THE EUROPEAN INVESTMENT BANK'S FINANCING ACTIVITIES IN THE SOUTHERN MEDITERRANEAN

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The Southern Mediterranean, as a neighbouring region for the European Union has received a special interest in the EU policies towards external countries, and this special interest has been appearing in the EU assistance given for the economic development of the region. The raising social tensions in the Mediterranean countries and the growing migratory pressure in recent years, however, have increased the challenges connected to the region, and thus the importance of a broader and more complex development support as well. The European Investment Bank (EIB), as the European Union's development bank carries out an ever-growing development lending activity in the Mediterranean. In our study we analyse the role of the EIB in this financing, and argue that to be able to fulfil the expectations concerning the future role of the institution in development assistance, the EIB has to improve its financial assistance practices.

Key words: Mediterranean countries, European Investment Bank, development, financial operations

INTRODUCTION

The EU's Southern Neighbourhood[1] is of utmost importance for the European Union, as one of the major sources of challenges the EU has to face in recent years (e.g. migration, terrorism).

1 By Southern Neighbourhood or Southern Mediterranean countries the study considers Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Lebanon, the Palestine Authority and Syria.

The activities of the European Investment Bank are mainly concentrated in the EU Member States, but for decades, and to an increasing extent, it has been also supporting regions and countries outside the EU. This study examines, in particular, how the EIB's financial supports contribute to the achievement of these European efforts towards this region.

In the first part, after a short overview of some relevant literatures the study analyses the relationship of the EU and the Southern Mediterranean countries: the challenges that the region poses for the EU, the institutions it created to address these challenges, and the extent to which these institutions are able to deal with the risks created by the Southern Mediterranean. The second part examines the priorities and the authorisation upon which the European Investment Bank carries out its financial activity, and the regions concerned by this funding outside the Union. The third part examines the EIB activities in the region in detail. Along with the presentation of the lending priorities, an analysis of the distribution of this lending broken down to countries and sectors based on statistical data is also provided. The cooperation of EIB with other development institutions the EIB in the area is also assessed. A brief evaluation of the EIB activities in the Southern Mediterranean concludes this study: the extent to which it was able to contribute effectively to the economic development in the region, and to the realisation of EU policies.

A SHORT REVIEW OF LITERATURE

There is a broad literature on the EU-Mediterranean relationship, dealing with this complex issue from different points of view. Bruns et al. (2016) reveals the geopolitical aspects behind the integration: how much the EU is able to act as a geopolitical actor in the neighbouring regions, what kind of instruments it possesses to reach it goals outside its territory. Bouris and Schumacher (2017) provides an excellent analysis on the continuities and changes in the revised Neighbourhood Policy: how the Arab Spring and its aftermath affected the EU policies and bilateral relations. Kourtelis (2015) focuses on the political economic backgrounds, especially in the North-South relations: he reveals that the unchanged power structures in the domestic environment of both sides have reduced the expected efficiency of Euro-Med economic cooperation.

For the purpose of our study literature that examines the EU financial support given to the region, its conditionality and effectiveness, are of special importance. Holden (2008) draws attention on the rewards-based conditionality of the EU's aid policy towards Mediterranean countries that had been targeted at supporting reforms in key sectors. Ayadi and Gadi (2013) analyses the new priorities of assistance policy created as a reaction to the events of the Arab spring, and the possible scenarios to handle old and new challenges. Zorob (2017) goes further by assessing the social and economic consequences of the EU policies in the Southern Mediterranean countries, and the impact of the EU assistance to improve the actual situation.

Since we are focusing on the activity of the European Investment Bank, the literature on international development banking activity has also a relevance to our topic. Multilateral development banks (MDBs) are in general highly valued by recipient countries and they are considered more effective and efficient than traditional bilateral donors (Prizzon et al. 2017). However, the MDB model combining large-scale finance, at interest rates lower than countries could borrow from capital markets is under threat: more restrictive policies have become embedded in MDB management culture the influence of powerful shareholders—most notably the US—who are reluctant to take any risks that could lead to an MDB bailout (ibid.). Spantig (2017) investigates how the activity of international financing institutions has been adapted to changing challenges and requirements. Here, the post-Arab-Spring Mediterranean region offers a good case to analyse.

The EIB's general extra-EU lending activity is widely analysed in the literature. Antonowicz-Cyglicka et al. (2016) and Dobreva (2018) give a critical overview on the EIB external mandate, Lesay (2013) analyses the EIB's external activity from a developmental policy approach, while Újvári (2017) discusses the EIB's activity as a potential part of the EU external policy.

On the Mediterranean activity of the EIB, however, we can find only few analytical literatures. The EIB itself provides ex-post analysis of previous FEMIP programs (De Laat et al. 2013), but we hardly find more detailed analysis that puts the issue in a broader framework.

INSTITUTIONAL AND FINANCIAL FRAMEWORKS OF EURO-MED COOPERATION

The evolving European integration — due to its geographical, historical, political, economic and cultural connections – has from the outset been interested and directly involved in the security, stability and development of the countries of its southern neighbourhood, of those of North Africa, and of the so-called Levantine countries (Syria, Lebanon, Jordan and Israel). While during the Cold War, the relations were primarily focusing on bilateral trade and financing agreements, from the mid-nineties on, the need has increased for addressing jointly the region and its complex problems.

The basic challenge was the fact that the economies of the region were not able to keep pace with the fast-increasing population, and hence most countries had to face growing social tensions due to increasing unemployment and stagnating or declining incomes. These tensions may lead to radicalisation (Islamic fundamentalism), civil war and increasing migratory pressure. In response to these challenges, the EU was looking for a complex solution, the key element of which was to promote the economic prosperity of the region. The EU's main instrument for fostering these goals was the economic integration (free trade), which was complemented by investment sources.

The Barcelona Process, which was launched in 1995 and was aiming to tighten the relations between the EU and the Southern Mediterranean region in the framework of the Euro-Mediterranean Partnership (EMP), was built on three pillars (political, economic, and cultural). In the framework of the partnership, so-called Euro-Med Association Agreements were concluded with the countries in the region, which over a period of 15 years included the creation of bilateral free trade.

While the short- and medium-term positive wealth impact of these free trade agreements is highly debated (see e.g. Langan 2015), the EMP has offered a broader financial assistance for the region. The MEDA (Mediterranean Economic Development Area) programme was established as the institution responsible for the financial support. MEDA I (1995-1999) disposed over EUR 4,422 million, while MEDA II (2000-2006) provided EUR 5,350 millions of funding for the beneficiary countries. The financial resources were assigned to the targets and programmes defined in the country-strategies (so-called national indicative programmes). Though the country-priorities were set together with the Southern partner countries, the final decision on the development targets was made in Brussels. The projects were financed mostly through the national governments, however, so the selection of firms and NGOs involved in the projects depended on local political preferences.[2] The efficiency of the financial subsidies aiming for economic and social reforms was below expectations (Holden 2008).

The European Neighbourhood Policy (ENP), established after the 2004 EU enlargement, addressed the Southern and Eastern neighbourhood (Ukraine, Moldova, Belarus, the Caucasus states) jointly, but the EMP still remained in a separate unit. The financial resources, however, were merged, and the TACIS (the financial fund for the Eastern countries) and the MEDA operated after 2007 under the common name ENPI (European Neighbourhood and Partnership Instrument). The ENPI disposed over EUR 11,200 million between 2007 and 2013. The bilateral financial assistance from EU-members has well exceeded EU-funds. The EUR 13,803 million French support (1995-2009) was higher than the overall EU financing (12,758 million), but Germany (EUR 7,170 million), Spain (EUR 2,401million) and Italy (EUR 1,601million) were also important contributors (Ayadi-Gadi 2013, 8).

2 It has also contributed to the negligence of some social groups, to the deterioration of social cohesion, and as a consequence, to a decreased efficiency of the subsidies. (Bicchi–Martin 2016, 144)

On a French initiative in 2008, the Union for the Mediterranean (UfM) was established, which has sought to improve the cooperation between the two regions on six main areas of support.[3] To finance the costly infrastructural projects, the Neighbourhood Investment Facility (NIF) was established. The NIF was financed both by the EU budgetary funds, and by member states' contributions. Between 2008 and 2016, the 1,678 million euro of the EU budgetary support to NIF has mobilized ca. 15 billion euro of investments, 60 percent of it in the Mediterranean neighbours (European Commission 2016, 6).

The Arab Spring initiated in 2011, however, has led to radical changes and questioned the EU's established relations with the region. The current uncertainties and the increasing role of the Southern Mediterranean in global migration are due to the failures of the economic and political processes of the region. The economic growth in the first decade of the 2000s was benefitting mostly the elites of the societies, and unemployment, especially among the youth has grown very high, and thus it has increased social tensions. Foreign investors see most of the countries of the region as non-competitive due to red tape, high political risk and poor economic structure. Economic problems have affected even the political stability of the region: the authoritarian regimes, which were in power for decades, have weakened and completely lost their legitimacy in many countries. The sometimes-revolutionary discontent could not lead, however, to a satisfactory solution and the rise of radical Islam adds to the uncertainty in the region.

One of the most fundamental aims of the EU's Mediterranean initiatives was to reduce its safety risk by improving the economic development of the region. The reforms, however, which needed economic liberalisation and a fast opening of external trade, have posed huge economic burdens on the Southern countries, especially in the short term. The EU was providing a limited support to these reforms, due to its internal structural

3 The six areas are: transport and urban development, water and environment protection, energy and climate protection, social and civil affairs, higher education and research, and business development.

tasks in the late 1990s and early 200as, and also due to the Eastern enlargement. Foreign investments that could have otherwise offer a solution to these specific problems (balance of payments, job creation) were also missing. A number of areas (liberalisation of services, labour mobility) are not yet, or only partially, included in the Euro-Med partnerships. The EU's Mediterranean policy that was aimed originally to reduce the security risks for the EU, often has strengthened the effects contrary to this process.

As a first reaction to the events of the Arab Spring, the EU extended the ENPI funds with EUR 1,000 million between 2011 and 2013 and added new priorities (Zorob 2017, 10). In the framework of the reform of the ENP in 2015 and of the EU's Global Strategy in 2016, the Union seeks to address these issues in a complex manner. The Mediterranean policy has been refocused with a greater coherence of the European Union's policies (foreign and security, development, and neighbourhood policies), with providing bigger financial resources, with a differentiated treatment towards each country's situation and problems and with the support of inclusive economic policies aiming on the one hand, at reducing social tensions and poverty and at creating jobs on the other. These are now financed by the European Neighbourhood Instrument (ENI) that provides EUR 15,400 million, complemented by loans provided by the EIB.

THE EIB AND ITS ACTIVITIES OUTSIDE THE EU

The European Investment Bank is the EU's long-term development lending institution, which was established under the Treaty of Rome establishing the European Economic Community in 1958. The bank is owned by the EU Member States, therefore, its primary task is to contribute to the EU's long-term objectives. In 2000, the EIB was complemented by the European Investment Fund (EIF), which provides venture capital mainly to SMEs and, in 2012 the EIB Institute became the new member of the EIB Group. The EIB has an AAA credit rating, it finances its loan products from the capital markets and grants loans on a non-profit-making basis in the Member States and for projects of common interest to the Member States.[4]

Since 1963, the EIB has been continuously and increasingly supporting the EU's external policies, which resulted in an activity that encompasses today practically all countries of the world. The EIB's external lending activity aims at, in particular, the EU foreign policy, its neighbourhood policy and its development aids.

In comparison with other multilateral development banks (IBRD, EBRD, the African Development Bank, etc.) the EIB is unique in a number of respects. It is active at the same time both in each of the EU Member States and in the developing countries, with no development objective on its own, but subject to the goals set by the EU Member States and institutions. A significant part of its activity outside the EU is carried out under EU guarantee. It primarily focuses on investments and project-funding and participates in shaping the country- or the sectoral strategies only to a limited extent (since the latter are taken care of by different EU institutional resources). Beneficiary countries outside the EU are not shareholders of the EIB; it grants preferential loans only to a limited extent and mainly on a regional basis (e.g. ACP countries). It carries out its funding in developing countries with far fewer human resources than other development banks (Steering Committee 2010, 8).

The EIB's External Lending Mandate (ELM) operates with the guarantee provided for external funding by the EU budget. The ELM includes not only the countries participating in the enlargement and neighbourhood policies, but also the countries of Latin America and Asia. A major part of the African countries may be granted EIB loans in the framework of a separate mandate (the Cotonou Agreement), established for the ACP countries. In addition, the EIB grants loans through its Own Risk Facility (ORF) without an EU guarantee.

The need for an EU guarantee follows partly from the Statute of the EIB, pursuant to which it may carry out any lending

4 See the Lisbon Treaty (TFEU 309).

activity only under appropriate security, and the credibility of the bank needs to be maintained (even by loans granted to riskier third countries). The guarantee was initially country-based, then regional and in 2007 it became general (except for the ACP countries to which a specific rule applies) (EC 2013, 66). From 1997 schemes started to appear, where the EIB itself took parts of the risk on a regional (in the case of acceding then neighbourhood policy countries) or on a thematic (energy, sustainability) basis. In many cases they shared the risks, and hence, the political risks were borne by the EU budget and the commercial risks by the EIB (covered by a third party). Since 2007 risk-sharing has become obligatory at each lending concerning the private sector. This is partly the reason why in 2011 the proportion of own risk loans exceeded the amount of the loans granted with an EU guarantee (EC 2013, 67). The EIB recommendations also propose the extension of own risk lending, reserving the EU guarantee primarily for countries with a higher risk (Steering Committee 2010, 21). Recent years' experience also shows that the calling of guarantees is very rare. The EIB itself provides mostly loans (and not grants), but it offers other financial instruments as equity investments, guarantees and advisory services for its clients.

In general, supported projects outside the EU focus primarily on the development of the private sector, the economic and social infrastructure, the investments concerning climate and environmental protection, and those fostering regional cooperation. In addition, the ELM supports the foreign direct investment (FDI) of EU companies. The new External Investment Plan (EIP) adopted in 2016 extended the former EIP with a specific priority: addressing the root causes of migration. On the proposal of the Commission, at the occasion of the mid-term review of the budget of the EU (MFF), the ceiling amount of the guarantee behind the ELM was raised from EUR 27 billion to EUR 32.3 billion. EUR 1.4 billion from the increased amount is earmarked for the public expenditures concerning migration in the acceding and the Southern Mediterranean countries, while a further EUR 2.3 billion is earmarked for the private sector to support migration related activities (Dobreva 2018, 4). In addition, the establishment of the so-called Economic Resilience Initiative (ERI) was also adopted. The ERI is an additional financial support tool for the countries of the same regions (Western Balkans and Southern Mediterranean) that can be rapidly mobilised to improve sustainable development and social infrastructure and cohesion, and thereby the economic resilience. Evaluations on the EIB activities highlight the importance of evaluation and monitoring concerning the EIB's investment projects and propose to improve them (Steering Committee 2010: 25). These evaluations emphasise local consultations relating to the projects and the use of economic, social (e.g. human rights, gender equality) and environmental impact assessments and indicators. Priority is also given to money laundering, corruption, tax evasion and the risk of terrorist financing (Dobreva 2018).

Of course, in the case of the EIB, projects within the European Union are the large majority (around 90 per cent), the remaining 10 per cent is shared among 160 countries outside of the EU. This amount, however, is also significant: since the establishment of the EIB, it allocated capital in an amount of EUR 120 billion for financing projects in non-EU countries and it lends currently around EUR 8 billion annually for projects outside the EU. In the first three decades, the former colonies of the African, Caribbean and the Pacific regions (the so-called ACP countries) were the priority, however, even at that time the Mediterranean countries were already significant beneficiaries. In the course of the nineties the main target region concerning non-EU loans became without doubt the Mediterranean in major part due to the special support of the Euro-Mediterranean Partnership process that was taking shape at that time. From the two-thousands on, the acceding states took the leading role, initially those acceding in 2004 and 2007 from Central and Eastern Europe, and later on the main beneficiaries of the loans became the Western Balkans and Turkey. The support of the Eastern Partnership also committed significant resources, while in recent years the proportion of non-European (Asia, Latin America) lending has increased in order to reach foreign and development policy goals. On the whole, the Southern Mediterranean region has received one quarter – that is EUR 36.5 billion – of the non-EU resource-allocations, while the wider Mediterranean region (together with Turkey and the Western Balkans) – almost half of the funds.

Table 1: *The EIB's external funding projects per region and per periods (million EUR)*

	1959-1989	1990-1999	2000-2009	2010-2019	1959-2019
EFTA	68	1,101	1,866	1,855	4,892
Accession countries	982	871	17,165	22,598	41,617
Eastern Europe	0	0	718	11,106	11,823
Medite-rranean	1,533	6,137	12,543	16,421	36,526
ACP	2,806	3,299	5,551	9,901	21,557
Asia and Latin America	0	1,701	5,705	13,620	21,026

Source: EIB (2020)[5]

THE EIB'S ACTIVITY IN THE SOUTHERN MEDITERRANEAN

The Development of EIB's involvements'

The EIB has been providing loans to the Southern Mediterranean countries since 1978. Over the period 1978-1995, the EU concluded bilateral financial cooperation agreements with the countries of the region. The agreements that were renewed every five years would not only enable budgetary aid, but also EIB support to the countries of the region. Between 1978 and 1991, the Mediterranean countries received ECU 1,965 million, while between 1991 and 1995 on the basis of the 4th Financial Protocol ECU 1,300 million as loans. The New Mediterranean Policy adopted in 1990 guaranteed ECU 1,800 million loan volume for

5 If otherwise not indicated, data in the tables is based on the EIB database (http://www.eib.org/projects/loan/list/index), sometimes with own calculations.

the period of 1992 to 1996, primarily for funding regional (ECU 1,300 million) and environmental (EUR 500 million) projects.

Under the MEDA programme, which was established by the Euro-Mediterranean Partnership process launched in Barcelona in 1995, in the period of 1995 to 1999, the EIB provided EUR 4,808 million in loans from the Euro-Med programme launched to support EU activities in the Mediterranean, while between 2000 and 2007, the Euro-Med II disposed over EUR 6,400 million. In 2002, the EIB transformed the Euro-Med support framework and established the FEMIP (Facility for Euro-Mediterranean Investment and Partnership), which has become the primary instrument for regional investments. Since 2003, in the framework of the FEMIP, the EIB provided EUR 27 billions of project funding in the region.

In 2008, the EIB also played a role in the financing of the initiative, called Union for the Mediterranean (UfM): it participated in the funding of three out of the six planned UfM areas. These are: the environment (reducing the pollution of the Mediterranean Sea), financing of alternative energy projects (e.g. solar reactors) and the development of transport infrastructure (ports, motorways). In addition to the infrastructure projects, the Mediterranean Business Development Initiative was also established, which provides financial and technical assistance to the micro, small and medium-sized enterprises of the partner countries (Joint Declaration, 2008:20.).

Over the period of 2014 to 2020, the EIB set new priorities for the financial aids. One of the primary objectives has become the support of the growth of the private sector, in addition to the other key areas, such as the development of the social and economic infrastructure, environment protection and combating climate change. The EIB launched, in particular in Morocco and Tunisia new, innovative programmes, which focus on the support of economic operators who are of paramount importance to the community with a view to increase the social impact of the projects. These may include, for example, job creation that is extremely important in the region because of its high unemployment rate and the resulting negative consequences (EIB 2015a, 15).

EIB Supports in the Light of Statistics

If one takes a look at the division of support given at the level of the individual Southern Mediterranean countries, then three beneficiary countries stand out: Egypt (EUR 11,057 million), Morocco (EUR 7847 million) and Tunisia (6637 million euro). The three countries received 70 percent of the total financial support granted by EIB in the region.

Table 2: *EIB projects in the individual Mediterranean countries per periods (EUR million), in proportion to the GDP and the population*[6]

	1978-1989	1990-1999	2000-2009	2010-2019	Total 1978-2019	Support/ 1000 EUR of GDP	Support/ population (EUR)
Algeria	200	1104	854	500	2719	17.7	63.2
Egypt	404	1293	2970	6390	11057	41.1	110.0
Israel	93	142	510	780	1525	4.4	165.8
Jordan	100	405	488	541	1524	38.8	143.8
Lebanon	40	516	742	1494	2792	53.5	410.5
Morocco	263	1620	2553	3411	7847	74.1	208.6
Palestine	0	217	68	70	356	27.3	71.2
Syria	102	20	1437	185	1744	32.6	99.7
Tunisia	272	819	2797	2750	6637	192.2	566.2
North Africa*	0	0	10	72	82		
Mediterranean*	0	0	115	187	302		
Total	1533	6137	12543	16421	36526	34.2	152.3

* regional programmes

Source: Authors' own calculations based on the available data by EIB, UN and IMF

6 The table compares the total support received between 1978 and 2019 with the GDP figures and population data for 2019. The GDP data are based on the IMF figures, but have been converted on the basis of the official dollar/euro exchange rate.

Given the very different size and level of economic development in these countries, it is worthwhile to look at how the aid distributed in proportion to the population and the GDP. The last two columns of Table 2 show clearly that both as a share of GDP and of the population, Tunisia has been by far the largest beneficiary: its support amounted to almost four times the regional average in terms of population (EUR 566 compared to the EUR 152 regional average), and six times in terms of GDP (EUR 192, while EUR 34 for the region). As regards the share per population, the second one was Lebanon, followed by Morocco, while Egypt with its 100 million inhabitants ranked only the 6th, well below the regional average. Morocco was the second as a share per GDP, while Egypt received slightly above the average according to this comparison.

What follows is a more detailed analysis of the EIB activity in the region between 2003 and 2019 concerning projects realised under the FEMIP. The biggest beneficiary of aids under the FEMIP is again Egypt (EUR 8,955 million), Tunisia (EUR 5343 million), however, was caught up with and even surpassed by Morocco (EUR 5601 million).[7] The three countries received 78% of the FEMIP support, so the dominance of the three countries concerning the loans in this period is greater than that of the total period.

When one takes a look at the number of approved and signed loan projects (Table 3), a total of 373 EIB projects have been launched between 2003 and 2019. On this basis, Morocco (83 projects) was the biggest beneficiary, ahead of Egypt (70) and Tunisia (69). Here, however, the combined share of these three countries is lower than 60%, and during the 2015-2019 period Lebanon (20) had signed more contracts than Tunisia (19).

According to the size of the projects, however, Egypt by far leads the group. Between 2003 and 2019, out of the 12 largest projects financed in FEMIP, eight were in Egypt. (Table 4). Among the largest projects in Egypt there are mostly energy and transport developments: power plants, refinery plants, and the

7 These figures are also set out in Table 4.

Metro in Cairo. More than 800 million euros was dedicated on the ADM motorway in Morocco, but a power plant in Syria, and gas pipelines in Algeria and Tunisia were also among the largest projects. In the last three years, two significant credit lines have been provided for Egypt to support the private sector and SMEs, intermediated by the Bank Misr and by the National Bank of Egypt.

Table 3: *Number of projects financed by FEMIP per country and per periods*

	2003-2007	2008-2014	2015-2019	2003-2019
Algeria	4	1	0	5
Egypt	19	20	31	70
Israel	3	8	4	15
Jordan	4	9	9	22
Lebanon	11	15	20	46
Morocco	21	35	27	83
Palestine	2	2	3	7
Syria	7	9	0	16
Tunisia	22	28	19	69
Regional	9	21	9	39
Total	102	149	122	373

Source: EIB (2020)

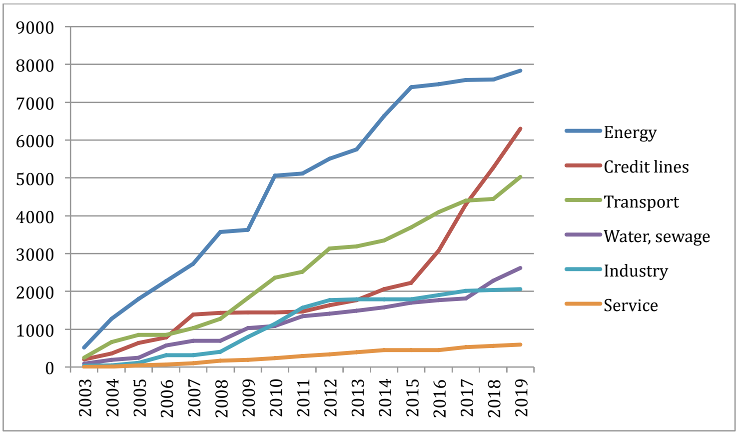
Table 4: *The top projects financed by FEMIP (2003-2019)*

Country	Project	Signed amount (million €)	Sector	Form	Year of signature(s)
Egypt	Bank Misr SME loans	1,000	Credit facility	3 contracts	2017, 2018, 2019
Morocco	ADM Motorway III-VII	805	Transport	5 contracts	2003, 2005, 2007, 2009, 2010
Egypt	NBE loans for SMEs	750	Credit facility	2 contracts	2018, 2019
Egypt	Cairo Metro Line 3 (Phase 3)	600	Transport	3 contracts	2012, 2015, 2016
Egypt	Damanhour gas power plant	550	Energy	1 contract	2015
Egypt	Idku LNG	538.9	Energy	4 contracts	2003, 2005
Egypt	Private sector support	500	Credit facility	1 contract	2016
Algeria	Medgas pipeline	500.0	Energy	1 contract	2010
Syria	Deir Ali Power plant	475	Energy	2 contracts	2004, 2008
Tunisia	ETAP South Tunisia gas pipeline	380.0	Energy	1 contract	2014
Egypt	Cairo Metro Line 1	350	Transport	1 contract	2019
Egypt	ERC refinery	346.4	Industry	1 contract	2010

Source: *Authors' own calculations based on the available data by EIB (2019)*

If one looks at the sectoral distribution of all loans, the case is similar (Graph 1). According to the signed contracts between 2003 and 2019, the FEMIP was active in two priority areas of the UfM: 7,834 million euro (or 30%) has been dedicated to energy sector, while 5,022 million (or 20%) on the transport sector. Water and sewage projects (2,616 million euro) are also connected to an UfM priority, environment. After 2011, new priorities emerged, such as urban development and education, which were previously not indicated as priority areas, for the time being, however, they represent a rather low proportion in the financial aids.

Graph 1: *FEMIP loans provided by sectors (only sectors with largest amounts of loan, cumulative value, 2003-2019, million EUR)*



Source: *Authors' own calculations based on the available data by EIB (2019)*

With its more than EUR 6.3 billion amount overall, credit lines have become the second most important area of EIB loans after the energy sector. It shows the increasing importance of SME and other private sector projects in EIB (and in a broader term EU) policies.

The majority of EIB funding was still for the public sector, and this is particularly true in the case of large volume projects. This does not mean, however, that agreements with the private sector had been totally abandoned. Beside the credit lines dedicated for SMEs a number of small- and medium scale loans have been provided for various industrial and service sectors. In addition to loans, the EIB offered private equity capital which was an opportunity provided to companies in the producing sector with scarce capital and which was primarily used by companies of the industry (mainly food industry), the health sector, education, tourism and certain technological sectors.

Institutional Cooperation of the EIB in the Region

In order to finance FEMIP projects, the EIB has developed close cooperation with a number of European and international financial institutions for the co-funding or joint support of different projects (e.g. capacity building and new regional initiatives). Donors of the region have been increasingly seeking synergies in recent years, since the treatment of the growing security risks in the region requires that the effectiveness of financial aids is increased.

The most fundamental is, naturally, the relationship with the European Commission, to which the European Neighbourhood Policy (ENP) provides a framework. Since 2014, the funding of the ENP is guaranteed by the European Neighbourhood Instrument (ENI) [8], which disposes over EUR 15.4 billion over the current 7-year budget period for the support of the states of the Eastern Partnership, in addition to the Mediterranean countries. An additional institutional cooperation framework is provided by the Neighbourhood Investment Facility (NIF), which was established in 2008, primarily for the co-financing of expensive infrastructure projects, however, it also supports risk capital transactions for the private sector.

The EIB built close cooperation with the development institutes of the Member States, too. In the framework of the NIF, the EIB supports projects for the improvement of water and sewage supply together with the French Agency for Development (AFD

8 Between 2007 and 2014 it operated under the name of European Neighbourhood and Partnership Instrument.

- Agence Francaise de Developpement). In 2016, for instance, a EUR 48 million project was realised for providing water supply of Syrian refugees in Jordan. Since 2015, the EIB and the German KfW (Kreditanstalt für Wiederaufbau) participates jointly in the preparations of the Mediterranean Solar Power project, while with the Spanish AECID they provide funding in the form of a new venture capital to the countries of the region that supports microfinancing in the amount of EUR 100 million.

Together with the European Bank for Reconstruction and Development (EBRD), the EIB supports a programme promoting the trade and competitiveness of the four Southern Mediterranean countries that are the most active ones in terms of EU cooperation: Tunisia, Morocco, Egypt and Jordan. This EIB support is based on three complementary pillars. First, providing long-term credit lines to local financial institutions with a view to supporting manufacturing and food production chains (in 2016 this subsidy reached EUR 120 million extended by the same amount in local resources). Second, providing a risk-hedging instrument to local financial institutions for support SME lending (EUR 20 million in 2016). The third pillar provides for an export support tool on the one hand for SMEs – also with the intermediation of the financial institutions – with a view to financing mainly export ancillary costs (planning, accounting and compliance with EU standards and rules, etc.) and on the other hand, for financial institutions with a view to offering banking services related to exports. The EIB has signed cooperation agreements on the coordination of development projects in the region with the World Bank (2004), the African Development Bank (2005) and the Islamic Development Bank (2012).

The Impact and Evaluation of the EIB's activity

The EIB with its annual funding framework totalling EUR 8 billion provides a very effective support tool that may contribute to the success of EU's foreign, enlargement, neighbourhood or global development policy. Recent events that resulted in increasing external challenges, mainly coming from the neighbourhood, demanded strategic responses from the EU. And as we can see, these responses (e.g. the Global Strategy adopted in

2016) are already relying on an increasing engagement of the EIB in the actions to be carried out (Újvári 2017, 33). Analyses on the EIB's activities and in particular on its activities in the Mediterranean region in recent years provided criticisms and suggestions in relation to the strategic and operational activity of the institution.

Antonowitz-Cyglicka et al. (2016) express a number of criticisms concerning the EIB activity in general. One of these is transparency: there is hardly any total assessment available concerning the projects, the assessment of the results and their impact is often unnecessarily treated as confidential information, which is contrary to the transparency rules of the EU's own institutions. It was also criticised that the clients involved often have an off-shore background and hence there is a suspicion of tax avoidance (or even that of corruption). In addition, the opinions of locals were not adequately taken into account according to the analysis: in these authoritarian regimes, the government often not only disregards, but also resorts to violence to silence any opposition expressed by the local public (Antonowitz-Cyglicka et al. 2016, 7).

There are clear differences in the evaluations made before and after 2011. In the period between 2007 and 2013, a mid-term evaluation concluded that the EIB might be a very strong tool of the EU, while at the same time more human and financial resources would be necessary (Steering Committee 2010: 2). The document also highlights the importance of institutional coordination both with the institutions interested in the EU's external development policy, as well as other, global and regional development institutes.

The evaluations made after 2011 (e.g. de Laat et al. 2013), however, make their assessments in the light of the events of the Arab Spring of 2011, reflecting strongly to the apparent deficiencies of the EU's development policy. To address the region's challenges, one of the most central elements is job creation, which is in the view of most experts can best contribute to achieve an inclusive economic growth that is having a perceivable impact for the broader society. In this respect, the result of the analysis of the EIB projects is a mixed one (EIB 2015b).

While infrastructure investments have the potential to create a significant number of jobs, the actual number of new jobs in the case of the projects examined failed to meet the expectations. Sustainable job creation is even more important: here, too, only individual projects (e.g. in the health sector) managed to create a significant number of long-term sustainable jobs, while the proportion of these were considerably less in the case of energy and road building projects (*ibid*.).

The broadening of the scope of EIB financing referred to above (support of new areas and sectors) and of its sources (and the extension of the EU guarantee) can be considered as the primary reaction to these changes. However, this is a slow process. As Spantig (2017, 229) also points out, the modification of the funding priorities is negligible, and it is hardly to be perceived in the target countries, in addition, the EIB focuses rather on the (economic) interest of the EU and not on that of the target countries. It is also true, that the EIB's primary objective is not poverty reduction, as these objectives are supported by the EU from other sources – it is a question, how much the EIB should and could focus on such priorities.

Lesay (2013) also comes to the conclusion that unlike other international development institutions, the EIB has never had its own development policy targets. As a consequence, the policy followed by the institution was determined by the interests of the main shareholders, i.e. the EU member countries. In recent years, with the increasing need to achieve sustainable results in the development of Southern countries, a more complex approach of development financing has emerged. The current capacities of EIB, however, are not sufficient for such deeper approach. That is why the cooperation with other development institutions of larger human resource and of broader local expertise was appreciated

CONCLUSION

Key objective of the European Union is to promote peace, its values and the well-being of its peoples. To reach these goals, the EU needs to support and foster stability, security and prosperity in the countries closest to its borders. The Southern Mediterranean occupies a central position in this framework, with recent political and social upheavals, however, the support of economic development became of utmost importance for the EU.

The European Investment Bank, which was established as the EU's development bank, has become an increasingly important player in financing and supporting the EU's global and regional engagement. The objectives to be pursued by the Bank are defined by the European Union's priorities and hence the EU's Global Strategy or in the context of the Mediterranean area, the Euro-Mediterranean Partnership, the European Neighbourhood Policy, or the Union for the Mediterranean shall specify the limits within which the EIB provides its funding.

The analysis of the EIB lending in the Mediterranean region shows that it is highly concentrated: countries carrying out the most reforms (Tunisia, Morocco) received a proportionally much higher support, whilst in the Euro-Med relations less active Algeria, or Syria that lead earlier a similar policy (and which is not concerned currently due to the ongoing civil war) receives hardly any resources. In recent years, however, Egypt has become the most important partner, both regarding the number of contracts, as well as the amount of loan provided, despite European concerns over the authoritarianism of the Egyptian political regime.

The sectoral foci of the financial assistances have been previously the large infrastructure sectors, energy and transport. The power plants and motorways built with the support of the EIB are important elements of the economic catch-up of the Mediterranean countries. The change in the approach in recent years, however, has increased the importance of the direct financial support of the economic operators, in particular in the form of loans granted to small and medium-sized enterprises via credit facilities provided by intermediating banks, or in a much lower scale by private equity operations through mutual funds.

With the over-36-billion-euro financial support provided for the region, the EIB was able to strengthen key elements in the economic development process of the Mediterranean countries. The Bank's activities, however, are still facing numerous criticisms due to limited transparency, weak monitoring, evaluation procedure and the mismanagement of infringements concerning the projects. This would require that the EIB's external financing activity which is becoming increasingly important in the coming years would be carried out with staff and structural conditions which are adequate to its growing role, and with a more consistent application of the EU transparency rules.

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