The Initiative for Micro-, Small, and Medium-Sized Enterprises in the Mediterranean

By Pietro Masci and Juan Zhang

1. Introduction

This paper discusses the process of establishing the Mederranean Business Development Initiative (MBDI)[1], in its various phases and components. The aim is to discover to what extent the implementation of this complex international project has thus far been in accord with the pattern for adopting public policies and structural change modeled by Kingdon (2002) for the U.S. system.

The concept of an initiative to facilitate enterprises' access to finance in the Mediterranean countries can be traced back to the 1990s, when the idea of creating a development bank for the Mediterranean was proposed. However, this proposal was abandoned for political reasons related to the Israeli-Palestinian conflict and also due to a lack of interest in establishing a new development bank.

The idea of creating an Entity – initially conceived as an Agency, and then as an Initiative – now generally known as the Mediterranean Business Development Initiative, which would work on private sector financing, especially for micro-, small, and medium-sized enterprises in the Mediterranean, derives from the experience with the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) of the European Investment Bank (EIB). It also originates with the interest of Italy and Spain, whose activities in the Mediterranean involve countries on its southern rim. Moreover, both Italy and Spain have a strong and dynamic private sector composed of small and medium-sized enterprises, which can cooperate effectively with similar firms in the nations on the Mediterranean's southern rim. In addition, economic theories that connect entrepreneurial ability and economic growth to the availability of financial resources provide a rationale for developing local financial systems with the help of initiatives like the MBDI, and thus facilitating economic growth, which in turn can increase the prospects for peace in the region and reduce immigration to other parts of Europe.

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[1] Following the work of the Union for the Mediterranean, the term "Mediterranean Business Development Initiative" was introduced. With respect to the formation of an "Agency for the Mediterranean," such a term is less specific but provides more possibility and policy options for supporting access to finance for micro-, small, and medium-sized enterprises in Mediterranean. As a matter of fact, the Agency can be considered one of the policy options of the MBDI. However, the term "Mediterranean Business Development Initiative," abbreviated "MBDI," is politically more acceptable because it is not connected to the creation of a new organization. With these clarifications, in this paper, the terms "MBDI," "Initiative," "Agency," and "Entity" may be used interchangeably

Finally, the proposal to establish an Agency to facilitate access to finance for small, micro-, and medium-sized enterprises in the Mediterranean builds on the positive experiences of comparable international entities in Latin America and the Caribbean and Asia – i.e., the Inter-American Investment Corporation, the Multilateral Investment Fund of the Inter-American Development Bank, and the Asian Development Bank – that provide financial support and technical assistance to the private sector and particularly to enterprises. These entities likewise focus on small, medium-sized, and microenterprises and operate through grants for technical assistance and loans and equity for financing projects.

Against this background, the February 2007 Italian-Spanish Ibiza Summit promoted the creation of an Agency to finance micro-, small, and medium-sized enterprises in the Mediterranean.

This paper aims to review the temporal and political path of the Italian-Spanish proposal for this Agency, to analyze its technical aspects, and to make observations about the ways to gain its approval within the framework of implementing a new public policy with structural changes. In particular, the paper seeks to discover to what extent the establishment of the Agency follows the Kingdon (2002) model's pattern for achieving the alignment of the three streams of *problems*, *policy*, and *politics*, which determines the approval and introduction of a new policy. In Kingdon's model, these three streams may not have the same logic, and they may not be parallel. However, at the moment when political opportunities are verified, the alignment of the three streams is realized; and hence, the policy and structural changes can be adopted. In the case of the Agency, the problems are the difficult economic situation of the Mediterranean countries and the need to also boost the region's economic growth for social stability reasons. The establishment of an Entity – the Agency, or the broader Mediterranean Business Development Initiative – represents the policy and structural changes, i.e., the introduction of a new organization. And the aspects of politics consist of the conditions under which there is political support and a consensus for policy changes and the establishment of a new system.

The remainder of this paper proceeds as follows. The second section focuses on the temporal and political paths taken in developing the MBDI. The third section concentrates on its technical and policy aspects. The fourth section delineates the interests at stake in its development and its context in political economy. The fifth section elaborates Kingdon's model and verifies to what extent the process of the MBDI's development confirms it. The sixth section presents conclusions.

2. The Temporal and Political Paths to Developing the Agency

In February 2007, the Italian-Spanish Ibiza Summit defined the goal of creating an Agency to finance micro-, small, and medium-sized enterprises in the countries on the southern rim of the Mediterranean. On that occasion, the Italian and Spanish prime ministers – Romano Prodi and José Luis Rodríguez Zapatero – asked their respective ministers of economy and finance to develop such a project. During the Ecofin Euromed meeting in September 2007, Italy and Spain presented the proposal to create an Agency to promote private sector development in the Partner Countries of the Mediterranean.

The Italian and Spanish ministries of economy and finance collaborated actively to develop the Agency project. At the beginning of 2008, a preliminary document was prepared focusing on private sector issues, especially of micro-, small, and medium-sized enterprises in the countries on the Mediterranean's southern rim. Four Partner Countries were initially identified as prospective beneficiaries of the Initiative: Algeria, Egypt, Morocco, and Tunisia. During the preparation phase, at the end of 2007, Italy and Spain played a crucial leadership role by accelerating the preparatory work, which led to an international meeting among the ministries of economy and finance of the six founding countries – Algeria, Egypt, Italy, Morocco, Spain, and Tunisia – in Rome on February 18, 2008, where the operational launch of the Initiative took place.

On that occasion, the participants discussed and welcomed the preliminary document, and they supported the Initiative of promoting private sector development. They also decided to set up a Working Group composed of officials from the six founding countries to specifically identify the reasons for the lack of finance for micro-, small, and medium-sized enterprises and present proposals to solve these problems. Finally, in March and April, an Italian-Spanish delegation of officials from the two nations' ministries of economy and finance who were members of the Working Group visited the four prospective beneficiary countries to analyze their needs, prepare a diagnostic paper, and present proposals. With the support of these four countries, the Working Group's members interacted with local ministries, companies, organizations, and institutions to verify their needs, gaps in needed financial assistance, and interest in the Agency. In May and June, the Working Group developed its final document – the so-called diagnostic paper – to articulate the lack of access to finance for micro-, small, and medium-sized enterprises, and to propose specific interventions to be undertaken.

The Mediterranean Agency was launched within the European Union during the Economic and Finance Affairs Council Meeting on May 14, 2008. On that occasion, the Italian and Spanish ministers of economy and finance reported on the status of the Agency's establishment, distributed an abridged preliminary document about it, and introduced the technical meeting to be held in June in Barcelona, whose agenda would be to achieve a final document giving a detailed plan for the Agency's establishment. All the European countries were invited to this meeting.

On May 28, 2008, during a meeting of the EIB's Investment Facility Committee, the Italian and Spanish representatives discussed the Agency's technical issues with the French representatives. The French officials demonstrated an appreciation of the Agency project, expressed their support for establishing it, and also confirmed that the Agency could be part of a wider EU initiative for the Mediterranean, known as the Union for the Mediterranean (Up Med)

The Working Group's technical job concluded with the meeting in Barcelona on June 30, 2008, which provided a chance to present the diagnostic paper and define it as the final document. Following the Barcelona meeting, the process passed from the diagnostic phase to the phase of realization and political support, and moved to the level of the European Union. The Agency is open to participation by other EU member countries (e.g., France, Greece, and Portugal) and also by other Mediterranean countries (e.g., Lebanon, Syria, and Israel, and the Palestinian Territories).

The project of the Agency was regarded as fitting within the framework of the Euro-Mediterranean Partnership (Barcelona Declaration). Moreover, the project became part of Up Med, the initiative that President Nicolas Sarkozy officially launched on July13–14, 2008, and it was inserted among Up Med's projects under the name "Mediterranean Business Development Initiative."

There are essentially two reasons for passing from the idea of an "Agency" – the term originally used at the Ibiza summit – to the broader one of the "MBDI." The first reason is related to the fact that the diagnostic study produced by the Italian-Spanish Working Group showed that the Agency represents one of the policy options for easing access to credit, but there may also be a need for other solutions. In fact, the diagnostic study confirmed that the needs of the southern Mediterranean countries are much larger – and thus concern not only financing but also the size and depth of the market, the integration among southern Mediterranean countries and their integration with European countries, and productivity. These aspects have been examined by different research efforts, and in particular by the Anima Investment Network, with various projects and initiatives, including a study of the role of special direct investment. The second reason is that during negotiations for the projects to be included in Up Med, the Northern European countries had not shown a willingness to establish a new organization or to support its funding.

The term "MBDI" turned out to be an acceptable compromise. In sum, achieving an agreement on the Agency was extremely difficult, given the complex political processes in Europe, especially considering that the attention of the ministers of economy and finance had shifted to the global financial crisis of 2008–9 and also taking into account that various countries involved had not given full attention and priority to the establishment of the Agency. Nonetheless, the diagnostic paper that was produced – even with reluctance of the Northern European countries, which managed to insert the caveats that the Agency constitutes a project of bilateral nature and that its funding is voluntary – received encouragement from the ministers of economy and finance of the Mediterranean Union at the Ecofin UpMed Meeting in November 2008.

In fact, after the Barcelona meeting, the work proceeded in small steps. In June 2009, after long discussions and negotiations with other European partners, FEMIP – the EIB's tool for projects in the Mediterranean, which is financed by member countries and the EIB itself – decided to finance a feasibility study of the MBDI project. Independent experts were asked to verify the feasibility of creating an Agency for the Mediterranean. The experts' study evaluated the documents produced by the Working Group, especially the final diagnostic paper. The experts were asked to determine the most appropriate ways in which the proposed activity could be realized. The experts based their study on the documents produced by the Working Group; on enterprise and finance literature; on different studies relevant to enterprises' financing in Mediterranean countries, such as the World Bank and International Monetary Fund's Financial Sector Assessment Program; and on their visits and interviews with local officials and policy makers.

The FEMIP Experts' Report – presented in December 2009 – confirmed the technical validity of the initial document and the final diagnostic paper produced by the Working Group, the innovative value of the proposal, and the timing of the proposal for creating such an Agency to promote private sector development in the Mediterranean. Moreover, the report complemented the final diagnostic paper and the Working Group's conclusions. For example, the report underlined the need to pay attention to the role of women, and it suggested that private organizations should make a commitment to realizing the project with limited government intervention, considering the negative experiences and distortions with government programs. In a wider perspective, beyond financial aspects, the report pointed to the opportunity to develop partnerships among enterprises, on both the southern rim of the Mediterranean and with European countries.

The FEMIP report estimated that the financial resources needed for the Mediterranean countries (not only the four original beneficiary countries, i.e., Algeria, Egypt, Morocco, and Tunisia) would be €2 million for the 2010–12 period. From the point of view of project realization, the report presented a financial plan for 10 years and identified the political difficulties of creating a new organization, presenting three options:

a. the creation of an Agency to manage and finance projects (considered politically infeasible in a short period);
b. the establishment of a smaller decentralized entity with the creation of a revolving fund; and
c. the improvement of the FEMIP system, with more involvement from beneficiary countries.

For each of these options, the report proposes that the organization needs a council, which takes care of strategic concerns; a committee for the approval of operations; and local entities in each country, which are needed to realize single operations. Substantially, the three options represent different policies, which respond to the problem of enterprises' needs for financing in the Mediterranean. The first option corresponds to the creation of the Agency, while the other two options are more reductive and are part of the broader MBDI concept.

Nevertheless, the debate in FEMIP continues to demonstrate the division between countries that support the Initiative – Italy, Spain, and France – and the Northern European countries, guided by Germany, that oppose the EU's and the EIB's participation in such a geographical area and in such a sector.

With a decision that postpones political accord, it has been agreed that the FEMIP experts need to also complete an analysis of the other Mediterranean countries not included in the Working Group's diagnostic paper: Jordan, Lebanon, and Syria. This revised report should be presented in March 2010 at the FEMIP Committee meeting and donors' meeting. Moreover, the FEMIP experts need to expand their report's presentation of topics on governance and the Initiative's enterprise plan, specifying more detailed operative models, the organizational structure, and financial needs.

Important political news is that, at the end of 2009, about the EIB's expanded framework of its activities to include Russia, Italy, and France, at the level of ministries of economy and finance, asked to balance the EIB's investments for non-EU countries, with special attention to the Mediterranean.

3. The Agency's Technical and Policy Aspects

Theoretical Aspects

According to economic theory, micro-, small, and medium-sized enterprises are the cradle of entrepreneurs and innovators and thus form the basis for the economic growth of industrialized countries. But the innovative and productive potential of entrepreneurs can only be realized if they have access to sufficient finance so that they can maximize their use of resources to optimize their projects. A functional financial system is necessary to allow entrepreneurs to fulfill their innovative and productive potential and to promote economic development (Schumpeter 1975 [1911]). On these topics, the research literature is extensive, with particular reference to the *creative destruction* of Schumpeter (1975, 82–85) and the productive *entrepreneurship* of Baumol (1990, 894). Various empirical studies confirm the need for an effective financial system for micro-, small, and medium-sized enterprises in developing countries in general and especially in the Mediterranean countries (see the literature on the Financial Sector Assessment Program of the World Bank and the International Monetary Fund, along with other studies from researchers at the World Bank and the International Monetary Fund, e.g., Al-Atrash and Yousef 2000; Hakura 2004; Nabli 2006; Nashashibi 2002; Sahar 2008; World Bank 2005, 2006, 2007a, 2007b, 2007c).

The Diagnosis of Need

The four countries examined – Algeria, Egypt, Morocco, and Tunisia – show different characteristics, but the common elements of need, which differ in intensity according to the particular country, are closely connected: narrowness of the market, low productivity, and difficulty in accessing finance. The insufficiency of local markets and the absence of a single regional market discourage the growth of enterprises and reduce direct investment potential. In fact, these countries see human capital immigration and financial capital outflows – especially towards northern countries, with direct investment inflows not having a balancing function, and thus productive factors' availability remains scarce and limits productivity.

On the productivity side, there are still significant gaps between the productivity of the southern Mediterranean countries and of the EU countries and, for instance, China, especially for highly qualified workers.

In spite of reforms undertaken in various countries, the financial system, especially the banking system, finances primarily *public deficits* and thus does not lend financial resources to enterprises, particularly the more innovative ones; therefore, it does not significantly contribute to productivity increase and economic growth. Local currency development, especially in the medium and long terms, is almost nonexistent, which penalizes savings kept in bank deposits. The level of public debt is high (e.g., the ratio of debt to gross domestic product, GDP, is 105% for Egypt, and more than 60% for Morocco and Tunisia; CIA *World Fact Book*), and the banking system is asked in large part to finance the government and only marginally private enterprises.

The access to finance is limited and does not allow micro-, small, and medium-sized enterprises and entrepreneurs to prove themselves. These enterprises represent 99% of those in the Mediterranean and offer two-thirds of job opportunities (Sous 2003). Normally, financing is influenced by political choices and delivered by public sector banks, subject to guarantees, especially of properties and real estate, with little consideration for the project's cash flow. Banking distress is high (more than 10% in Tunisia and about 25% in Egypt and Morocco; Almeras 2009).

Bank financing, which represents the most important source of external financing, is at 12% in the Mediterranean, the world's lowest rate, whereas self-financing in the region is at more than 75% (World Bank 2006). Moreover, excess liquidity in banks is high, but they do not direct the money to small and medium-sized enterprises. The system is characterized by informational asymmetry and low transparency from the side of enterprises (using noncertified and double bookkeeping records), which do not have incentives to provide information for taxation purposes, given that they do not often use banks as a funding channel. For some countries – e.g., Egypt and Morocco – the informal sector is estimated to account for up to 20% of GDP (Almeras 2009; World Bank 2006, 2007a).

The credit/GDP ratio, which measures the financial system's level of development and ability to act as an intermediary, is about 65% in Egypt, Morocco, and Tunisia, and about 12% in Algeria (World Bank 2007a). Microfinance is not very developed, except in Morocco; it is common for interest rates for consumption and microcredit to be as high as 50% (Almeras 2009).

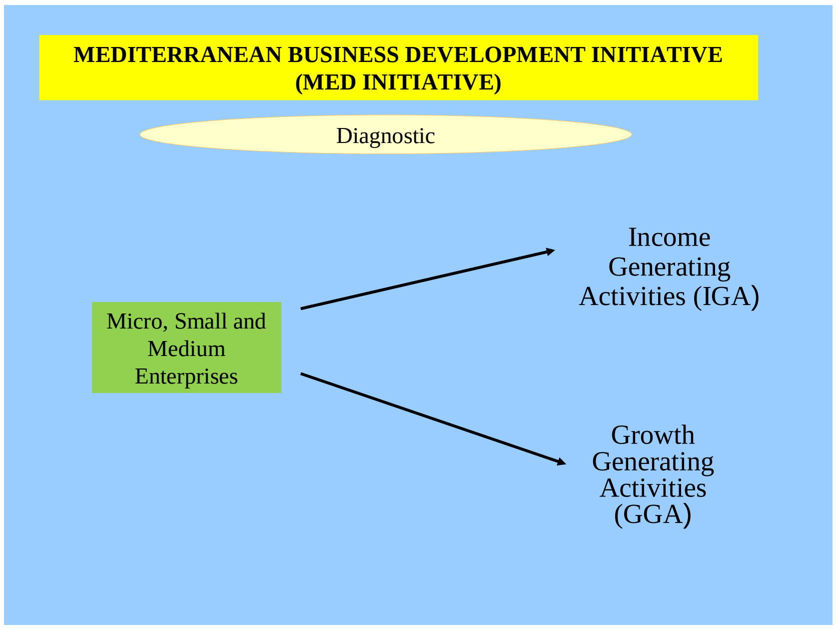
The equity market also is not very developed; in some countries, capitalization is about 70% (e.g., in Egypt and Morocco), and in others, it is almost nonexistent (e.g., in Algeria and Tunisia; CIA *World Fact Book*). The determining factors are banking sector regulations, an absence of institutional investors (e.g., pension funds and insurance companies), and a lack of conditions that would allow enterprises to grow (e.g., a regional market and a tax system).

In such circumstances, it is very difficult for a culture of credit and efficient usage of resources to emerge. And following the worldwide financial and economic crisis of 2008–9, the situation got worse due to a reduction of capital inflows and direct investments, along with declines in money transfers from immigrants (i.e., remittances paid to family members in the home country).

To sum up, the prime reason that the MBDI is needed can be found in the fact that the region is facing the challenge of creating 30 to 40 million jobs before 2020, while only aiming to maintain the present actual level of unemployment (see Sous 2003. In the four original beneficiary countries – Algeria, Egypt, Morocco, and Tunisia – there are companies in traditional sectors (e.g., construction) and companies and entrepreneurs that are introducing innovations and that are at the leading edge of technology, production, and organization. Basically, two main types of activities have been identified: innovative enterprises that contribute to economic growth (known as growth-generating activities, GGA) and enterprises that generate income (income-generating activities, IGA) (see Figure 1) (Acs et al. 2004). This distinction can be found, with different modulations, in each economy, and in a way it represents an extension of Schumpeter's intuitions. The analysis and insights stemming from this concept are fundamental for identifying efficient public interventions of support.

On the one hand, the diagnostic paper confirmed in a specific and analytical way the problem of difficulty in accessing finance for enterprises and suggested a series of additional interventions and tools to reach the goal of improving access. On the other hand, the diagnostic work also confirmed a fundamental lesson of years of experience in economic development: The participation of beneficiary countries is a necessary and sufficient condition for the success of development programs.

Figure 1



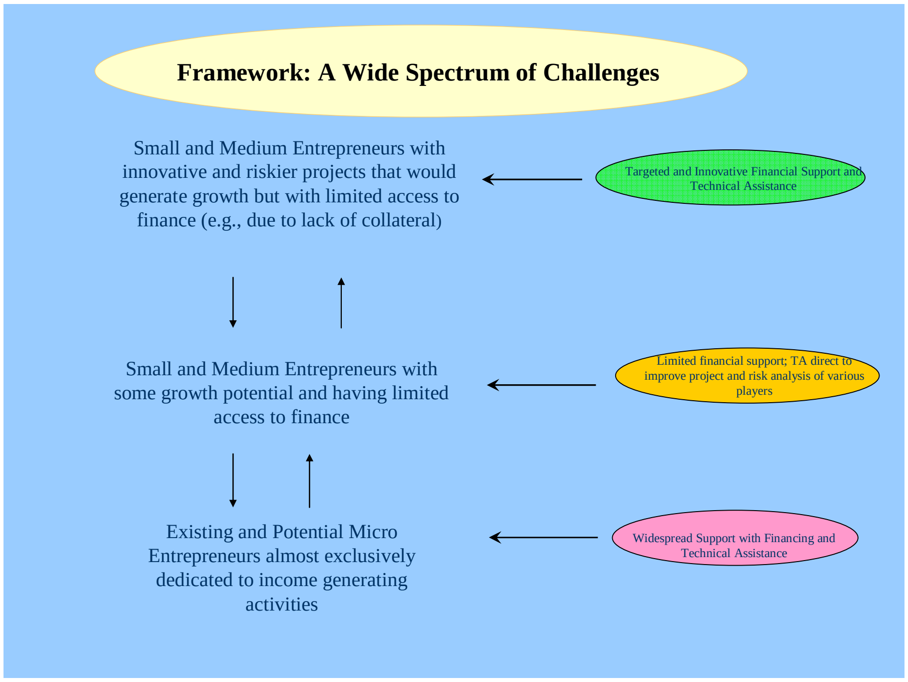
Objectives

The primary objective of the Agency is to facilitate access to finance for micro-, small, and medium-sized enterprises in the countries on the southern rim of the Mediterranean. The Agency intends to solve the problem of deficient local financial markets, which have sufficient liquidity but do not finance firms in the private sector. In this sense, the objective is to remove barriers caused by the financial system, which limits access to finance and reduces economic and social growth. There are also various further objectives that a better financial system would allow. For example, better working conditions would increase the incentives of citizens of the countries on the southern rim of the Mediterranean, who for different reasons have migrated, lived, and worked abroad, to return to their home country and use their skills and experiences to benefit these countries' economies.

To summarize, supporting micro-, small and medium-sized enterprises activities in the southern Mediterranean region means:

- promoting financial market development
- facilitating economic growth
- creating job opportunities
- increasing wealth

Figure 2



Moreover, the Agency may also have a fundamental function of evaluating and implementing national and regional public policies for the whole Mediterranean region. While efficiently solving the market deficiency problem, the Agency can also provide a strategic vision of policies to support the micro-, small, and medium-sized enterprises that play a driving role in a nation's economy. In this strategic design, it is possible for countries on both the northern and southern rims of the Mediterranean to exchange their experiences and best practices, and also to develop a better relationship among countries on the southern rim of the Mediterranean, which is quite limited at the moment.

From this perspective, the Agency can contribute effectively to finding an equilibrium between projects supporting income-generating activities, which concern mostly micro entrepreneurs, and initiatives supporting innovations and growth, which concern small and medium-sized enterprises (as indicated in Figure 1).

Figure 2 applies more specifically to the situation of the countries on the southern rim of the Mediterranean, showing a framework for the Agency's activities and for evaluating its strategic functions. The supporting interventions of the Agency should primarily focus on innovative enterprises, which have riskier profiles (e.g., enterprises in the technology sector form so-called start-ups) and belong to the upper part of Figure 2. At the same time, the Agency can facilitate access to finance for micro entrepreneurs (the lower part of the figure), whose demand for finance is largely unsatisfied. The more traditional activities, shown in the central part of the figure, are better served, even though in some cases they do not represent the most dynamic dimension of the economic structure. The idea is that between the three areas indicated in Figure 2, there is a continuous path that enables enterprises to grow, and thus become larger and more competitive.

To sum up, the Agency for the Mediterranean represents a project that will operate in several different fields as a relevant step toward improved economic development and integration. The establishment of the Agency will have value from various points of view: from the economic side (i.e., for the development of a more accessible financial system that will lead to the economic growth of the Mediterranean region); from the social side (i.e., for poverty reduction, reduction of immigration); from the side of international politics (i.e., for a reduction in conflicts among the Mediterranean countries); and from the side of the strategic coordination of public policies (for integration among the region's economies). Of course, in implementing the project, it will also be possible to identify further useful topics and/or tools (e.g., training for entrepreneurs, the role of remittances, insurance, and data collection).

Principles

The philosophy of the Agency is based on three fundamental principles:

- *Co-ownership* (political and operational): Beneficiary countries participate in the ownership of the Agency and in the definition of strategic and operative lines.
- *Market orientation*: Specific projects and operations will be supported and financed according to market criteria, i.e., competitiveness and efficiency.
- *Additionality:* Projects and operations should provide value added and introduce tools and instruments that do not already exist or are functioning inadequately.

The most distinctive part of the Agency is the principle of *co-ownership* between the countries on the northern and southern rims of the Mediterranean Basin. *Co-ownership* has two aspects; the first one is political, in the sense that beneficiary countries contribute to financing the Agency, and participate in making strategic decisions and the Agency's policy making; and the second one is operational, in the sense that projects and operations are started and defined with the participation of beneficiary countries. In this respect, an innovative aspect of the MBDI is to establish branch offices of the Agency in each country on the southern rim of the Mediterranean. Such offices will have the ability to propose projects and programs and also implement them. The idea of *co-ownership* is directly connected to the governance and structure (public, private, and mixed) of the Agency or the MBDI. The diagnostic paper of the Working Group did not elaborate on this eminently political topic. Nevertheless, it is considered that the structure of the Agency or the MBDI should be a mixed form of public and private sector participation.

Regarding *co-ownership*, the preparation process for the Working Group's diagnostic document sets an example, in that the Italian and Spanish officials worked jointly with officials from Algeria, Egypt, Tunisia, and Morocco to produce a market analysis that identifies gaps and defines activities, tools, and functions that can enlarge and facilitate access to finance for micro-, small, and medium-sized enterprises in the Mediterranean.

Proposed Interventions

The primary interventions of the Agency identified in the diagnostic paper are:

- Create legislation and practices for the common use of *borrowing collateral* (see Fleisig, Safavian, and de la Peña 2006).

- Introduce schemes of *loan guarantees*, which allow access to finance for small and medium-sized enterprises.
- Develop alternative sources of finance that allow riskier project to be undertaken:
    - *Leasing and factoring*.
    - Investments in risky capital through *venture capital*.
- Support *microfinance institutions* and also allow access to private capital.
- Promote the development of *insurance*, especially in the microenterprise sector (so-called *micro insurance*).
- Provide *technical assistance*.

Tools

The Agency aims to create financial tools and forms of technical assistance that are complementary and synergetic with the existing ones, and thus to avoid duplications and the creation of a new bureaucratic entity. The Agency intends to be agile, efficient, flexible, and cost-effective. The most important tools to be introduced or improved are:

- Schemes of *loan guarantees* (so far, only used for known clients with personal guarantees and political connections)
- Systems for collecting funding to finance so-called *venture capital* (so far, rarely used)
- Mechanisms for refinancing *microenterprise institutions* (it is estimated that micro entrepreneurs in Algeria, Egypt, Morocco, and Tunisia – and especially in Egypt – obtain only 5% of the necessary resources, see Aga Khan Agency for Microfinance 2008)
- *Technical assistance programs*, especially for microenterprises, risk evaluation, transparency, and the introduction of insurance.
- Projects for the creation and support of *credit bureaus*, which also have the function of improving a nation's credit culture.

From the point of view of the financial system, the tools can be grouped as follows:

- Banking finance:
    - Guarantee schemes
    - Local currency financing
    - Technical assistance
- Nonbanking finance:

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  - Support for local capital market development, especially for medium-sized enterprises
  - Direct funding for venture capital operations
  - Technical assistance
- Microfinance:
  - Refinancing microfinance institutions
  - Innovative tools, such as micro insurance
  - Technical assistance

These interventions can strengthen the institutional team for sustainable development and lead to further improvements. Table 1 summarizes the types of interventions for each country.

Table 1

Matrix Instruments Intervention				
Area of Intervention	**Country**			
	Tunisia	**Morocco**	**Algeria**	**Egypt**
				Support to the expansion of Credit Bureaus for micro entrepreneurs
Financing and Refinancing Micro finance institutions and micro entrepreneurs	Through the intermediation of Banque de Solidariete Tunisienne (BST) or directly to local Micro financial institutions	Participation to Jaida (existing fund to finance Micro financial institutions)	Possible in the long term with participation of appropriate institutions	Participation in existing funds to finance Micro financial institutions
Financing thru Capital Markets				Securitization cash flows of SMEs
				Investment in innovative Start ups with Young Entrepreneurs Association (YEA)
	Securitization cash flows of SMEs		Possible in the long term with participation of appropriate institutions	Technical assistance for the creation of a special listing of SMEs on the stock exchange (Nile Market)
	Creation of a fund to support liquidity of shares of SMEs listed in a special listing of the stock exchange	-	Possible in the long term with participation of appropriate institutions	Creation of a fund to support liquidity of shares of SMEs listed in a special listing of the stock exchange
Direct Financial Support to SMEs	Financial support to Investment companies to exit from given investments in SMEs	Financing and restructuring for SMEs heavily indebted	Possible in the long term with participation of appropriate institutions	
Guarantees Schemes	Technical support for project analysis and use of guarantee			
		Possibility of guarantee related to the uncertainty of the judicial process		
	Co-participation in existing guarantee schemes	Co-participation in existing guarantee schemes- Caisse Centrale de Guarantee		
Local Currency	Competition with banking cost; exchange risk	Technicalities to explore further		
Technical Assistance	Technical Assistance to Companies for financial package	Technical assistance to companies to assemble financial packages and also to monitor during implementation	Technical Assistance to Companies for financial packaging and project preparation and to banks for evaluation of risks	Support to the expansion of Credit Bureaus for SMEs
	Technical Assistance Investment companies	Technical assistance indebted companies		Technical Assistance to Banking Institute for training for project preparation and project valuation including risk analysis
Studies and Research	Development Insurance Market for micro entrepreneurs	-		Insurance markets
Industrial Cooperation	Development cooperation in advanced areas of innovation such as nano technology, tourism, agro business		Development cooperation for entrepreneurs in specific sectors, e.g., artisan	
	Granting market access to products of the companies of the Mediterranean and particularly of the South			

4. The Economic Policy of the Mediterranean Initiative

The establishment of the Agency for micro-, small, and medium-sized enterprises, or the start-up of the MBDI, can have important political, economic, and social effects for Europe, Italy, and all the Mediterranean countries. Consequently, different groups stand to gain benefits or be penalized by the Initiative.

The most challenging aspects of economic policy are those relevant to the European Union. In fact, at the completion of the technical process, the proposal for the Agency took the road of the EU and of the EIB, whereby many countries do not support the creation of the Agency. Germany's opposition to the Initiative is based on three considerations:

- First, in such a situation of financial crisis, with extraordinary public finance expenses, the establishment of a new multilateral organization such as the Agency does not seem to be realistic.
- Second, Germany's current political priorities are the Eastern European countries, not the Mediterranean region.
- Third, Germany already operates in the Mediterranean area with bilateral and direct programs and projects similar to those ones proposed by the Agency and the MBDI, especially through the KfW Bankengruppe (formerly Kreditanstalt für Wiederaufbau).

Given its importance, Germany influences other countries, especially those in Northern Europe, and creates a strong constituency against the Initiative in the Mediterranean.

In the face of Germany's reasons for opposing the Agency, to persuade Germany to give approval, it will be necessary for Italy, Spain, and France to make an effort at the highest level. Therefore, it will be necessary to have a strategic alliance – especially with Spain – a privileged speaker in the Mediterranean region and a supporter of the Initiative.

Spain, at a certain point, was satisfied to host the Up Med Secretariat in Barcelona and showed less of a sense of urgency about establishing the Agency. The negotiations for the establishment of Up Med made decisions in favor of some countries (i.e., the establishment of the Secretariat in Barcelona and the establishment of the Training and Research Center in Marseilles), without giving guarantees for the realization of the Agency and for its location that Italy could have claimed. During the Sixth Laboratorio Euro-Mediterraneo, held in Milan on June 30 and July 1, 2008, the Italian prime minister declared that Milan is the financial center of the Mediterranean. Spain took this declaration as challenging the role of Barcelona as the center of activities in the Mediterranean.

France seems to be in favor of the Agency, even though the Initiative was not born under its aegis. France might be able to facilitate the assent of Germany (e.g., it tried tentatively to do so in the past, but it did not succeed in overcoming Germany's opposition).

Such situations were exacerbated by the dramatic global economic and financial crisis, starting in August 2008, which hit all countries and monopolized the attention of ministers of economy and finance – hence reducing both the political attention given to the Agency and its visibility. This implies that little pressure was applied by supporting countries to other European countries and to the Partner Countries on the southern rim of Mediterranean. With respect to this last point, the political counterparties in the Mediterranean countries are the ministries of economy and finance, ministries of development, and potential beneficiaries (which include entrepreneurs, banks, development agencies, and nongovernmental organizations). All these parties should be made aware of the importance of the Initiative. And all these failings to act with a strategic view have weakened the stance of the Agency and the MBDI within the European Union.

In Italy, the little attention given to economic policy in the EU environment resulted in neglect in conveying interest in the Agency project. There was also a fear of creating too many expectations. In this respect, the principal players in Italy are the Ministry of Foreign Affairs and the Presidency of the Council of Ministers, which are supportive of the Agency, in particular for international policy and local pacification reasons; the Ministry of Economic Development; the Institute for Industrial Promotion, the Institute for Foreign Trade, Confindustria (the Italian Employers' Federation), and associations of small and medium-sized enterprises, which are supportive given the Italian productive structure; and the Associazione Bancaria, which is in favor because banks could play an important role both for small and medium-sized enterprises and for microfinance. In the sector of small and medium-sized enterprises, Italy has specific interests, such as knowledge of different technologies that can be used by small and medium-sized enterprises, and therefore the possibility of forming joint ventures with local counterparties and /or providing technical assistance and training (in which universities can also play a role).

5. The Approval Process for Public Policies

The primary question this paper seeks to answer is to what extent the international process for the establishment of the Agency, or of the MBDI, follows Kingdon's model (2002), developed for the approval of public policies in the U.S. system (see Box 1). For the adoption of public policies and changes, Kingdon's model identifies three distinct streams: *problems*, *policy*, and *politics*. There is no priority or sequence among the three streams (as in the case of the rational model of *phases*; see Simon 1979; Scott 2000), each of which can develop independently and non simultaneously. Each stream has its own logic, and at the moment when a small *policy window of opportunity* opens – and then can quickly close – the political conditions are realized for the alignment of the three streams, when, consequently, policies and changes can be adopted. All three streams are necessary – none alone is decisive for approval. The mechanism of the streams and their alignment are not left to chance, but the so-called policy *entrepreneurs – the champions* – play a decisive role in facilitating the coincidence of the streams to arrive at political approval of the *policy*.

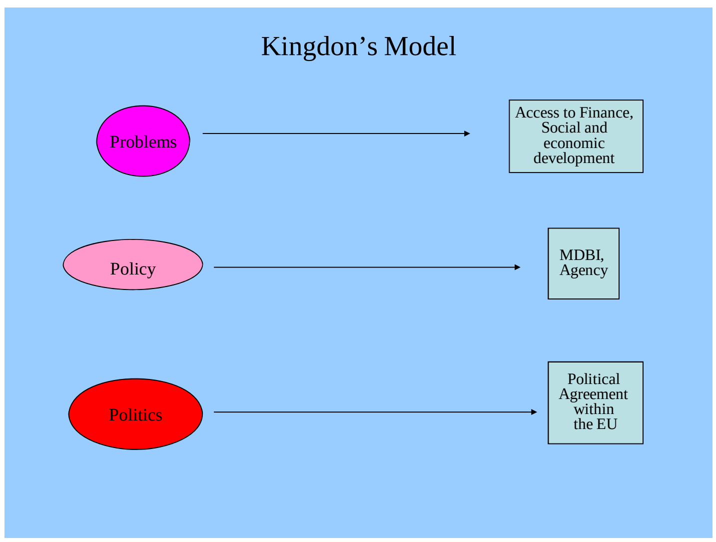
One characteristic of Kingdon's model is that the process of adopting a policy change is complex and nonlinear and thus requires effort from a number of important players. According to Kingdon, the visible participants – politicians, commentators, and political parties – determine the agenda (the list of arguments to which government officials and politicians pay attention in a certain period), while the invisible participants – researchers, analysts, bureaucrats, government experts, officials – determine alternatives of *policy.*

The experience of the Agency and of the MBDI supports Kingdon's model. In the beginning, political decisions (i.e., those made at the Ibiza summit) defined the agenda and started resolving the problem, which has significant political relevance – i.e., private sector development in the Mediterranean helps generate economic and social stability in the region, with benefits for both nearby countries and European countries, such as a reduction in immigration and fewer terrorist threats. The *policy stream*, based on theoretical and empirical research, sees its independent progress in responding to the problem of access to finance for enterprises in the Mediterranean. In this sense, the studies of those associated with the World

Bank and the International Monetary Fund are very relevant. Proposals for the Agency and the MBDI request large efforts from the Italian government and the Italian Ministry of Economy and Finance, as well as for other countries; they are characterized by a leadership that initiates contacts, defines the guidelines for the preliminary document, and makes vital contributions to this document that lay the basis for the Working Group that produced the final document for the establishment of the Agency.

Moreover, this work on the Agency moves in parallel with Italian and Spanish participation in the program of the Organization for Economic Cooperation and Development (OECD) for financial market development in the Mediterranean, in the context of the Middle East and North Africa (MENA)–OECD Working Group on Policies for SMEs [small and medium-sized enterprises], Entrepreneurship, and Human Capital Development. At both the June 2009 opening meeting in Barcelona and the subsequent October 2009 meeting in Paris, Italy assured the MENA-OECD Working Group's vice president and gained acknowledgment and visibility. The work of the MENA- OECD Working Group will continue in 2010.

Figure 3



With respect to *policy*, to cite the early researchers Cohen, March, and Olsen (1972, 1–3, 9–13), the proposal for the Agency and the broader concept of the MBDI can be viewed as part of a so-called *garbage can*, namely, studies, research, and proposals about the need to promote private investment (e.g., on the work of the Anima Investment Network, see Abdelkrim and Henry 2008, 2009) and the necessity of making the financing system for enterprises in the Mediterranean more efficient. In the case of the Agency, theoretical and empirical research is an important input for the *policy* work and helps to define a concrete, fully elaborated proposal. In fact, the meeting in Barcelona on June 30, 2008, concluded the technical investigation of the project, and the *policy* phase then flowed into the realization phase and the *politics.* This circumstance confirms Kingdon's model of the streams; *problems*, *policy*, and *politics* can progress in different time frames and in different forms, like parallel streams. Likewise, it also confirms that *policy* changes normally unfold incrementally (through small changes adopted over time; see Lindblom 1959), and that the so-called *big bangs* hit when the stream of the *problems* to be solved, the stream of adequate *policy*, and the *politics* stream converge. This convergence leads to policy adoption and changes. Figure 3 indicates the three streams of Kingdon's model, applied to the case of the establishment of the Agency.

Box 1. Kingdon's Model of Three Streams

Kingdon's model focuses more on the flow and timing of policy action than on its component steps, and it is extremely useful in understanding the complexities and realities of policy making. In his model, Kingdon emphasizes three streams – the *problem* stream, the *policy* stream, and the *political* stream – which move independently through the policy system:

- *The stream of problems*. The rationale behind this stream is that a given situation must be identified and explicitly formulated as a problem for it to bear the slightest chance of being transformed into a policy. Indeed, a situation that is not defined as a problem, and for which alternatives are never envisaged or proposed, will never be converted into a policy issue.
- *The stream of policies*. The second stream used to explain how an issue rises or falls on an agenda has to do with the stream of policies. This stream is concerned with the formulation of policy alternatives and proposals. An extremely important aspect of this model is the belief that such proposals and solutions may not initially be built to resolve given problems, and they may float in search of problems to which they can be tied.
- *The stream of politics*. Although they take place independently from the other two streams, political events, such as an impending election or a change in government, can lead a given topic and policy to be included or excluded from the agenda. Indeed, the dynamic and special needs created by a political event may move the agenda around.

This model contradicts the rational approach to decision making, i.e., policies are not the product of rational actions, because policy actors rarely evaluate many alternatives for action and do not compare them systematically.

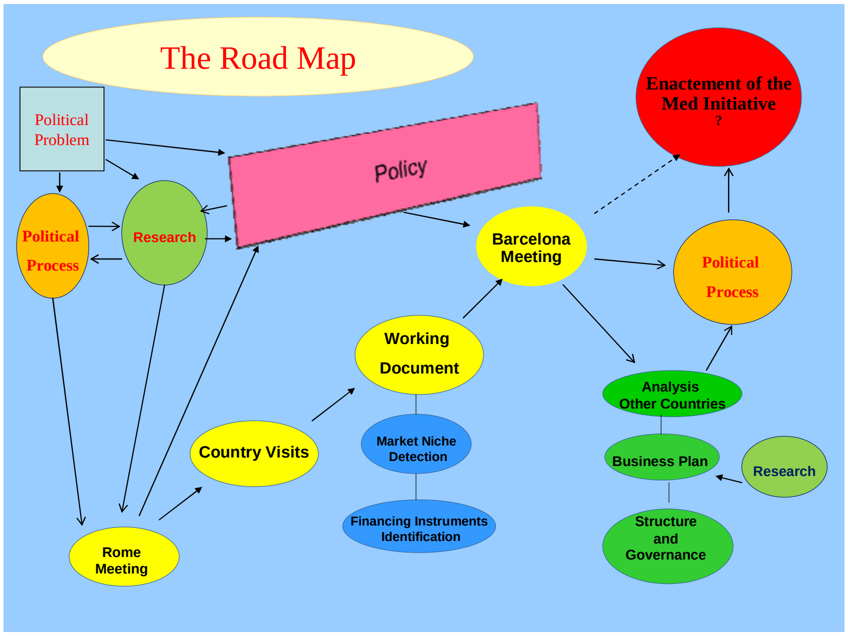
From: http://www.metagora.org/training/encyclopedia/streams.html#90th

However, with respect to *policy* adoption in the case of the Agency and the MBDI, a fundamental ingredient is missing: the *politics* stream and the political will. As a matter of fact, while the *problems* are evident, and the *policy* is available (i.e., in the work carried out by the group guided by Spain and Italy), a political accord does not exist or has disappeared (in fact, it did exist at the moment of the 2007 Ibiza summit's declaration, but then political interest weakened). Indeed, it has been noted how political attentions and visibility have been directed towards other needs related to the global economic and financial crisis.

The experiences of the Agency and the MBDI confirm the validity of Kingdon's model, according to which *policy* approval and change take place when there is a convergence of problems with public policy solutions that reach a mature stage and are ready to be applied to existing needs because of a political agreement (see Figure 3). The experience also proves that the *window of opportunity* is only open for a short time and may close quickly.

Figure 4 outlines the path of the processes in a complex form – *the road map* – wherein different factors interact (e.g., theoretical and empirical research on the topics) with the three streams.

Figure 4



The lack of political attention given to the MBDI was the result not only of the urgency of other problems and of the existence of alternative solutions (e.g., the global financial crisis took away time, visibility, and attention from the Mediterranean) but also of the absence of a voluntary component: a *champion* for the realization of the Agency and the MBDI. Thus, the little political attention devoted to the MBDI is reflected in the small amount of effort expended in creating conditions to support the Agency and the MBDI, both in Europe and in Italy (e.g., the establishment of an expert group to support the Initiative, coordination among ministries, and especially ministries of economy and finance and ministries of foreign affairs).

6. Conclusions

Some considerations on five points: about the applicability of Kingdon's (2002) model; the completion of the process of realizing the initiative in favor of micro, small and medium sized enterprises in the Mediterranean; the importance of reaching political consensus; further operational and policy aspects that can be examined once political agreement is achieved; and the possibility of replicating the experiences in other situations.

As for the first point - the applicability of the Kingdon's model to the experience of the Agency and the MDBI, the present article demonstrated how the model explained in large part the process for realizing an international project with multiple policy and political issues. The analysis on the Kingdon model's application on the experience of the Agency and the MDBI confirms the need for the three *streams,* though moving in independent forms, to find a coincidence that takes to the application of *policy* and change. Moreover, it is interesting to underline how the political moment needs to correspond to the problem and to the identification of solutions (the *policy*). Indeed, at the very beginning of the process (2007 Italian-Spanish Ibiza Summit), a broad political agreement existed, but there was not a policy solution ready to be applied and adopted. Subsequently, the *policy* solution was indentified, but then the political agreement was missing. Therefore, the experience of the Agency and the MDBI shows that political agreement is a necessary but not sufficient element for the approval of *policy*.

The importance of political agreement then takes us to the second point of the final thoughts: the conclusion of the process for realizing the Agency and the MDBI.

For the realization of an Entity, Agency, or MBDI, it seems that it is necessary to have an adequate political intervention for interested countries, including both EU members and the countries on the southern rim of the Mediterranean, which facilitates the emergence of the political stream – the missing one.

In the European Union, it is necessary to build a strategic alliance among Italy, Spain, and France at the political level (e.g., in the framework of the Economic and Financial Committee and Ecofin) that will make it possible to overcome the political objections of Germany and other countries that consider the Agency or the MBDI to be a bilateral project rather than an EU project. An integral part of this strategy is the ability to make the relevant players and people understand that the Mediterranean region's economic growth has political, economic, and commercial and security value for the whole of Europe rather than just the Mediterranean countries. In this respect, the instability of the Mediterranean, immigration, and the potential expansion of terrorism are crucial issues for all the European countries.

In keeping with the preliminary conclusion from the study produced by the FEMIP experts and their expected further analysis, it is necessary to coordinate with Spain and other partners and to define a deadline within which the project should be completed. In this sense, it is fundamental to reach a strategic and political agreement with Spain, which will have the EU presidency in the first semester of 2010, and also to coordinate this agreement with the other Mediterranean countries that belong to the EU, such as France and Greece.

The recent effort concerning the EIB asked the Italian and French ministries of economy and finance to compensate for the EIB's disequilibrium towards the East and undertake reinforcement for the EIB's activities and efforts in the Mediterranean, which moves in the direction of the EIB's supporting the Agency and the MBDI project. Such actions by both ministries constitute a political intervention in the direction of convincing other EU members to dedicate resources to the Mediterranean as a European priority, for the purpose of increasing trading opportunities and also reducing tensions and immigration pressures towards Europe.

A second intervention needs to be directed to raise the awareness of the southern rim Mediterranean countries about the Agency and the MBDI until it becomes a politically important project. The European and Mediterranean countries' economic and finance ministers gather annually at the Euro-Mediterranean Ecofin meeting, to review the cooperation between the two regions and define future programs. In this respect, the conclusions reached by the Euro-

Mediterranean Ecofin ministerial meetings can prepare for future cooperation plans. Therefore, it is necessary to urge recipient countries to ask for specific actions to support the Mediterranean region's development, including the MBDI.

From an operational point of view, the Entity is expected to have a mixed public and private structure, building on independence and analytical ability. Apart from single countries, the EIB can also be involved significantly in the Entity, for at least two main reasons. First, the EIB already operates in the Mediterranean, and with the MBDI, it can expand its operations, but within a framework where the stakeholders are beneficiary countries. And the EIB's intervention may significantly reduce financial expenses from national treasuries, also considering that the EIB recently received a big capital increase.

Such alliances with the EIB and other relevant players can define a project for the Agency's structure, while waiting for experts to provide further elements. Given the political nature of the decisions that are needed, it seems advisable to select from among the various *policy* options presented by experts the one that leads to the improvement of the financial system, develops synergy with existing entities (like the Anima Investment Network), and will enable the Agency to evolve over time into an efficient and effective regional institution. From this perspective, it may be useful to organize an international conference addressing entrepreneurship and financing issues in the Mediterranean, which may help encourage political support and positive public opinion and give visibility to the Initiative.

A final consideration is that, in a globalized world, the sharing of experiences and best practices is happening fast and becoming widespread, so positive outcomes reached in Asia and Latin America (for instance the rich experience of the Inter-American Investment Corporation) can be replicated on other parts of the planet, i.e., best practices from these regions can be applied and replicated in the Mediterranean. In turn, international experience with financing small, medium-sized, and microenterprises can also provide guidance for the implementation of similar efforts in large countries like China. Thus best practices can be applied and replicated taking into consideration the specific political and policy issues.

However, the experience of the Agency and the MDBI and the Kingdon model's applicability should not be considered as a full generalization in other contexts and frameworks. It is only about a case study, whose generalization is limited. But it is hoped that such studies will be undertaken in other contests and in both national and international frameworks. In this respect, from a policy point of view, the international experience in terms of financing for small, medium and micro sized enterprises can provide elements for the large countries like China. From broader point of view, it would be interesting to verify Kingdon's model with projects that foresee public and private participations, which are undertaken in different national and international frameworks, e.g., initiatives and projects in other parts of the world, such as in the Balkans, or in Far East and also in China.

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