. Such an approach would reduce the most apparent social costs of adjustment (31). It would also and primarily be in the self-interest of the countries of the Northern Rim of the Region because it would tantamount help stem migration pressures.

At the level of project design, the following measures should be taken to mirror the significance of employment in the social welfare function as explicitly set in the macro-economic structural adjustment analysis : a) to shadow price accurately unskilled labor at the various stages project development by providing a weight in line with the employment objective (32) ; b) to identify as specifically as possible externalities and linkages in terms of employment generations; c) to establish project selection criteria which would help chose the projects with highest employment potential among those individually eligible for support on the basis of microeconomic analysis.

In short, the aim should be to give priority to public and private investments that have both high rates of return and strong employment content either directly or through externalities and linkages. This may imply a change in priority sectors and in technologies. Agriculture, environment, conservation and protection of antiquities and historical sites, light manufacturing (mechanical, textile, certain branches of the chemical industry) appear to be the most

promising sectors . In terms of technology , many lessons can be learned from employment generation programs carried out in the Eighties in France , Greece, Italy , Spain and Portugal to fight long- term unemployment and youth unemployment (33) ; these programs have attempted to combine training in modern technologies (mostly electronics) with self-employment through new ventures often on a cooperative basis.

Also , special emphasis ought to be given^V to employment creating initiatives promoted by the private sector which is now playing an increasing role in development , as stressed in the most recent report by the International Finance Corporation (34). In this vein , it is useful to recall that foreign legislation in many OECD countries in general and of the EEC countries in particular provides for financial assistance to joint ventures (35) . This could encourage renewed activities by the banking community ; financing of joint ventures through the international banking system could be a very powerful tool to channel worker's remittances (36) and ease the repatriation of flight capital , especially if it is combined with the application of new financing techniques such as the BTO and the BOO schemes (37) and by the issue of commodity bonds (38).

For these changes to be possible a clear-cut condition is a better focused and more defined policy of the countries of the Northern Rim towards the countries of the Southern Rim of the Region .

There has been very little European Community's Mediterranean strategy , in spite of the historical tradition and trade , financial and human flows and of the joint interest in protecting non renewable resources and the environment : the agreements now in force between the Community and the countries of the Southern Rim call for free access of Mediterranean manufactures to the European markets, preferences for certain agricultural products , financial contribution from EEC institutions , incentives for private investments as well as for general regulation for the increasing migration flows (39). Specific provisions differ from one agreement to the other : the individual agreements do not aim at setting an organic framework such as that established with the Associate countries of Africa, the Pacific and the Caribbean. At the conclusions of a recent review , even a senior EEC official had to admit that the "Community's Mediterranean policy" is " not functioning satisfactorily" (40). However , this should and most likely will change in pace with the definition of a common European Community policy towards the developing countries , now due for the early Nineties.

It is an open question whether a well- focussed and well-defined European Community strategy or , alternatively, a joint effort and action by the France , Greece, Italy , Portugal and Spain could stir the existing multilateral financial institutions in a direction which would give due weight to the employment (and migration) issue in macro-

policy and micro- project analysis . It is also an open question whether the establishment of a new institution is the appropriate answer. Both questions deserve a more detailed scrutiny than it has been possible so far. On the one hand, the limited role of played by the countries of the Region in the existing financial institutions does not augur well for the policy and project revision proposed in this paper. On the other , the establishment of a new institution is a long - drawn out affair with evident costs and still not very clear benefits : the former relate to new management , staff and administrative expenditures and the latter to the time and likelihood required to develop its own culture, policy , procedures and expertise. The difficulties reportedly associated to the establishment of the EBRD have made less attractive the proposals of those who , just a few months ago , set forth blueprints for an analogous institution for the Mediterranean Basin.

An agenda for research in support of such a study should include : a) a review of employment implications of structural adjustment in the countries of the Southern Rim of the Region ; b) a detailed analysis of employment ramifications of multilateral project- specific lending in terms of permanent and temporary jobs created , their unit costs , their externalities and linkages ; c) a study of the role of the countries of the Mediterranean Basin in the governing and managerial bodies of the main multilateral financial insti-

tutions: and d) alternative proposals for a possible new institutions with attendant capital and operating costs and identification of the possible relevant advantages.

1) See Kessler V. "L'avenir economique mediterraneen: élément de réflexion- Rapport introductif" Forum Mediterranéen - Rencontres d'Aix en Provence pour la création du club financier mediterraneen , 23-24 Novembre 1990. For a more recent comprehensive analysis see Istituto Affari Internazionali "I Paesi della Sponda Sud del Mediteraneo e la Politica Europea - Ricerca CeMISS 15E" Istituto Affari Internazionali, Roma 1992 (processed).

2) See Aliboni B. "European security across the Mediterranean" Chaillot Papers, Institute for Security Studies - Western European Union , Paris March 1991

3) See Triulzi U. "Il problema del debito per alcuni Paesi dell'area del Nord Africa e del Medio Oriente" Rome , February 1990 (processed)

4) See United Nations General Assembly "External debt crisis and development" Report n. 4/45/380 New York 1990. For an analysis of the Craxi's report and of related relevant issues, see G. Pennisi and G. Scanni "Debito , crisi e sviluppo" Venezia, Marsilio 1991

5) See Habid E. "Post-war outlook: oil, Opec and the world economy" Rome , Istituto Affari Internazionali , April 1991 (processed)

6) See Zallio F. "Riforme economiche e aiuti comunitari nei Pvs del Mediterraneo" Milano , Fintesa studi Paese , April 1991 , published in English translation in "The International Spectator" n. 2 April - May 1991

7) See The World Bank "Annual Report, 1992" Washington D.C., 1992 and UNCTAD "Trade and Development Report, 1992", Geneva, 1992.

8) This analysis is based essentially on World Bank , International Monetary Fund and Economist Intelligence Unit country studies as well as on WEFA country profiles . A good summary of World Bank country study is the annual report "Trends in developing economies" Washington D.C. various years. Excellent country profiles appear in the quarterly "CFM - Mediterranee Developpement" published in Paris by the Mediterranean Financial Club.

9) See Tassinari F. and Tassinari G. "Implicazioni economiche dello sviluppo demografico" in Livi Bacci M. and Martuzzi Veronesi F. (editors) "Le risorse umane nel Mediterraneo - Popolazione e società al crocevia tra Nord e Sud", Bologna, Il Mulino 1990. See also L. Di Comité and E. Moretti "Demografia e Flussi Migratori nel Bacino Mediterraneo" Roma, Nuova Italia Scientifica, 1992.

10) For an effective overview and summary, see J. Charmes "Migration internationale pour l'emploi - Les politiques de promotion de l'emploi dans les Pays du Bassin Méditerranéen", Bureau International du Travail, Genève 1992.

11) Data computed from The World Bank "World development report 1992" Washington D.C. 1992

12) See for a review Chevallier A. and Kessler V. "Croissance et insertion internationale du Maghreb" in "Le Maghreb : 9 les années de transition" Paris, Masson 1990 and Khader B. "Les investissements de la CEE dans le Maghreb: bilan et perspective" Louvain-La-Neuve, CERMAC 1991. A good recent study is H. Regnault "Entre Mondialisation et Internationalisation Regionalisée des Economies: Vers un Co-Developpement en Méditerranée", Club Financier Méditerranéen, Paris 1992 (processed).

13) See The World Bank "Annual Report 1992" Washington D.C. 1992

14) See The World Bank and the European Investment Bank "The environmental program for the Mediterranean - Preserving a shared heritage and managing a common resource" Washington D.C. 1990

15) See International Fund for Agricultural Development "Annual Report"(s), Rome various years. A particular successful multicountry scheme promoted by the Fund is the screw-worm fly eradication program; for a summary description, see "The Economist" June 22-28, 1991

16) See African Development Bank "Annual Report"(s) Abidjan, various years

17) See Khader B. "Arab money to the West" report to the Arab League, 1986

18) From the standpoint of the analytical needs of Central and Southern America for policy formation, a similar view is expressed in Knox D. "Latin American Debt: facing the facts" Oxford, Oxford International Institute, 1990.

19) See Appleyard R. "Les migrations internationales et les

pays en voie de développement" in OCDE "L'incidence des migrations internationales sur les pays en développement", Paris 1989 , Gomel G. and Rebecchini G. "Flussi migratori in Europa : recenti andamenti, prospettive , indicazioni di politica economica" Roma , Banca d'Italia 1991 ; Livi Bacci L. and Martuzzi Veronesi F.(editors) "Le risorse umane nel Mediterraneo - Popolazione e società al crocevia tra Nord e Sud" Bologna , Il Mulino 1990; F. Oulalou "International aid to offset the ban on immigration to Europe" World Employment Programme Working Paper, ILO , Geneva 1992; and L. De Comité and E. Moretti "Demografia e Flussi Migratori nel Bacino del Mediterraneo", Roma, La Nuova Italia Scientifica, 1992.

20) For details, see World Bank and African Development Bank/Fund 1990 "Annual Report"(s). A useful review of lending terms and operating policies and practices of the main multilateral development finance institutions is in Istituto per la Cooperazione Economica Internazionale e Problemi dello Sviluppo (ICEPS) "Progetto di proposta di creazione di una istituzione finanziaria internazionale per il Mediterraneo" Roma , 1990.

21) See Corbo V. (ed.) "Growth oriented adjustment programs" Washington D.C. The World Bank 1989 ; Balassa B. "Quantative appraisal of adjustment lending" , Washington D.C. The World Bank 1988 ; Khan K. "The macro-economic effects of Fund supported adjustment programs: an empirical assessment" Washington D.C. , International Monetary Fund 1988

22) See Edwards S. "Real exchange rate, devaluation and adjustment: exchange rate policy in developing countries" Cambridge Mass, The M.I.T. Press 1989 ; Faini R. and De Melo J. "Adjustment , investment and real exchange rate in developing countries" Washington D.C. , The World Bank 1990

23) In Algeria the open rate of unemployment has increased in the second half of the Eighties and now approaches 25%. In Egypt unemployment in 1990 was estimated at some 20% of the work force after an expansion during 1986-89 when GDP growth rate was lower than that of population. In Morocco too, unemployment has increased during the years of the adjustment process to reach a rate of about 20% . In Egypt and Tunisia , unemployment was very little in the early Eighties but has gradually crept up to 15% of the labor force.

24) See D. Fanciullacci , C. Guelfi and G. Pennisi (editors) "Valutare lo sviluppo - Metodi tecniche e procedure di valutazione retrospettiva dei progetti" Milano , F. Angeli 1991

25) In particular , the industrial- restructuring project in Algeria and the public enterprises reform program in Tunisia, both approved by the World Bank in FY 1990.

26) See, for a very perceptive analysis, C. Kuptsch and B. Herman "Two essays on using ODA to reduce migration" World Employment Programme Working Paper , ILO 1992.

27) I have elaborated on these points in G. Pennisi "Sviluppo e occupazione" in R. Aliboni (ed.) L'Europa tra Est e Sud: sicurezza e cooperazione Milano, F. Angeli 1992.

28) For a rather comprehensive, albeit slightly out- of - date bibliography, see CLES "Metodologie, tecniche e procedure operative di analisi economica di programmi che integrano produzione ed ambiente", Roma 1990 (processed)

29) See The World Bank "Adjustment lending : ten years of experience " Washington D.C. 1989

30) See Knox D. "Latin American debt: facing the facts" Oxford, Oxford International Institute 1990

31) See Kaletsky A. "The cost of default", New York , Twentieth Century Fund 1985

32) See International Monetary Fund "The implications of Fund- supported adjustment programs on poverty groups" Washington D.C. 1987 and Cornia A., Jolly R. and Stewart F. "Adjustment with human face" Oxford, Oxford University Press 1987

33) For a recent critical restatement of social cost benefit analysis, see Boeri T. "Beyond the rule of the thumb- Methods for evaluating public investment projects " Boulder, Westview Press 1991

34) They are periodically reviewed in the annual OECD "Employment Outlook" Paris , various years and in EEC Commission documents . For a comparative analysis , see G. Pennisi "Il problema della disoccupazione giovanile nel Mezzogiorno : note di riflessione " Roma, Ministero del Lavoro e della Previdenza Sociale 1991 (processed).

35) See International Finance Corporation "Trends in private investment in developing countries 1991-92q1" Washington D.C. 1992

36) See OECD "Development Cooperation - Report 1990" Paris 1990 . Particularly interesting the Italian legislation , see ICEPS "Legge 26 febbraio 1987 n.49 - La nuova disciplina della cooperazione dell'Italia con i Paesi in via di sviluppo" Roma , 1991

37) In 1990 , workers' remittances to the countries of the Southern Rim of the Region were estimated at about \$ 8 bil-

lion. In a now out-of-date study , I have reviewed various schemes to attract workers' remittances and channel them to productive activities with a high employment content; see Pennisi G. "Migration , manpower and development in the Red Sea Region - The case for cooperation " Hamburg , Deutches Orient Institut , 1980.

38) BTO stands build , transfer , operate . BOO means build, own , operate. Both imply management by foreign entrepreneurs and financing through commercial banking with the advantage of adding technical and managerial know-how to the supply of funds.

39) See Abbate F. "Prospects for financial resources flows to African countries: the role of new financial instruments" Geneva , UNCTAD 1987 (processed)

40) See Pennisi G. "The south and its relations with Europe" in "The International Spectator" n. 4 , October - December 1990 , Khader B. "Les investissements de la CEE dans les Pays du Maghreb - Bilan et perspective" Louvain- La - Neuve , C.E.R.M.A.C. 1991 , and Bersani G. (ed.) "La prospettiva euro- mediterranea- Per una cooperazione globale nella regione del Mediterraneo" Bologna , CEFA 1988

41) See Rhein E. "Bilan de la politique méditerranéenne de la Communauté (1975- 1988) - Document de travail des services de la Commission " Roma , Aspen Institute Italia , 1989, E. van der Linden "Europe and the Mediterranean- Past, Present and Future Relations between the European Community and its Mediterranean Neighbours" in Nato's Sixteen Nations, April 1992, and Commissione delle Comunità Europee "Comunicazione della Commissione al Consiglio ed al Parlamento Europeo- La Politica di Cooperazione allo Sviluppo all'Orizzonte 2000" Bruxelles, 1992.

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Human resources Indicators for the Middle East and North Africa

Country	Population		illiterate adult population		Life expectancy at birth		Infant mortality rate (during the first year of life per 1000 births)	
	average annual growth rate (percent)		(percent)		(in years)			
	70-79	80-89	Total	Women	1975	1990	1975	1990
Algeria	3,1	3,0	43	55	56	65	120	67
Baharain	4,8	4,3	23	31	65	69	50	32
Egypt	2,1	2,5	52	66	53	60	138	66
Iran	3,2	3,6	46	57	58	63	116	88
Iraq	3,6	3,6	40	51	60	63	88	66
Jordan	3,7	3,8	20	30	59	67	80a	51
Kuwait	6,4	4,5	27	33	69	74	38	14
Lebanon	1,0	0,0	20	27	65	66	48	46
Lybia	4,3	4,1	36	50	55	62	111	74
Morocco	2,4	2,6	51	62	55	62	115	67
Oman	4,1	4,7	n.d.	n.d.	51	66	121	33
Quatar	9,0	5,0	24b	28	64	70	50	28
Saudia Arabia	4,9	4,8	38	52	56	65	108	65
Syria	3,4	3,6	36	49	59	66	75	43
Tunisia	2,2	2,4	35	44	58	67	101	44
United Arab Emirates	17,2	4,7	n.d.	n.d.	65	72	46	23
(UEM)								
Yemen	2,7	3,1	62	74	44	49	160	124
All middle income countries	2,3c	2,0	22	27	n.d.	66	n.d.	48

n.a. indicator not available

a 1977

b 1985

c 1965-80

Table 1 - Population, Active Population and Working Population Characteristics
in the Countries of the Mediterranean Basin

Country	Population in mid-1988 (millions)	Annual Growth rate 1980-88	Active populations (millions) 1985	Annual Growth rate	Unemployed population (thousands)
Morocco	24,0	2,7	6,7	3,2	842
Algeria	23,8	3,1	4,8	3,8	1200
Tunisia	7,8	2,5	2,2	3,1	320
Egypt	50,2	2,6	12,8	2,9	2011
Turkey	57,01 ¹	2,3	21,3	2,1	2130
Greece	10,0	0,5	3,8	0,4	292
Yugoslavia	23,6	0,7	10,5	0,7	1.228
Italy	57,4	0,2	22,8	0,5	2.865
France	55,6 ¹	0,4	24,6	0,6	2.600
Spain	39,0	0,5	14,7	1,0	2.420

Table 1 - Population, Active Population and Working Population Characteristics
in the Countries of the Mediterranean Basin

Country	Unemploy- ment rate	partici- pation	Women's Partici- pation Rate	Jobs to be created per year (in thousands)	Annual job creation (in thousands)	additional numbers of unemployed (in thousands)
Morocco	12,0	31,8	10,8	214	167	47
Algeria	22,7	22,8	3,5	180	110	70
Tunisia	16,8	32,8	12,6	69	45	24
Egypt	14,0	27,7	4,7	328		
Turkey	10,1	43,3	30,4			
Greece	7,7	38,2	19,5			
Yugoslavia	14,1	45,4	33,4			
Italy	11,3	40,5	23,6			
France	10,3	45,8	33,8	150	100	50
Spain	16,3	49,0	32,8	240	320	-80

Sources: Active Population: World Employment Report, ILO, 1990
Unemployed Population: National sources, latest available figures
Job creation: SIMED national reports; for France, "Emploi: le retard français", *Le Monde*, 26.02.91.

1. 1990 census results

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n° Inv. 12392
3 DIC. 1992

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