

3 *Multifunctionality and rural development*

3.1 - Introduction

The idea that agriculture affects the well-being of society beyond the value of its food production is not new. The 1994 WTO agreement expressed this issue in a paragraph on so-called “non-trade concerns”. The concept of multifunctionality has also gained ground lately, especially within the OECD (OECD 1998). Language is significant here. While the concept of non-trade concerns may be understood to establish a link between production and “social issues”, the concept of multifunctionality may be perceived to establish a link between the production of food and the production of public goods (Vatn, 1999).

The 1999 CIHEAM Report argued that the liberalisation of agricultural trade should be consistent with the defence of the “multifunctionality” of the Mediterranean agricultural systems. Although the use of the term “multifunctionality” is currently under debate, especially when it is used to protect agriculture from a liberalisation process. Yet the term still lacks any clear definition and thus has relatively few advocates, rousing quick suspicion amongst its opponents, in whose view multifunctionality is merely a convenient pretext which the European Union has found for justifying the long-standing use of farm support, including export subsidies.

Conceptually, the “public goods” implicit in the term “multifunctionality” comprise the various environmental challenges for the sector: not only that of producing food, fibres and energy sources, but also preserving the rural environment and landscape and contributing to the viability of rural areas and to balanced regional development.

From the environmental point of view, the term “multifunctionality” should be complemented with the term “eco-efficiency”. This is a matter of balance between negative and positive externalities of the agricultural systems. The challenge is how (which instruments?) to enhance the positive externalities of the agricultural systems while at the same time reducing the burdens on the environment, i.e. overexploitation of water resources, or continuing intensification – and the resultant use of large and environmentally critical amounts of pesticides and fertilisers.

The three central questions are as follows:

- (i) the extent to which multifunctionality is a meaningful concept for the Mediterranean area;
- (ii) the extent to which the agricultural trade liberalisation is compatible with multifunctionality; and
- (iii) the extent to which current agricultural policies are consistent with multifunctionality.

(i) - Is “multifunctionality” a meaningful concept?

The debate over non-trade concerns or multifunctionality is basically a debate over the legitimacy of various goals and measures within agricultural policy. The upcoming WTO negotiations will define what in the end become legitimate goals for the member countries. The use made of the definition of multifunctionality becomes crucial to the result.

There is a fundamental distinction between negative and positive externalities as regards their relationship to the multilateral trading system. The former can be tackled through national measures for which there are few limits or restrictions in multilateral commitments. This is not the case regarding positive externalities which are considered a non-trade concern. The correction of such market failures is commonly done through subsidies, which may contravene WTO commitments.

The position of the US and the Cairns Group (Anderson, 1992; Bohman et al. 1999) is clearly against linking multifunctionality with trade protection measures. Following the principle of targeting policies to their specific objectives, the most efficient and potentially most effective approach to achieving multifunctionality objectives is to use specific payments targeted at specific multifunctional objectives. Consequently, there is no need to use broad-based agricultural protection. Since protection is not being targeted at the specific objective, it is unlikely to be effective or efficient.

A further argument against treating agriculture as a uniquely “multifunctional” sector is that “multifunctional” effects apply to all economic activities. Acknowledging their significance specifically in international agreements on agriculture could thus be misused as a means of continuing the kinds of exemptions that have so far largely excluded agriculture from the benefits of multilateral trade reform.

Consequently, according to this view, multifunctionality does not constitute a sufficient basis for continuing to pursue trade-distorting agricultural policies.

One of the most difficult issues in the present debate on the term “multifunctionality” concerns the possible relationships between commodity production and the production of public goods (bads). The stronger the

connections, the more difficult it will be to keep trade and “non-trade concerns” apart. Some countries have argued that the production of food outputs and that of non-food outputs are closely linked. These countries have used the economic term “joint products” to describe the fact that the production of one output is linked to that of the other. Thus, advocates of this argument claim that, instead of a targeted policy, production-linked payments are necessary to obtain socially desired non-food outputs.

The question of the kind of linkages between food production and production of public goods becomes crucial here. Linkages between the production of food and the production of externalities can in principle be both positive and negative. Furthermore, many public goods can be produced without any connection with agriculture. Rural settlement is one example, some aesthetic landscapes may be another. Actually there are two important issues at stake here.

First, one must consider whether the production of each function is directly linked to agriculture or whether the good can be produced separately. This issue is easily illustrated by looking at the issue of landscaping. Is the product valued differently if it is part of an agricultural system compared to an open landscape produced without any connection with agriculture whatever?

In the Mediterranean area, only a minority of rural landscapes are not the result of the formative influence of agriculture — these landscapes are often largely uninhabited. The rise of agriculture enabled and fostered the development of civilisations, and in so doing it became the dominant land use. This heritage is manifest in various ways, such as the pattern and size of fields, the extent and type of grasslands, the existence of landscape features, the use of terracing, crop rotations, and settlement patterns.

Secondly, costs assessment is important. How can these kinds of public goods be provided most cheaply? Several rural public goods can be produced outside agriculture. Many of them can further be produced more cheaply if supplied separately, though this does not mean that supporting agriculture is always the most costly solution (Vatn, 1999). Given that agriculture already produces some public goods, the extra cost of adding others to the list may be low.

The cost of formulating and operating a policy is also important in relation to the question of what is the best and cheapest solution. Is it possible to produce public goods by redirecting agricultural policy through changes in input/output prices, restrictions on technology etc., or is it better to use instruments directly focused on the production of the public good? In reality, many non-food outputs can be produced independently of agriculture, and a range of policy instruments and private actions are available for achieving each objective related to non-food outputs. Each external function of agriculture deserves a special measure, and treating all of the functions jointly would entail the possibility of producing failures.

(ii) - Multifunctionality and trade

The increased focus on the multifunctional role of agriculture has evolved in parallel with the development towards freer trade in agricultural products. The next immediate question is: does free trade hinder the possibilities for supplying the various public goods related to agriculture?

In the WTO context, agricultural multifunctionality has been linked to the so-called "*non-trade concerns*" addressed in Article 20 of the Uruguay Round *Agreement on Agriculture* (see Box 3.1). The term is frequently used by some countries such as Norway, Japan and the EU as an argument in the WTO. Nevertheless, it is not yet clear how the concept will be used during the forthcoming negotiations.

Multifunctionality can thereby be understood as:

- i. an excuse in favour of greater border protection justified by the specific nature of the agricultural sector.
- ii. an argument in favour of greater use of rural development measures (within the "so-called" "green box" measures).
- iii. recognition of the links between trade and non-economic objectives (environment, social conditions, food safety).

Box 3.1 - Multifunctionality and non-trade concerns

Article 20 of the AoA refers to the continuation of the reform process and to the "non-trade concerns":

"Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- a. the experience to that date from implementing the reduction commitments;*
- b. the effects of the reduction commitments on world trade in agriculture;*
- c. non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and*
- d. what further commitments are necessary to achieve the above-mentioned long-term objectives".*

In the preamble to the AoA, the relevant paragraph reads:

*“Noting that commitments under the reform programme should be made in an **equitable** way **among all Members**, having regard to non-trade concerns, **including** food security and the need to **protect the environment**, having regard to the agreement that **special and differential treatment** for developing countries is an integral element of the negotiations, and taking into account the possible **negative effects of the implementation of the reform programme on least developed and net food importing developing countries.**”*

The debates on the role of agriculture did not end with the conclusion of the Uruguay Round. Indeed, discussions in FAO and the OECD, resulted in significant policy statements. In December 1996, the World Food Summit approved the Rome Declaration on world food security and the World Food Summit Plan of Action. Commitment Three reads:

*“We will pursue participatory and sustainable food, agriculture, fisheries, forestry and rural development policies and practices in **high and low-potential areas**, which are essential to **adequate and reliable food** supplies at the household, national, regional and global levels, and combat pests, drought and desertification, considering the **multifunctional** character of agriculture”.*

Two years later, the OECD came up with a position on the role of agriculture in a Ministerial Communiqué:

*“Beyond its primary function of supplying food and fibre, agricultural activity can also shape the landscape, provide environmental benefits such as land conservation, the sustainable management of renewable natural resources and the preservation of bio-diversity, and contribute to the viability of many rural areas. In many OECD countries, because of its **multifunctional** character, agriculture **plays a particularly important role in the economic life of rural areas**”.*

The debate continues in the WTO as to which of the three interpretations will prevail during the agricultural trade negotiations.

Evidence of the lack of clarification of the multifunctionality concept can be found in the interpretation given to it by countries such as Japan and Korea. For these countries, non-trade concerns are orientated towards reaching a sufficient level of food security, or rather, food self-sufficiency. In the case of these countries, there appears to be a certain correspondence between multifunctionality and a negotiating position with a view to maintaining “sufficient” levels of border protection (approach i).

The EU does not appear to follow only one interpretation of multifunctionality but a combination of the three approaches.

One possibility would be to conceive “multifunctionality” as a defence of the “green box” (approach ii). The principal requirement for “green box” policies is that they have no, or minimal, effect on trade. The “green box” contains specific provisions for addressing non-trade concerns, including public stockholding for food security purposes and payments for environmental programmes. Other non-trade concerns, such as support for rural communities and services, as well as other general environmental and bio-diversity goals (such as resource retirement, pest and disease control, and environmental programmes) are also provided for in the “green box” (see Box 3.2).

Box 3.2 - “Green box” measures

The UR Agreement on Agriculture, Annex II spells out in para. 1 that: “all measures for which exemption is claimed shall conform to the following basic criteria:

- *the support in question shall be provided through a publicly funded government programme (**including government revenue foregone**) not involving transfers from consumers; and*
- *the support in question shall not have the effect of providing price support to producers;*
plus policy-specific criteria and conditions as set out below ...”

The policy-specific criteria and conditions as contained in Annex I (Domestic supports the basis for exemption from the reduction commitments) to the AoA, commonly known as the “green box”, relates to general services (research, training, infrastructural services etc.), public stockholding for food security purposes, domestic food aid, direct payments to producers, decoupled income support, government financial participation in income insurance and income safety-net programmes, payments for relief from natural disasters structural adjustment assistance through either producer retirement programmes or resource retirement programmes or investment aids, payments under environmental programmes and payments under regional assistance programmes.

Concerns have been raised as to the adequacy of Annex II measures which, in any case, are not generally within the financial capacities of governments of developing countries.

As a matter of fact, formal recognition of the “green box” would implicitly contribute to the political acceptance of rural specificity at the WTO level. However, the explicit position of the European Communities in the international talks has

gradually moved towards the introduction of other issues beyond the “green box” and rural development (approach iii). The Commission, in the proposal for Agenda 2000, already stated the need to introduce social and environmental concerns and to take consumer interests into consideration (European Commission, 1997). More recently, in its statement on the EU’s approach to the Millennium Round, the Commission referred to “multifunctionality” together with issues such as the preservation of human life and health, of fauna and flora, the links between trade and environment, animal welfare, food security; food quality and other consumer concerns (European Commission, 1999).

The Cairns Group argues against “multifunctionality” as an excuse for special treatment for the rural sector in the WTO context. A related question is whether it is possible to promote multifunctionality without using trade-distorting measures. **However, what is questionable is whether all the external positive functions of agriculture can be promoted without distortion of production and trade (“joint production”).** For example, in some places, the rural landscape is shaped by agricultural activities. Should citizens wish to preserve vineyards, whatever type of payments the public sector may wish to use will obviously influence the continuity of that crop. A narrower view would not consider this measure as strictly a “green box” measure.

The European Union’s position does not appear to show any explicit recognition that “multifunctionality” would justify high levels of support for agriculture or that border protection is the effective way of achieving non-economic objectives. Some groups of producers in the European Union would advocate higher tariffs on the basis of “multifunctionality” (approach “i”). However, the Commission seems rather to be aiming for a freer trade system, while remaining sensitive to areas that are not strictly commercial, such as the environment, social conditions or consumer interests.

Even though the analysis can be simplified, the picture of multifunctional agriculture and the related policy options has become a complex one. A policy in this field has to take account of the fact that agriculture has both positive and negative effects on the environment, that public goods may be a joint product with food production, but that it may also be competing, and that, in terms of economic efficiency, there can be cheaper policy instruments for achieving some multifunctional goals.

As far as agricultural policy is concerned, one principle is to use policies associated with minimal distortions and target the specific objectives associated with the non-food output. These policies are called “decoupled” in the sense that their impact on production and trade is minimal.

However, some of the aims of Mediterranean agriculture will be very difficult to achieve through measures totally decoupled from production. For example, in some regions where agriculture is unable to compete with imports, securing the

existence of a certain level of agricultural production may be an important element in securing its multifunctional role.

As a consequence, multifunctionality should be compatible with substantial trade liberalisation but not with total trade liberalisation. On the other hand, **a restrictive interpretation of public intervention in the agricultural sector would eliminate many opportunities to promote multifunctionality.** The new WTO Round might end up rejecting the conformity of multifunctionality with the trading system, since no payment would fit a “green box” built on restrictive definitions and strict control. The question is whether it is possible to find adequate instruments for multifunctionality without fear of a complaint about distorting trade and production.

If multifunctionality were accepted as part of a new Agreement on Agriculture in the WTO, a special treatment for the agricultural sector could be recognised. However, current agricultural policies in most Mediterranean countries are far from being designed to achieve multifunctionality. This is the case, for example, with the European Union’s CAP. Multifunctionality could be a fine principle with which to continue CAP reform.

(iii) Multifunctionality and current policies

From the domestic point of view, in the European Union, the multifunctionality argument has served as justification for introducing Agenda 2000 to European society. Perhaps one of the first and clearest declarations on this was that made at the Cork Conference on Rural Development (1996). The ideas expressed in this document were supported enthusiastically by those in favour of a rural development approach for the Common Agricultural Policy. The new financial strategy of Directorate General VI (Agriculture) regarding Agenda 2000 supported this move. This strategy led to a new view of the EAGGF – guarantee as a “rural fund” which, following the Berlin agreement, has ensured a certain degree of inflexibility against the reduction of the EU agricultural budget. Paradoxically, this budget is facing serious restrictions with regard to giving substance to the rural development approach, beyond the rhetoric.

Table 3.1 - Financial perspectives for the CAP (EU-15)		
EUR million - 1999 price: Appropriations for commitments	2000	2006
AGRICULTURE	40920	41660
CAP expenditure excluding Rural Development (RD)	36620	37290
Rural Development (RD) and accompanying measures	4300	4370
RD as a percentage of total CAP expenditure (%)	10.5	10.5
Source: Berlin Summit Agreement.		

Rural development seems to be an approach that would facilitate the adaptation of agricultural policies to a more liberal trade environment. However, this does not mean that rural development policies are a direct consequence of trade liberalisation. Rural development policies are rather shaped as a result of a domestic-decision making process influenced by budget constraints, political lobbies, and the interests of various social groups including farmers, environmentalists and consumers. It is true that trade liberalisation is a driving force for policy reform. However, there are many ways in which governments can react to a freer trade environment.

After the Uruguay Round the foundations of traditional agricultural policies based on price interventions began to be questioned. As a result of the changes in the international climate, Mediterranean agriculture is under increasing pressure to adopt a more liberal commercial policy framework, which means that it is necessary to change the model of state intervention in rural areas. Is rural development policy such a model? It seems clear that agricultural policy should be consistent with competitive, market-orientated agriculture, but many would see Mediterranean agriculture as something closely linked to quality, rural landscape, environmental benefits and so on. This view seems to be widely accepted in the European Union, where agricultural reform has not only been influenced by external pressures but also by domestic social "non-trade concerns". Is the EU CAP leading to a rural development approach?

A recent study (Tangermann 1999) showed that the new regulations adopted by the EU within the Agenda 2000 framework could serve as a basis for guaranteeing the defence of the European stance in the forthcoming international negotiations. With Agenda 2000, the international competitive position of the EU agriculture will be strengthened and even an export position, without subsidies, will be maintained in cereals and pigmeat. EU agriculture has thus anticipated the liberalisation

commitments that will come about sooner or later. The next round of negotiations will bring the elimination or substantial reduction of export subsidies, which will only be possible by means of a reduction in intervention prices, a consequence of Agenda 2000. In addition, the next international Round may impose substantive constraints on “amber box” and “blue box” payments and push to transform them into “decoupled” support. As described in the 1999 CIHEAM Reports, Agenda 2000 has already taken several steps in that direction.

A possible criticism of Agenda 2000 is that this reform aims to achieve the compatibility of the CAP with the WTO provisions simply by making some “technical changes” to the previous market regulations. At the moment, the CAP has not been forced into taking any more far-reaching steps towards the concept of an integrated rural policy, that is to say, towards a purely rural development framework: for many it is rather a declaration of good intentions. According to Massot (1998), with Agenda 2000 the European Commission chose “the easy option”: slow reform but in the right direction. This consists of closing the gap between domestic and international prices, introducing the principle of modulation (with its application delegated to the Member States) and timidly converting the guarantee section of the EAGGF –into a Fund for rural development.

Agenda 2000 can be seen as partial “ruralisation” of the EAGGF guarantee section, which constitutes some progress towards an integral rural policy that would devote sufficient attention to the multifunctional objectives of rural economies. However, these reforms are still limited and full of rhetoric (Buckwell, 1998). By the year 2006 rural development policies will only account for 10.5% of total CAP expenditure (see Table 3.1). Agenda 2000 can be expected to open the door to a rural development policy that could be put into practice in the next decade.

It is important to observe that the existing greening of agricultural policy in both the US and the EU seems to be evolving more as a response to old problems such as “overproduction” than to genuine care for the environment and rural development. There is a substantial need for measures to redirect policy. A policy addressing future problems related to the environment and public goods provision must be formulated much more consistently. **The EU must resolve its ambiguity in the matter and stop arguing for multifunctional farming while at the same time maintaining the standard approach to export subsidies.** In order for multifunctional policies to gain legitimacy, there needs to be a reduction of the distortions in the CAP, which are severely affecting non-EU economies. Once free of ambiguities, and with increased recognition of its legitimacy for the revised forms of public support, multifunctionality could present a clear strategy for all countries wishing to defend sustainable modes of production and democratic decision-making as to how their societies should develop a fair agricultural trade policy.

The Mediterranean countries’ right to pursue rural development policies in which agriculture plays a key role must be recognised. In regions of the world where

farming represents a dominant rural economic activity, countries should have the means at their disposal of preventing social and political upheavals caused by a rapid decline in economic conditions in the farming sector. In other rural areas, where farm employment accounts for a small portion of the workforce, a broader approach to rural development and the role of farming in the process, including policies to diversify income sources, may be needed. In peripheral regions, the continued viability of rural areas depends to a large extent on policies for maintaining the agricultural sector.

However, rural development policies which affect the agricultural sector should follow the principle of being no more than minimally trade-distorting and allow structural changes to occur. In the context of agricultural reform, WTO rules should contain sufficient flexibility to allow countries to promote rural development and preserve social and political stability. Multifunctionality should thus be compatible with a world trading system.

3.2 - The greening of agricultural policies does not prevent asymmetries

One of the key problems since the implementation of the UR Agreement on Agriculture in 1995 is that the overall level of support has increased in general, rather than decreased. This is evident both from the “green box” subsidies, which countries have declared, as well as from Producer Subsidy Equivalent (PSE) figures supplied by the OECD. Table 3.2 illustrates the subsidies provided by the world's largest agricultural trading powers, the US and the EU. Calculation of total domestic support (notified to WTO) including the “green box”, blue box, Aggregate Measure of Support (AMS) and “de minimis” clause reveals similar increases in support levels since implementation of the Agreement on Agriculture.

In the case of many developed countries, especially the EU and the US, “green box” supports have allowed them to channel their domestic support programmes into the undisciplined “green box”, hence avoiding the need to make real domestic support reductions. Thus the “green box” seems to be a sort of “subsidy refuge”. **This constitutes a new source of asymmetry between developed and developing countries.** While the “green box” is often seen as the opportunity that allows governments to provide for the non-trade concerns and could provide a basis for financing multifunctionality, it provides leeway for abuse by those who can afford to provide outright financial supports. Developed countries will be able to finance multifunctionality while developing countries face difficulties in financing their own non-trade concerns such as the protection of small farmers' livelihoods, and food security. In fact, in 1996, developing countries provided only 12.5% of all “green box” supports, with developed countries providing the other 87.5%. In the final analysis, from the point of view of developing countries, these countries consider that they have been virtually ignored by the “green box”, which they see as having been designed essentially to serve the interests of developed countries, whether advocates or opponents of multifunctionality.

Table 3.2 - Total agricultural support in the EU and US					
	(1986-88)	1995	1996	1997	1998
European Union (million ECU)					
"Green box"	9,233	18,779	22,130		
Total domestic support	82,878	90,222	95,131		
PSE	90,392	83,442	74,970	96,729	116,075
United States (million \$)					
"Green box"	24,098	46,041	51,825	51,249	
Blue Box	--	7,030	--	--	
Total domestic support	49,658	60,767	58,807	58,291	
PSE	41,428	15,205	23,500	30,616	46,960

Sources: OECD in Figures, 1999; WTO, 'Domestic Support', AIE/S2/Rev.2, 23 September 1999; OECD in Figures, 1996.

This asymmetry holds true amongst Mediterranean countries, as seen in Table 3.3, which shows that "green box" expenditure per agricultural worker is lower in selected Southern and Eastern Mediterranean countries than in the EU, although the difference is markedly higher with respect to developing Mediterranean countries.

Table 3.3 - Total expenditure on "green box" measures in selected countries					
	"Green box" expenditure (million US dollars)		Expenditure per agricultural worker \$		GDP per capita \$
	1995	1996	1995	1996	1997
EU	24110	28378	3258	3835	22046
Morocco	157	378	38	92	1246
Tunisia	30	39	33	43	2052
Slovenia	85	91	2833	3033	18202
Israel	292	414	1460	2070	16820

Source: MEDAGRI 2000 and FAO 1999, FAO Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations From the Perspective of Developing Countries. 'Issues at stake relating to agricultural development, trade and food security', Paper No. 4.

The trend in the current agricultural negotiation process could confirm this asymmetry. Agricultural reforms in developed countries will lead to a further “greening” of their domestic support in order to achieve their multifunctional goals. The definition of the “green box”, as claimed by the EU, will probably be flexible enough to include a wide range of measures within the “green box”. In fact, the term “minimally distorting” will require value judgements, even where some indicators for monitoring can be suggested. Thus, the “green box” could include some measures which pursue multifunctional goals but which may at the same time have trade-distorting effects. This is due to the virtually impossible task of breaking the links between non-trade concerns and food production. Huge amounts of decoupled payments will inevitably increase farm incomes, allow access to improved technology and increase farm investment and production. Furthermore, decoupled payments are often provided in such a manner as to increase land values. This maintains land in farming which might otherwise have been diverted for other purposes. Production is therefore indirectly increased (ABARE 1998 Current Issues, Aug. 1998, No. 98.4).

Some developing countries have criticised this situation by requesting a stricter control over all types of subsidies and agricultural payments, and request instead the creation of a “development box” for developing countries to address their rural employment and food security concerns. As far as Mediterranean countries are concerned, a possible way out of the potential conflict between developed and developing countries in this area, would be:

- (i) to re-direct the CAP towards a real “rural fund” with minimal production and trade-distorting impacts, with the aim of achieving multifunctional goals;
- (ii) to help to nourish the “development box” of the Southern and Eastern Mediterranean countries, through the use of current financial instruments, i.e. MEDA and EIB, with adequate emphasis on rural poverty reduction and environmental protection.

The MEDA programme has indeed represented a sort of EU development fund, with around 17% of its budget allocated to projects related to the environment and rural development during the 1995-1999 period.

However, the hope that the Southern and Eastern Mediterranean countries will be able to finance development programmes is constrained by several problems:

- The MEDA II programme for the 2000-2006 period (continuation of the MEDA programme for 1995-1999) has to compete with other financial priorities of the Union such as Eastern Enlargement.
- The Euro-Mediterranean Association will require that several Mediterranean countries accept a significant loss of import tariff revenue. For example, it is calculated that tariff revenue accounts for 46% of Lebanon’s budget (CGP,

2000). Although, in the medium term, the Association's strategy should involve the financial sustainability of the States, the question remains as to the possibility of generating the resources needed for rural development.

- Only a small share of the MEDA budget (27%) was actually paid out between 1995 and 1999. The effectiveness of the European Investment Bank allocations was a little higher (32% between 1997 and 2000). The operation of the MEDA funds will probably improve in the future with the introduction of more automatic procedures and human resources for the financial execution of funds. However, in spite of the conclusions adopted by the Stuttgart Euro-Mediterranean Conference, the simplification of procedures is liable to be slow.
- European interests are biased against financial solidarity. The weight of the Euro-Mediterranean Association strategy is orientated towards trade relations and commercial interests.
- Private investment will probably not do much to counteract the eventual fall in public investments. The 1999 CIHEAM Report stressed the risks of a "hub and spoke" effect of the FTA, giving rise to the re-concentration of Foreign Direct Investment (FDI) into the European Union (the hub) at the expense of the Third Mediterranean Countries (the spokes).
- Overall public development aid to Mediterranean countries has decreased significantly in recent years. For the three Maghreb countries, Egypt, Jordan, Israel and Turkey, total aid decreased from 39.6 billion dollars in 1989-93 to 22.6 billion dollars in 1994-98. Private investment has not counteracted that decrease. However, the share of EU and Member States in total public aid to Third Mediterranean countries increased from 30% to 44% between the two periods.
- There are significant handicaps to attracting private FDI such as the institutional environment, human capital and the administrative burden. For local investments there is a lack of access to financial channels. The weakness of private investment also reduces the effectiveness of rural development policies.
- The absorption capacity for foreign aid and credit is limited in the recipient countries and is close to saturation point.

All of these constraints lead to the conclusion that the benefits derived from market openness and the FTA could be delayed due to the existing restrictions employed to finance the financial and social costs of transition in the Southern and Eastern Mediterranean countries. It is a sort of vicious circle, which can only be broken with more, and not less, co-operation between the various sides of the Mediterranean Basin.