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# Investments of the European Investment Bank in European Neighbourhood Policy Countries and in Turkey

## Evidence from the Global Financial Crisis, the Arab Spring and the Conflict in Ukraine

Adrian Mattmann



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This paper is based on the author's Master's thesis at the College of Europe supervised by Professor Erwan Lannon.

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## **Abstract**

Using data from 2006 to 2015, we study the impacts of the Global Financial Crisis, the Arab Spring, and the conflict in Ukraine on European Investment Bank (EIB) investments in the European Neighbourhood Policy (ENP) countries and in Turkey. Our dataset offers insights on how the EIB adjusts its investments in the aftermath of the three events at the global, regional and country level. The impacts of the events vary at the global ENP level. They also vary between and within the two ENP dimensions and between the ENP countries. We find mixed impacts for Turkey. Our results indicate that political motivation rather than economic demand determine EIB investments in several ENP countries. Political motivation also plays a major role when defining EIB investments in Turkey. Our study lays out the foundation for quantitative research on the EIB operations in ENP countries.





## Introduction

The European Investment Bank (EIB) is the European Union's (EU) "neglected institution".<sup>1</sup> Despite the size and geographical scope of its activities, little research exists on the EIB. Yet, two features highlight its importance.<sup>2</sup> First, the EIB is the world's largest multilateral financial institution.<sup>3</sup> Its lending volume has exceeded that of the World Bank since 1993.<sup>4</sup> Its expenditures were three times larger than those of the EU in 2015.<sup>5</sup> Second, "the EIB stands virtually alone (...)" among the seven EU institutions that has direct contact with economic agents in and outside the EU, in both the public and private sector.<sup>6</sup>

EIB's operations in the countries of the European Neighbour Policy (ENP) reach up to EUR 2.9 billion annually.<sup>7</sup> Its operations are the third largest in the region among Multilateral Development Banks (MDB) in 2015. In 2002, European Commission President Romano Prodi called the future ENP countries a "ring of friends".<sup>8</sup> Twelve years later, former Austrian chancellor Wolfgang Schüssel referred to them as the "ring of fire".<sup>9</sup> In the interim, the world experienced the most severe economic crisis since the Great Depression; while on the regional

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I am grateful to the European Investment Bank and my interviewees for answering my enquiries. I thank Erwan Lannon and Laura Querton for their constructive comments and suggestions. A special thank you goes to my reviewer.

<sup>1</sup> N. Robinson, 'The European Investment Bank: The EU's Neglected Institution', *Journal of Common Market Studies*, vol. 47, no. 3, 2009, p. 668.

<sup>2</sup> D. Dinan, *Encyclopedia of the European Union*, Boulder, Lynne Rienner, 2000, updated ed., p. 202.

<sup>3</sup> EIB, *The European Investment Bank at a Glance*, Luxembourg, 2017, p. 1.

<sup>4</sup> Dinan, *loc. cit.*

<sup>5</sup> EIB, *Financial Report 2015*, Luxembourg, 2016a, p. 26.

European Commission, *Consolidated Annual Accounts of the European Union 2015*, Brussels, 2016, p. 16.

<sup>6</sup> Dinan, *loc. cit.*

<sup>7</sup> The EIB starts operating 1994 in the Southern dimension and 2006 in the Eastern dimension of the future ENP. EIB, *Chronology of the EIB: 1958-2008*, 2017b, retrieved 27 April 2017, [http://www.eib.org/about/key\\_figures/timeline/index.htm](http://www.eib.org/about/key_figures/timeline/index.htm)

<sup>8</sup> P. Blom et al., *Dealing with Neighbours: Fighting a Ring of Fire or Building a Ring of Friends?*, Guetersloh, Bertelsmann Stiftung, 2016, p. 8.

<sup>9</sup> J. Dannenberg, *Architecture for a New European Neighbourhood Policy*, Bertelsmann Stiftung, 2016, retrieved 04 March 2017, <https://www.bertelsmann-stiftung.de/en/topics/aktuelle-meldungen/2016/august/trilogue-salzburg-2016/>.

level, Maghreb and Mashreq face a political turmoil with the Arab Spring, and post-soviet states experienced the annexation of Crimea.<sup>10</sup>

Turkey is the crossroad between the Southern and Eastern dimensions of the ENP. It is the only country bordering both dimensions. Its geographically strategic position combined with its military and economic power, its armed forces being the second largest in North Atlantic Treaty Organization (NATO) and its economy being the 18<sup>th</sup> largest in the world, make Turkey a crucial component when analysing EIB operations in ENP countries.<sup>11</sup> Moreover, the EIB has ongoing operations in Turkey since 1965.<sup>12</sup> To illustrate the scope of EIB's operations in Turkey, more than EUR 25.8 billion signatures have been carried out in Turkey since 2001.<sup>13</sup>

The EIB defines signatures as the signature of a contract for financing. Using approvals would bias our results since not every approval is ultimately signed.<sup>14</sup> In addition to signatures' finality, data on signatures is also more extensive.

Accordingly, we examine to what extent EIB signatures changed in ENP countries from 2006 to 2015, while taking into account the changes in Turkey. Taking the three events into consideration, we divide our research in three sub-questions:

1. To what extent did the Global Financial Crisis change EIB signatures in ENP countries and in Turkey between 2006-2015?

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<sup>10</sup> S. Claessens, et al., 'Cross-country experiences and policy implications from the global financial crisis', *Economic Policy*, vol. 25, no. 62, 2010, p. 269.

For an analysis of the ENP, refer to: E. Lannon, *The European neighbourhood policy's challenges: les défis de la politique européenne de voisinage*, Bruxelles, P.I.E Peter Lang, 2012

<sup>11</sup> The World Bank, *GDP ranking 2015*, 2017, retrieved 29 April 2017, [databank.worldbank.org/data/download/GDP.xls](http://databank.worldbank.org/data/download/GDP.xls).

A. Taylor, *Turkey's increasingly complicated relationship with NATO*, The Washington Post, 2016, retrieved 29 April 2017, [https://www.washingtonpost.com/news/worldviews/wp/2016/07/19/turkeys-increasingly-complicated-relationship-with-nato/?utm\\_term=.a3ed712c4bf1](https://www.washingtonpost.com/news/worldviews/wp/2016/07/19/turkeys-increasingly-complicated-relationship-with-nato/?utm_term=.a3ed712c4bf1).

<sup>12</sup> EIB, *Projects financed: multi-criteria list*, 2017e, retrieved 29 April 2017, <http://www.eib.org/projects/loan/list/index.htm?from=&region=3&sector=&to=&country=TR>.

<sup>13</sup> EIB, *Statistical Reports 2001-2015*, Luxembourg, 2002-2016.

<sup>14</sup> An approval means that the Board of Directors approves a given financing.

2. To what extent did the Arab Spring change EIB signatures in ENP countries and in Turkey between 2006-2015?
3. To what extent did the conflict in Ukraine change EIB signatures in ENP countries and in Turkey between 2006-2015?

Our observation period is from 2006 to 2015. Starting our observation period two years before the outbreak of the Global Financial Crisis takes pre-crisis trends into account. In order to consider long-term trends, we present data since 2001. Since the ENP was launched in 2004, our data also considers pre-ENP operations. EIB data is available until 2015. The EIB does not carry out any operations in the period under observation in two ENP countries, Libya and Belarus. We therefore exclude these two countries from our analysis.

The Global Financial Crisis came to a head on the 15 September 2008 when the US government allowed Lehmann Brothers to go bankrupt under Chapter 11 of the US Bankruptcy Code.<sup>15</sup> Thus, we refer to 2008 as the event year for the Global Financial Crisis. Demand falls after the Global Financial Crisis and economic output is reduced. Since the EIB is demand-driven, we formulate the following hypothesis:<sup>16</sup>

*H<sub>1</sub>: The Global Financial Crisis decreased EIB signatures in the sample countries.*

Although the Arab Spring is sparked by the self-immolation of a young street vendor in Tunisia on the 17 December 2010, the turmoil started in early 2011.<sup>17</sup> We therefore consider 2011 as the event year for the Arab Spring. The turmoil caused by the Arab Spring increased risk for investments. Consequently, investors demanded higher compensation for the risk

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<sup>15</sup> L. Elliott, *Global Financial Crisis: Five Key Stages*, The Guardian, 2011, retrieved 26 April 2017, <https://www.theguardian.com/business/2011/aug/07/global-financial-crisis-key-stages>.

<sup>16</sup> T. Gutner, *Banking on the environment: Multilateral development banks and their environmental performance in Central and Eastern Europe*, Massachusetts, MIT Press, 1999, p. 68.

<sup>17</sup> E. Abdelmoula, *How Tunisia saved its 'Arab Spring'*, Aljazeera, 2015, retrieved 26 April 2017, <http://www.aljazeera.com/news/2015/10/analysis-tunisia-saved-arab-spring-151028083410659.html>.

taken. When costs increase but revenues do not increase accordingly, fewer investments remain economically viable. This leads us to our second hypothesis:

*H<sub>2</sub>: The Arab Spring decreased EIB signatures in the sample countries.*

Facing ongoing protests, Ukrainian President Yanukovich fled Kiev on 22 February 2014. Five days later, armed personnel without insignia began to seize Crimea.<sup>18</sup> Following the referendum held on 16 March 2014, Russia recognized Crimea's independence two days later.<sup>19</sup> Within a few days, fighting between pro-Russian forces and Ukrainian authorities broke out in Donetsk and Luhansk.<sup>20</sup> We consider 2014 as the event year for the conflict in Ukraine. Regarding the conflict in Ukraine, our argument follows the logic of the Arab Spring. Accordingly, our third hypothesis reads as:

*H<sub>3</sub>: The conflict in Ukraine decreased EIB signatures in the sample countries.*

We assume that the Global Financial Crisis, the Arab Spring and the conflict in Ukraine are single-shot events that are independent of each other. By definition, single-shot events take place during a single unit of time.<sup>21</sup> Moreover, we consider the three events as exogenous. Therefore, the direction of causality goes from our three events to EIB signatures. The latter are our dependent variable.

In order to test our hypotheses, we apply descriptive statistics and conduct structured expert interviews. Data for descriptive statistics was retrieved from official EIB documents. Our dataset consists of 252 entries of EIB signatures in ENP countries and in Turkey between

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<sup>18</sup> European Parliament, *Ukraine: timeline of events*, Brussel, 2016, retrieved 28 April 2017, <http://www.europarl.europa.eu/news/en/news-room/20140203STO34645/ukraine-timeline-of-events>.

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

<sup>21</sup> D. Wackerly, W. Mendenhall & R. Scheaffer, *Mathematical Statistics with Applications*, Belmont, Brooks/Cole, 7<sup>th</sup> edn., p. 392.

2006 and 2015.<sup>22</sup> Expert interviews provided additional data that is normally less accessible.<sup>23</sup> Therefore, they complement our quantitative data.

We first discuss the development theories upon which Multilateral Development Banks (MDBs) such as the EIB are founded.<sup>24</sup> Taking this into account, we present the few research existing on the EIB. Our empirical analysis starts at the global level of the ENP. We separately look at the two ENP dimensions before individually at each country. While our analysis at the global and regional level accounts for dynamics between the dimensions, the country level analysis considers local developments. We complete our country analysis with Turkey.

Our results show that the overall level of signatures in ENP countries in the year after the three events decreases. On the regional level, the EIB increased its signatures in the Southern dimension after the Global Financial Crisis and the Arab Spring. It almost maintained their level after the conflict in Ukraine. In contrast to the Southern dimension, signatures in the Eastern dimension fell after the Global Financial Crisis. Similar to the Southern dimension, signatures rose in the Eastern one after the Arab Spring. They continue to rise after the conflict in Ukraine. Turkey saw rising signatures in the year of the Global Financial Crisis and Arab Spring. However, they sharply fall after the Global Financial Crisis. Signatures also fell during the conflict in Ukraine. Despite this decline in 2014, they showed an upward trend since 2010.

We aim at laying the foundation for research on EIB's operations in ENP countries and in Turkey. At the same time, we contribute to the research gap on the EIB itself. Moreover,

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<sup>22</sup> The entire data set is available upon request.

<sup>23</sup> For the expert interviews, we follow the principles of J. Gläser & G. Laudel, *Experteninterviews und qualitative Inhaltsanalyse*, Wiesbaden, VS Verlag für Sozialwissenschaften, 2010, 2<sup>nd</sup> edn.

<sup>24</sup> See chapter 0 for a definition of MDBs.

our study offers insights on how MDBs adjust their operations in the aftermath of major exogenous events.

### **1. Common Legal Foundation, Uncommon Understanding of Multilateral Development Banks**

Although not listed as an institution in article 13 of the Treaty on the European Union (TEU), the EIB considers itself as the European Union's "(...) long-term financing institution."<sup>25</sup> It is a multilateral borrower and lender.

#### **The EIB in the Treaties of the EU**

Member States and the European Commission form the EIB in three ways. First, the Member States define the EIB's mandate in the TEU and in the Treaty on the Functioning of the European Union (TFEU) as well as in three protocols and the EIB's Statutes annexed to the treaties. Thus, the Statute of the EIB has the same legal value as the treaties.<sup>26</sup> Second, both the Member States and the European Commission are the EIB's shareholders. Third, they designate the members of the statutory bodies.

The EIB, with its AAA rating, can raise capital at favourable conditions. Such favourable conditions lower the cost of capital, which in turn increases the net present value (NPV) of an investment. They allow the financing of projects that otherwise are not profitable. Thus, the EIB creates a leverage effect through its lending, blending and advisory activities.

#### **A Multilateral Development Bank**

The missions of MDBs "reflect the development aid and cooperation policies established by their member states. They have the common task of fostering economic and

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<sup>25</sup> EIF, *The EIB Group, A Responsible Institution*, Luxembourg, 2016, p. 4.

The EIB Group was established in 2005. It consists of the EIB and the European Investment Fund (EIF).

<sup>26</sup> EIB Group 2016a, *loc. cit.*, p. 3.

social progress in partner countries by financing projects, supporting investment and generating capital.”<sup>27</sup>

The definitions provided by the Organisation for Economic Cooperation and Development (OECD), the World Bank and the EIB itself of MDBs share similarities: the membership of sovereign states and remits that explicitly mention social progress besides economic development. Yet, the presence of the European Commission as the only supranational member of the EIB adds a distinctive feature to the EIB.

MDBs are “mandated to supply long-term development finance and to promote sectoral and institutional reforms.”<sup>28</sup> While MDBs are the world’s leading institutions of development finance, they fall short in outlining the “development theories upon which they base their operations.”<sup>29</sup> Theoretical frameworks explaining the motivation behind MDBs emerge from development theories dating from the post-war period when the Bretton Woods institutions were founded. The following three theoretical frameworks build the cornerstones for MDBs: the project theory, the two-gap theory, and the income distribution theory.<sup>30</sup> MDBs may decide for a balanced use of the three sometimes contradictory theories to fulfil their mandate.<sup>31</sup>

The ongoing debate within MDBs and their member governments on development policies and programs is partly due to “the disagreement on the most valid theory and the most

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<sup>27</sup> *Ibid.*

<sup>28</sup> In contrast to MDBs, “(...) the IMF’s traditional mandate is to provide short- to medium-term support for countries with macroeconomic and balance-of-payments problems. The IMF’s financial support is usually triggered by crises and oriented towards temporary support, whereas the MDBs provide continuous lending.” There is a division of labour among IFIs.

K. Berensmann & P. Wolff, ‘The Role of International Financial Institutions in Macroeconomic Crisis’, Bonn, *German Development Institute*, 2014, Discussion Paper 33/2014, p. 1.

<sup>29</sup> See J. Sanford, ‘Development Theory and the Multilateral Development Banks: An Assessment of the Effectiveness of Strategies Used in International Development Finance’, *The American Journal of Economics and Sociology*, vol. 34, no. 2.

<sup>30</sup> J. Sanford, ‘Development Theory and the Multilateral Development Banks: An Assessment of the Effectiveness of Strategies Used in International Development Finance’, *The American Journal of Economics and Sociology*, vol. 34, no. 2, p. 176.

<sup>31</sup> *Ibid.*, p. 175.

appropriate understanding of the development process.”<sup>32</sup> Second, the raised criticism shows the vulnerability of these theories. Even though regularly applied, a critical belief in them remains necessary. Third, MDBs serve various purposes and functions. Since MDBs “borrow money, they must respect sound banking principles.”<sup>33</sup> At the same time, these banks are also “development institutions dedicated to economic growth and expand welfare. Thus, they must remain sensitive to macroeconomic and distributive aspects.”<sup>34</sup>

## **2. The EU’s Neglected Institution<sup>35</sup>**

Despite being the world’s largest MDB and being mentioned in the EU Global Strategy of 2016, Robinson’s quote that the EIB is the “EU’s neglected institution” remains valid.”<sup>36</sup> Most research on the EIB is of qualitative nature. Moreover, they often offer a snapshot of the current situation and rarely a historical analysis taking into account dynamics. Our quantitative time-series analysis addresses this research gap.

Following a multilevel governance approach, Robinson argues that EIB financing significantly shapes the “relationship between sub-national actors and national governments.”<sup>37</sup> He recognises that the EIB and the volume of its operations have “huge effects on EU policy-making.”<sup>38</sup> Despite the fact that EIB funding has to be repaid compared to structural funds, the EIB has a significant leverage effect through its lending operations.<sup>39</sup> Accordingly, the EIB represents a major source of financing for major projects in key policies areas.<sup>40</sup> However, the failure to acknowledge the scope of the EIB leads to an incomplete

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<sup>32</sup> *Ibid.*, p. 192.

<sup>33</sup> Sanford, *loc. cit.*

<sup>34</sup> *Ibid.*

<sup>35</sup> Robinson, *loc. cit.*

<sup>36</sup> *Ibid.*

European External Action Service, Share Vision, Common Action: A Stronger Europe, Brussels, 2016, p. 40.

<sup>37</sup> *Ibid.*, p. 669.

<sup>38</sup> E. Stein, ‘Lawyers, Judges and the Making of a Transnational Constitution’, *American Journal of International Law*, vol. 75, no. 1, 1981, p. 1.

<sup>39</sup> Robinson, *loc. cit.*

<sup>40</sup> *Ibid.*, p. 667.



understanding of EU policy-making in various fields.<sup>41</sup> Our analysis establishes a quantitative database to improve understanding of EU policy-making in ENP countries and Turkey.

Seeing the EIB as a multiplier of EU actions, Ujvari focuses on the EIB's contribution to the EU's "external actions and objectives".<sup>42</sup> He concludes that the EIB can be a multiplier of EU external action, for instance as promoter of EU development policy standards vis-à-vis the increasing number of development finance donors."<sup>43</sup> The analysis accounts for challenges of co-financing and competition between MDBs. However, it assumes that MDBs' activities are of such relevance for third countries that they follow the carrot-stick logic. Taking into account the experiences of the carrot-and-stick logic in the ENP countries, this assumption is up for debate. Complementary to this actor approach, we analyse how external events influence the EIB investments.

Pinder points out the EIB's ability to quickly adapt its operations in the aftermath of the recession caused by the oil crisis in 1979.<sup>44</sup> The EIB follows the European Commission when defining the geographic focus of its operations. The EIB's impacts on employment creation and protection remained limited.<sup>45</sup> While Pinder analyses the impacts of a major external event, the oil crisis, on EIB operations within the community, we are complementary by looking outside the community. Both approaches look for a political agenda within the demand-driven EIB.

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<sup>41</sup> *Ibid.*, p. 669.

<sup>42</sup> This study was published after the submission. The following paragraph is edited later.

Balazs Ujvari, 'The European Investment Bank: An Overlooked (F)Actor in EU External Action?', *Egmont Paper*, no. 94, 2017, p. 4.

<sup>43</sup> *Ibid.*, pp. 5-6, 40-41.

<sup>44</sup> D. Pinder, 'Small Firms, Regional Development and the European Investment Bank', *Journal of Common Market Studies*, vol. 24, no. 3, 1986, pp. 171, 185.

<sup>45</sup> *Ibid.*

### 3. EIB Signatures in ENP countries

Our dependent variable is the EIB's annual signatures as of 31 December of that year referred to hereafter as 'signatures'. For instance, the EIB has signatures worth of EUR 77.5 billion between the 1 January and 31 December 2015, as can be seen in Graph 1.<sup>46</sup> In order to accurately estimate the impacts of our three events, we analyse EIB signatures in the ENP countries on three different aggregation levels. We first analyse data on EIB signatures in ENP countries at the global level. Second, we discuss signatures in each of the two ENP dimensions. Third, we examine signatures at the country level. The EIB starts operating in 1994 in the Southern and in 2007 in the Eastern dimension.<sup>47</sup>

#### Global level of EIB signatures

The global volume of EIB signatures in ENP countries shows a slight upward trend. Annual EIB signatures in ENP countries have more than doubled in the observation period. The total volume of EIB signatures increases since 2001 despite a sharp decrease between 2010 and 2012, which is caused by the Global Financial Crisis. This can be seen in in Graph 1. In late 2008, the EIB and its shareholders "agree[d] on exceptional increase in lending until the end of 2010, in support of the EU economy."<sup>48</sup> As part of the three-year Corporate Operational Plan 2012-2014, approved in December 2011 by the Board of Directors, the decline in signatures by EUR 8.7 billion in 2012 confirms the trajectory of reducing annual signatures to EUR 48.0 billion.<sup>49</sup> However, one year later in December 2012 and contrary to "the deterioration of the economic environment", the EIB's shareholders unanimously approve a capital injection to improve the EIB's "contribution to economic recovery in Europe without compromising its financial strength."<sup>50</sup> The shareholders decided on a EUR 10.0

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<sup>46</sup> Chapter 0 provides a definition of signature.

<sup>47</sup> EIB, 2017b, *loc. cit.*

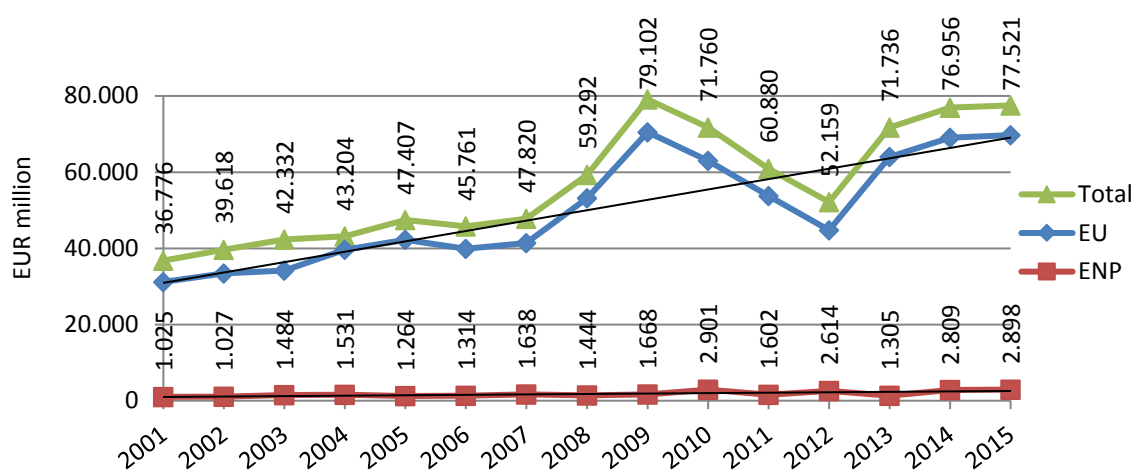
<sup>48</sup> EIB, 2012a, *op. cit.*, p.4.

<sup>49</sup> *Ibid.*

<sup>50</sup> *Ibid.*

billion increase in paid-in capital that would enable the EIB “to provide up to EUR 60 billion for additional lending within the EU.”<sup>51</sup> The rise of new signatures in 2013 is largely a result of this capital injection.<sup>52</sup>

In line with shareholders’ emphasis to promote economic growth within the Union, signatures grew faster within the EU compared to outside the Union. The different slopes of the trend lines illustrate this. However, signatures outside the EU had lower volatility. These signatures fell in the years of the Global Financial Crisis and the Arab Spring, while they increased in the year of the conflict in Ukraine.<sup>53</sup>



Graph 1: Global EIB signatures<sup>54</sup>

## Regional level of EIB signatures

The volume of signatures in ENP countries grew at a slower pace than outside the EU, as presented in Graph 2. Signatures in the Southern dimension are above the ones of the Eastern dimension until 2012, before they plunged in 2013. In 2014, they recovered and exceeded again the ones in the Eastern dimension. On the other hand, the Eastern dimension

<sup>51</sup> EIB, *Financial Report 2012*, Luxembourg, 2013b, p.4.

<sup>52</sup> EIB, *Financial Report 2013*, Luxembourg, 2014a, p.4.

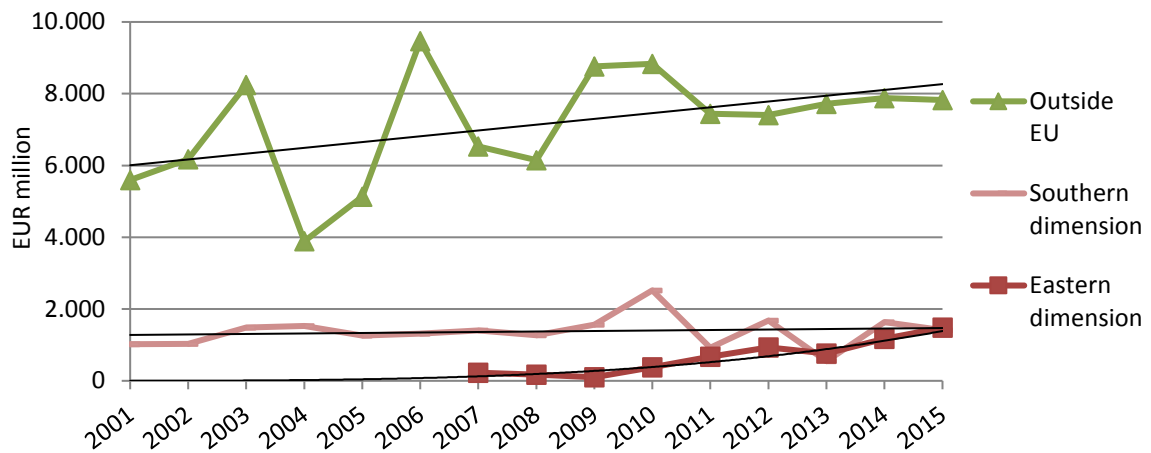
<sup>53</sup> The entire data set is available upon request.

<sup>54</sup> Author, based on EIB, *Statistical Reports 2001-2015*, Luxembourg, 2002-2016.

experienced a continuous growth in signatures. This can also be seen in the higher slope of the latter's trend line.

In the year of the Global Financial Crisis, signatures in the Southern dimension decreased. Nevertheless, they reached their peak in 2010. As during the Global Financial Crisis, they plunged during the Arab Spring. However, they recover in 2012 before falling again in 2013. In contrast to the previous two events, signatures in the Southern dimension grow during the conflict in Ukraine. The regional data indicates a small decrease in signatures for 2015 because Morocco and Tunisia experience a decline.

Signatures in the Eastern dimension constantly grew except in 2008, 2009 and 2013. Thus, they fell during the Global Financial Crisis, while increasing both during the Arab Spring and the conflict in Ukraine.



Graph 2: EIB signatures in the ENP dimensions<sup>55</sup>

In both dimensions, the EIB's own resources dominated third party resources. In our observation period, between 96.4% and 100.0% of annual signatures in the Southern dimension were funded by EIB's own resources, while funding came almost exclusively from EIB's own resources in the Eastern dimension.

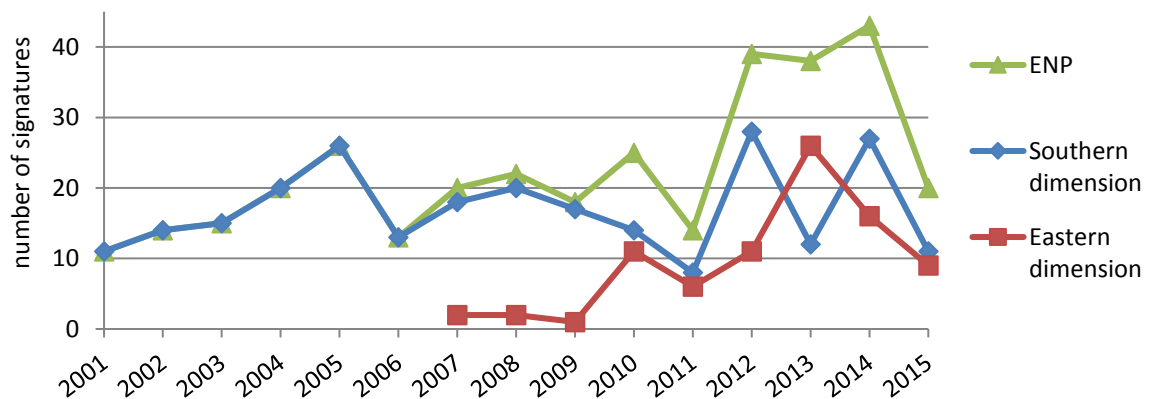
<sup>55</sup> *Ibid.*

When looking at the absolute number of projects signed, there was an increase in 2007 and a more pronounced one in 2012. One year later, it fell by more than half. They peaked again in 2014 before sharply falling in 2015. Graph 33 illustrates the absolute number of annual signatures in the two dimensions and combined for both dimensions.

In both dimensions, the number of projects signed shows similarities in their behaviour patterns. These results indicate that there is an unknown underlying variable driving the number of signatures in the two dimensions.

In the Southern dimension, the number of signatures increased during the Global Financial Crisis and decreased after the event until 2011. Similar to the Global Financial Crisis, they increased in the year of the conflict in Ukraine.

In the Eastern dimension, the number of signatures increased in 2010, two years after the Global Financial Crisis. A similar development took places after the outbreak of the Arab Spring, when they rose in 2012. The current decline began in 2014, the year of the conflict in Ukraine.

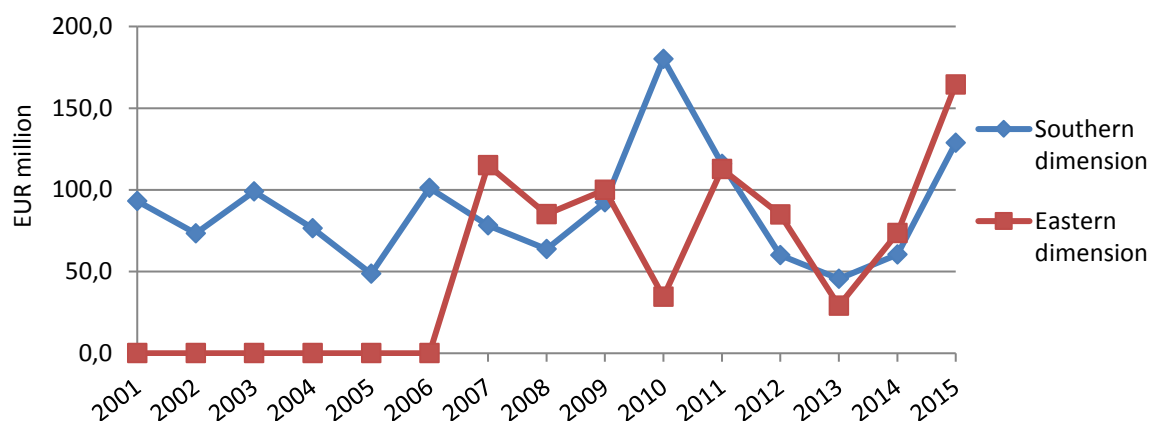


Graph 3: Number of signatures in the ENP dimensions<sup>56</sup>

Similar to the number of signatures, average signatures size increased. It decreased in both dimensions during the Global Financial Crisis. While average signature size decreased in

<sup>56</sup> *Ibid.*

the Southern dimension, it grew in the Eastern one during the Arab Spring. Since the Arab Spring, the two averages moved almost identically. They both rose during the conflict in Ukraine. Graph 4 shows the average signature size for each of the two dimensions.



Graph 4: Average signature size<sup>57</sup>

### Country Level of EIB Signatures in the Southern dimension

While our previous analysis at the global and regional level accounted for dynamics between the regions and between the countries, the following country-level analysis allows for the consideration of local developments. We begin our country-level analysis with the Southern dimension.

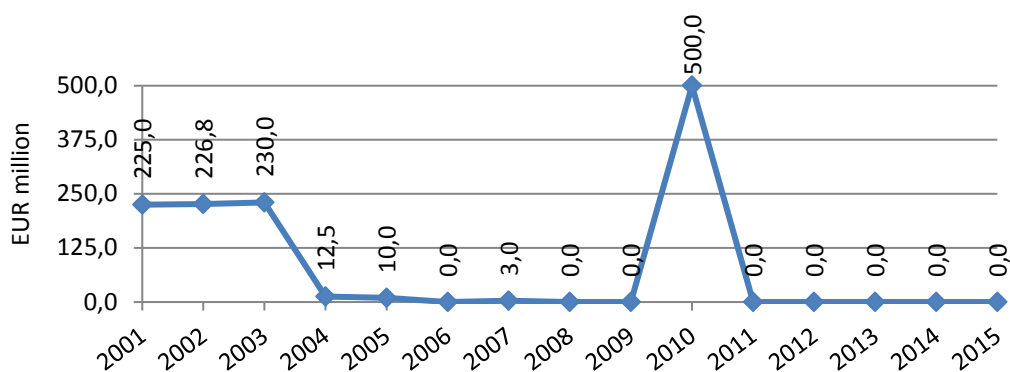
#### *Algeria*

In our observation period, the EIB undertook two signatures in Algeria, as can be seen in Graph 55. The minor one in 2003 supported a food processing company, while the major one in 2010 was for the construction and operation of a natural gas pipeline between Algeria and Spain.

Both projects were signed before the Global Financial Crisis. Since the sample consists of two entries and is unequally distributed, we cannot say that the Global Financial Crisis

<sup>57</sup> *Ibid.*

influenced EIB operations in Algeria. When taking into account the long-term trend, signatures decreased since 2004. Even after the peak in 2010, signatures fell back to zero afterwards. We therefore avoid interpreting the absence of signatures after the Arab Spring and the conflict in Ukraine.

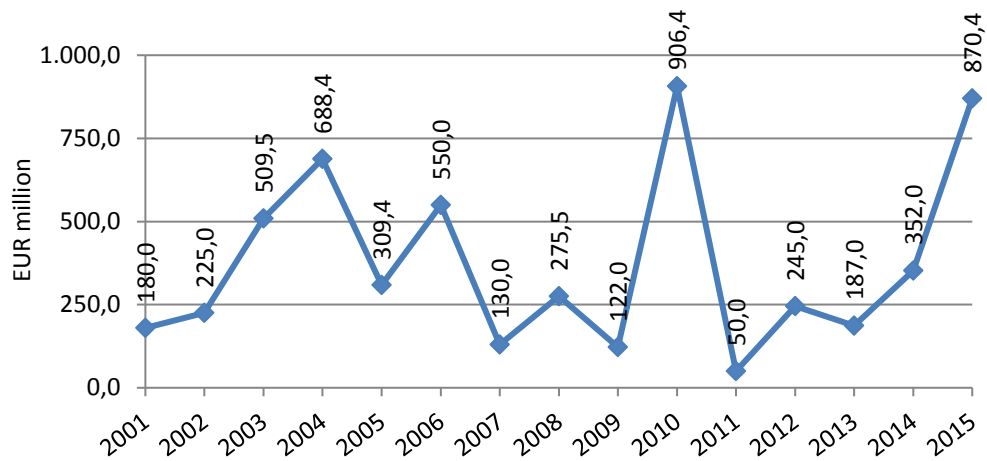


Graph 5: Signatures Algeria<sup>58</sup>

### *Egypt*

In Egypt, signatures increased during the Global Financial Crisis and fell the following year, as shown in Graph 6. Like in Algeria, they reached a peak in 2010 before plunging the year after. In contrast to Algeria, signatures showed an upward trend since 2011. Thus, the Global Financial Crisis caused a decrease in signatures in the short-term before accelerating them in the medium-term. The medium-term growth was temporarily but significantly suppressed by the outbreak of the Arab Spring. Since the Arab Spring, signatures showed a strong upward trend. They significantly grew during the conflict in Ukraine in 2014 and the year after.

<sup>58</sup> *Ibid.*

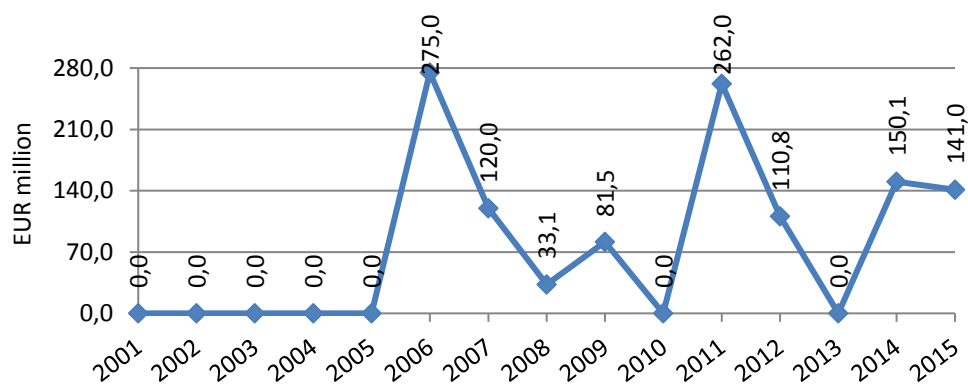


Graph 6: Signatures Egypt<sup>59</sup>

### Israel

Signatures in Israel reached a peak in 2006 and in 2011. These peaks were driven by signatures in the sanitation and water desalination field. The lower peak during the conflict in Ukraine was due to signatures for solar thermal electric plants. Graph 7 illustrates the findings for Israel.

Despite an increase after the Global Financial Crisis and the Arab Spring, the characteristics of these larger signatures in Water Management & Urban Development and Energy are unlikely to be driven by our three external events.



Graph 7: Signatures Israel<sup>60</sup>

<sup>59</sup> *Ibid.*

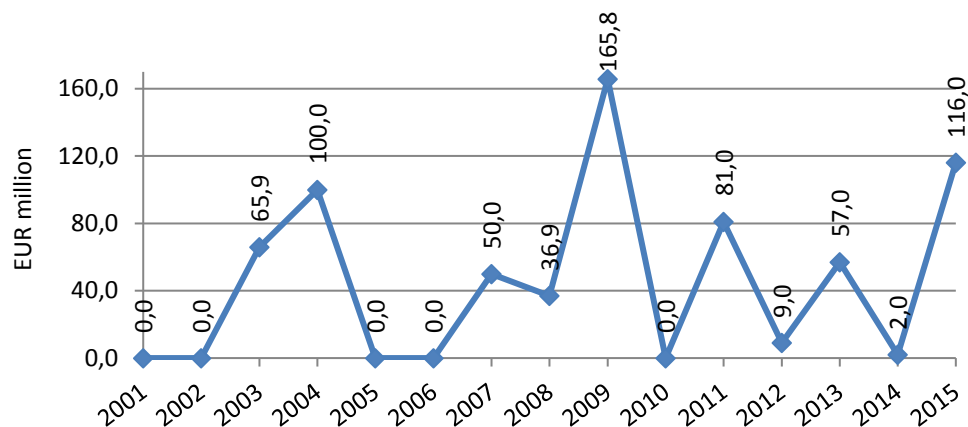
<sup>60</sup> *Ibid.*



## Jordan

In Jordan, signatures reached a peak in 2009. In contrast to Egypt but to similar to Israel, they fell during the Global Financial Crisis and increased the year after the Global Financial Crisis before plunging in the medium-term again. The rise in 2009 referred to a drinking water project, including a water extraction system and a 325km water pipeline. This single signature was worth EUR 165.8 million.

Signatures rose again in Jordan during the Arab Spring and dropped during the conflict in Ukraine. The signatures in these two years concerned a fertilizer production site, local water management and a green energy corridor. Taking into account the large volatility in signatures, we cannot say that the significant increase in 2011 and decrease in 2014 are caused by the two latter events. Graph 8 shows the findings for Jordan.



Graph 8: Signatures Jordan<sup>61</sup>

## Lebanon

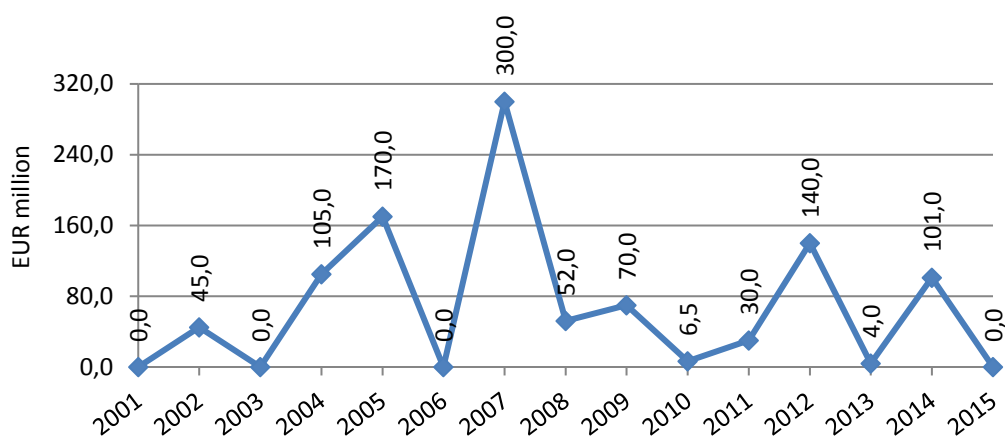
Signatures in Lebanon peaked the year before the Global Financial Crisis. In 2008, they fell. Since the signatures in Lebanon often concerned small- and medium-scale projects with financial intermediaries, global economic slowdown affected them.<sup>62</sup> Signatures

<sup>61</sup> *Ibid.*

<sup>62</sup> EIB, 2008, *op. cit.*, p. 28.

recovered slightly the following year before falling again in 2010. Lebanon was one of the few countries where signatures increased in 2011. Despite its tight relations to Syria and Hezbollah's entrance into the Syrian conflict in 2012, signatures considerably increased in 2012 and in 2014.<sup>63</sup> However, the signatures decreased to nearly zero in 2013 and to zero in 2015.

The signatures in 2012 and 2014 covered again small- and medium-size projects financed through private financial intermediaries, projects improving energy efficiency and the construction of a motorway. These signatures do not indicate any relation with the conflict in Ukraine. Graph 99 visualizes our analysis.



Graph 9: Signatures Lebanon<sup>64</sup>

### Morocco

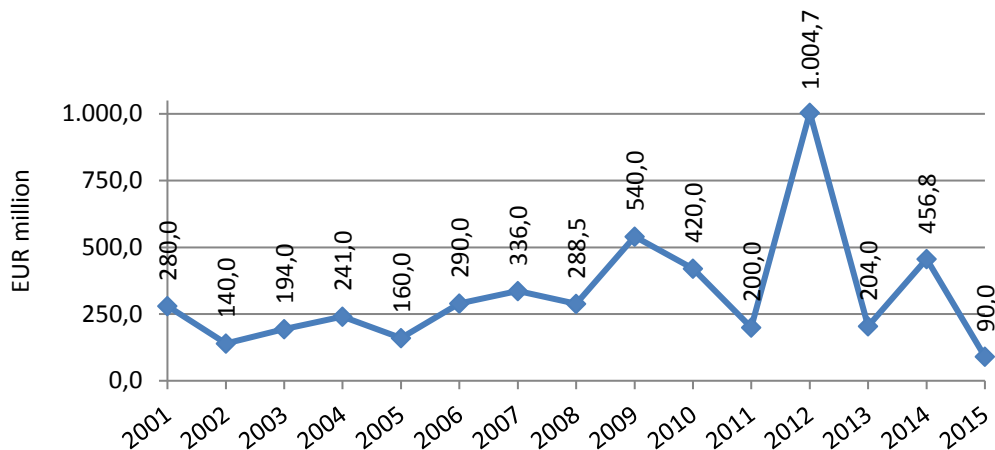
Signatures in Morocco increased at beginning of the Global Financial Crisis before they sank in 2010 and 2011. While its signatures decreased during the Arab Spring, Morocco experienced the highest signatures in the entire Southern dimension, namely EUR 1'004.7 million in 2012. The country also had the second highest number of projects in the dimension in the same year; the three largest signatures accounted for more than half of the entire

<sup>63</sup> J. Rosenfeld, *How the Syrian civil war has transformed Hezbollah*, The Nation, 2017, retrieved 28 April 2017, <https://www.thenation.com/article/how-the-syrian-civil-war-has-transformed-hezbollah/>.

<sup>64</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

signatures in that year, namely EUR 540.0 million. The largest and third largest projects concern road construction, while the second largest extends electricity transmission infrastructure. Graph 100 present the data for Morocco.

Considering both the volume and the number of signatures, the Global Financial Crisis significantly decreased EIB operations in Morocco. This speaks for the integration of the Moroccan economy in the global economy. In contrast, the Arab Spring drove EIB operations in Morocco. This might be due to the popular support King Mohammed VI enjoys. Moreover, his majesty’s prudent reaction regarding the 20 February movement created less violent protests compared to other countries in the Southern dimension, thus maintaining the conditions under which investments could be carried out.<sup>65</sup>



Graph 10: Signatures in Morocco<sup>66</sup>

### *Gaza-West Bank*

EIB signed two projects in Gaza-West Bank during the observation period. In 2010, the EIB injected EUR 55.0 million in a private equity fund that invested in local SMEs. In

<sup>65</sup> A. Lawrence, *The mixed record of Morocco’s February 20 protest movement*, The Washington Post, 2016, retrieved 29 April 2017, [https://www.washingtonpost.com/news/monkey-cage/wp/2016/02/20/the-mixed-record-of-moroccos-february-20-protest-movement/?utm\\_term=.a845e134b20c](https://www.washingtonpost.com/news/monkey-cage/wp/2016/02/20/the-mixed-record-of-moroccos-february-20-protest-movement/?utm_term=.a845e134b20c).

<sup>66</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

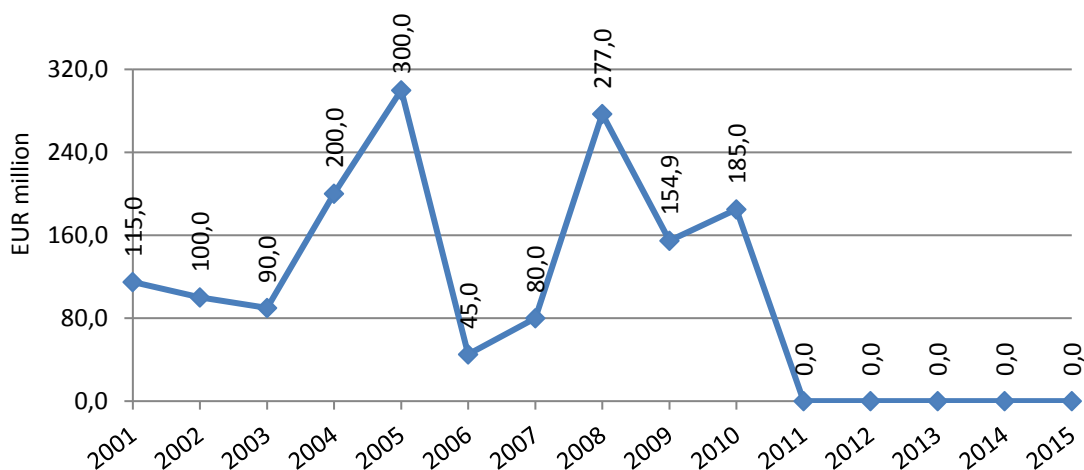
2013, an electric cable manufacturer received EUR 5.0 million funding from the EIB. The sample size is therefore too small to draw any conclusion related to our three events.

### *Syria*

Signatures in Syria increased until 2008 before they fell during the Global Financial Crisis. This fall indicates that the Syrian economy was integrated into the global economy. They increased again in 2010. They immediately fell to zero once the regime started to violently suppress protests in 2011.<sup>67</sup> There were no new signatures since 2011. Graph 11 present the data for Syria. The majority of signatures were with the Syrian government; signatures with private partners included solely international companies.

Since 2004, signatures in Energy dominated. In 2010, the EIB provided funding worth EUR 130.0 for medical equipment for new hospitals, which caused a peak in Health & Education in that year.

Syria is the only country in our sample where both the Global Financial Crisis and the Arab Spring significantly decreased signatures.



Graph 11: Signatures Syria<sup>68</sup>

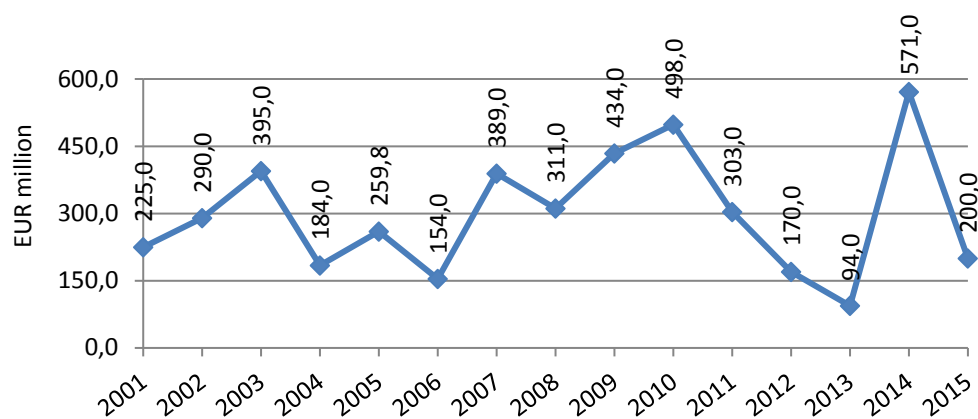
<sup>67</sup> M. Slackman, Syrian troops open fire on protesters in several cities, *The New York Times*, 2011, retrieved 30 April 2017, <http://www.nytimes.com/2011/03/26/world/middleeast/26syria.html>.

<sup>68</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

## Tunisia

Signatures in Tunisia increased at the beginning of the Global Financial Crisis, which is similar to Morocco. However, and in contrast to Morocco, Tunisia saw an increase in signatures until 2010. Road programmes and natural gas transmission projects drove signatures. The trigger country of the Arab Spring experienced a continuous fall in signatures between 2011 and 2013. Signatures significantly rose in 2014 before considerably falling again in 2015. A natural gas project of EUR 380.0 million drove the signatures in 2014.

While the Global Financial Crisis had positive impacts on signatures and the Arab Spring has negative ones, our data cannot attribute the decline in 2015 to the conflict in Ukraine. We attribute the decline to “social tensions that mark the first half of 2015 [and to the] effects of three terrorist attacks”.<sup>69</sup> These developments raised uncertainty and the country’s risks. Accordingly, the cost of capital increased; fewer projects were economically viable. Graph 1212 illustrates our analysis.



Graph 12: Signatures Tunisia<sup>70</sup>

<sup>69</sup> The World Bank, Tunisia’s Economic Outlook – Spring 2016, Washington, The World Bank Group, 2016, p.1.

<sup>70</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

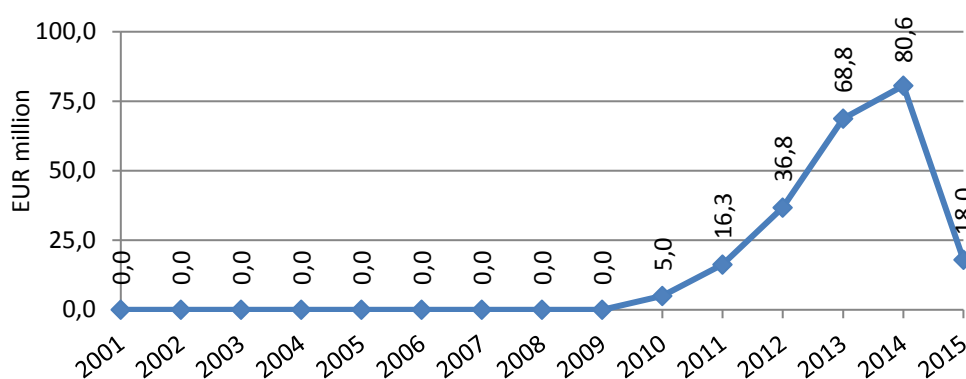
## Country Level of EIB Signatures in the Eastern dimension

When analysing long term trends, note that the EIB did not have the mandate to operate in the Eastern dimension before 2006. First operations were carried out in 2007.

### Armenia

EIB operations started in 2010 and continuously grew until 2014 before plunging in 2015. This decline is most likely due to the economic slowdown caused by a slump in “global metal prices, falling remittances, and an unexpected cabinet reshuffle”, accompanied by a constitutional referendum.<sup>71</sup> Thus, signatures rose both during the Arab Spring and the conflict in Ukraine.

The highest volume in signatures took places in Communication, followed by Credit Lines. In 2013, signatures with the Armenian government for improving telecommunications infrastructure accounted for EUR 60.0 million. In 2014, a signature of over EUR 49.9 million with the Armenian Central Bank provided loans to SMEs. In order to strengthen the private sector, the EIB identified SMEs as a focus area. Graph 13 illustrates our results.



Graph 13: Signatures Armenia<sup>72</sup>

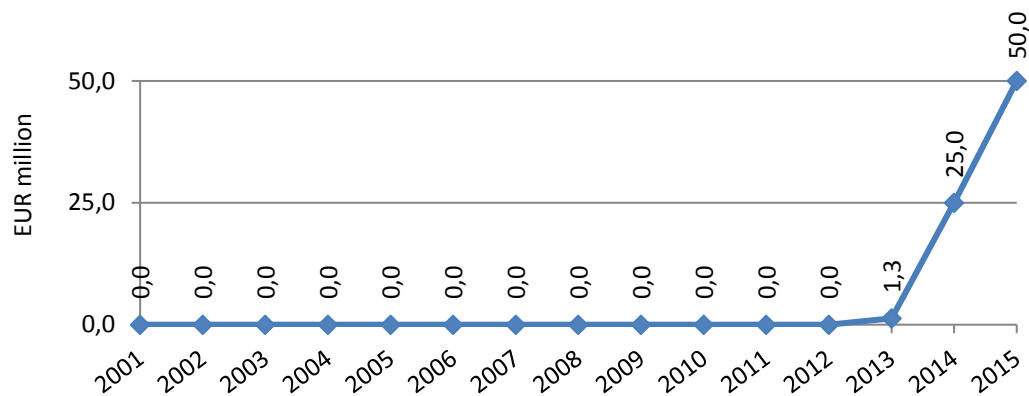
<sup>71</sup> The World Bank, *Armenia: Economy*, 2017a, retrieved 30 April 2017, <http://www.worldbank.org/en/country/armenia/overview#3>.

<sup>72</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

## Azerbaijan

The EIB has signed three projects in Azerbaijan since 2013. Moreover, each project was larger than its predecessor. In 2013, the signature was with an investment vehicle that funded green energy projects. In both 2014 and 2015, Credit Lines were given to two banks providing SME loans.

Like in the case of Armenia, it might be possible that the Global Financial Crisis or the Arab Spring postponed earlier planned signatures in Azerbaijan. However, our data is not deep enough and our sample not sufficiently large to test such a hypothesis. Despite the ongoing increase since the conflict in Ukraine, we cannot testify our hypothesis for Azerbaijan.



Graph 14: Signatures Azerbaijan<sup>73</sup>

## Georgia

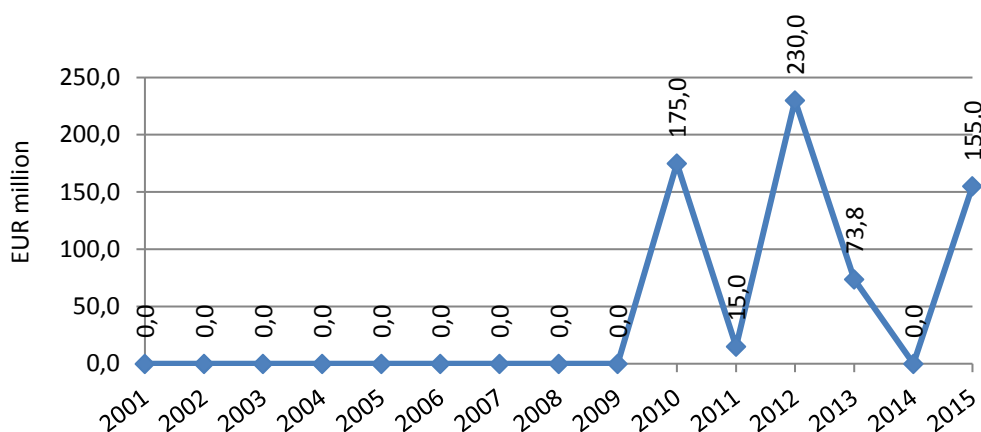
Georgia experienced its first signatures in 2010. They fell the following year before reaching their highest value in 2012. The first peak in 2010 concerned the construction of a power transmission grid and the upgrade of water facilities. The second peak in 2012 was caused by to a highway construction and SME loan schemes for energy projects.<sup>74</sup> Afterwards, signatures fell to zero until 2014. In 2015, they regained strength. Apart from the SME loans schemes, signatures in Georgia often aimed at improving Georgia's connection with Turkey.

<sup>73</sup> *Ibid.*

<sup>74</sup> The EIB lists road construction in the Energy sector.

The absence of signatures in 2008 and 2009 might be due to the five-day war with Russia leading to the secession of Abkhazia and South Ossetia, and less to the Global Financial Crisis. Our data indicates that EIB operations rose shortly after the Arab Spring before plunging afterwards. Graph 15 illustrates our data.

Besides Moldova, Georgia is the only country in the Eastern dimension, where signatures fell during the conflict in Ukraine. However and similar Azerbaijan and Ukraine, signatures in Georgia grew significantly the year after. Similar to Armenia and Syria, the prime partner for signatures was the national government.



Graph 15: Signatures Georgia<sup>75</sup>

### *Moldova*

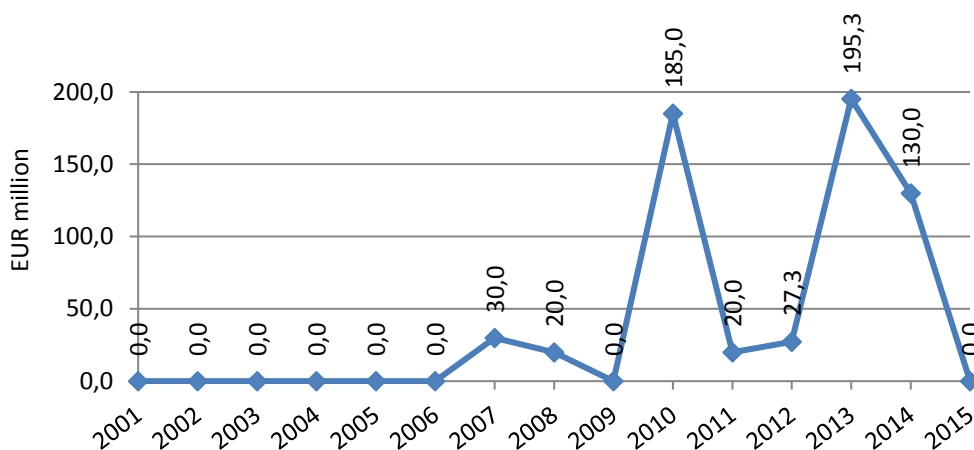
In 2007, the first EIB operations in the Eastern dimension simultaneously took place in Moldova and Ukraine. The first signature was with the Moldovan government and covered a road construction programme, as can be seen in Graph 16.

Signatures reached a first peak in 2010 and a second larger one in 2013. Both were related to a larger signatures for road construction. Signatures in 2014 were driven by a credit line of EUR 120.0 million to the Moldovan government.

<sup>75</sup> Author, based on EIB, *Statistical Reports 2001-2015*.



There were no signatures in 2015. This is most likely due to the banking crisis in Moldova. The Moldovan government bailed out three banks with an amount equivalent to an eighth of Moldova's GDP.<sup>76</sup> The crisis confirmed the opacity of the Moldovan economy and politics, potentially discouraging foreign investments which have to respect sound banking principles.<sup>77</sup> Since Moldova has a considerable Russian minority, especially in the self-declared state Transnistria, concerns about similar undertakings as in Crimea rose in the aftermath of the outbreak of the conflict in Ukraine.<sup>78</sup> Thus, the sharp decline in 2015 can be attributed to both the conflict in Ukraine and to this domestic development. Since Communication included road construction, it was the dominant sector in Moldova. Credit Lines followed. The vast majority of signatures included local or national authorities as partners. This feature was the most pronounced in Moldova.



Graph 16: Signatures Moldova<sup>79</sup>

### Ukraine

The first EIB operations in the Eastern dimension started in Moldova and Ukraine in 2007. However, Ukraine was the only country in the Eastern dimension where the EIB had

<sup>76</sup> T. Whewell, The great Moldovan bank robbery, BBC News, 2015, retrieved 30 April, 2017. <http://www.bbc.com/news/magazine-33166383>.

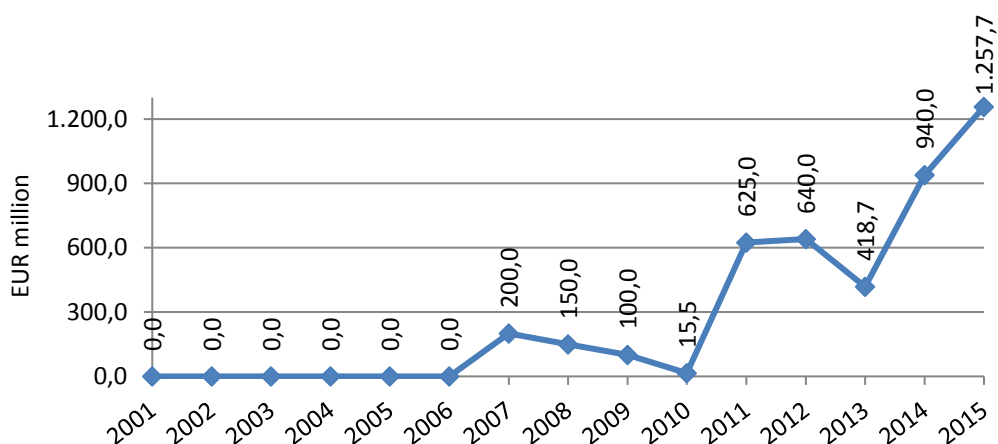
<sup>77</sup> *Ibid.*

<sup>78</sup> I. Bond, 'The EU, NATO, and Ukraine: prospects for future co-operation', in: A. Pabriks & A. Kudors (eds.), *The war in Ukraine: lessons for Europe*, Riga, Centre for East European Policy Studies, p. 141.

<sup>79</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

signatures in each year since the bank began operating there. It also saw the largest annual signature volume in the entire sample in 2015. After Egypt, Morocco and Tunisia, Ukraine was fourth in total volume in signatures in the observation period.

Signatures in Ukraine decreased after the outbreak of the Global Financial Crisis and fell until 2010. Since 2010, they sharply grew until 2015, with an exception in 2013. Our data indicates that the outbreak of the Arab Spring reduced signatures that year. Thus, signatures in Ukraine reacted less negatively to the Arab Spring than to the Global Financial Crisis. We see an opposite relationship with the conflict in Ukraine, which significantly accelerated signatures. Graph 177 illustrates our results.



Graph 17: Signatures Ukraine<sup>80</sup>

#### 4. EIB Signatures in Turkey: The Crossroad between the Southern and Eastern Dimension

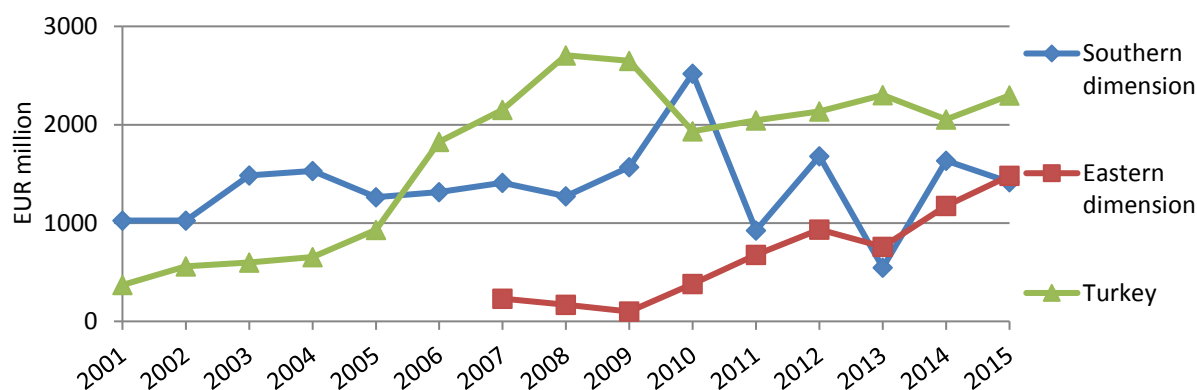
Turkey is the crossroad between the Southern and Eastern dimensions of the ENP. It is the only country neighbouring both dimensions. Its geographically strategic position combined with military and economic power – its armed forces are the second largest in NATO and its economy is the 18<sup>th</sup> largest in the world – make Turkey a crucial element when analysing EIB operations in ENP countries.<sup>81</sup> To illustrate the scope of the EIB’s operations in Turkey, more

<sup>80</sup> *Ibid.*

<sup>81</sup> The World Bank, 2017b, *loc. cit.*  
Taylor, *loc. cit.*

than EUR 25.8 billion signatures have been carried out there since 2001.<sup>82</sup> Moreover, the EIB has had operations in Turkey since 1965.<sup>83</sup>

The EIB's annual signatures remain our dependent variable. In the observation period, signatures in Turkey exceeded the ones in both ENP dimensions in all years but in 2010, when signatures in the Southern dimension reached their peak. Despite a decline in 2013, signatures in Turkey followed an upward trend since 2010. So did signatures in the Eastern dimension. However, they followed a downward trend in the Southern dimension. Moreover, signatures in Turkey had a lower volatility compared to the two ENP dimensions since 2010. Graph 1818 compares the signatures of Turkey with the two ENP dimensions.



Graph 18: Signatures in the ENP dimensions and in Turkey<sup>84</sup>

Signatures continuously rose before the Global Financial Crisis. They reached their peak in the year of the Global Financial Crisis. While signatures almost maintained their level the following year, they significantly fell in 2010. Despite the Arab Spring and the emerging civil war in Syria, they steadily grew until 2012 before falling to the pre-Arab Spring level in 2013. The decline in 2013 might be due to the political turmoil sparked by violent crackdown

<sup>82</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

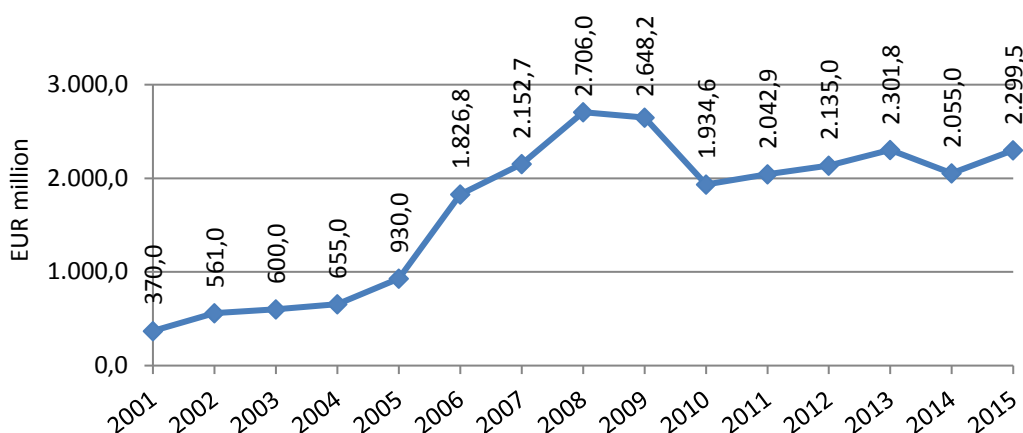
<sup>83</sup> EIB, 2017e, *loc. cit.*

<sup>84</sup> Author, based on EIB, *Statistical Reports 2001-2015*.

of protests on the Taksim square.<sup>85</sup> Signatures increased during the conflict in Ukraine as well as in the last year of the observation period.

Thus, both the Global Financial Crisis decreased signatures with a one year lag, while the Arab Spring did so with a two year lag. There was no lag regarding the conflict in Ukraine.

Although the ongoing domestic turmoil and the entrance into the conflict with Syria created uncertainty and worsened the environment for investments, EIB signatures maintained their level with minor deviations. Graph9 illustrates our analysis.

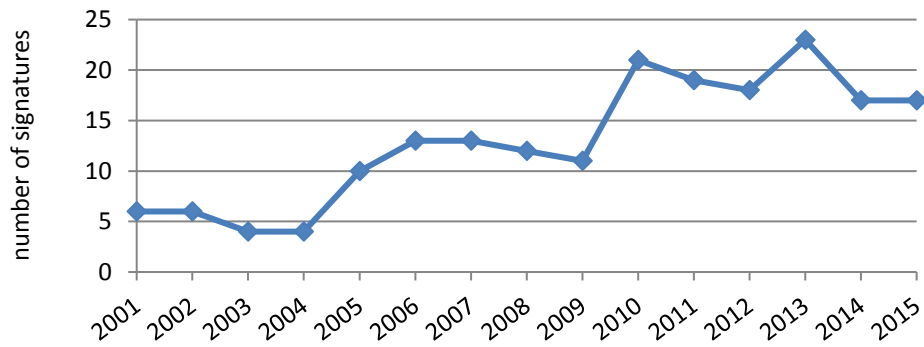


Graph19: Signatures Turkey<sup>86</sup>

Despite a decline during the Global Financial Crisis and the Arab Spring, the number of signatures followed an upward trend until 2013. In the year of the conflict in Ukraine, the number of signatures fell and stayed constant the following year. Graph 190 presents our results.

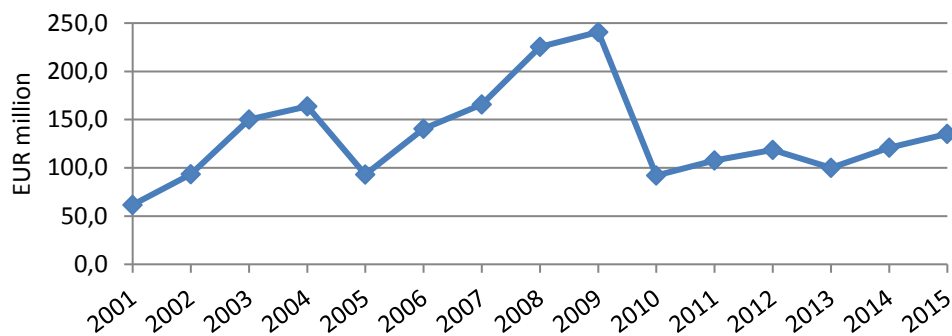
<sup>85</sup> J. Reynolds, *Turkish police tear gas protesters on Taksim anniversary*, 2014, BBC News, retrieved 29 April 2017, <http://www.bbc.com/news/world-europe-27649472>.

<sup>86</sup> Author, based on EIB, *Statistical Reports 2001-2015*.



Graph 190: Number of signatures in Turkey<sup>87</sup>

The number of signatures followed closely the volume in signatures, as illustrated in Graph0. Nevertheless, the average signature size, which is the ratio between these two variables, fell after the Global Financial Crisis because the number of signatures increased but the volume in signatures decreased. Since both volume in signatures and number of signature showed a lower volatility during and after the Arab Spring, the average signature size also had a lower volatility. Graph 201 shows the average signature size.



Graph 201: Average signature size<sup>88</sup>

<sup>87</sup> *Ibid.*

<sup>88</sup> *Ibid.*

## 5. Conclusion

Our findings for EIB's signatures in ENP countries and Turkey are diverse. The extent to which the Global Financial Crisis, the Arab Spring, and the conflict in Ukraine impacted EIB signatures in ENP countries varies significantly between the two dimensions as well as between the countries within the dimensions.<sup>89</sup> Table 1 summarizes our results.<sup>90</sup>

	<i>H</i> <sub>1</sub>	<i>H</i> <sub>2</sub>	<i>H</i> <sub>3</sub>
<b>ENP Global</b>	✓	✓	✗
<b>ENP Dimension</b>			
Southern	✓	✓	✗
Eastern	✓	✗	✗
<b>ENP Country Level Southern Dimension</b>			
Algeria	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Egypt	✗	✓	✗
Gaza-West Bank	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Israel	✓	✗	✗
Lebanon	✓	✗	✗
Morocco	✓	✗	✗
Syria	✓	✓	<i>n/a</i>
Tunisia	✓	✓	<i>n/a</i>
<b>ENP Country Level Eastern Dimension</b>			
Armenia	<i>n/a</i>	✗	✗
Azerbaijan	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Georgia	<i>n/a</i>	✓	✓
Moldova	✓	✓	✓
Ukraine	✓	✗	✗

✓ Hypothesis accepted  
 ✗ Hypothesis rejected  
*n/a* Hypothesis cannot be tested

Table 1: Hypothesis Summary.

<sup>89</sup> See table 1.

<sup>90</sup> Our three hypotheses read as follows:

*H*<sub>1</sub>: The Global Financial Crisis decreased EIB signatures in the sample countries.

*H*<sub>2</sub>: The Arab Spring decreased EIB signatures in the sample countries.

*H*<sub>3</sub>: The conflict in Ukraine decreased EIB signatures in the sample countries.

## **ENP Global**

At the global level, signatures showed an upward trend. They doubled in the observation period. Yet, they faced two declines. The Global Financial Crisis caused a minor decline in global ENP signatures of 11.8% in 2008, while overall EIB signatures increased by 24.0%. The Arab Spring caused a major decrease in global ENP signatures of 44.8%, while overall EIB signatures dropped by 15.5% in 2011. Since the EIB predominately invests within the EU, the overall fall was due to the economic slowdown in EU. This corresponds to the EIB's demand-driven approach. The conflict in Ukraine did not influence global ENP signatures. Accordingly, we accept  $H_1$ , saying that the Global Financial Crisis decreases signatures in ENP countries at the global level. We also accept  $H_2$  saying that the Arab Spring decreased signatures in ENP countries at the global level. However, we reject  $H_3$  saying that the conflict in Ukraine reduces EIB signatures at the global level.

## **ENP Regions**

We found mixed results for the two dimensions. Signatures in the Southern dimension reacted stronger to the three events than in the Eastern dimension. Thus, signatures in the Southern dimension had a higher volatility. Both dimensions showed an upward trend in their signatures. However, the one in the Eastern dimension is steeper. The Global Financial Crises reduced signatures in both dimensions. In the Southern dimension, signatures dropped by 63.2% during the Arab Spring and increased by 198.6% during the conflict in Ukraine. In the Eastern dimension, signatures continued to grow both during the Arab Spring and the conflict in Ukraine by 143.3% and 115.4%, respectively. Signatures in the Eastern dimension continuously grew except in 2013. While starting at zero in 2006, they exceeded the other ones in 2015. This trend corresponded to the European Commission's intention to raise the ceiling

and widen the scope of EIB's funding for the Eastern dimension through the mid-term review of the EIB's lending external mandate.<sup>91</sup>

Consequently, we accept  $H_1$  in both dimensions. In the Southern dimension, we also accept  $H_2$  but we reject  $H_3$ . In the Eastern dimension, we reject both  $H_2$  and  $H_3$ .

## **ENP Countries**

With the exception of Lebanon, economic growth slowed down in all the countries in the sample between 2011 and 2012. Accordingly, demand fell. However, signatures increased by 81.4% in the Southern dimension and by 38.1% in the Eastern dimension. The EIB changed its investment policy in terms of sectors. Signatures in Credit Lines and Energy significantly increased since the Arab Spring. They were the drivers of signatures' growth that year. We attribute this increase to the ENP mid-term review of 2011, where the European Commission suggested an "(...) additional lending envelope of EUR 1.0 billion" to the EIB.<sup>92</sup> The EIB could mobilize almost EUR 6.0 billion of additional capital over 2011-2013 with this envelope.<sup>93</sup> Put differently, the Member States and the European Commission decided on the EIB's operations in the statutory bodies at the end of day. In parallel, the European Commission "(...) supported the extension of the EBRD mandate to selected southern Mediterranean countries".<sup>94</sup> As our analysis shows, the signatures stayed below this target. Both the shareholders and the EIB must consider recipient countries' capacity to absorb EIB investments.

At the country level in the Southern dimension, Algeria experienced a single signature worth of EUR 500.0 million in 2010. We therefore cannot test our hypothesis. However, since

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<sup>91</sup> Commission of the European Communities, *Communication from the Commission to the European Parliament and the Council: Eastern Partnership*, COM(2008) 823 final, Brussels, 3 December 2008, p. 15.

<sup>92</sup> European Commission, *Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels: a new response to a changing Neighbourhood*, COM(2011) 303 final, 25 May 2011, p. 20.

<sup>93</sup> *Ibid.*

<sup>94</sup> European Commission, 2011, *loc. cit.*



“Algeria does not fully participate (...)” in the ENP, the EU cannot entirely use its “institutional and productive power”.<sup>95</sup> Thus, Member States and the European Commission might reject Algerian projects in the statutory bodies until Algeria finishes negotiating an ENP Action Plan. Moreover, the European Commission expresses its opinion on every project on which the Board of Directors decides. For instance, “where the Commission delivers an unfavourable opinion, the Board of Directors may not grant (...)” financing unless it decides at unanimity.<sup>96</sup> The same rule applies when the Management Committee delivers an unfavourable opinion. Gaza-West Bank and Azerbaijan experienced three signatures during the entire observation period. Similar to Algeria, their limited sample size impedes an unbiased analysis to test our hypothesis.

Signatures in Egypt rose in the year of the Global Financial Crisis. However, they sharply fell during the Arab Spring. Since the Arab Spring, signatures showed a strong upward trend. Thus, they also increased during the conflict in Ukraine. Consequently, we reject  $H_1$  and  $H_3$ , while accepting  $H_2$ .

Signatures in Israel fell in the year of the Global Financial Crisis, which is in line with its economic development and integration into the world economy. So, we accept  $H_1$  for Israel. During the Arab Spring, they significantly rose due to signatures in the sanitation and water desalination sector. Due to signatures for solar thermal plant, they also rose during the conflict in Ukraine. These signatures are unlikely to be driven by second and third events. Thus, we reject  $H_2$  and reject  $H_3$ .

Signatures in Lebanon peaked the year before the Global Financial Crisis. In 2008, they fell. Since the signatures often finance small- and medium scale projects through financial intermediaries, global economic slowdown affected them.<sup>97</sup> Signatures recovered slightly the

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<sup>95</sup> R. Bengtsson, *The EU and the European security order: interfacing security actors*, Routledge, London, 2009, p. 83.

<sup>96</sup> Article 19(6) EIB Statute.

<sup>97</sup> EIB, *Statistical Reports 2007*, Luxembourg, 2008, p. 28.

year after before falling again in 2010. Lebanon is one of the few countries where signatures increased in 2011. Despite its tight relations to Syria and Hezbollah's entrance into the Syrian conflict in 2012, signatures considerably increased in 2012 and again in 2014.<sup>98</sup> However, signatures fell to zero the following year. Accordingly, we accept  $H_1$ , while rejecting  $H_2$  and reject  $H_3$ .

Considering both the volume and the number of signatures, the Global Financial Crisis significantly decreased EIB operations in Morocco. This speaks for the integration of the Moroccan economy in the global economy. In contrast, the Arab Spring increased the EIB's operations in Morocco. This might be due to King Mohammed VI's wise reaction regarding the 20 February movement that created less violent protests compared to other countries during the Arab Spring; and thus maintained conditions under which investments could be carried out.<sup>99</sup> One year after the Arab Spring breaks out, Morocco experienced the highest signatures in the entire Southern dimension. Signatures significantly rose during the conflict in Ukraine. Consequently, we accept  $H_1$  for Morocco. We reject both  $H_2$  and  $H_3$ .

Syria is the only country in our sample where signatures decreased after both the Global Financial Crisis and the Arab Spring. The majority of signatures were with the Syrian government; signatures with private partners included only international companies. Considering that signatures in other ENP countries and Turkey continued despite ongoing turmoil and an open conflict, e.g. in Ukraine, and that the Syrian government was the principal partner of the EIB, the decrease in signatures in Syria since the outbreak of the Arab Spring puts forward that the EIB pursued a political agenda going beyond purely economic demand-driven operations. Interviewees confirmed this statement, however not for Syria, but for Ukraine. Thus, we accept  $H_1$  and  $H_2$ . However, we cannot test  $H_3$ .

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<sup>98</sup> Rosenfeld, *loc. cit.*

<sup>99</sup> Lawrence, *loc. cit.*

Signatures in Tunisia increased at the beginning of the Global Financial Crisis, which is similar to Morocco. Road programmes and natural gas transmission projects drive signatures. The trigger country of the Arab Spring experienced a continuous fall of signatures during the Arab Spring. Signatures significantly rose in 2014. A natural gas project of EUR 380.0 million drove the signatures in 2014. Signatures fell again in 2015. We attribute the decline to “social tensions that mark the first half of 2015 [...and to the] effects of three terrorist attacks”.<sup>100</sup> These developments raised uncertainty and the country’s risks. Accordingly, the cost of capital increased; fewer projects were economically viable. Thus, we accept  $H_1$  and  $H_2$ . However, we cannot test  $H_3$ .

At the country level in the Eastern dimension, our data suggests that neither the Global Financial Crisis, the Arab Spring nor the conflict in Ukraine influenced signatures in Armenia. The EIB’s operations started in 2010. Thus, it might be possible that the Global Financial Crisis postponed signatures planned for 2008 to 2009. Our data is not deep enough to verify such an explanation. We therefore cannot test  $H_1$ , while we reject  $H_2$  and  $H_3$ .

EIB’s operations in Georgia started in 2010. The absence of signatures in Georgia in 2008 might be due to the five-day war with Russia leading to the secession of Abkhazia and South Ossetia, and less to the Global Financial Crisis. Like in the case of Armenia, our data is not deep enough to verify such explanation. Consequently, we cannot test  $H_1$  for Georgia. Signatures significantly fall in the year of both the Arab Spring and the conflict in Ukraine. Hence, we accept  $H_2$  and  $H_3$ . Similar to Armenia and Syria, the prime partner for signatures is the national government. Moreover and apart from the SME loans schemes, signatures in Georgia often aim at improving Georgia’s connection with Turkey.

Moldova experienced falling signatures in all the years of the three events. Moreover, it experienced no signatures in 2015. This is most likely due to the banking crisis in which the

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<sup>100</sup> The World Bank, 2016, *loc. cit.*

Moldovan government bailed out three banks with an amount equivalent to an eighth of Moldova's GDP.<sup>101</sup> Moldova is the only country for which we accept all three hypotheses.

Signatures in Ukraine negatively reacted to the Global Financial Crisis, while they positively do to the Arab Spring and the conflict in Ukraine. Signatures in Ukraine decreased in the year of the Global Financial Crisis and continued to fall until 2010. They significantly increased in the year of the Arab Spring. In the year of its conflict, signatures increased by 124.8%. In 2015, they grew by 33.7%. Ukraine's increased country risk caused by its conflict in the Eastern of the country increased the costs of capital, and thus fewer projects were economically viable. Therefore, we attribute the ongoing raise in EIB signatures to the shareholders intention to boost support for Ukraine. Thus, we accept  $H_1$  for Ukraine. However, we reject  $H_2$  and  $H_3$ .

### **Turkey: The Crossroad between the Southern and Eastern Dimension**

Turkey saw rising signatures in the year of the Global Financial Crisis and Arab Spring. Signatures fell during the conflict in Ukraine. They continuously grew before the Global Financial Crisis. They reached their peak during the Crisis and can almost maintain their level the following year. Despite the Arab Spring and the emerging civil war in Syria, they steadily grew between 2011 and 2013. Signatures rose in the year of the conflict in Ukraine. However, this decline is more likely to be due to the turmoil sparked by the violent crackdown of protests on Taksim square and the contagion of the conflict in Syria.<sup>102</sup> Both developments increased the risk; fewer projects were economically viable. Although the ongoing domestic turmoil and the entrance into the conflict with Syria created uncertainty and worsened the environment for investments, EIB signatures maintained their level with minor deviations. Resources for signatures in Turkey virtually exclusively came from the EIB itself. Third party resources were

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<sup>101</sup> Whewell, *loc. cit.*

<sup>102</sup> Reynolds, *loc. cit.*

used only once and account for EUR 30.0 million. We find similar results in the ENP dimensions. Accordingly, we accept  $H_2$ , while we reject  $H_1$  and  $H_3$  for Turkey.

	$H_1$	$H_2$	$H_3$
Turkey	×	✓	×

- ✓ Hypothesis accepted
- ×
- n/a Hypothesis cannot be tested

Table 2: Summary Turkey

### Laying a Cornerstone for EIB research

Based on our database, further research might address the correlation of EIB’s operations with economic and political variables such as GDP growth, government changes or with the ENP Progress Reports. This might offer new insights whether the EIB’s stakeholders try to establish a certain balance between the two dimensions and ENP countries according to variables, such as population size, that determine financing from other EU sources, like structural funds, despite the three events.

In a comparative approach, research on other MDBs with operations in ENP countries could draw more general conclusions on how the three events influence their operations. Results based on several units of analysis would also address the issue of causality. Moreover, comparing the targets of different MDBs with their actual achieved results helps estimating the absorption capacity of recipient countries, which is often neglected when drafting policies and mandates for MDBs. Such research might also examine whether there is a mismatch between offered financing and the absorption capacity.

### What’s next for the EIB?

Both the EIB and its shareholders, especially the European Commission, must consider recipient countries’ capacity to absorb EIB’s investments. The EIB might also increase coordination with other MDBs that are active in our sample countries. Besides avoiding competition between the different MDBs, such coordination allows sharing best-practices and

information as well as expanding co-financing. It also takes better into account financing issues of cross-border projects.

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