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**FINANCING OPERATIONS OF THE EUROPEAN  
INVESTMENT BANK (EIB) IN THE SOUTHERN  
MEDITERRANEAN COUNTRIES**

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# Financing operations of the European Investment Bank (EIB) in the Southern Mediterranean countries

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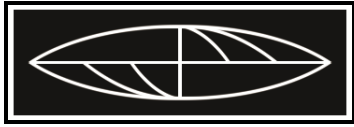
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# Financing operations of the European Investment Bank (EIB) in the Southern Mediterranean countries<sup>1</sup>

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## **Abstract**

The European Investment Bank (EIB) is the European Union's development bank, which carries out an ever-growing development lending activity in the regions outside the EU. This activity is closely related to the EU's external (neighbourhood and development aid) policies. The Southern Mediterranean covered by the EU neighbourhood policy is a priority among these outer regions. Support for the economic development of the region has been on the top agenda of the European Union for more than two decades, the consequences of the Arab Spring and the growing migratory pressure, however, have increased the importance of the development needs of the Mediterranean countries in recent years. This study analyses the data and reports from the EIB and seeks to demonstrate the priorities and the means by which the EIB supports the economic development of the region.

**JEL:** F21, F33, G24

**Keywords:** European Investment Bank, Mediterranean countries, development, financial operations

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## **Introduction**

The objective of the study is to analyse the European Investment Bank's activities in the Southern neighbouring countries of the EU. The EU's Southern Neighbourhood is of utmost importance for the European Union, not only as a participant to the European

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Neighbourhood Policy, but also as the source of challenges the EU is currently facing (e.g. migration, terrorism) due to the developments of recent years. 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 concerning this area.

The first part of this study 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 second part 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 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 together with the description of other development institutions the EIB is cooperating with in the area. 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 realisation of EU policies in the region.

## **1. EIB's 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.<sup>3</sup>

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<sup>3</sup> See the Lisbon Treaty (TFEU 309)

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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 developed countries with far less human resources than other development banks (Steering Committee 2010: 8).

The EIB's External Lending Mandate (ELM) operates with the guarantee provided for external fundings 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 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,

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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.

In general, supported projects outside the EU focus primarily on the development of the private sector, the economic and social infrastructure, and 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 (Dobrova 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 (Dobrova

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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 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 received one quarter that is EUR 32.5 billion of the non-EU resource-allocations, while the wider Mediterranean region (that is together with Turkey and the Western Balkans) received almost half of the funds.

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

	<b>1959-1989</b>	<b>1990-1999</b>	<b>2000-2009</b>	<b>2010-2017</b>	<b>1959-2017</b>
<b>EFTA</b>	68	1101	1866	1575	4612
<b>Accession countries</b>	982	871	17165	20237	39256
<b>Eastern Europe</b>	0	0	718	9153	9870
<b>Mediterranean</b>	1533	6137	12543	12382	32596
<b>ACP</b>	2806	3299	5551	7013	18669
<b>Asia and Latin America</b>	0	1701	5705	9814	17220

Source: EIB<sup>4</sup>

<sup>4</sup> If otherwise not indicated, data in the tables are based on the EIB database (<http://www.eib.org/projects/loan/list/index>), sometimes with own calculations.

## **2. The EU and the Southern Mediterranean countries**

The evolving European integration — due to its geographical, historical, political, economic and cultural connections – is from the outset 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. The MEDA (Mediterranean Economic Development Area) was established as the institution responsible for financial support. MEDA I (1995-1999) disposed over EUR 4422 million from which EUR 3435 million was used in the beneficiary countries, while MEDA II (2000-2006) provided EUR 5350 million for funding. The financial resources were assigned to the targets and programmes defined in the country-strategies (so-called national indicative programmes).

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



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financial resources, however, were merged, and the TACIS, on the one hand, which was given to the Eastern countries and the MEDA on the other, operated after 2007 under the common name: ENPI (European Neighbourhood and Partnership Instrument). The ENPI disposed over EUR 11.2 billion between 2007 and 2013. 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: transport and urban development, water and environment protection, energy and climate protection, social and civil affairs, higher education and research, and business development. Since there were no additional EU budget resources allocated to finance these targets, the inclusion of the private sector, but also the participation of the EIB was highly expected.

The Arab Spring initiated in 2011, however, has led to radical changes in the region 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 benefitted substantially only a small elite, and unemployment, especially among the youth was very high, which increased social tensions. Foreign investors say that most of the countries of the region are not sufficiently 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 (Szigetvári 2012).

One of the most fundamental aims of the EU's Mediterranean initiatives is to reduce its safety risk by improving the economic development of the region. The reforms however, that needed economic liberalisation and fast opening of external trade, posed huge economic costs for the Southern countries in the short term. The EU could only but provide a limited support to these reforms – due to its internal structural tasks and its Eastern enlargement – and foreign investments that could have otherwise offer a solution to these specific problems (balance of payments, job creation) were also

lacking. A number of areas (liberalisation of services, labour mobility) are not yet, or only partially included in the partnership of the two country-groups. The 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, the EU extended the ENPI funds with EUR 1 billion between 2011 and 2013 and added new priorities (Zorob 2017: 10). In the framework of the reform of the ENP in 2015 and the EU Global Strategy, 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 15.4 billion, complemented by loans provided by the EIB.

### **3. The EIB's activity in the Southern Mediterranean countries**

#### *3.1 The EIB's involvement in the Mediterranean*

The EIB provides loans to the Mediterranean countries since 1978. Over the period 1978-1995, the EU concluded bilateral financial cooperation agreements with the Southern Mediterranean countries. 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 4<sup>th</sup> Financial Protocol ECU 1,300 million as loans. The New Mediterranean Policy adopted in 1990 guaranteed ECU 1,800 million loan volume for 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 Euromed programme, while between

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2000 and 2007, the Euromed II disposed over EUR 6,400 million. In 2002, the EIB transformed the Euromed support framework and established the FEMIP (Facility for Euro-Mediterranean Investment and Partnership), which has become the primary instrument for regional investments. Since 2002, in the framework of the FEMIP, the EIB provided EUR 23 billion 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, p. 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, p. 15).

### *3.2 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 8644 million), Morocco (EUR 7486 million) and Tunisia (6522 million euro). These three countries – over the period taken as a whole – were roughly in a similar situation, the only state that could still step up to this imaginary podium was Algeria in the nineties. The three countries received 72 percent of the financial support.

**Table 2: EIB projects in the individual Mediterranean countries per periods (EUR million), in proportion to the GDP and the population<sup>5</sup>**

	1978-1989	1990-1999	2000-2009	2010-2017	Total 1978-2017	Support/1000 USD of GDP	Support/population (EUR)
<b>Algeria</b>	200	1104	854	500	2719	12,8	64,7
<b>Egypt</b>	404	1293	2970	3977	8644	17,6	87,0
<b>Israel</b>	93	142	510	776	1521	3,6	180,0
<b>Jordan</b>	100	405	488	370	1363	28,3	137,6
<b>Lebanon</b>	40	516	742	661	1959	30,7	321,5
<b>Morocco</b>	263	1620	2553	3050	7486	66,0	206,8
<b>Palestine</b>	0	217	68	54	340	35,3	67,3
<b>Syria</b>	102	20	1437	185	1744	18,8	95,4
<b>Tunisia</b>	272	819	2797	2634	6522	135,3	559,4
<b>North Africa</b>	0	0	10	62	72		
<b>Mediterranean</b>	0	0	115	112	227		
<b>Total</b>	<b>1533</b>	<b>6137</b>	<b>12543</b>	<b>12382</b>	<b>32596</b>	<b>21,2</b>	<b>136,3</b>

Source: EIB, UN, IMF, own calculation

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 four times the regional average in terms of population (EUR 559/inhabitant), and six times in terms of GDP (EUR 135/ EUR 1000). As regards the share per population, the second one was Lebanon, followed by Morocco, while Egypt with its 99 million inhabitants ranked only the 7th, well below the regional average. Morocco was the second as a share per GDP, while Egypt received below the average according to this comparison, too.

<sup>5</sup> The table compares the total support received between 1978 and 2017 with the GDP figures and population data for 2017. The GDP data are based on the IMF figures, but have been converted on the basis of the official dollar/euro exchange rate.

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What follows is a more detailed analysis of the EIB activity in the region between 2002 and 2017 concerning projects realised under the FEMIP. The biggest beneficiary of aids under the FEMIP is again Egypt (EUR 6542 million), Tunisia (EUR 5241 million), however, taken the whole period under consideration, caught up with and even surpassed Morocco (EUR 5240 million).<sup>6</sup> The three countries received 73.6 % of the FEMIP support, so the dominance of the three countries concerning the aids in this period is greater than that of the total period. This concentration has been strengthened further, statistics show that between 2010 and 2017, the share of these three countries is 78 % of the projects, while in the three most recent years (2015-2017) 81 % of projects had been signed with these three countries!

When one takes a look at the number of approved and signed loan projects (Table 3), a total of 276 EIB projects have been launched between 2002 and 2017. On this basis, Morocco (71 projects) was the biggest beneficiary, ahead of Tunisia (55) and Egypt (47). The combined share of these three countries is lower than 63 %, whilst the 43 projects during the 2015-2017 period showed a share over 70 %.

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

	<b>2002-2007</b>	<b>2008-2014</b>	<b>2015-2017</b>	<b>2002-2017</b>
<b>Algeria</b>	5	1	0	6
<b>Egypt</b>	15	19	13	47
<b>Israel</b>	3	7	3	13
<b>Jordan</b>	4	8	3	15
<b>Lebanon</b>	5	11	6	22
<b>Morocco</b>	22	32	17	71
<b>Palestine</b>	2	2	2	6
<b>Syria</b>	7	6	0	13
<b>Tunisia</b>	20	22	13	55
<b>Regional</b>	9	16	3	28
<b>Total</b>	<b>92</b>	<b>124</b>	<b>60</b>	<b>276</b>

Source: EIB

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<sup>6</sup> These figures are also set out in Table 4.

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According to the size of the projects, however, Egypt by far leads the group, between 2002 and 2017, 12 contracts above EUR 200 million out of 18 were concluded with Egypt, whilst three with Morocco and one each with Algeria, Syria and Tunisia (Table 4). There are mostly energy and transport projects among the largest ones: in Egypt power plants and LNG terminals allowing for the liquefaction of natural gas, gas-pipelines, refinery plants, the Metro in Cairo and the development of the Egyptian airline, while the other giant loans were spent on building motorways in Morocco, and building power plants and gas pipelines in Algeria and Syria. In the last two years, two significant credit lines provided to Egypt which support the private sector, including SMEs have been put on the list of major projects.

The majority of EIB funding was loans for the public sector, and this is particularly true in the case of large volume loans. This does not mean, however, that agreements with the private sector had been totally abandoned — such as the SME credit line of EUR 250 million in 2017, which was signed by the Egyptian Bank, Misr.

**Table 4: The biggest FEMIP projects (above EUR 200 million)**

<b>Country</b>	<b>Project</b>	<b>Signed amount</b>	<b>Form</b>	<b>Sector</b>	<b>Year of signature</b>
<b>Egyptom</b>	Idku LNG plant	304.5	Private	Energy	2003
<b>Egypt</b>	Egyptair II	290.0	Public	Transport	2004
<b>Egypt</b>	Idku LNG II	234.4	Private	Energy	2005
<b>Egypt</b>	Egas gas pipeline	250.0	Public	Energy	2008
<b>Syria</b>	Deir Ali II power plant	275.0	Public	Energy	2008
<b>Morocco</b>	ADM VI – motorway	225.0	Public	Transport	2009
<b>Algeria</b>	Medgas pipeline	500.0	Public	Energy	2010
<b>Egypt</b>	Egyptian Power power plant	260.0	Közszektor	Energy	2010
<b>Egyptom</b>	ERC refinery	346.4	Public	Industry	2010
<b>Egypt</b>	Giza North power plant	300.0	Public	Energy	2010

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<b>Morocco</b>	ADM VII – motorway	220.0	Public	Transport	2010
<b>Morocco</b>	El-Jadida – Safi – motorway	240.0	Public	Transport	2012
<b>Tunézia</b>	ETAP South Tunisia gas pipeline	380.0	Private and public	Energy	2014
<b>Egypt</b>	Damanhour gas power plant	550	Public	Energy	2015
<b>Egypt</b>	Cairo metro (line 3, phase 3)	200	Public	Transport	2015
<b>Egypt</b>	Cairo metro (line 3, phase 3)	200	Közszektor	Transport	2016
<b>Egypt</b>	Private sector support	500	Közszektor	Credit lines	2016
<b>Egypt</b>	Banque Misr SME loans	250	Private	Credit lines	2017

Source: EIB

If one looks at the sectoral distribution of all aids, the case is similar (Table 5). According to the signed contracts between 2002 and 2017, the FEMIP was active in two priority areas under the UfM: it concerned 38 % of the energy and 20 % of the transport projects of the signed financial aids. Additional focus areas were direct economy-supporting loans (12 %), industrial grants (11 %) and environmental projects (9 %). 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.

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**Table 5: Sectoral distribution of aids (between October 2002 and December 2017), (million euro)**

<b>Country</b>	<b>Energy</b>	<b>Credit lines</b>	<b>Transport</b>	<b>Industry</b>	<b>Water, sewerage, solid waste</b>	<b>Education</b>	<b>Financial sector</b>	<b>Infrastructure</b>	<b>Health</b>	<b>Urban development</b>	<b>Telecommunication</b>	<b>Services</b>	<b>Total</b>
<b>Algeria</b>	500			81			10	230					821
<b>Egypt</b>	3177	1358	1115	546	259		28			45		14	6542
<b>Israel</b>	391	75		181	607							31	1286
<b>Jordan</b>	219	155	63	81	216	40	15						789
<b>Lebanon</b>		1021	135		175		27						1458
<b>Morocco</b>	1420	460	1692	639	285	283	55	100	70	206		31	5240
<b>Palestine</b>	45	49					16						110
<b>Syria</b>	675	120	50	105	125		2	25	130		130		1332
<b>Tunisia</b>	1313	1497	1508	486	171	70	7		110	56	100	14	5241
<b>Regional</b>		30					231					32	261
<b>Total</b>	<b>7740</b>	<b>4765</b>	<b>4563</b>	<b>2119</b>	<b>1838</b>	<b>393</b>	<b>391</b>	<b>355</b>	<b>310</b>	<b>307</b>	<b>230</b>	<b>122</b>	<b>23133</b>

Source: EIB (2015) and EIB



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At the same time, in recent years one can witness the increasing importance of lending to the private sector. With its more than EUR 4.7 billion, it became the second largest area of EIB loans after the energy sector. In order to support the SME sector, 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.

*3.3 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)<sup>7</sup>, 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. In addition to the EU budget, the NIF relies on the resources coming from the Member States and the financial institutions of the EU, and improves their effectiveness thorough coordination. Between 2008 and 2016, the EU budget granted in total an amount of EUR 1,678 million through the NIF, mobilising EUR 15 billion in investments (60 % in the Southern Mediterranean countries and 40 % in the Eastern partners) (European Commission, 2016: 6). The EIB built close

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<sup>7</sup> Between 2007 and 2014 it operated under the name of European Neighbourhood and Partnership Instrument.

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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 - Agence Francaise de Developpement), in 2016, for instance, a EUR 48 million project was realised for providing water supply of Syrian refugees in Jordan. In addition to the AFD and the German KfW (Kreditanstalt für Wiederaufbau), the Spanish AECID is a major partner in the Southern Mediterranean. The EIB, together with the AECID provides 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).

*3.4 The impact and evaluation of the EIB's activity*

Although relatively little attention has been paid to it concerning the foreign policy, enlargement, neighbourhood or global development policy of the EU, the EIB with its annual funding framework totalling \$ 8 billion provides a very effective support tool to the success of these policies. Recent events that resulted in increasing external

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challenges, mainly coming from the neighbourhood, demanded strategic responses from the EU. 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).

There have been several analyses on the EIB's activities and in particular on its activities in the Mediterranean region. These analyses provided criticisms and suggestions in relation to its strategic and operational activity.

Some of these analyse the EIB financing activities outside the EU in general. Antonowitz-Cyglicka et al (2016) express a number of criticism concerning the EIB projects. 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.

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 slow a 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 on the (economic) interest of the EU and not that of the target countries. It is also true, – he adds – that the EIB's primary objective is not poverty reduction, for example, as these objectives are supported by the EU from other sources.

To address the region's challenges, one of the most central element is job creation, which is in the view of most experts can best contribute to achieve an inclusive – that is having a perceivable impact for the broader society – economic growth. 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.*).

## **Conclusion**

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 than Egypt, the country with the largest population, whilst in the Euromed relations less active Algeria, or Syria that lead earlier a similar policy (and which is not concerned currently due to the fights in the country) receives hardly any resources. The sectoral focus of the financial assistances are the large

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infrastructure sectors, energy and transport. The power stations and motorways built with the support of the EIB are important elements of the economic catch-up of the Mediterranean countries. The modification of the focus in recent years, however, 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, or of private equity operations through mutual funds.

The EIB activities, however, are still facing numerous criticism 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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