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Arab NGO Network for Development
شبكة المنظمات العربية غير الحكومية للتنمية

Series of analysis on European Financial Institutions engagement in the Arab Region

Paper #1

European Invesntment Bank and European Bank for Reconstruction and Development and Energy Sector

Arab NGO Network for Development

European Investment Bank and European Bank for Reconstruction and Development and energy sector

The following paper comes in a series of other papers, each tackling a different sector of focus within the EIB and the EBRD's interventions in the Arab Region. The purpose of this one is to provide information on the EBRD and the EIB's involvement in the region in the energy sector.

Introduction

Energy is key for achieving sustainable development. Early in 1992, the Earth Summit pointed that current levels of energy consumption and production are not sustainable. It called international donors to "support developing countries in implementing national energy programmes in order to achieve widespread use of energy-saving and renewable energy technologies, particularly the use of solar, wind, biomass and hydro sources; and to provide access to research and development results to increase energy-use efficiency levels in human settlements"[1]. 20 years later, in Rio+20, the critical role played by energy in the development process was once again affirmed as "access to sustainable modern energy services contributes to poverty eradication, saves lives, improves health and helps provide basic human needs" [2]. Yet around 1.3 billion people in the world has no access to energy services and the Arab region shows variations between countries and within countries between rural and urban areas. (See Table 1) Where electrification rates are high, there still remains problems in terms of energy supply, and quality of the energy.

Table 1- Electricity access in the Middle East - 2012

Region	Population without electricity millions	National electrification rate %	Urban electrification rate %	Rural electrification rate %
Bahrain	*0.0*	*100%*	*100%*	*100%*
Iran	*1.2*	*98%*	*100%*	*95%*
Iraq	*0.6*	*98%*	*100%*	*94%*
Jordan	*0.0*	*100%*	*100%*	*100%*
Kuwait	*0.0*	*100%*	*100%*	*100%*
Lebanon	*0.0*	*100%*	*100%*	*99%*
Oman	*0.1*	*98%*	*100%*	*93%*
Qatar	*0.0*	*100%*	*100%*	*69%*
Saudi Arabia	*0.3*	*99%*	*100%*	*94%*
Syria	*1.6*	*93%*	*100%*	*84%*
United Arab Emirates	*0.0*	*100%*	*100%*	*100%*
Yemen	*13.8*	*42%*	*69%*	*29%*
Middle East	**18**	**92%**	**98%**	**78%**

Source: IEA, World Energy Outlook 2014

[1] https://sustainabledevelopment.un.org/content/documents/Agenda21.pdf
[2] THE FUTURE WE WANT, Outcome Document Rio +20, http://www.uncsd2012.org/content/documents/727The%20Future%20We%20Want%2019%20June%201230pm.pdf

1- Energy in the Arab Region

a) General overview[3]

Energy has played a key role in driving and defining economic development in the Arab region. Given that the region has over the past four decades produced and exported more oil than any other region, and that it holds reserves sufficient to supply world energy markets for more than another hundred years at current rates of production, it will continue to play a significant role for the region.

The availability of energy resources shaped economic choices, triggered development of certain pattern of industrial activities and enabled further integration of the Arab world in the global economy. Development of oil and gas industries became an important source of income and allowed the creation of modern welfare states among the Gulf Cooperation Council (GCC). Energy resources played a crucial role as well at the intra-regional level, through labor and remittances flows, financial investments and aid flows from the oil-rich Gulf towards other Arab economies.

Nevertheless, the role played by energy resources in the Arab world is not always positive. Ideally, the use of natural resource revenues should lead for a diversified economy and a sustainable long-term growth. However, the reality in Arab countries shows that energy export revenues have fuelled the development of some industries more than others, particularly of energy-intensive manufacturing at the expense of alternative economic sectors and small and medium enterprises. Due to inequitable wealth distribution, the wealth from energy fuelled further inequalities and disputes over energy resources created conflicts at national and regional level. Moreover, trade in energy itself has notably been unable to boost intra-Arab trade in commodities.

In this context, there are several key issues to be considered with regard to energy sector in the Arab region:

Energy efficiency: Unlike many parts of the world, the Arab region is well endowed with clean, renewable sources of energy, primarily solar and wind. Yet, sixty million Arab people are without access to modern energy services, mainly electricity, although energy consumption intensity is among the highest worldwide[4]. This indicates the problematic related to energy efficiency and energy policies implemented.

Energy security: Energy security refers to the uninterrupted availability of energy sources at an affordable price. It is a major

[3] This section is based on the UNDP. Energy and Arab Economic Development, Arab Human Development Report, http://www.arab-hdr.org/publications/other/ahdrps/ENGFattouhKatiriV2.pdf

[4] The report on Sustainable Energy in Arab Countries, Arab Forum for Environment and Development (AFED). http://www.afedonline.org/conference/

issue for Arab states without access to plentiful resources. Many of the Arab states are completely lacking in oil and gas resources, and are forced to import their energy from the Gulf or elsewhere. This is a major drain on the state's resources, as well as a constant concern in case of regional unrest.

Energy Consumption: has grown at a pace which is unsustainable in relation to the state's infrastructure. Arab oil and gas producers, particularly the Gulf monarchies, already consume more energy on a per capita basis than most countries of the developed and developing world. Most Arab states do not have the resources or infrastructure necessary to provide energy to all of their citizens. In the way the region consumes energy, the Arab world is as vulnerable as several regions importing energy. In the absence of suitable strategies to manage the region's growing energy demand, domestic consumption may very well compromise future regional energy exports.

Energy Subsidies: Decades of heavily subsidized energy policies have allowed Arab energy markets to remain artificially cheap, which has in turn made consumption of oil, gas, and electricity unnaturally and artificially high. While this was intended to benefit impoverished populations, low energy prices have resulted in real economic costs, both in energy importing and exporting countries. These include an inefficient allocation of resources; exceptionally low levels of energy efficiency; high and rapidly rising levels of fuel and electricity consumption both in absolute and per capita terms; and in some cases decade-long underinvestment in domestic energy sectors. Cheap oil, gas and electricity are consumed in much greater numbers by wealthier populations. This has created a system in which consumption grows at a much higher rate than would be otherwise the case, forcing the state to pay increasingly higher portions of its budget to maintain the subsidies. On the other hand in the absence of alternative welfare systems, energy subsidies often remain a de facto important social safety net, helping to increase access to energy as well as contributing to lower prices for other goods in the economy. For many of the Arab energy producers, on the other hand, the provision of low-cost energy remains a critical tool to diversify their economies and to distribute wealth, much of which is generated from oil and natural gas exports.

Infrastructure/Renewable Energy: Aging infrastructure plagues all of the Arab states to some degree, as well as inefficiency and a huge reliance on oil and gas resources (a side effect of the cheap subsidies). Capacity has also become a major concern, as consumption has begun to exceed capacity in many Arab states. Thus, rolling blackouts, shortages, and

rationing has become common in much of the region due partially to aging power plants, refineries, and electricity grids. Pollution is also a major concern within Arab cities. Most Arab states continue to use dirty and aging power plants. Combined with the dependence on fossil fuels, this creates a major health hazard in many large cities of the region, as well as contributes to climate change.

Energy efficiency governance: This is the combination of legislative frameworks and funding mechanisms, institutional arrangements and coordination mechanisms which work together to support implementation of energy efficiency strategies, policies and programmes. Experiences differ across the region in energy efficiency governance (see table 2).

Table 2: Energy efficiency laws and national energy strategies in the Arab region

	Energy efficiency laws	**National Energy Strategy with long term quantitative objectives**
Algeria	Law No. 1999-09 on Energy conservation	National Program for renewable energy and efficiency by 2030 (adopted in 2011)
Egypt	Electricity Law including EE in draft	None
Jordan	Law no.13 (2012) on renewable energy and energy efficiency	Jordanian National Energy Plan (2007-2020)
Lebanon	Energy conservation law (in draft)	Policy Paper for Electricity Sector (2010)
Morocco	Law No. 47-09 (2009) on Energy efficiency	National Energy strategy 2012-2020 (adopted in 2013)
Syria	Law no. 3 (2009) on Energy Conservation	None
Tunisia	Law No. 2004-72 (2004) on Energy efficiency further amended by Law No.7 (2009)	Triennial program (2005-07) Quadrennial program (2008-2011) New quadrennial energy program 2013-2016 (under development)

Source: Regional Centre for Renewable Energy and Energy Efficiency, 2013 noted at http://www.iea.org/media/workshops/2013/semedmenaroundtable/SEMEDArabRegionalEEPRWorkshopReport%28finalOctober2014%29forwebAG.pdf

b) Country situation[5]

Egypt: Egypt represents the region's most populated energy market and is the largest oil and gas consumer in the continent. Egypt is also an important non-OPEC fossil fuel producer and plays a vital role in international energy trade. The country is facing rapidly growing energy demand due to population growth, economic expansion and increased industrial output, among many factors. 94% of total primary energy consumption in Egypt is from fossil fuels, while some energy comes from hydropower. The government aims to diversify the energy mix in favor of renewable energy resources and has set a target to achieve 20% of generated electricity from renewable energy by 2020.On February 2015, there has been the signature of a bilateral agreement between Egypt and Russia to build a 4800 MW nuclear plant in Egypt, which should lead to "the creation of the entire new atomic industry in Egypt"[6]. At the level of energy security, the country suffers from frequent power outages due to ageing infrastructure, and the lack of adequate generation and transmission capacity.

Jordan: Jordan relies on importing energy resources to meet its domestic energy demand for fossil fuels. These energy imports account for more than 40% of the country's budget. Jordan's total primary consumption is entirely focused on fossil fuels, and its installed capacity is also principally fired on oil and gas. Jordan's government plans to boost electricity generation capacity from renewable sources - made up of large-scale wind and solar projects- up from the current 18 MW to 1.8GW by 2020, setting a target of 10% of primary energy demand from renewable energy by 2020. Moreover, with the drop in Egyptian gas supplies and ballooning electricity subsidies, officials pushed through several pieces of legislation and regulations streamlining energy investment procedures, providing tax incentives for renewables and allowing citizens to sell electricity back to the national

[5] The main information at country level are retrieved from the Regional Center for Renewable Energy and Energy Efficiency, an independent non-profit regional organization, set up based on Cairo Declaration which was signed in June, 2008 by government representatives from ten Arab countries http://www.rcreee.org/and from US Energy Information Administration www.eia.gov

[6] http://www.aljazeera.com/news/2015/02/russia-build-egypt-nuclear-power-plant-150210185343926.html

grid. For instance, with the Directive Governing the Sale of Electrical Energy generated from renewable energy systems issued by the Council of Commissioners of ERC, pursuant to article 10/b of the Renewable Energy and Energy Efficiency law no 13 (year 2012)[7], private citizens and firms can sell backup to 5MW worth of electricity production to distribution companies, some 200 households have joined the ranks of the new solar entrepreneurs[8].

Tunisia: Tunisia relies almost entirely on fossil fuels to meet its domestic energy needs. Over 94% of installed energy capacity in the country is hydrocarbon-fired. Tunisia imports most of its energy needs, despite being a relatively small natural gas and oil producer. The remaining 6% of installed capacity come from renewable energy resources; mostly hydro and wind. The government is making efforts to integrate 30% of total electricity generation from renewable energy resources by 2030. The country has made remarkable progress in the electrification, with 99.5% of the country electrified as of 2012. This contrasts with the 1970s, during which only 6% of the rural population was electrified. Tunisia has also focused strongly on energy efficiency as a way of diversifying its energy mix, with existing regulatory frameworks and energy efficiency laws.

Morocco: Morocco relies mostly on fossil fuels to meet its domestic energy demand. Fossil fuels account for about 68% of installed capacity in Morocco. The remaining 32% are from renewable energy resources; mostly hydro, wind and solar. Though Morocco produces some oil and natural gas for domestic consumption, it has to import the majority of its fossil fuel needs. 93% of Morocco's total primary energy consumption comes from oil, natural gas and coal. The country is seeking to meet its growing energy demand with fewer imports by tapping into its vast renewable energy potential. The government aims to generate 42% of electricity from renewable resources by 2020, focusing mostly on solar and wind energy. The government also aims to boost energy efficiency and is currently working on a national strategy for energy conservation and efficiency.

2- European Financial Institutions engagement in the Arab region and the energy sector

Energy is a strategic sector yet Europe depends on the rest of the world for its energy, consuming one fifth of the world's

[7] http://www.edama.jo/Content/Events/Presentations/c1e76a0c-2453-4069-a48d-7fc84f90d6ef/676e0ab5-e165-4c68-98ca-c41e5da245fe.pdf

[8] http://jordantimes.com/jordan-turning-to-alternatives-amid-energy-crisis

energy[9]. With a dedicated policy on energy the EU wants[10] to secure energy supplies to ensure the reliable provision of energy whenever and wherever needed and to ensure that that energy providers operate in a competitive environment that ensures affordable prices for homes, businesses, and industries. In addition, the EU aims to ensure energy consumption to be sustainable, through the lowering of greenhouse gas emissions, pollution, and fossil fuel dependence. Indeed with the entry into force of the Lisbon Treaty, there is a legal basis for "energy security", "energy efficiency" and "development of new and renewable forms of energy" for the Union[11].

While energy is a priority for the EU, exacerbating insecurity between Russia (principle supplier of gas) and the transit country Ukraine brought further attention to sector and with a work launched on February 2015, the EU is currently heading towards establishing the Energy Union. Obviously, energy security is at the center of this Union's establishment and excessive dependence on a limited number of supply sources is a key challenge identified. In response, the Commission prioritizes the diversification of energy sources and suppliers; the Mediterranean region stands at a crucial point in this regard.

The region is as well important for the European Banks and the three bodies signed a Memorandum of Understanding and acknowledged the strengthened coordination between them that "should help support progress towards the fulfilment of EU external policy objectives in the countries where both Banks operate"[12]. In this context, energy infrastructure and energy security is a common area of work for both Banks and are considered as a strategic area of cooperation, admitting that "energy security is a priority for the EU and there is a need for EIB and EBRD to continue to work together on these politically and technically complex deals" [13]. Accordingly, the MoU states that the two Banks would closely cooperate at sector level, and explore all suitable possibilities for project co-financing.

This section will present a brief overview of the two Banks' engagement in the region in terms of energy sector.

9 https://ec.europa.eu/energy/sites/ener/files/documents/energy.pdf

10 http://ec.europa.eu/energy/en/topics/energy-strategy

11 Article 194 http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/part-3-union-policies-and-internal-actions/title-xxi-energy/485-article-194.html

12 http://www.ebrd.com/downloads/news/MoU_EC-EIB-EIF-EBRD_Final_MB_formatting.pdf

13 http://www.ebrd.com/downloads/news/MoU_EC-EIB-EIF-EBRD_Final_MB_formatting.pdf

a) The European Bank for Reconstruction and Development (EBRD)

The energy sector is at the heart of the Bank's mandate to foster the transition to market-oriented economies in its countries of operation, and to promote environmentally sound and sustainable development. The bank's policy is to promote secure, affordable and sustainable energy, and to focus on challenges related to the impacts of transition.[14]

With regard to the region- referred as South and Eastern Mediterranean (SEMED) region- and the energy sector the EBRD identifies key challenges to be tackled. This includes, significant involvement of the state and dominance of vertically integrated companies, limited private sector engagement with the state generally controlling the majority of generating and network assets, regulated and subsidized electricity tariffs and gaps at the institutional level and generally a lack of an independent regulator[15]. While considering these challenges common to EBRD country of operations, the Bank affirms that there is a difference as "demand is rising fast and the investment challenge is less replacing an ageing but largely sufficient infrastructure and more meeting this growing demand and delivering a stable and reliable energy supply to support economic activity" [16].

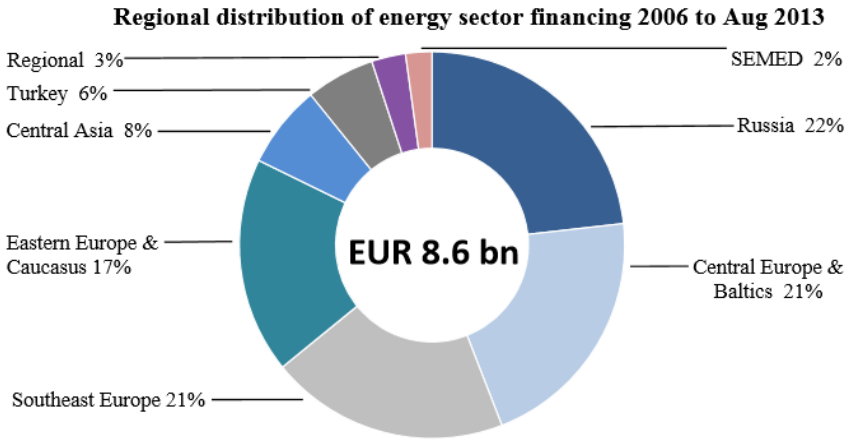
By the end of 2014, the Bank reached €1.5 billion investments in 53 projects in the project. Out of these projects those related to energy sector, power and natural resources reflect a 2% of the overall energy sector financing of the Bank. (See figure 1). The projects signed include Serinus energy project in Tunisia, electrification project in Morocco, a power plant project in Jordan. (see Table 3 for all projects listed).

[14] http://www.ebrd.com/cs/Satellite?c=Content&cid=1395236698246&pagename=EBRD%2FContent%2FHublet

[15] Energy sector strategy as approved by the Board of Directors at its Meeting on 10 December 2013 http://www.ebrd.com/downloads/policies/sector/energy-sector-strategy.pdf

[16] Energy sector strategy as approved by the Board of Directors at its Meeting on 10 December 2013 http://www.ebrd.com/downloads/policies/sector/energy-sector-strategy.pdf

Figure 1- Regional distribution of energy sector financing (2006-august 2013)



Note: In 2006 to August 2013 the Bank financed energy sector projects in 28 countries of operations.

Table 3- Energy, power and natural resources related EBRD projects signed in the SEMED region[17]

Country	Project		Public/ Private
Egypt	IPR Development Facility	A USD50 million commitment to finance the client- IPR Transoil Corporation, IPR Energy Red Sea, Inc. and IPR Energy Suez, Inc. independent upstream oil & gas companies operating in Egypt- operations in Egypt, including capital expenditures for field development and facilities upgrades intended to yield greater efficiencies with a low environmental impact. These upgrades include programs designed to maintain the client's already very low incident of associated petroleum gas (APG) flaring and for environmental improvements.	Private
	Power sector energy efficiency project	oan of up to USD 190 million to the Arab Republic of Egypt, to be on-lent to the state-owned Egyptian Electricity Holding Company (EEHC) and/or its subsidiary East Delta Electricity Production Company (EDEPC). The proceeds of the loan will be used to fund the conversion of two existing open cycle power plants to combined cycle gas turbines: (i) 500 MW Damietta West and (ii) 1,000 MW El Shabab. The project will add significant extra generating capacity to the Egyptian grid and improve the plants' efficiency from c.33% to c.51%. This will help alleviate the on-going energy crisis in Egypt, thus improving the socioeconomic environment for industry, commerce, small businesses and households. It will also result in significant carbon emission reductions.	Public
Jordan	Oryx Solar	loan of up to USD 13 million to finance the construction of a 10 MW solar photovoltaic plant located approximately 11 km to the west of	Private

[17] http://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?c8=on&c14=on&c23=on&c32=on&s7=on&s21=on&s24=on&s25=on&keywordSearch=

	Project	Ma'an City in Jordan. The project is one of three solar projects being developed by Scatec Solar AS (Norway). It will be one of the first utility-scale solar plants in Jordan and will support the country in increasing its renewable energy capacity and reducing its reliance on costly hydrocarbon imports.	
	EJRE Solar Project Jordan	loan of up to USD 24 million to finance the construction of a 20 MW solar photovoltaic plant located approximately 11 km to the south east of Ma'an City in Jordan.	Private
	Greenland Solar Project	USD 13 million to finance the construction of a 10 MW solar photovoltaic plant located approximately 10 km to the south east of Ma'an City in Jordan.	Private
	Ma'an Solar Power project	USD 25 million to finance the construction of a 24 MW solar photovoltaic plant located approximately 13 km to the south east of Ma'an City in Jordan. The Project will be one of the utility-scale solar plants in Jordan and will support the country in increasing its renewable energy capacity and reducing its reliance on costly hydrocarbon imports.	Private
	IPP4 Al-Manakher Power Project	loan of up to US$ 100 million to fund the development of a 240MW peaking power plant, 15 km east of Amman in Jordan (the "Project"). The Project is urgently required to ensure the quality and security of electricity supply in Jordan and to prepare the grid for future deployment of large quantities of intermittent renewable energy. The Project is being developed as the result of a competitive tender by the government of Jordan and will be implemented on a build, own, operate basis. All output will be sold to the National Electric Power Company.	Private
Tunisia	Serinus energy	The project comprises financing the development of four oil and gas fields in Tunisia (Sabria, Chouech Essaida, Ech Chouechand Sanrahr) between 2013 and 2017. It finances a multi-year continuous drilling programme, including the stimulation of existing wells and the drilling of new production wells, securing dedicated drilling and service rigs. The objective is to significantly increase output and consolidate the position of the Company as a leading oil and gas player in Tunisia	Private
Morocco	Compagnie Miniere de Seskaoua	loan of USD15 million to Compagnie Minière de Seksaoua to finance a connection to the electricity grid.This would represent a switch away from the current, more costly and polluting, diesel power generation and a plant modernisation with the objective of increasing production capacity.	Private
	ONE-Rural electrification and smart metering	a loan to the Office National de l'Electricité ("ONE") of Morocco. The sovereign-guaranteed senior loan of up to EUR 60 million would finance rural electrification and smart metering. The remainder of the project costs will be met by ONE.	Public

The EBRD energy related projects in the SEMED region reveal that **the private sector funding has been a priority**. This corresponds with the EBRD's own analysis

that there is limited private sector engagement in the energy sector. Indeed such support is also in line with the policy recommendations directed to the region out of an energy experts roundtable organized by the International Energy Agency together with EBRD, LAS, RCREE. Having series of recommendations including enabling data, developing national strategies, a crucial emphasis is put on facilitating private sector investments in the energy sector and calling the Arab-SEMED region to:

- Provide dedicated credit lines for energy efficiency project developers through commercial or development banks.
- Support development of the pillars of an Energy Service Company (ESCO) industry, including standardised contracting vehicles, measurement and verification protocols, and accreditation procedures.
- Promote public-private partnerships whereby energy efficiency projects for public buildings are tendered to private ESCOs.

On another aspect, it is important to note that the projects listed above, except the solar plan in Jordan **does not have a significant contribution to "renewable energy**" sector development in the region, despite its significance in terms of energy sustainability and efficiency but as well given the climate change impacts in the region.

In case of the solar-plant projects, **there is no technical cooperation included**, while the EBRD promotes the technical cooperation as "a key element in achieving the full potential of EBRD sustainable energy operations by removing barriers that exist to project development and implementation." As defined by the EBRD, technical cooperation includes assignments such as energy audits, sustainable energy market assessments, training, or monitoring and evaluation that can play key role for the sustainability of the plants built.

Furthermore, **the value-added of these projects in terms of sustainable development has to be well assessed**, given at the end the Norwegian company, Scatec Solar will own 70% of the 10 MW Oryx plant and 40% of the two other plants totaling 33 MW capacity, and the National Electric Power Company (Nepco) will buy the electricity produced by the plants under a 20-year power purchase agreement[18]. **The commitment to sustainable development should as well ensure the technology transfer and building the local capacities of the developing countries, in terms of EBRD, by such projects implemented**.

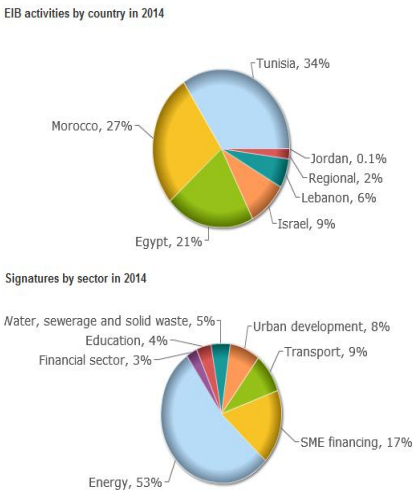
b) The European Investment Bank

[18] Read more: http://www.pv-magazine.com/news/details/beitrag/scatec-solar-secures-100-million-in-financing-for-solar-plants-in-jordan_100017105/#ixzz3WiaxnwmJ

The EIB is the EU bank, and its energy policy is shaped by the EU energy policy itself towards ensuring secure, competitive and sustainable energy supply for economic growth and social progress. For this, the EIB allocates around 16% of its financing (in 2012) for energy sector projects: EUR 7.2bn within the EU and EUR 1.2bn outside[19].

Within the EU, the Bank follows the EU targets set; namely for 2020 to cut greenhouse gas emissions by 20% compared to 1990 levels and boost renewable energies by up to 20% of final energy consumption. On the other hand outside the EU, with the entry of Lisbon Treaty, the Bank is mandated to contribute to helping the EU achieve its primary development objective of reducing and, in the long term, eradicating poverty (Lisbon Treaty Article 208). This means, that the EIB must take the objective of poverty reduction and eradication into account in all decisions likely to affect developing countries, including its financing in energy sector.

Figure 2:FEMIP overview in 2014 [20]



The energy sector has been a major priority for the Mediterranean region, with EUR 5.4bn since 2002, investment in the sector represents almost 40% of the EIB's lending.[21] Highlighting core challenges of increasing demand and scarcity of private investment (as EBRD), the EIB declares to "help meet demand for energy and simultaneously limit environmental impacts, focusing on low carbon power generation, including natural gas and renewable energy sources; energy efficiency; and upgrading energy networks" [22].

19 http://www.eib.org/attachments/strategies/eib_energy_lending_criteria_en.pdf

20 http://www.eib.org/projects/regions/med/about/index.htm

21 http://www.eib.org/attachments/country/femip_energy_en.pdf

22 http://www.eib.org/attachments/country/femip_energy_en.pdf

Through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the EIB allocates resources to the Mediterranean partner countries and in 2014 only, the Bank's %53 of activities through FEMIP were on energy. (See figure 2) The Facility allocations on energy aim to contribute to "building and upgrading energy infrastructure in order to improve supplies for people in the Mediterranean region; strengthening regional energy interconnections and developing new energy routes; exploiting the region's considerable renewable energy potential; and optimizing sustainable energy development in a way that meets environmental concerns."[23]

The EIB's energy lending outside has mainly focused on co-financing large-scale infrastructure operations, and 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.[24] The Giza Power Plant project in Egypt is one of the examples of how the local communities needs were not considered in project implementation by the EIB. The Giza project is jointly funded by the EIB, World Bank and OPEC Fund for Investment Development and is a $2.2 billion natural gas-powered electricity generation plant. The Environmental Impact Assessment undertaken within the project concludes that "no significant environmental and social impacts will occur as a result of the construction or operation of the power plant and, when taken together, the overall environmental and social impact will not be significant"[25]. On the contrary, the assessment highlights the net positive socio-economic impact through the provision of employment opportunities and attraction of economic investment into the area. It notes that during the construction, the use of local labor (95%), will maximize these positive impacts through the development of the local skill base and will also generate increased demand for local services, materials and products.[26] Nevertheless, local communities, principally low-scale farmers of the region face challenges, which could be considered short-term but with long-term development impacts. The farmers state challenges regarding the water quality and the consequent effect on their drinking water, crop irrigation and overall health of their

[23] Stated during the 8th FEMIP Ministerial conference on Energy, http://europa.eu/rapid/press-release_BEI-10-72_en.htm

[24] http://www.socialwatch.org/book/export/html/12052

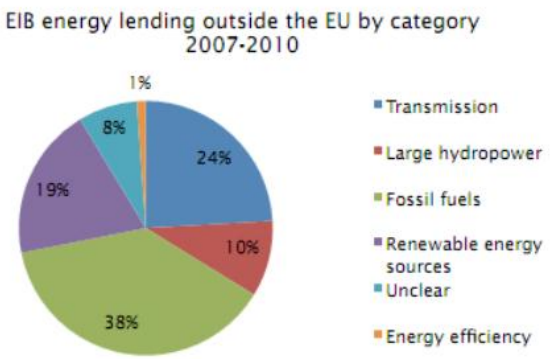
[25] http://www.eib.org/attachments/pipeline/20100121_nts_en.pdf

[26] ibid

farming economy[27]. In response, farmers and the CSO representatives submitted a complaint regarding the project on April 4, 2013 to the World Bank's Inspection Panel[28].

On the other hand, with regard to the **EIB's energy allocations in the Mediterranean, it is important to consider renewable vs non-renewable energy support.** Indeed the investment on the scale that the EIB provides could help Southern Mediterranean countries to make significant progress in line with the renewable energy approach and commitments undertaken in the Action Plans and the Association Agreements with the EU[29]. Nevertheless **FEMIP lending in the energy sector have significantly concentrated on fossil fuels.** Its lending to renewable energy have remained significantly limited compared to financing in other sectors in the MENA region and compared to financing renewable energy in other regions.

Figure 3- EIB Energy lending outside EU



An analysis on mapping of EIB spending between 2007 and 2010 reflect that the percentage of renewable energy sources versus fossil fuels is 2 to 98.[30] Overall, the EIB's energy lending outside the EU show a limited contribution to renewables compared to fossil fuels (19 to 38 percent respectively) (See figure 3) and the energy efficiency constitutes only a tiny percentage although it could contribute to reduce emissions and is a "well-documented source of job creation.[31]"

Yet, with the adoption of the new EIB energy lending policy in July 2013, the Bank took considerable steps towards eliminating financing to the most carbon intensive power generation projects by introducing an Emissions Performance Standard (EPS). This

[27] http://www.egyptindependent.com/news/new-giza-power-plant-threatens-abu-ghaleb-farming-village

[28] http://www.bicusa.org/world-bank-inspection-panel-registers-first-complaint-from-egypt/

[29] EU – Southern Mediterranen Energy Relations; Possibilities and Challenges in Moving towards a Green Sustainable Energy Policy, by Kinda Mohamadieh and Algirde Pipikaite

[30] http://bankwatch.org/ifi-energy-lending

[31] Presentation by Bankwatch, http://www.europarl.europa.eu/document/activities/cont/201304/20130425ATT65196/20130425ATT65196EN.pdf

in brief means that "most coal power plants can no longer be financially supported by the EIB unless they co-fire at least 25% biomass or are high efficient co-generation installations" [32]. The bank has an EPS exception rule yet limited for projects in countries outside of the EU only to low income countries (listed by the World Bank) and in the situation where the project would have a significant positive material impact on poverty alleviation and economic development[33].

c) Recommendations for the Bank's engagement in the region on energy sector

1. **The Bank's engagement in the region should ensure inclusive development:** As in other sector engagement, the Banks engagement in the region in the energy sector should be based on selection of projects with clear and assured contributions to sustainable development and with development impacts on the life of the communities affected by these projects. In addition, the projects' implementation should contribute to employment generation and poverty alleviation. With regard to energy, while the construction of large-scale infrastructures ensures local labor engagement, thus contributes to employment generation, it should be kept in mind, it is for a certain period of time (i.e. mostly during the construction phase). At this point, building local know-how capacities, trainings and additional technical assistance plays an important role.

2. **The bank's use of Public-Private Partnerships (PPPs) in implementing energy projects should not violate the enjoyment of the related rights**: PPPs have been greatly promoted by the EIB and the EBRD as "…a driver of modernization, making it possible not only to mobilize the capital required for infrastructure projects but also to help transfer technical and managerial expertise. Furthermore, PPPs have the advantage of instilling discipline between all the project partners at every stage of the design, construction and operation of the infrastructure concerned." However, , despite their limited success of the PPPs in the region, the banks policies and projects kept on supporting them, especially in energy sectors which supply citizens with basic needs such as water, electricity. This could lead to higher prices basic services which subsequently harms the lives of citizens. In addition, in PPPs, sometimes the private sector abandons the partnership, and thus the burden is transferred to the public sector. This carries a negative impact on the state's budget and

[32] http://bankwatch.blogactiv.eu/2013/08/01/the-eib-finally-limits-coal-lending/
[33] http://bankwatch.blogactiv.eu/2013/08/01/the-eib-finally-limits-coal-lending/

limits its funds, whereas these funds could be used for development purposes. Last but not least, albeit limited, the success of such partnerships often drowns in corruption, limiting further productive capacities. Hence, before engaging in such partnerships, we need a legal framework under which the rights of the communities are protected, and the responsibilities of each party in the partnership are clearly indicated. In addition, such PPPs should not limit the essential role of the state in providing affordable and quality services, namely those related to public transportation, and health care.

3. **The Bank's energy funding should help the countries of the region to move away from a "rentier state" model to a "developmental states" reducing the pressure and usage of extractive resources such as oil and gas**. It will also require inclusive and sustainable national strategies and reasonable management and use of available national resources. This aspect has to be central in the Banks' approach and in their energy policy towards the region. . This covers specifically Jordan, Lebanon, Morocco and Egypt, four Arab countries which energy resources (fuel and oil) are mainly imported, leading to a form of energy insecurity. Here, developing renewable energy patterns could be more than an anecdotic source of energy for those countries, but on contrary an insurance to provide affordable and domestic energy to these countries' people. A new model of development could be based on an environmental sound approach of the energy issue, in partnership with the EBRD and the EIB.

4. **Scaling up renewable energy technologies is a leading option to eradicate energy poverty, decrease dependence on oil and gas, improve environmental quality and mitigate climate change**. The Arab region has a huge potential of renewable energy resources, mainly solar, wind, hydro and biomass that have not been fully utilized. However, while many renewable energy projects have been financed, when comparing the funding between renewable and non-renewable energies in the region the difference is profound. This heavy dependence on finite and increasingly expensive fuels is one of the energy sector's fundamental problems in the region; increasing the Arab states dependence on them is not only economically dangerous but environmentally as well.

5. **A systematic dialogue with all relevant stakeholders, including civil society organizations and local communities is needed for every project, especially in the energy sector**. Abstaining from including CSOs' assessments would result in endangering citizen's rights to energy security, right to environment and

their social and economic rights in a broader sense. **Transparency is also a major issue with both lending institutions**. While projects are announced and listed by both banks, their partners in the investment projects and specific details are often murky. Civil society organizations must be a part of the planning and the implementation process to ensure full effectiveness of any potential project. In order to allow civil society organizations, both indigenous and international, to properly oversee development projects the relevant information must be easily accessible, accurate, and transparent. While the banks do release the relevant data on their ongoing and past projects, key information is frequently left out. How the money is exactly spent, the full implementation details, and most importantly, the high level decision making process remains generally unavailable. The Arab Spring has created, for the first time in the region, the ability for Arab populations to have a say in their countries' affairs. Part of this new democratic process involves giving them the information necessary to make informed decisions. In addition, one must take into account the political facts on the ground in the Arab region. One of the reasons for the Arab Uprisings was the endemic corruption and nepotism in Arab states. The EIB and ERBD's history of non-transparent decision making combined with this corruption only adds to the importance of transparency in EIB/EBRD loans.[34]

[34] http://bankwatch.org/news-media/for-journalists/press-releases/keep-european-public-banks-out-mediterranean-region-say-ng#two