

Fundamentals of the European Investment Bank and its Role in Southern Mediterranean Arab Countries: an introduction for civil society organizations



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What is the European Investment Bank (EIB) and when was it founded?

The EIB is the European Union's bank. It is the financing institution of the EU founded in 1958 by the Treaty of Rome and owned by the 27 EU member states. The EIB is headquartered in Luxembourg and has a network of local and regional offices in Europe and beyond. **The EIB is one of the largest multilateral lending institutions in the world.**

What is the aim/mission of EIB?

The EIB's aim is to further EU policy objectives, both inside and outside the EU. EIB's Operational Plan 2012-2014 sets six priorities¹:

- Supporting **small and medium sized enterprises**

Each Member State's share in the Bank's capital is based on its economic weight within the European Union (expressed in GDP) at the time of its accession.

¹ <http://www.eib.org/about/index.htm>

THE LISBON TREATY:

The Lisbon Treaty (entitled "Treaty on the Functioning of the European Union" entered into force on December 1st 2009, amending the "Treaty establishing the European Community", sets the following legal obligations for the EIB's role in reducing and eliminating poverty outside the EU, congruent with EU cooperation policy (Note: the European Court of Justice found that the EIB is to contribute to further the objectives of the Community's Development Policy):

"shall have as its primary objective the reduction and, in the long term, the eradication of poverty" fostering "the sustainable economic, social and environmental development of developing countries (...)"

encouraging the "integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade"

helping to "develop international measures to preserve and improve the quality of the environment and the sustainable management

of global natural resources, in order to ensure sustainable development (...)".

(See the general goals of the EU's development policy under Art.21(2)(d) to (g) of the Treaty).

Moreover, the Lisbon Treaty extends the responsibility of the EIB to allow public access to documents other than environmental information matters (which used to be the area covered by the EIB Public Disclosure Policy), thus granting the EU citizens access to documents in whatever medium.

The Lisbon Treaty gave the individuals and NGOs, directly and individually concerned by an act of the EIB, the right to institute proceedings before the European Court of Justice (ECJ) or make a complaint to the EIB's internal mechanism or before the Ombudsman. Following the Lisbon Treaty and the ECJ ruling, the European Parliament gained more power over the EIB – whereby members of the European Parliament now co-decide on the External Lending Mandate of the Bank.

Source: http://bankwatch.org/documents/Briefing_Lisbon_Treaty_and_the_EIB.pdf

- Addressing economic and social **cohesion**
- Protecting and improving the natural and urban environment
- Promoting investment in information and communication technologies **and human and social capital**
- Investing in **Trans-** infrastructure **networks**
- Supporting a competitive and secure energy supply

How is the EIB structured and to whom it is accountable?

The EIB's governance structure is composed of²:

- **The Board of Governors:** formed by the responsible ministers of the member states and its main role is laying down credit policy guidelines
- **The Board of Directors:** appointed by the Board of Governors, they approve every decision to grant finance, the borrowing programme and the operational strategy
- **The Management Committee:** deals with day-to-day management of the Bank
- **The Audit Committee:** an independent body answerable directly to the Board of Governors and responsible for verifying that the operations of the Bank have been conducted and its books kept in a proper manner.

The EIB funds do not derive from the EU budget. The Bank directly borrows on the capital markets. This allows an **independent decision-making system for the Bank within EU's**

² <http://www.eib.org/about/structure/governance/index.htm>

institutional structure.³ However, given that the EIB implements the financial aspects of the EU's external and development policies, it is responsible to align its interventions with the latter. The EIB's website notes that "Outside the Union, EIB lending is governed by a series of mandates from the European Union in support of EU development and cooperation policies in partner countries"⁴.

How and where is the EIB involved in the region?

The Facility for Euro-Mediterranean Investment and Partnership (FEMIP)⁵ [<http://www.eib.org/projects/regions/med/index.htm>] is the channel through which the EIB provides financing to Southern Mediterranean Countries (SMC). The instrument covers all SMC, including Algeria, Tunisia, Morocco, Egypt, Jordan, Lebanon, Syria⁶, Occupied Palestinian Territories, Israel, and soon in Libya.

The EIB operates in this region with the objectives of "modernizing and opening the SMEs economies", "supporting the private sector", and "creating an investment-friendly environment".

Between 2002 and 2010, the EIB has invested more than Euros 10 billion in the FEMIP region.⁷ Overall, FEMIP operations have been concentrated in the energy sector. In 2010, 56% of FEMIP's investments were undertaken in the

³ <http://www.eib.org/about/structure/index.htm>

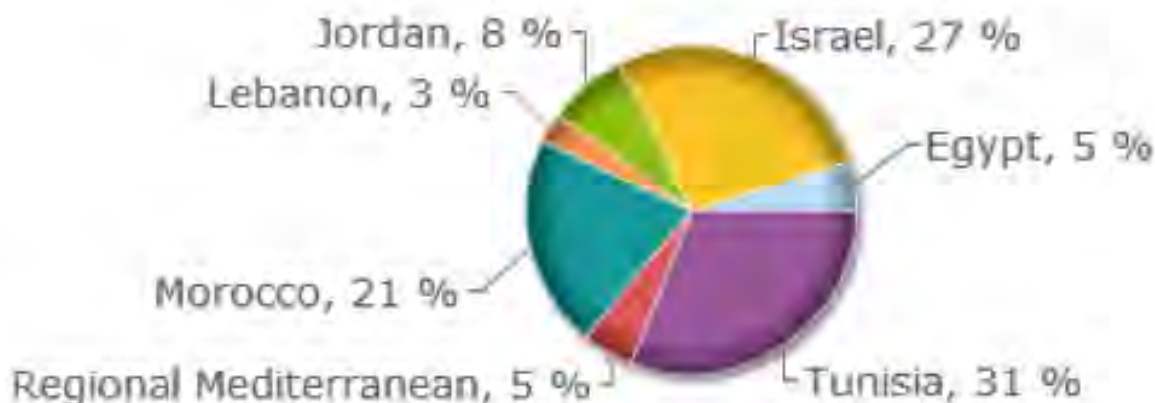
⁴ <http://www.eib.org/projects/regions/index.htm>

⁵ <http://www.eib.org/projects/publications/femip-10years.htm>

⁶ Since November 2011, the EIB suspended all disbursements for loans and technical assistance contracts with the Syrian state.

⁷ EIB publication "Union for the Mediterranean: Role and Vision of the EIB"

EIB activities by country in 2011



energy sector, versus 21% in transport, 14% in industry, 5% in health and education, 2% in water, and 2% in private equity.

The FEMIP includes a horizontal division that is responsible for private equity and microfinance operations and a follow up division with responsibility for trust funds and policy affairs.

FEMIP local

offices: There are also three local offices (Rabat, Cairo and Tunis).

They play an essential role in identifying new project opportunities,

implementing follow-up and technical assistance operations and coordination with local public authorities, entrepreneurs, commercial banks and professional associations.

For 2012-2013, the priorities of FEMIP

- Local private sector development
- Social and economic infrastructure
- Climate change mitigation and adaptation
- Regional development (FEMIP Annual Report 2011)

What are the financing instruments that are being used by the EIB in the region?

Instruments⁸ that are used by FEMIP include:

- Loans to private and public entities to develop economic infrastructure
- Loans to small, medium, and micro enterprises that are handled via commercial banks and other financial institutions
- Private equity funds focusing on investment funds, micro-financing, and small and medium and micro enterprises
- Technical assistance focused on private sector growth
- Guarantees to both private and public investments

The EU and the EIB use a ‘Blending’ mechanism for their funds, through the Neighbourhood Investment Facility (NIF)⁹. Through this facility, the EU development cooperation grants to all countries covered by the European Neighbourhood Policy (amounting to EUR 700 million of EU budget money for the years

2007-2013) are blended with loans by the EIB. According to the EIB, blending helps to create more leverage for additional funding, and unlock financing from other sources particularly from the EU budget. Blending is likely to be a key feature of EU future operations in the region¹⁰.

The Neighborhood Investment Facility (NIF) website explains that the facility is designed to “finance capital-intensive **infrastructure** projects in partner countries covered by the European Neighborhood Policy (ENP) as well as to support their **private sector**”¹¹.

Why is it important for civil society organizations to monitor the EIB?

The EIB sectoral policies and project financing reflects a specific economic model and approach. The Bank is mandated with aligning its investments with the development policy objectives, and the mechanisms to ensure that should be established. The EIB’s transparency, accountability and democratic control are essential to ensure that its operations contribute to the broader public interest and development objectives of the EU and its partner countries.

There are several spaces of engagement for CSOs with the EIB:

- **Civil Society Unit**¹²: The Civil Society Unit is responsible for developing and facilitating the Bank’s dialogue with CSOs and for providing them with information on EIB policies and activities.
- **Dialogue through Annual CSO Briefing and Spring and Autumn Workshops**: These meetings include dialogue and exchange of information as well as bilateral meetings, roundtables and informal meetings.
- **Public consultations**: Consultations on selected corporate and multi-sector policies

8 <http://www.eib.org/projects/regions/med/instruments/index.htm>

9 See: http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

10 An “EU Platform for blending in External Cooperation” is expected to start operating by the end of 2012 or beginning of 2013. It aims at further developing EU development and external cooperation blending mechanisms.

11 http://ec.europa.eu/world/enp/index_en.htm

12 <http://www.eib.org/about/partners/cso/contacts/index.htm>

are undertaken by the EIB, during which stakeholder contributions are examined and evaluated by an EIB's inter-directorate Review Panel.¹³

- **FEMIP conferences:** Thematic conferences held on each side of the Mediterranean¹⁴.
- **Utilization of the EIB complaints mechanism:** The mechanism applies in cases of maladministration, or fails to respect the principles of good administration or violates human rights. For more information see: <http://www.eib.org/about/cr/complaints/index.htm>. Moreover, the European Ombudsman¹⁵ can initiate inquiries when the complainant is not a citizen of the European Union or a natural or legal person residing or having a registered office within the EU.
- **Engage with Members of the European Parliament (MEPs);** the role of MEPs is essential for the democratic control over the EIB. MEPs have co-decision power in the process to set the terms for the 'External Lending Mandate' (ELM)¹⁶, whereby they have the opportunity to demand more transparency, benchmarks for sustainable development¹⁷.

There are major issues that the CSOs should take into account in monitoring the EIB¹⁸.

- **Do the investments go where they are most needed?**¹⁹: It is important to highlight that the EIB was created as an investment bank.

13 <http://www.eib.org/about/partners/cso/consultations/index.htm>

14 <http://www.eib.org/projects/regions/med/cooperation/conferences/index.htm>

15 Pursuant to Article 195 of the Treaty, the European Ombudsman conducts investigations into alleged instances of maladministration by the EU institutions and bodies. See: www.ombudsman.europa.eu

16 The 'External Lending Mandate' determines the conditions under which the EIB operates outside the EU. It provides EIB loans with an EU guarantee and sets out guidelines for the Bank's action.

17 See: Counter Balance "Gaining Control- a parliamentary toolkit to get the EIB on track"; <http://www.counterbalance-eib.org/?p=2048>

18 Some of the questions listed derive from the information provided by the Counter Balance analysis, available at <http://www.mo.be/en/opinion/european-investment-bank-worth-its-money>

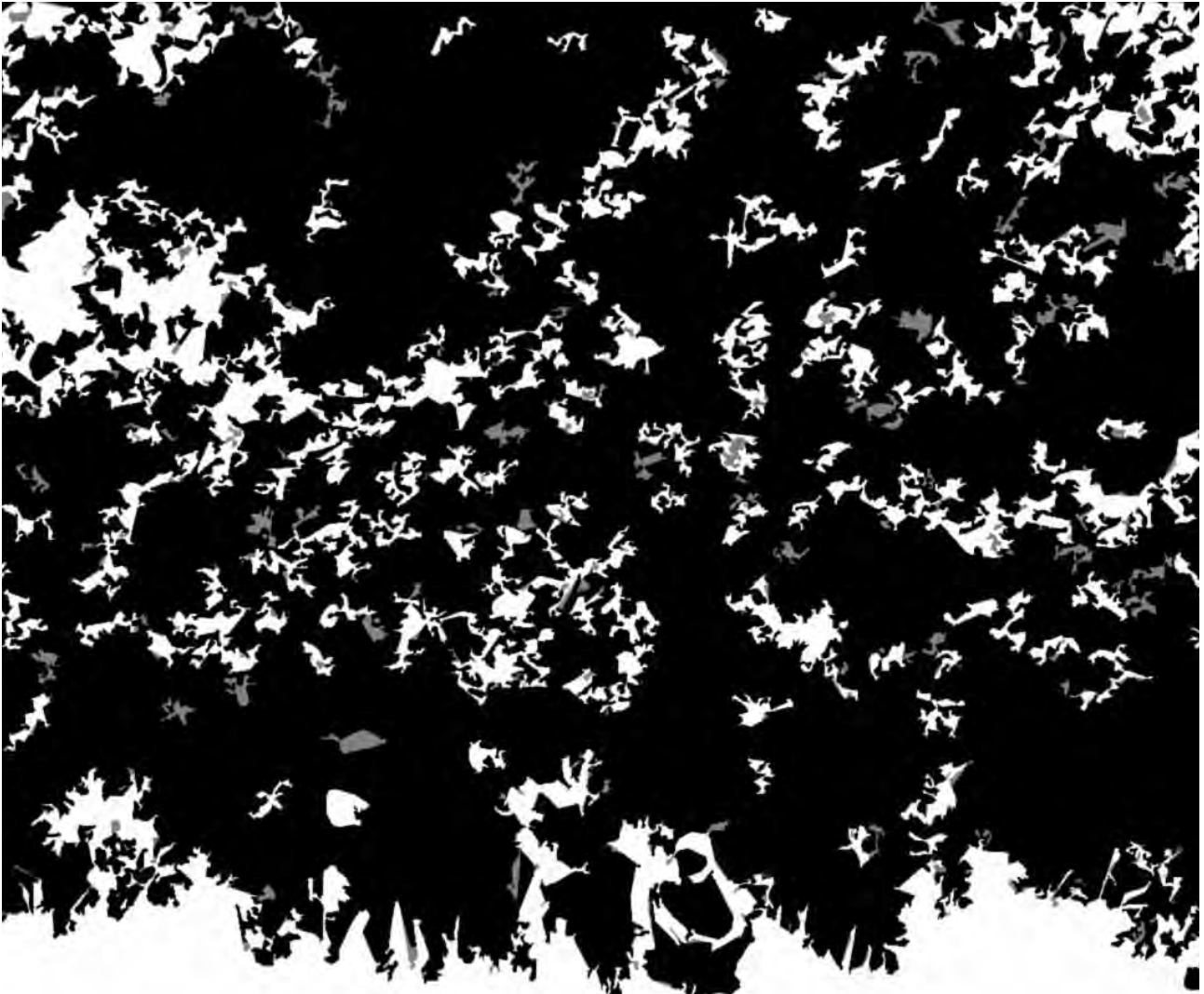
19 http://www.counterbalance-eib.org/wp-content/uploads/2011/01/development_English_web.pdf

Indeed, "EIB lending outside the EU has mainly focused on co-financing large-scale infrastructure operations, energy projects aimed at increasing energy security for the EU and private sector development interventions – including the private financial sector in the global South – so that most EIB loans have first benefited European companies and exporters before local communities' needs." For instance an analysis of EIB activities in ACP countries reveal that, 35% of the projects are owned by companies in OECD countries, only 25% are owned by a company in the countries where the project was based and 25% of the companies are based in tax havens. *CSOs should pose the questions around the developmental benefits of the EIB investments, whether it focuses on projects with job generation capacities and contribution to productive sectors, and whether it benefits the private sector national to the receiving countries. CSOs should question the methodology of assessment used by the EIB to evaluate its project financing, and the extent to which it could capture development focused impact.*

- **Do the activities of the EIB comply with aid effectiveness principles?** The EIB's performance has been often critiqued for weak alignment with the Aid Effectiveness principles. In a resolution on the Bank's annual report, the European Parliament explicitly noted that "the EIB's role should be more focused, selective, effective and results-oriented"²⁰. MEPs have raised questions about the Bank's activities in Arab countries, where some financing of public projects have come under criticism due to involvement with corrupt regimes and lack of safeguards to ensure against the misuse of such financing²¹. *CSOs have the role of monitoring the EIB financing projects and its alignments with the aid effectiveness principles.*
- **Does the EIB respect the development priorities listed by the EU and the country of operations?** Based on the broad development

20 <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0156+0+DOC+XML+V0//EN>

21 <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+WQ+E-2012-001918+0+DOC+XML+V0//EN&language=IT>



mandate established by the Lisbon Treaty, it is important to analyze to what extent the EIB activities ensure a development outcome through the financed projects, and in line with the development objectives set in the EU cooperation agreements with country of operations. The Country Strategy Papers and Action Plans, which lay out the priorities of development cooperation between the EU and the Southern Mediterranean Countries, are critical to be consulted when monitoring the outcomes of the EIB financing in the latter countries. Moreover, *CSOs have a role in pushing for a methodology of assessment that captures the development impact (or lack of it) of the EIB financing*. This should include alternative and more appropriate measures of growth and development that capture critical

perspectives such as inclusiveness and sustainability and mainstreams development concerns at the investment selection phase.

Do the activities of the EIB take into account environmental concerns?²² The EIB is bound to comply with EU environmental rules and requirements. The EIB has an environmental and social practices handbook²³, which civil society could use to monitor compliance of EIB projects. Yet, in practice, the EIB does not have a satisfactory environmental and social policy or clear and transparent mechanisms that ensure

22 For more information see: Counter Balance “European Investment Bank and the Environment”; http://www.counterbalance-eib.org/wp-content/uploads/2011/01/3.18.08_EIB-enviro.english_flat.pdf

23 Available at: http://www.eib.org/attachments/thematic/environmental_and_social_practices_handbook.pdf



environmental and social impact assessments. There is a gap between the standards that the EIB adheres to inside and outside the EU. Outside the EU Member States, the EIB refers to the ‘local conditions’ of the host country, thus making it increasingly vague to assess which norms are being applied. The EIB has been and still is involved in a number of large-scale projects that are considered as highly damaging to the environment. Please refer to the detailed example of the Giza electricity project in Egypt (Box A). *CSOs have a significant role in pushing for a more effective environmental and social policy, adequate and clear procedures of adherence and follow-up, and safeguards to guarantee protection of environmental standards and rights of local communities.*

- **What are the negative impacts of the tax havens created?**²⁴ Tax havens facilitate a major leakage in global overseas development assistance. Aside from the evasion of tax contributions, they often allow the avoidance of transparency and regulation as well. The EIB has a history of funding projects and companies that make use of these tax havens, while the European Council has expressed its commitment to implementing the principles of good governance in the tax area. Although the Bank has recently revised its policy concerning tax havens, there are still sufficient loopholes for EIB money to flow to corporations that make use of tax havens.

Moreover, the EIB is increasingly channelling financing through financial intermediaries and private equity funds registered in well-known tax havens. *CSOs have an ample role in tracking EIB financing and its linkages to tax havens.*

- **Do the activities of the EIB consider the possible side effects of public-private partnerships (PPPs)?** PPPs are a framework/instrument often used and financed by the EIB. Some policy makers and financial institutions regard PPPs as a useful way to mobilise capital for large infrastructure projects that would otherwise never be able to collect the necessary financing. However, PPPs have often lacked the necessary safeguards and guarantees, leading to the execution of inefficient projects, and/or an increase of the indebtedness of developing countries on the other.²⁵ The EIB’s PPP investments have often been complicated and problematic with arrangements often tending to favor the private partner at the expense of the public, who will be often inheriting off-balance sheet debt and associated financial obligations for years to come. With increasing EIB financing taking place through PPP mechanisms, the EIB does not sufficiently engage in ensuring that the public sector obtains value for money in proposed PPP deals.²⁶

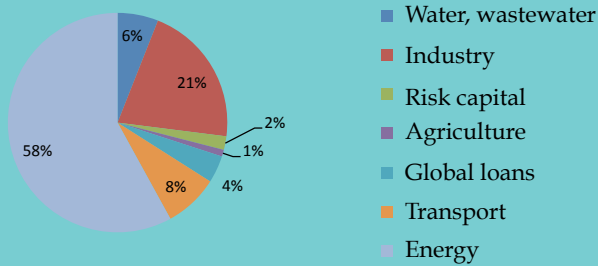
24 <http://eurodad.org/4380/>; Antonio Tricarico “Why the new EIB tax haven policy won’t be effective”, CRBM, Counter Balance

25 <http://bankwatch.org/public-private-partnerships>

26 http://bankwatch.org/sites/default/files/Letter_EIB-President_CB-coalition_12.03.2012.pdf

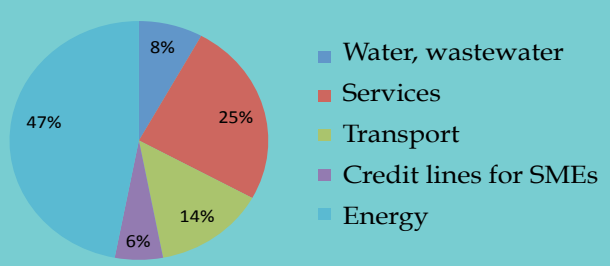
Sectoral breakdown of EIB operations in MENA

Egypt



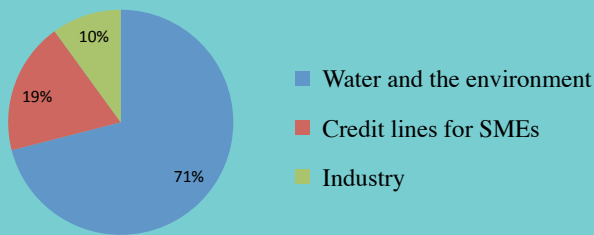
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Gaza and the West Bank



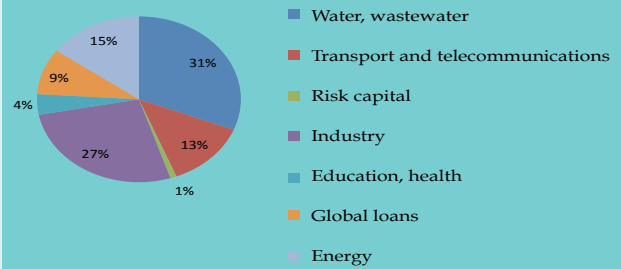
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Israel



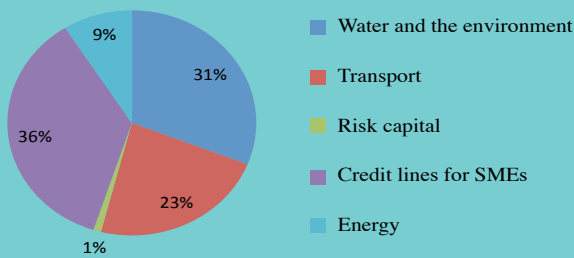
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Jordan



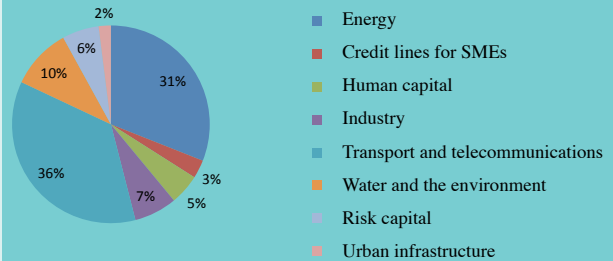
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Lebanon



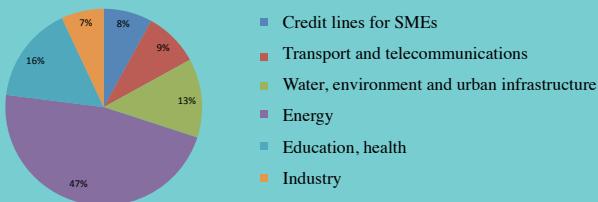
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Morocco



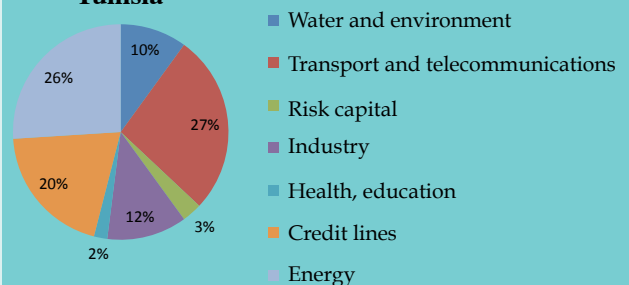
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Syria



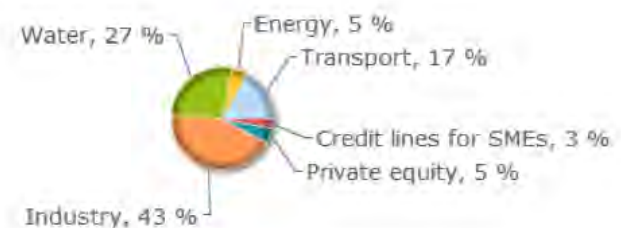
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Tunisia



http://www.eib.org/attachments/country/syria_2012_en.pdf (2012)

Signatures by sector in 2011



<http://www.eib.org/projects/regions/med/about/index.htm> (2012)

Allocation of FEMIP funds between sectors and countries. The figures above demonstrate the EIB's tendency to concentrate its funding in non-productive sectors. Although the numbers concerning 2011 appear to indicate a shift

towards productive sectors, the overall image per country reveals FEMIP's focus on the energy and transport sectors. Considering this, the EIB should be pushed to extent its shift towards sectors such as agriculture and industry in order to ensure real development outcomes.



Case Study: The Giza Electricity Project- the missing developmental aspects

The Giza Electricity Project was launched in 2010, with the declared aim of supporting “the Government of Egypt’s power sector investment plan to meet the growing electricity demand in the country and ensure access to reliable supply of power– all prerequisites for sustained economic growth and achieving the country’s social development agenda”.

The EIB is partly financing the project (together with World Bank and other). The energy sector has been by far the largest beneficiary of EIB loans. The EIB has invested initially 300 million Euros in the first phase of project in 2010 and financed with an additional 50 million Euros for the second phase that started in 2011.

The project and the EIB’s engagement in the project have been monitored by civil society groups. The groups raised several critical issues in this regard:

- The project violates the Egyptian laws related to construction on agricultural land. As a consequence, 73 of agricultural acres have already been destroyed and it is expected that hundreds of more acres will follow.
- The project lacks standards of public participation, and has been no remedial action towards the tenants who have lost their land and who have been evacuated from the land of the project.
- The project lacks standards of transparency and integrity in its implementation,

especially with regard to the environmental and social impact assessments.

- The project results in direct negative impacts on the land and crops, including the disposal of construction debris in a nearby canal, disruption of groundwater sources and of the flow of the canal, and drying up of wells in the area. Severe consequences are expected for the quality of Nile river waters.
- The project negatively impacted the livelihoods of the local communities in the place of the investment, impacting the local population’s access to drinking water and water for the purpose of irrigation, as well as fishing.

Moreover, the power plant’s chimneys and fumes they will produce are expected to have a severe impact on the surrounding agricultural lands and their crops. Thus, the EIB’s involvement in the project is highly controversial on the environmental and social fronts and with regard to development objectives of eradicating poverty and contributing to sustainable development. Indeed, the impact of EIB’s role and financing towards “contributing to unsustainable development, by fuelling environmental destruction, climate change, depletion of natural resources, impoverishment, social conflicts”¹ should be well considered.

**This case study has been prepared by Mr. Abdelmawla Ismail and is based on the monitoring work undertaken by Egyptian Association for Collective Rights, Habitat International Coalition, and the Egyptian Center for Legislative Reform.*

¹ Counter Balance, Citizen’s Guide p.30