



This action is funded by the European Union

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ANNEX I

of the Commission Implementing Decision on the Annual Action Programme 2017– Part 1 in favour of ENI South countries

Action Document for support to economic governance and reforms in the Southern Neighbourhood

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012), in the following section concerning grants awarded directly without a call for proposals: 5.3.1.

1. Title/basic act/ CRIS number	Support to economic governance and reforms in the Southern Neighbourhood CRIS number: ENI/2017/040-459 financed under the European Neighbourhood Instrument	
2. Zone benefiting from the action/location	The action shall be carried out at the following location: Neighbourhood South countries (Algeria, Egypt, Israel ¹ , Jordan, Lebanon, Libya, Morocco, Palestine ² , Tunisia and Syria ³).	
3. Programming document	Programming of the European Neighbourhood Instrument (ENI) - 2014-2020. Regional South Strategy Paper (2014-2020) and Multiannual Indicative Programme (2014-2017)	
4. Sector of concentration/ thematic area	Building a partnership for inclusive and sustainable economic development	DEV. Aid: YES
5. Amounts	Total estimated cost: EUR 33 million	

¹ See Guidelines on the eligibility of Israeli entities and their activities in the territories occupied by Israel since June 1967 for grants, prizes and financial instruments funded by the EU from 2014 onwards on http://eurlex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2013.205.01.0009.01.ENG.

² This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

³ Co-operation with the Government of Syria suspended since 2011.

concerned	<p>Total amount of EU budget contribution: EUR 8 million</p> <p>This action is co-financed by IMF, other donors and beneficiary countries for an indicative amount of EUR 25 million.</p> <p>Budget line: 22.04.01.02</p>			
6. Aid modality(ies) and implementation modality(ies)	<p>Project Modality</p> <p>Direct management:</p> <p>Grants – direct award</p> <p>Procurements of services</p>			
7 a) DAC code(s)	<p>15111 Public finance management</p> <p>32130 Small and medium-sized enterprise (SME) development</p> <p>24010 Financial policy</p>			
b) Main Delivery Channel	<p>43 000 – International Monetary Fund (IMF)</p> <p>50 000 – Other</p>			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	Not applicable			
10. SDGs	Main SDG Goal no 8 "Decent Work and Economic Growth"			

SUMMARY

The **overall objective** of this action, building on the results of existing programmes, is to promote economic governance and reforms that are conducive to sustainable economic growth, enhanced public and private sector investments, development of small and medium-sized enterprises, job creation and inclusiveness in the Southern Mediterranean partner countries, through two interventions:

Component 1: Support to economic reforms and macroeconomic management through the IMF Middle East Technical Centre (METAC). This component is designed to help partner countries and economic institutions in the region to prepare, implement and monitor sound macro-economic policies aiming to achieve higher sustainable and inclusive growth, while reducing vulnerabilities.

Component 2: Support to an enabling business environment for Micro, Small and Medium Enterprises (MSME) development and financial inclusion

This component is designed to contribute to an enabling business environment for MSME development and for their financial inclusion, in line with best European approaches and international best practices, in view of the important potential of MSMEs for job creation.

1 CONTEXT

1.1 Sector/ Regional context

Component 1 – Support to economic reforms and macroeconomic management through METAC

The deteriorating economic situation and the challenging political security context combined with a stagnating global economy has reduced economic growth and strained the availability of public financial resource in most Southern Mediterranean partner countries as well as their access to international financial resources. In addition, dislocations due to the refugee crisis have impacted the human, financial and institutional capacity in many countries in the region. For host countries, the large movements of refugees have entailed high fiscal costs and strained their domestic absorption capacity.

Mitigating the economic costs of conflicts and the refugee crisis, and fostering growth and inclusiveness in the region require deep macroeconomic and structural reforms, and assistance for capacity development. This would be equally beneficial to host communities as well as refugees, in line with the 'win-win' approach promoted by the EU Compacts (e.g. Lebanon, Jordan). The promotion of public reforms and efficiency and better targeting of scarce public financial resources should help to put the public finance of partner countries on a sustainable path, to attract further international and domestic investments and restore higher growth.

METAC (the Middle East Regional Technical Assistance Centre of the International Monetary Fund - IMF) was created to enhance co-ordination and support among development partners to promote effective implementation of economic governance initiatives within the Middle East North Africa (MENA) countries. The centre was established in Beirut in 2004, to initially serve ten countries/territories in the Middle East⁴. In 2016, at the suggestion of the EU, METAC extended its operations to Morocco, Algeria, and Tunisia.

⁴ Egypt, Jordan, Lebanon, Libya, Palestine, Syria, Sudan, Yemen, Irak and Afghanistan.

The current phase of METAC (phase IV, 2017-2021) is financed by contributions from Germany, France, the Netherlands, the IMF, Kuwait, Lebanon and beneficiary countries. The EU also participated in previous phases.

A regional initiative supported by the international community is best suited to complement existing EU actions at bilateral level, to finance specialised technical expertise to support the design and implementation of complex public governance reforms; to leverage common policy dialogue amongst donors and partner countries and to the exchange of best-practices on economic management policies and reforms within the specificity and common challenges of the region.

Component 2 – Support to an enabling business environment for MSME development and financial inclusion

Micro, small and medium-sized enterprises (MSMEs) are widely recognised as engines of economic growth and key contributors to sustainable gross domestic product. In the Southern Neighbourhood countries they account for approximately 90% of private enterprises in the region, contributing from 40% to 80% to GDP and from 40% to 75% to total employment. The estimated 6 million MSMEs in the Southern Neighbourhood (not taking into account the informal sector) have an important potential for job creation, both for unskilled and skilled labour, as they are often engaged in activities with high labour and low capital intensity such as services, construction, transport and light manufacturing.

However, their potential remains largely untapped and they do not contribute their full share to sustainable growth.

One important constraint for MSME expansion in the Southern Neighbourhood region is inadequate access to finance. While the financial and banking sectors in the region are relatively large, credit is mostly channelled to governments and a limited number of large firms, leaving the bulk of enterprises with little or no access to finance. The reasons for such exclusion differ from one country to another but are mainly a combination of deficiencies in the financial infrastructure (lack of credit information bureaus and collateral registries), the regulatory framework, absence of regulations on delivery channels to reach out to underserved MSMEs, or insufficient financial literacy and institutional lack of know-how.⁵ As a consequence, financial institutions have little confidence in evaluating the creditworthiness of MSMEs, which reduces their willingness to lend. They rely on collateral (almost exclusively real estate) at unduly high levels, which excludes many potential borrowers.

To support MSMEs development and job creation, most governments in the Southern Neighbourhood have put increased emphasis on an enabling business environment. Despite political and economic turmoil, work on SME policy elaboration and implementation is ongoing across the region. However, progress has been modest, incremental and uneven across economies, with gaps in important policy dimensions, such as financial inclusion.

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A survey undertaken by the World Bank, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) shows that a significant share of small firms are disconnected from the banking sector since they lack financial expertise and the capacity to deal with financial institutions. Small companies often do not have the capacity to develop credible business plans, nor to present audited accounts to the banks.

Countries less exposed to political and economic shocks (such as Morocco, Algeria and Israel) have advanced well on SME policies, while in countries more directly affected by political and economic instability (such as Egypt, Tunisia and Jordan), policy performance has largely remained stagnant. Although key SME institutions have continued to operate and most SME support programmes have remained active without major budget reductions, the new initiatives and the elaboration of strategies have been put on hold. Lebanon and Palestine registered advances in several dimensions, largely due to improvements in the institutional framework and the contribution of specialised institutions (in areas such as SME financing, incubation and provision of services to SMEs), often supported by international donors. As to financial inclusion⁶, while some of the Southern partner countries are taking steps to move financial inclusion up their reform agenda (e.g. Morocco and Egypt) there has not yet been a high level commitment to financial inclusion across the region and a lot remains to be done in terms of policy framework.

This regional action will therefore work on an enabling environment for MSME development with a focus on financial inclusion, particularly for micro, very small and small enterprises, and stimulate sector policy dialogue and peer learning based on the different country experiences. It will deepen past EU regional action and be implemented in complementarity with the important ongoing bilateral programmes.

1.1.1 EU Policy Framework

The actions proposed under this Action Document are joint priorities for co-operation as called for by **different Joint Communications** of the European Commission and of the High Representative of the EU for Foreign Affairs and Security Policy⁷. “The Review of the European Neighbourhood Policy” has identified inclusive economic development and employment creation, in particular for the youth, as one of the three priority pillars in the strong mutual interest of the EU and Southern Mediterranean partner countries. **The European Neighbourhood Policy (ENP) review explicitly puts economic and social development** at the heart of the EU contribution to stabilising the neighbourhood and building partnerships. It is calling on partner countries to support the **adoption of policies** conducive to stronger, sustainable and more inclusive economic growth, facilitating business and investment partnerships; promoting market access and trade development, developing MSMEs, and fostering employment. It also underlined the key role of a balanced macroeconomic framework and good economic governance for stabilisation and as a precondition for growth.

The proposed actions are in line with the Foreign Affairs Council Conclusions of December 2014 on the AMICI initiative⁸, which has as objective to increase European and international collaboration in support to **reforms that will enable new investment opportunities and accelerate economic growth** in the Southern Mediterranean Countries.

⁶ Financial Inclusion means that "individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way", <http://www.worldbank.org/en/topic/financialinclusion/overview>.

⁷ COM JOIN(2015)500 final of 18 November 2015 "Review of the European Neighbourhood Policy" and COM (2016)385 final of 7 June 2016 on "Establishing a new Partnership framework with third countries under the European Agenda on Migration.

⁸ See Council conclusions at www.consilium.europa.eu/en/workarea/downloadasset.aspx?id=40802190973

Attention to the business environment has been an EU priority for almost ten years and is embedded in the **Small Business Act (SBA)**⁹. Adopted by the EU in 2008, the Small Business Act for Europe recognises the central role of MSMEs in the economy and guides the development of a comprehensive policy framework, structured around ten operational dimensions. The SBA was also set to guide Euro-Mediterranean co-operation on SME development. Support for implementing the SBA principles in Southern Neighbourhood countries is thus included in the work programme of the **Euro-MED Industrial Co-operation Working Party** - the regional sector platform which brings together SME ministries and business representatives and aims at implementing priorities of the Union for the Mediterranean's (UfM) **Ministerial meeting on industrial co-operation**.

One key principle of the SBA refers to access to finance and the policy measures required to remove obstacles to MSME finance. To respond to that and other above mentioned concerns, the EU and the European Financial Institutions (EIB, European Bank for Reconstruction and Development (EBRD), KfW and AFD) have jointly created the "**EU Initiative for Financial Inclusion**". This initiative was launched in 2016 with the aim to facilitate and expand access to finance for MSMEs and start-ups, in order to enhance job creation and contribute to economic growth in countries in the region, focusing in particular on women and young entrepreneurs as well as MSMEs operating outside of the main urban areas. The initiative, which mobilises funding of up to EUR 1.2 billion and aims at reaching up to 200,000 MSMEs in the region, will benefit from the policy work and sector dialogue established under this action.

In addition, links to the **External Investment Plan (EIP)** will be established, where relevant. The EIP encourages new partnerships with additional international financial institutions and Member States development banks, in view of widening the range of instruments available (e.g. seed capital, microfinance, crowdfunding, etc.) and improving the outreach towards MSMEs.

1.1.2 Stakeholder analysis

Component 1 – Support to economic reforms and macroeconomic management through METAC

METAC has long-standing experience and expertise to help member countries in implementing reform measures needed to achieve higher and more inclusive economic growth.

The main stakeholders for this component are the governments of the partner countries (Lebanon, Jordan, Palestine, Egypt, Libya, Morocco, Algeria and Tunisia) and their respective ministries (finance, planning etc) which design, implement and monitor macroeconomic and public administration reforms. The final beneficiaries are the citizens of these countries that will benefit from improved governance, sustainable growth and improved public services delivery.

Component 2 – Support to an enabling business environment for MSME development and financial inclusion

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<http://www.eubusiness.com/topics/social/sme/sba>

Main stakeholders will be SBA co-ordinators; the Working Party on Euro-Mediterranean Industrial Co-operation; relevant ministries on industrial co-operation or SMEs as well as Business Support Organisations.

Target groups for capacity building are in particular policy makers in charge of developing the business environment for MSMEs and implementing the SBA principles. Other stakeholders are those who advocate for a more enabling business environment and transmit information to decision-makers concerning SMEs reforms needed, help create the climate for action or facilitate it directly. This group is composed of representatives of business intermediaries, private sectors associations, including women and youth associations, member of the civil society, including academia and media, among others.

For financial inclusion, stakeholders are ministries dealing with access to finance policies (Ministries of Industry/SME development, Ministries of Finance), as well as Central banks, international and local banking and non-banking financial institutions and private sector representatives. Final beneficiaries are MSMEs, with a particular emphasis on micro and small companies, female and young entrepreneurs, or enterprises located in less served areas (e.g. outside urban areas).

1.1.3 Priority areas for support/problem analysis

Component 1 – Support to economic reforms and macroeconomic management through METAC

METAC provides support to member countries strengthening their institutional and human capacity to design and implement macroeconomic and financial policies that promote growth in a sustainable and inclusive manner. This includes the mobilisation of expertise and technical assistance (TA) that will facilitate the strengthening of domestic resources mobilisation and the efficiency of public administration and fiscal institutions, fostering financial stability, enhancing monitoring of the impact of policies and statistics gathering, thus helping member countries make steady progress towards the Sustainable Development Goals.

The METAC program for **Phase IV (2017-2020)** focuses on the implementation of the following key activities and priorities:

- **Fiscal reform and consolidation continue to be a priority for METAC countries.** The three main priorities in the fiscal sector are to enhance basic Public Finance Management (PFM), mobilise revenue, tax and custom administrations reform. In particular, revenue mobilisation is critical to provide governments with enough resources to invest in inclusive projects and public infrastructure as well as to eventually reduce aid dependency and increase the private sector on economic development policies.
- **Technical Assistance (TA) will be offered to METAC countries to modernise their macro-economic institutional set-up and legal systems.** Capacity building and training will be provided to ensure that reforms implemented in the different macroeconomic sectors are legally robust and fit in with the countries' broader legal context.
- **Financial sector development and strengthening banking supervision,** to different degrees, are needed in most of METAC countries. METAC will

continue to assist member countries in strengthening their financial systems and provide TA in other related banking areas, such as building supervisors capacity in Islamic banking and developing/improving a credit registry system (CRS) that will reduce credit costs. METAC will assist countries in the implementation of Basel II, and in moving supervision from a compliance-based to a risk-based approach.

- **Strengthening macroeconomic statistics** is essential for macroeconomic analysis and policy making. Building statistical capacity in the region to produce sound and timely statistics remains a top priority for many member countries. During Phase IV, METAC will cover the following areas: (i) national accounts (NA); (ii) price indices; and (iii) balance of payments statistics.
- Finally, METAC will organise **regional workshops** to share best practice experience, in collaboration with METAC countries' national agencies and the donor community, on areas of common interest for the region (eg inclusive economic policies, Public Finance Management (PFM), revenue administration, central banking supervision and macroeconomic statistics, macro-finance management in fragile countries).

Component 2 – Support to an enabling business environment for MSME development and financial inclusion

Regional action in this field aims to support: the sector dialogue on MSME reforms of the Working party for industrial co-operation, the capacity of SBA co-ordinators and related stakeholders for preparing and implementing reforms, the implementation of the Small Business Act, the sharing of best practice on policies related to MSME finance, and visibility and co-operation with the "EU Initiative for Financial Inclusion" as regards available MSME finance instruments.

While previous EU support has covered all 10 dimensions of the Small Business Act, future support will have a particular focus on financial inclusion and cover fewer priority areas, such as:

- **Institutional and regulatory framework for SME policy making**, including inter-institutional co-ordination, legislative and administrative simplification; taking into consideration the needs of small business; and inclusive and effective public private consultations..
- **Operational environment for business creation** including the simplification of regulations to reduce costs and procedures for starting an enterprise; and the use of e-government tools to facilitate company registration.
- **Internationalisation of SMEs** including policies and instruments in Mediterranean partner countries which support trade, business and investment linkages of their SMEs..
- **Access to finance/financial inclusion policies** Across the region, no harmonised policy framework on financial inclusion is in place. Morocco is the most advanced country, with ongoing work for a national strategy on financial inclusion to develop a more inclusive and diversified financial sector. Egypt is also undertaking reforms to improve the environment for

business creation and to facilitate access to finance for SMEs. In this context, the key challenge is how the EU can help policy makers and financial institutions to facilitate access to finance for MSMEs. EU support aims at enhancing the policy and regulatory framework whilst supporting the development of effective financial and non-financial tools adapted to MSMEs, with a particular emphasis on micro and small companies lead by female and young entrepreneurs or MSMEs located in less served areas (e.g. outside urban areas). Actions in this context will help to enhance the impact of the "EU Initiative for Financial Inclusion."

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Political instability preventing a regional focus on economic reforms and sound economic governance, development, drop of business climate index, reduced growth, increase in public debt and limited fiscal space.	Moderate to high	Maintain regular and intense high-level political and economic dialogue at regional (eg UfM) and national levels.
Limited involvement of stakeholders and uneven interest from public authorities	Moderate	Reinforce dialogue with stakeholders targeted in the different project activities and ensure their implication from the early stage of the design
Limited inclusiveness of new initiatives aiming to boost employment at national level	Moderate	Involvement of policy makers and key stakeholders from an early stage of design into new initiatives aiming to increase the efficiency of economic governance, supportive of private sector development and job creation. Sharing of best practice, replication of success stories and strong visibility measures of success stories
Limited capacity of actors (authorities and social partners) at local level. Local stakeholders are usually neglected in formulating their needs in relation to national authorities.	Moderate	Design more targeted / effective – development policies and instruments benefitting local actors, including for access to finance, with the aim to enhance territorial cohesion and inclusiveness.
Assumptions		
Policy makers in the region are looking for policy reforms and co-operation strategies to increase economic development and inclusiveness, to tackle pervasive high unemployment.		
Partner countries will contribute with their own resources to implement policies and ensure sustainability and durability to the respective proposed actions by making available the necessary human, financial and material resources.		
Partner countries and private sector stakeholders are willing to co-operate within the region and with the EU and the international community to adopt modern policies and institutional frameworks, tools and instruments.		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Component 1 – Support to economic reforms and macroeconomic management through METAC

An independent evaluation on activities carried by METAC Phase III (May 2010-April 2015) was undertaken in September 2014. It concluded that METAC was successful in delivering results and contributing to building public capacity in its beneficiary countries to support more sustainable macroeconomic management policies, in difficult circumstances, for the MENA region. Evaluators noted the rapid availability of expertise to partner countries and important improvements in the effectiveness of delivering METAC TA operations, including the introduction of results-based management, the development of a Field Manual for METAC operations, the extension of the Steering Committee (SC) representation to all beneficiary countries, an improved IMF TA dissemination policy, and the increasing use of the METAC's website as a means for sharing information.

Nevertheless, areas of improvement for the new METAC phase include: (i) the development of medium-term country strategies for METAC member countries to plan for the delivery of country priority activities; (ii) closer co-ordination and complementarity should be sought in the future with related assistance provided from other donors – in particular with PFM and budget support operations being provided by the EU; and (iii) enhanced co-ordination and forum of discussion between partner countries and the donor community to pursue policy dialogue and support to reform through the annual Steering Committee.

Component 2 – Support to an enabling business environment for MSME development and financial inclusion

The ongoing regional programme "Enhancement of the Business Environment in the Southern Mediterranean (EBESM) is providing technical expertise and capacity strengthening to targeted public and private stakeholders, in particular the SBA co-ordinators, and is coming to an end in 2017. Additionally, the programme aims at raising awareness and strengthening the policy dialogue around MSMEs development issues, in particular to give greater attention to MSMEs as creators of employment.

An evaluation on the current programme activities was carried out in early 2017. Its conclusions confirm the relevance of the work and the importance to further support the implementation by the MED partner countries of the key principles of the SBA, such as those related to the institutional and regulatory framework for SME policy making and on the operational environment for business creation, in particular the extent to which public administrations have developed instruments to simplify regulations and reduce costs and procedures for starting a business. However, the evaluation recommends a more targeted use of resources, focus on fewer topics, improved follow-up to actions implemented at country level through targeted technical assistance, and enhanced experience-sharing at regional level to better exploit the North-South, South-South framework for exchange.

Since the EU Initiative for Financial Inclusion was launched only in 2016, there is no evaluation yet. However, some of the facilities covered by the initiative have been

monitored (via ROM) and show that they have addressed issues critical to MSMEs such as lack of available funding, an inappropriate environment and a need to diversify the local financial tools.

3.2 Complementarity, synergy and donor co-ordination

Activities under Component 1 will be closely co-ordinated with relevant assistance provided by the EU and other donors – having regard of the multi-donor nature of METAC IV programme. The annual Steering Committee of METAC will be the occasion to pursue common policy dialogue with beneficiary countries, review progress and ensure complementarity with EU support programmes– in particular with public administration reform/PFM and budget support operations as well as twinning projects in countries like Tunisia, Jordan and Morocco. Complementarity will also be ensured with the programme in *Support for Improvement in Governance and Management (SIGMA)*, a joint initiative of the European Union (EU) and the Organisation for Economic Co-operation and Development (OECD). SIGMA contributes to strengthen public administrations in the Neighbourhood countries to align with the good governance principles of transparency, accountability, responsiveness and participation and provide quality policy outcomes supporting socio-economic development. The activities of METAC on macroeconomic statistics will also be co-ordinated with the EU MED-Statistics IV programme.

The value added of regional action under Component 1 lies in having access to IMF specialised expertise for all Southern Neighbourhood countries and in enhanced donor co-ordination.

Component 2 will be implemented in close co-operation with the EU Delegations which have already been consulted on the proposed activities. This co-operation and co-ordination will be ensured in the context of bilateral programmes addressing the business environment (e.g. in Algeria and Jordan) as well as other bilateral action on SME development and access to finance (e.g. in Egypt, Lebanon, Morocco and Palestine)¹⁰. In case of sector budget support programmes with relevant SME policy conditionalities, special attention will be given to a good articulation between regional and bilateral interventions.

Activities related to financial inclusion will be complementary to the "EU Initiative for Financial Inclusion" for the Southern Neighbourhood countries which provides financial instruments in co-operation with European Finance Institutions (EFIs) mainly via local commercial banks. Close co-ordination with EFIs will be ensured. They will target the policy level by strengthening the dialogue on financial inclusion and by enhancing the regulatory framework related to MSMEs access to finance. In addition, actions also aim at promoting alternative financial mechanisms and

¹⁰. E.g: "Programme d'appui à l'amélioration de la diversification industrielle et du climat des affaires en Algérie (PADICA).
"Promoting Inclusive Economic Growth" and " EU Facility for Inclusive Growth and Job Creation" in Egypt.
"EU Support to the Private Sector Development" in Jordan.
"Programme d'appui à la croissance et la compétitivité au Maroc" (PACC).
"Initiative Régionale d'appui au développement économique durable en Tunisie" (IRADA).
"EU Private Sector Development Programme (PSD" in Lebanon.
"The Palestine Market Development Programme (PMDP", Start-up Incubator programme, and the European Palestinian Credit Guarantee Foundation.

instruments from non-banking financial institutions which can respond more flexibly to the actual needs of the MSMEs.

The value added of regional action under Component 2 lies in establishing a shared understanding of relevant MSME reforms and a coherent implementation across all countries. It also supports the external dimension of internal EU policies by promoting the implementation of the Small Business Act in partner countries.

Activities carried out in the regional context will systematically intend to bring benefits to partner countries (e.g in the form of sharing of experiences and best practices), and provide value-added to projects/programmes funded by bilateral resources.

3.3 Cross-cutting issues

Equal opportunity and gender mainstreaming: Inequalities in the participation of women in business and the labour market are registered in the whole region, together with other significant differences such as substantial wage gap between men and women and the lack of entrepreneurial opportunities. Unemployment generally affects women more than men in all age groups, particularly as regards long-term unemployment. The growing educational level of women in the region has often not translated into improved market access. The action will address equal opportunity and gender mainstreaming in several ways: in particular Component 1 will support policies promoting more inclusive economic development and access of women to economic functions in the public administration and private sectors; Component 2 will support an enabling business environment that is more attentive to the participation of women and the youth in the creation of new enterprises, including by promoting specific financial instruments.

Migration/protection of vulnerable groups: Among the key actions, the ENP review suggests greater EU involvement in fostering regional co-operation between neighbouring countries facing common challenges such as security and migration. Stronger links with the diaspora, legislative bodies and local economic actors, such as business, trade unions and social partners were highlighted as key in fostering self-reliance for the forcibly displaced, and for progressively integrating migrants and returnees.¹¹ The issue of migration will be integrated into the design of more inclusive economic policies and expenditure frameworks under Component 1 as well as under Component 2 to promote MSME development, access to finance and employment, that would help to integrate refugees whenever possible under the respective national legal framework.

Engagement with civil society: public-private policy dialogue and civil society engagement are very important for the success of this project, in particular for youth employment and employability. Component 1 will support transparency and public consultation when undertaking economic and institutional reforms and Component 2 will seek to involve private sector in legal/administrative forms to enhance the business environment in an effective manner as well as to facilitate access to finance.

¹¹ https://eeas.europa.eu/topics/european-neighbourhood-policy-enp_en

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of this action is to promote economic governance and reforms that are conducive to sustainable economic growth, enhanced public and private sector investments, SME development, job creation and inclusiveness in the Southern Mediterranean partner countries.

Two complementary components will be supported with the following **specific objectives**:

(i) Support to macroeconomic management and institutional capacity building.

This component has as specific objective to help member countries strengthen institutional and human capacity to design and implement macroeconomic and financial policies that promote growth in a sustainable and inclusive manner.

(ii) Support Mediterranean partner country authorities in establishing an enabling business environment for MSME development and financial inclusion.

This component has as specific objective to contribute to an enabling business environment in line with best European approaches and international best practices, for MSMEs development and their financial inclusion for MSMEs, in view of their important potential for job creation.

The expected results related to the **objective (i)** are:

- An integrated budget planning and management process that effectively links policies to public resource allocation, and further develop treasury systems, including government banking arrangements, commitment controls and financial management information systems;
- Real improvements in revenue performance are achieved through enhancing strategic focus and optimising the allocation and development of resources and systems, taxpayer compliance is increased through enhanced transparency and governance procedures;
- More risk-oriented banking supervisory and a regulatory framework is achieved that enhances financial stability and support long-term capacity building to efficiently supervise, monitor and assess the soundness of the banking system and reduce financial sector vulnerabilities;
- Compliance with international standards is improved for the compilation of external statistics and government reporting on national accounts and the impact of macro-economic policies.

The expected results related to **objective (ii)** are:

- Selected aspects of MSME development policies and regulations are better adapted to small business needs and contribute to a more conducive business environment for MSMEs;
- Administrative simplification and regulatory impact analysis are promoted as a permanent element of SME policy making and the private sector is associated to all phases of policy-making, from elaboration to implementation and monitoring.

- Selected aspects of MSME finance policies and instruments, notably concerning alternative financial mechanisms are better adapted and contribute to a broader and easier access to finance for MSMEs;
- MSMEs representatives and relevant stakeholders know about existing MSME initiatives and available instruments through a regional platform.

4.2 Main activities

Component 1 – Support to economic reforms and macroeconomic management through METAC

Activities under this component, at regional and sub-regional level, will encompass the organisation of workshops, annual conferences, short term technical assistance, training of policy makers, information and results dissemination activities, assessment of economic policy frameworks and institutions, design of economic policies and its implementation, including institutional and legal set-ups, studies and preparation of guidelines conducive to policy reforms inclusive of sustainability and socially inclusive impact aspects.

Component 2 – Support to an enabling business environment for MSME development and financial inclusion

For the enabling business environment the main activities are (i) conduction and production of relevant studies, in particular in relation to the work programme of the Working Party on industrial co-operation; (ii) delivery of training and TA for SBA co-ordinators to build up their capacities in improving the business climate, co-ordinate with relevant ministries, and advocate for MSMEs; (iii) development of good practice databases and relevant associated tools (e.g. web portal) and instruments in support to MSMEs (in terms of training, advisory services, financing schemes, etc.); and (iv) creation of a regional co-ordination platform, as a one stop-shop for MSME initiatives, including relevant EU programmes, to the benefit of stakeholders (SBA co-ordinator, ministries, representatives of central banks, local financial institutions, EFIs and project managers of EU funded projects related to private sector). Activities will also aim at spurring entrepreneurship including women entrepreneurship.

For financial inclusion, main activities will include assessment of existing policies and regulations related to mechanisms and instruments supporting financial inclusion for MSMEs in order to identify constraints (e.g. regulatory, institutional) for the use of alternative financial mechanisms and instruments (e.g. micro-finance, leasing, factoring) targeted at MSMEs. Activities will furthermore support formulation of more efficient policies and regulations as well as recommendations which will feed into the sector policy dialogue at regional level.

Other activities will be collection of more detailed information from European Financial Institutions (EFIs) in the context of the EU Initiative for Financial Inclusion, (e.g. amounts and conditions of credit lines, sectors and types/profiles of MSMEs, objectives and activities of loans to MSMEs) to ensure a good articulation of the initiative with local market conditions. This can also provide useful information to local stakeholders about available instruments and help the Commission and EFIs in identifying needs for future support to MSMEs finance.

Communication and visibility activities will focus on rolling out of the visibility of the EU Initiative for Financial Inclusion by establishing a joint EU brand.

4.3 Intervention logic

Component 1 – Support to economic reforms and macroeconomic management through METAC

This component, following a comparable Commission contribution to a previous phase, will be implemented through a direct grant to IMF to contribute jointly with other donors to the financing of the METAC IV programme. It is based on past experience but with an enlarged geographic scope (extension of METAC coverage to the Maghreb).

Component 2 – Support to an enabling business environment for MSME development and financial inclusion

This component proposes an approach that will focus on MSME development and access to finance at the policy and regulatory level. Work and studies already carried out in the context of the Enhancement of the Business Environment in the Southern Mediterranean (EBESM) project will be taken into account and be further deepened, especially on financial inclusion.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner countries, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in sections 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this Decision and the relevant contracts and agreements; such amendments to this Decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 *Grant: direct award (direct management) - Component 1 – Support to economic reforms and macroeconomic management through METAC*

(a) Objectives of the grant, fields of intervention, priorities and expected results

The objective of the grant to METAC (Phase IV) is to assist Southern Neighbourhood countries, jointly with other donors, to strengthen their institutional and human capacity to design and implement macroeconomic and financial policies that promote growth in a sustainable and inclusive manner.

The fields of intervention and expected results are the following:

(1) Public Finance Management

Establish an integrated budget planning and management process that effectively links policies to public resource allocation, and further develop treasury systems, including government banking arrangements, commitment controls and financial management information systems.

(2) Revenue Administration

Achieve real improvements in revenue performance through enhancing strategic focus and optimising the allocation and development of resources and systems, and increase taxpayer compliance through enhanced transparency and governance procedures.

(3) Banking Supervision

Achieve a more risk-oriented banking supervisory and a regulatory framework that enhances financial stability; and support long-term capacity building to efficiently supervise, monitor and assess the soundness of the banking system and reduce financial sector vulnerabilities.

(4) Macroeconomic statistics

Improving compliance with international standards for the compilation of external statistics and government reporting on national accounts and the impact of macro-economic policies.

(b) Justification of a direct grant

The METAC programme is a multi-donor platform managed by the IMF which has strong competences in the areas of intervention pursued by this component of the action programme, e.g. public finance management, fiscal/ revenue administration, macro-economic management, central banking supervision, macroeconomic statistics. Moreover, the EU participation in METAC will promote donor coordination and scaling-up of resources to mobilise adequate expertise in highly specialised areas.

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the IMF – which is responsible of the management of the METAC activities.

Under the responsibility of the Commission's authorising officer responsible and in accordance with Art 190 (c) of the rules of application of Regulation (EU, Euratom) No 966/2012, the recourse to an award of a grant without a call for proposals is justified because the beneficiary is contributing and implementing a comprehensive co-operation platform in which beneficiary countries and other donors also participate, leveraging resources to mobilise and mutualise adequate internal and external expertise, and therefore is in a legal or factual monopoly situation in relation to the objective pursued by the EU grant or is identified as beneficiary in the basic act on which this Decision is based.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives set up for this component; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 50% of the eligible costs of the action.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to conclude the grant agreement

Fourth quarter of 2017.

5.3.2 Procurement (direct management)

	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Component 2: public reform, policy dialogue, capacity building and communication as well as visibility	Services	1-2	4 th quarter of 2017

The number of service contracts (1-2) under component 2 will be decided when drafting the terms of reference, notably concerning the need for specialised expertise on financial inclusion.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1. – Component 1 – Direct grant to METAC (direct management)	2,000,000	25,000,000
5.3.2. – Component 2 – Procurement (direct management)	6,000,000	
Totals	8,000,000	25,000,000

5.6 Organisational set-up and responsibilities

This action will be managed by Commission services (Directorate General for Neighbourhood and Enlargement Negotiations) and, where relevant in close co-operation with other Commission services and other relevant stakeholders. For each component, in cases where a Steering Committee is created, the participation of relevant Commission services is foreseen.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partners' responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, an ex-post evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that these are innovative approaches.

The evaluation reports shall be shared with the partner countries and other key stakeholders. The implementing partners and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner countries, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing Decision.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing Decision.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner countries, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

6 APPENDIX - INDICATIVE LOGFRAME MATRIX

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and will be updated during the implementation of the action, no amendment being required to the financing Decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective	To promote economic governance and reforms that are conducive to sustainable economic growth, enhanced public and private sector investments, MSME development, job creation and inclusiveness in the Southern Mediterranean partner countries.	See indicators per component	See baseline per component			Restoration of political stability and security in a number of countries to a level which allows focus on reforms and long-term policy measures. Ownership of reform measures by the country authorities and commitment to their implementation
Specific objectives Outcomes	Component 1 To strengthen the institutional capacity of partner authorities to design and implement macroeconomic and financial policies, in the fields of (i) public finance management; (ii) revenue administration; (iii) central banking supervision; and (iv) macroeconomic statistics. Regional action with IMF/METAC aims at improved access to IMF specialised expertise in these fields and enhanced co-ordination between METAC technical expertise and relevant EU support programmes.	PFM indicators (IMF, WB) International macroeconomic statistics (IMF) Indicators of the METAC work programme	IMF/METAC reports (2016). WB / EU / PFM country assessment reports (2016)	Recommendations included in IMF/METAC reports; WB / EU / PFM country assessment reports	Progress reports IMF/METAC and WB / EU / PFM country assessment reports	METAC partner countries and donors make sufficient human, financial or material resources available that allow delivery of TA in a effective and timely manner. Co-ordination and complementarity with TA from IMF/HQ and other donors is ensured

<p>Outputs</p>	<p>(i) Public Finance Management An integrated budget planning and management process that effectively links policies to public resource allocation, and further develop treasury systems, including government banking arrangements, commitment controls and financial management information systems.</p> <p>(ii) Revenue Administration Real improvements in revenue performance through enhancing strategic focus and optimising the allocation and development of resources and systems, and increase taxpayer compliance through enhanced transparency and governance procedures.</p> <p>(iii) Central Banking Supervision A more risk-oriented banking supervisory and a regulatory framework is in place that enhances financial stability; and support long-term capacity building to efficiently supervise, monitor and assess the soundness of conventional and Islamic banks and reduce financial sector vulnerabilities.</p> <p>(iv) Macroeconomic statistics Member countries demonstrate closer compliance with international standards for the compilation of external statistics, national budget accounts and price statistics.</p> <p><i>A detailed Indicative Log Frame by the IMF is also available for METAC Phase IV (with expected results agreed by partner countries by 2021)</i></p>	<p>PFM indicators METAC IV work-programme</p> <p>PFM indicators METAC IV work-programme</p> <p>PFM indicators METAC IV work-programme</p> <p>IMF Statistics indicators and methodologies</p>	<p>METAC IV programme indicators (2016)</p>	<p>METAC IV programme targets (2021)</p>	<p>METAC IV annual reports</p>	
<p>Specific objectives</p> <p>Outcomes</p>	<p>Component 2 To support partner authorities in establishing an enabling business environment in Mediterranean partner countries for MSME development and their financial inclusion,</p>		<p>OECD/EC/ETF (2014) Policy index (OECD assessment: Implementation of</p>	<p>To be defined during inception</p>	<p>OECD/EC/ETF reports and policy index assessments</p>	<p>Interest and political will of partner countries to work on MSME policies</p> <p>Partner countries</p>

	<p>through regional action.</p> <p>Selected aspects of MSME policies and regulations are better adapted to small business needs and contribute to a more conducive business environment for MSMEs.</p> <p>Administrative simplification and regulatory impact analysis are promoted as a permanent feature of SME policy and the private sector is associated to all phases of policy-making.</p> <p>Selected aspects of MSME finance policies and tools, notably concerning alternative financial mechanisms and instruments contribute to a broader and easier access to finance for MSMEs;</p> <p>MSMEs representatives and relevant stakeholders know about existing MSME initiatives and available instruments through a regional platform.</p>	<p>Surveys/studies measuring enhanced policies and regulations;</p> <p>Participation of European Financial Institutions, MSME representatives and relevant stakeholders in regional and national seminars or in meetings related to the EU Initiative for Financial Inclusion</p>	<p>the SBA in the Neighbourhood South).</p> <p>The update of the OECD assessment (available by end 2017) will also be used as a baseline.</p>			<p>subscribe to the guiding principles of the SBA and its indicators</p> <p>Partner countries make available human, financial or material sources</p>
<p>Outputs</p>	<p><u>Component 2</u></p> <p>Regional action aims at shared understanding and practise of relevant MSME reforms and coherent implementation across all countries. It also contributes to the external dimension of internal EU policies by promoting the implementation of the Small Business Act (SBA) in partner countries. It aims in particular to support:</p>	<p>High-level participation in meetings/seminars</p>			<p>Progress report by services providers; ROM reports and evaluations</p>	

	<p>(i) the sector policy dialogue of the Working party for industrial co-operation on MSME development and related reforms.</p> <p>(ii) the capacity of SBA co-ordinators and related stakeholders for preparing and implementing reforms and instruments in support to MSME development; advocate for a focus on small businesses as generators of growth and employment.</p> <p>(iii) the implementation of the Small Business Act (SBA) in partner countries.</p> <p>(iv) the sharing of experiences, exchange of views and best practise related to policies on alternative financial mechanisms and instruments supporting MSME finance.</p> <p>(v) visibility and close co-operation with the "EU Initiative for Financial Inclusion" platform as regards available MSME finance instruments.</p>	<p>where SME strategies and recommendations are discussed.</p> <p>Quality of policy dialogue; relevance of contributions and inputs from partner countries.</p> <p>Number of workshops involving SBA co-ordinators.</p> <p>Number of best practices on regulatory/legislative reforms shared across all countries.</p> <p>Number of actionable recommendations and follow-up actions (organised with the support of the project at regional/national levels).</p> <p>In country progress in implementing selected SBA principles, e.g. institutional/regulatory framework for SME policy making; business creation; internationalisation of SMEs.</p> <p>Tools and mechanisms for dissemination of information (e.g. platform, website).</p>				
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