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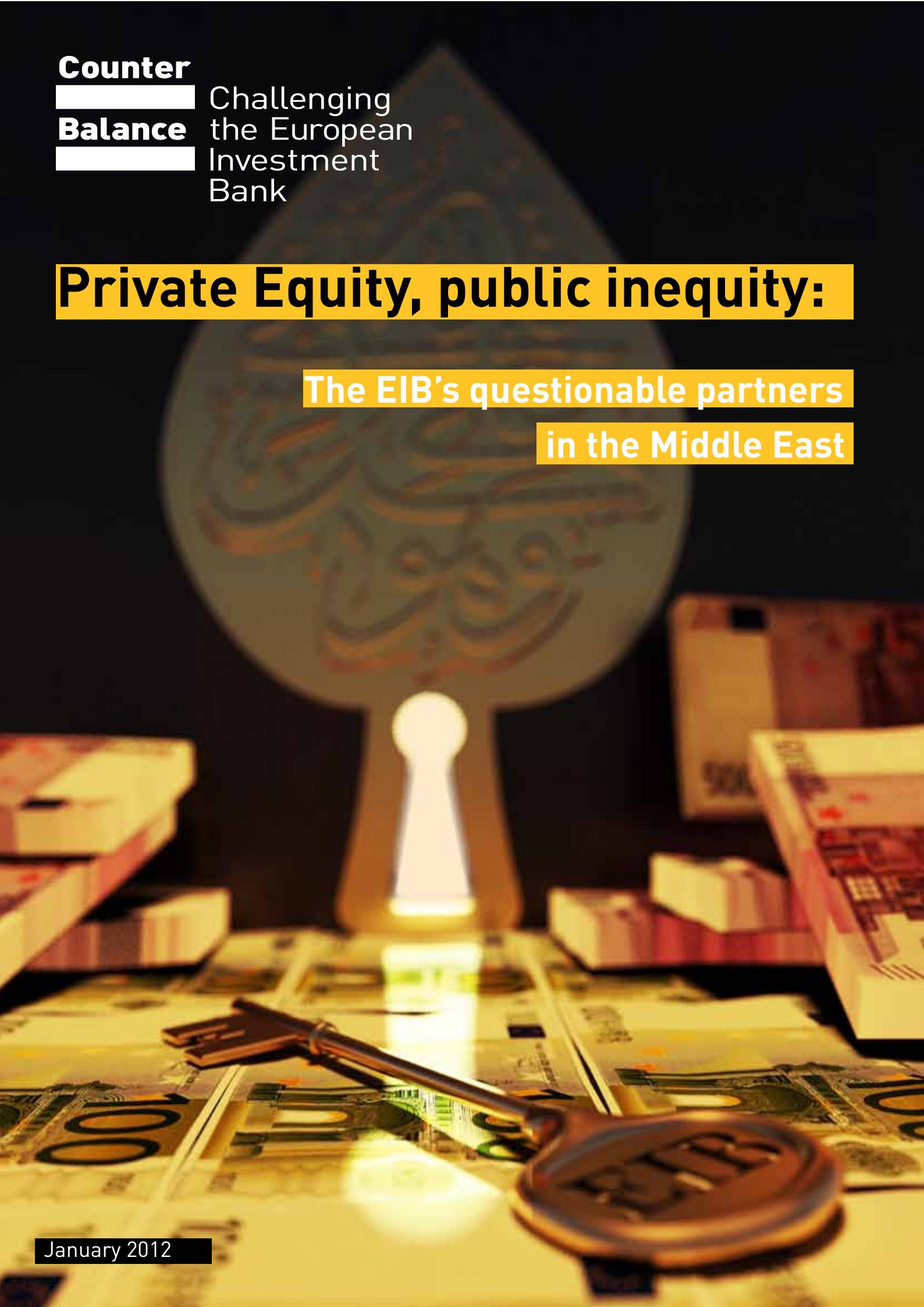
**Balance**



Challenging  
the European  
Investment  
Bank

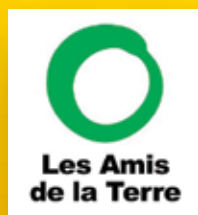
# Private Equity, public inequity:

The EIB's questionable partners  
in the Middle East



The mission of “**Counter Balance: Challenging the EIB**” is to make the European Investment Bank an open and progressive institution delivering on EU development goals and promoting sustainable development to empower people affected by its work.

This campaign is promoted by:



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### LIST OF ABBREVIATIONS

CEO	CHIEF EXECUTIVE OFFICER
DfID	DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
EHPE	EFG HERMES PRIVATE EQUITY
EIB	EUROPEAN INVESTMENT BANK
FEMIP	FACILITY FOR EURO-MEDITERRANEAN INVESTMENT AND PARTNERSHIP
IBRD	INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
IDA	INTERNATIONAL DEVELOPMENT ASSOCIATION
ISIC	REGISTER OF INTERNATIONAL COLLECTIVE INVESTMENT SCHEMES
MENA	MIDDLE EAST AND NORTH AFRICA
PE	PRIVATE EQUITY
PEP	POLITICALLY EXPOSED PERSON
PGCF	PALESTINE GROWTH CAPITAL FUND
PIF	PALESTINE INVESTMENT FUND
PSIRU	PUBLIC SERVICES INTERNATIONAL RESEARCH UNIT
PWYF	PUBLISH WHAT YOU FUND
SODIC	SIXTH OF OCTOBER DEVELOPMENT & INVESTMENT COMPANY
TFEU	TREATY ON THE FORMATION OF THE EUROPEAN UNION
WB	WORLD BANK

## Executive summary

In the last ten years, the European Investment Bank (EIB) invested €15.5 billion in the Middle East and North Africa (MENA), almost double its investment in any other region outside Europe. The leading recipients were Egypt and Tunisia, the epicentres of the Arab Spring which took hold in those countries as a result of their undemocratic and repressive regimes. Not only do the uprisings in both countries cast serious doubts on whether the EIB should have been involved with such regimes at all, this report reveals that the EIB's choices of some of its strategic investment partners and associations in the region were highly questionable.

The report has also found that the EIB has invested in private equity funds whose major figures were later charged or convicted of corruption—funds that were directly linked to, and enriched the Mubaraks and their cronies. It has also launched a joint investment with Abraaj Capital, where a co investor, the Palestine Investment Fund - was accused of diverting Palestinian aid money to large private enterprises – and which also used Tony Blair's lobbying power to the direct benefit of Mahmud Abbas's family and associates.

The EIB claims it wants to promote “human rights and democracy projects, the fight against poverty and education and training”<sup>1</sup> in the MENA region. But its stated vehicle for achieving these aims is private sector

development, with a special emphasis on investment in **private equity funds**. Private equity is one of the most popular current forms of **financial outsourcing**. Such outsourcing is a key way for the EIB to spread its investments where despite the EIB's legal obligations, it allows the Bank to subcontract much of its due diligence work to the recipient fund, which very likely does not possess the necessary skills in environmental and social impact analysis. However even if the fund were to possess the required skills to conduct such analysis, given that it is an investment fund primarily interested in maximising profits for its shareholders, it is highly unlikely that such analysis would be its overriding concern. For this reason alone, we regard private equity in particular as **inherently anti-developmental**.

However private equity is also predicated on **extreme secrecy and lack of transparency**, making it very difficult to assess exactly where intermediated money has gone and what impact it has had. It is also extremely hard to track the chain of causality—of who is responsible for bad projects. Moreover, there is also the issue of **the reinforcement of Corruption and Undemocratic Rule**: In choosing to make such questionable financial partnerships in undemocratic states, the EIB is aligning itself with the elites of those states at the expense of the wider population. And since the EIB is an institution made up of the EU member states and their citizens, **any money made from these joint ventures effectively makes EU citizens be the financial beneficiaries of such unsavoury partnerships**.

## The EIB's long standing partnership with EFG Hermes Investment Bank

### EIB, EFG Hermes and the InfraMed Infrastructure Fund

The InfraMed private equity fund was launched in May 2010 with a mandate to be the “biggest infrastructure fund in the MENA region”. The EIB committed €50 million to the venture while one of the other strategic partners and seed investors is Egypt's largest investment bank, EFG Hermes, which invested €15 million. The Strategic Board Chairman of InfraMed at the time of its launch was the then Egyptian Minister for Trade and Investment, **Rachid Mohamed Rachid who, in the aftermath of the Arab Spring, was charged with multiple counts of corruption** including profiteering, squandering and misusing public funds. He was tried in absentia in three separate cases

on all of these charges, found guilty and sentenced to a total of 35 years in jail.<sup>2</sup>

### Gamal Mubarak's shareholding in EFG Hermes Private Equity

Gamal Mubarak, younger son of the deposed Egyptian President Hosni Mubarak, **has held an 18% shareholding in EFG Hermes Private Equity (EHPE), the private equity arm of EFG Hermes bank** since the late 1990s. According to EFG Hermes themselves, the shareholding was first made public in 1997,<sup>3</sup> three years before the EIB made its first investment with EFG Hermes and thirteen years before EIB invested in the InfraMed fund in 2010.<sup>4</sup> Moreover, in March 2006 Gamal Mubarak himself acknowledged

1. Europolitics, 'EU/Mediterranean States: EU to put up Euro 1.2 billion co-operation funding', <http://www.europolitics.info/eu-mediterranean-states-eu-to-put-up-euro-1-2-billion-co-operation-funding-artr181560-44.html> published 4/5/2004

2. The New York Times, 'Steel tycoon with links to a Mubarak is sentenced', <http://www.nytimes.com/2011/09/16/world/middleeast/egypt-sentences-mubarak-era-tycoon-ahmed-ezz-to-prison.html> published 15/9/2011

3. EFG Hermes Press Release dated 17/2/2011, <http://www.efg-hermes.com/English/NewsDetails.aspx?NID=173&h=h1>, also separately reported by Reuters, 'Egyptian bank EFG-Hermes says Mubarak stake minor' <http://www.reuters.com/article/2011/02/13/egypt-efghermes-mubarak-idUSLDE71C0AE20110213> published 13/2/2011

4. The New York Times, 'Mubarak family riches attract new focus', [http://www.nytimes.com/2011/02/13/world/middleeast/13wealth.html?\\_r=1&pagewanted=all](http://www.nytimes.com/2011/02/13/world/middleeast/13wealth.html?_r=1&pagewanted=all) published 12/2/2011

## EFG Hermes and the Mubaraks' personal money manager Walid Kaba's seat on various EFG Hermes' boards

Many of Gamal Mubarak's business interests including his shareholding in EFG Hermes Private Equity, were controlled through Bullion Company Limited, of which Gamal owned half and his brother Ala'a Mubarak was on the board. This information is now a matter of public record, as is the close association between Gamal Mubarak and Walid Kaba. Kaba was the company director of at least three Mubarak private interests - Bullion, Medinvest Associates and the Mubarak's private investment fund, the International Securities Fund. However he not only managed the Mubaraks' private offshore business interests but also sat on the boards of its parent company, EFG Hermes Holding, (along with the CEO and co founder of EFG Hermes bank), its private equity division EHPE, as well as a number of its funds and investment companies (see Map on page 22 for a complete view of Kaba's connections to various entities).

Gamal Mubarak, Walid Kaba and EFG Hermes Bank jointly established the EFG Hermes Private Equity (EHPE) division in the late 1990s.<sup>9</sup> Since its establishment, EHPE expanded and set up a number of offshore registered private equity investment funds, (including the two that received direct EIB investment - the Jordan High Tech Fund and the Middle East Technology Fund).<sup>10</sup> These new private equity investment funds quickly went on to register large increases in assets under management.<sup>11</sup> However even if no profits were ever generated, as the promoters, managers and co investors in these funds, EHPE (and by extension Gamal Mubarak and Walid Kaba as shareholders) would have profited from the EIB's investments into those funds through the management fees charged by EHPE to all investors. The company returns for both the Jordan High Tech Fund and the Middle East Technology Fund show that the EIB were in fact the cornerstone investors with the second largest shareholding in both funds. Their shareholding in the Jordan fund stood at over 26% while the shareholding in the Middle East fund was over 21%. (refer to appendix for Fund returns and details of shareholding). The EIB and its investment in the fund thus directly made money for the Mubaraks and their allies.

his links with EFG Hermes, first in an online interview conducted in 1999,<sup>5</sup> then in 2006 on an Egyptian evening talk show where he noted that he held a seat on the board (refer timeline on page 19 for chronology of association between Gamal Mubarak, EFG Hermes and their link to the EIB). Since the year 2000, the EIB has made four separate investments in EFG Hermes bank and its private equity division. **As a Politically Exposed Person (PEP), Gamal Mubarak and EFG Hermes itself should have been subject to enhanced due diligence procedures before the EIB invested in InfraMed or any of the other earlier investments it made in EFG Hermes.** Since the revolution in Egypt, Gamal, Ala'a and Hosni Mubarak have all been arrested and charged with corruption.<sup>6</sup>

### EFG Hermes, its Horus Private Equity Funds and dodgy land sale investments

There is also evidence that **two EFG Hermes private equity funds which were also partially co owned by Gamal Mubarak, the Horus Private Equity Funds II and III, were implicated in a highly questionable land privatisation deal** through one of their investments. It now seems likely that both funds not only invested but also profited from this association,<sup>7</sup> which was a shareholding in the real estate focused Talaat Mustafa Group taken out in 2007. It is alleged that in 2005, the **Talaat Mustafa Group** was illegally awarded 33 million square metres of land by the state for the country's largest housing project, the Madinaty project on Cairo's outskirts "without an auction, and for nearly nothing".<sup>8</sup> The conduct of the company in this land deal and the role played by senior government officials was uncovered by an Egyptian engineer, who gathered evidence on Talaat Mustafa's dealings and took them to court. Although the EIB did not directly invest in either of these funds these EHPE investments serve to illustrate some of the financial associations which EHPE, the EIB's investment partner was prepared to enter into.

5. WINNE, World Investment News, 'Interview with Mr Gamal Mubarak', dated 14 January 1999, <http://www.winne.com/topinterviews/gamal.htm> see appendix for extract of interview

6. Al Arabiya, 'Mubarak sons have millions in Swiss banks: Egyptian justice official', <http://www.alarabiya.net/articles/2011/10/17/172279.html> published 17/10/2011

7. Bloomberg Businessweek, 'The Man behind Egypt's real estate rebellion' [http://www.businessweek.com/magazine/content/11\\_23/b4231041996189.htm](http://www.businessweek.com/magazine/content/11_23/b4231041996189.htm), published May 26, 2011. While this article specifically only mentions Horus PE Fund III, Horus PE Fund II also made an investment in the Talaat Mustafa Group in 2007 which it has since sold as per the fund's website: EFG Hermes website, <http://www.efg-hermes.com/English/Services.aspx?PageID=266&expandable=3&li=5719933>. Also refer following article: Bloomberg, 'Egypt's Developers Pay the Price for Ties to Mubarak's Regime' <http://www.bloomberg.com/news/2011-06-06/mubarak-s-legacy-clouds-future-of-egypt-s-property-boom-as-deals-unravel.html>, published on June 8, 2011, which states that two investment funds co owned by Gamal Mubarak were shareholders of the Talaat Mustafa group.

8. Bloomberg Businessweek, 'The Man behind Egypt's real estate rebellion'

9. Refer WINNE interview with Gamal Mubarak in Appendix of report

10. PEI Media, 'The third annual emerging markets private equity forum', <http://www.peimedia.com/Product.aspx?cID=5496&pID=168330&contentType=11&spkID=538> Description of EHPE investment funds by its chairman is more complete than information currently available on EHPE's website. Published November 2007

11. Ahram online, the internet publication of the Al Ahram daily, 'All the king's men: Who runs Mubaraks' money?', <http://english.ahram.org.eg/NewsContent/3/12/8793/Business/Economy/All-the-king%E2%80%99s-men-Who-runs-Mubaraks-money-.aspx> published 15/5/2011. The article provides a detailed explanation of the alleged links between all the various entities set up by the Mubarak brothers and their involvement with EFG Hermes PE.

## Palestine Growth Capital Fund and the Palestine Investment Fund

The EIB invested into the Palestine Growth Capital Fund (PGCF) in December 2010. The fund targets a total size of \$50 million with the EIB's contribution being \$6.74 million. It was set up as a joint venture between the Palestine Investment Fund (PIF), a Palestinian sovereign wealth fund (with a \$10 million contribution) and Abraaj Capital, the largest private equity firm in the MENASA.<sup>12</sup>

It is alleged that since Mahmoud Abbas's personal advisor Mohamed Mustafa took the reins of the Palestine Investment Fund in 2005, **the fund has been improperly used by Abbas to further his own political interests.**<sup>13</sup> **Recently, a former associate of Abbas has also come out to claim that vast sums of money have allegedly gone missing from the fund.**<sup>14</sup> One irregularity which appears to support those claims dates from April 2009 and concerns the PIF and the Wataniya Palestine telephone company. The PIF has a 43% shareholding in Wataniya and Mohamed Mustafa is not only Chairman of PIF but also Chairman of Wataniya. According to a Reuters report, **\$16 million of US aid assistance in the form of**

**loan guarantees that were specifically intended for Palestinian farmers and SMEs were diverted instead to Wataniya.**<sup>15</sup>

In another high profile story, former British Prime Minister Tony Blair, in his capacity as Special Envoy to the Middle East, intensively and successfully lobbied the Israeli Government on behalf of Wataniya to allow the company access to Israeli telephone frequencies without which its £450 million investment was in jeopardy. Beyond the PIF, other significant beneficiaries of Blair's success apparently included close associates of Mahmoud Abbas as well as his sons Tarek and Yasser Abbas.<sup>16</sup>

Once again, as Politically Exposed Persons, the Abbas family, as well as the PIF itself (due to its close links with Abbas) should have been subject to enhanced due diligence procedures before the EIB made its investment. The signature date for the EIB's investment into the Palestine Growth Capital Fund was the 21st of December 2010, at least **three months after** some of these stories broke. This suggests that either the EIB somehow failed to pick up the concerns or did not consider them significant enough to stop its investment.

## RECOMMENDATIONS:

The implications of the EIB's involvements in the region go far beyond merely criticising the past actions of the Bank. How could the EU, with its continued rhetoric about democracy and human rights, allow the EIB to make these kinds of investments and partnerships? And given this examples outlined here, despite its frantic scramble to support the newly transformed post Arab Spring nations, **how can the EIB be entrusted with the future development of Egypt and the MENA region?**

Since the EIB has ostensibly implicated EU citizens as the backers of the Bank in any impropriety committed by the Bank's investments and business associations, EU citizens have a right to demand higher standards of behaviour and accountability from their house bank. Although such malfeasance as was uncovered in this

report could naturally occur in any kind of project financing, the fact remains that these were all examples of private equity related investments. This is compounded by the reality that when one examines the **EIB's own 2008 Anti Fraud Policy** which is specifically designed to prevent cases such as these, the relevant sections (Paragraphs 18, 19 and 27<sup>17</sup>) are concerned only with the EIB's lending operations. Although the EIB has advised us that its Anti Fraud policy applies to all of its operations we note that **There is no single specific provision dealing with its investment operations, or intermediaries and private equity funds which it invests with.**

In fact there are no paragraphs dealing with any of the EIB's other operations aside from lending. This is a serious oversight.

12. European Investment Bank, <http://www.eib.org/projects/pipeline/2010/20100648.htm>2. The New York Times, 'Steel tycoon with links to a Mubarak is sentenced', <http://www.nytimes.com/2011/09/16/world/middleeast/egypt-sentences-mubarak-era-tycoon-ahmed-ezz-to-prison.html> published 15/9/2011

13. Haaretz, 'Congress mulls closing PLO mission in Washington in light of UN bid', <http://www.haaretz.com/news/diplomacy-defense/congress-mulls-closing-plo-mission-in-washington-in-light-of-un-bid-1.384930> published 16/9/2011 and Commentary Magazine, 'Who Owns the Palestine Investment Fund?', <http://www.commentarymagazine.com/2011/09/15/palestine-investment-fund-congress/> published 15/9/2011

14. Jerusalem Post, 'Abbas 'feels he's above the law,' charges Dahlan', <http://www.jpost.com/MiddleEast/Article.aspx?id=231686> published 31/7/2011

15. Reuters, 'Exclusive: US aid goes to Abbas backed Palestinian phone venture', <http://uk.reuters.com/article/2009/04/24/idUKL1783372> published 24/4/2009

16. Daily Mail, 'Special Investigation: How Blair rescued Palestine deal worth \$200m to his £2 m-a-year paymasters', <http://www.dailymail.co.uk/news/article-1311237/Special-investigation-How-Blair-rescued-Palestine-deal-worth-200m-2m-year-paymasters.html> published 12/9/2010

Counter Balance believes that the findings of this report support its long held position regarding private equity and calls on the EIB to:

- **Stop all its investments into private equity in the developing world** as well as in countries governed by undemocratic or corrupt regimes where there is an even greater risk that such investments are ultimately benefiting the ruling elite.
- Given the past track record of the EIB's support of the former regime in Egypt and the evidence uncovered in this report, to **immediately cease all lending and investments into Egypt until that country has successfully transitioned to democracy.**
- **Adopt new enhanced standards of due diligence on Politically Exposed Persons. To disclose such assessments and make them publically** available at the time of its investment.
- Review its own 2008 Anti Fraud Policy and update it appropriately to include specific provisions regarding its investment operations and interactions with financial intermediaries.
- Conduct mandatory ex post assessments of the investments made by all the private equity funds it has invested in and to publish these assessments on its website.
- Limit its investment partners to entities that are incorporated in the same countries as the ultimate beneficiaries. And to then impose fully transparent and stringent standards on them for the projects they support

Bearing in mind the proven criminality of many of the individuals chronicled in this report and the illegality of the processes they have used to profit, we believe that there may be sufficient evidence to support the **relevant**

**authorities in both Luxembourg and Egypt as well as at EU level, to conduct a possible investigation of the European Investment Bank and some of the funds it supports in relation to potential breaches of the relevant money laundering legislation.** Legal research suggests the EIB holds no immunity from prosecution under local legislation, the substance of which we are not qualified to comment on. However, relevant EU legislation to consider, in addition to EIB's Anti-Fraud Policy, would be European Union Directives 2005/60/EC<sup>18</sup> and 2001/97/EC<sup>19</sup> (which modified Directive 91/308/EC), and above all Article 325 of the Treaty on the Formation of the European Union (TFEU), which places an overriding duty on the Union and its bodies to counter fraud.<sup>20</sup>

**To EU member states and the European Parliament, both of which have supervisory responsibilities over the Bank, we recommend such an investigation of the EIB's conduct in Egypt.**

The EIB, as the leading financial institution of the EU with a specific development mandate has played a key role in Europe's response to the Arab Spring. For that response to be tainted by accusations of cronyism, self-interest and profiteering is enormously damaging to the EU's political standing in a region of great importance—damage far more costly than the financial profits which were made. Given the current threat of EU member states and the EIB itself losing their AAA credit ratings, the states and the EP must also consider the potential damage that this kind of poorly supervised and regulated financial conduct might do to the Bank. Were lawsuits to be initiated and liabilities uncovered, the EIB's standing in the markets would very likely suffer further damage.

To prevent such damage, the EIB's move to outsourcing its development objectives via an ever greater number of intermediated, equity and other fund investments needs to be reined in.

17. European Investment Bank, 'Policy on preventing and deterring Corruption, Fraud, Collusion, Coercion, Money Laundering and the Financing of Terrorism in European Investment Bank activities', [http://www.eib.org/attachments/strategies/anti\\_fraud\\_policy\\_20080408\\_en.pdf](http://www.eib.org/attachments/strategies/anti_fraud_policy_20080408_en.pdf)

18. Official Journal of the European Union, 'Directive 2005/60/EC of the European Parliament and of the Council', [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/L\\_309/L\\_30920051125en00150036.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/L_309/L_30920051125en00150036.pdf)

19. EUR-Lex; Access to European Union Law, [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!CELEXnumdoc&numdoc=32001L0097&lg=EN](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&numdoc=32001L0097&lg=EN)

20. EU Wiki, 'Consolidated version of the treaty on the functioning of the European Union' <http://euwiki.org/TFEU> as follows:

1. *The Union and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Union through measures to be taken in accordance with this Article, which shall act as a deterrent and be such as to afford effective protection in the Member States, and in all the Union's institutions, bodies, offices and agencies.*
2. *Member States shall take the same measures to counter fraud affecting the financial interests of the Union as they take to counter fraud affecting their own financial interests.*
3. *Without prejudice to other provisions of the Treaties, the Member States shall coordinate their action aimed at protecting the financial interests of the Union against fraud. To this end they shall organise, together with the Commission, close and regular cooperation between the competent authorities.*
4. *The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, after consulting the Court of Auditors, shall adopt the necessary measures in the fields of the prevention of and fight against fraud affecting the financial interests of the Union with a view to affording effective and equivalent protection in the Member States and in all the Union's institutions, bodies, offices and agencies. Treaty on the Functioning of the European Union, Article 325.*

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# EEB



## roduction: The EIB's Role in Enriching the Oppressors

2011 will be remembered as the year of the Arab Spring. All over the Middle East and North Africa, ordinary people rose up against repression, risking their lives in pursuit of a fairer and more just society. In November and December 2011, Egyptians again flooded to Tahrir Square to defend the democratic thrust of their movement against military usurpation.

The spirit of the Arab Spring has been widely acknowledged in the West. Less well known, however, is that many international institutions now hailing the freedom of the people in the region played their part in supporting these same regimes and their deposed autocratic leaders which had for so long suppressed this freedom. This report shows that among these institutions was also the **European Investment Bank (EIB)** and some of its strategic business partnerships and investments **directly benefited the very ruling cliques against whom the Arab Spring was launched**, specifically the **Mubarak clan in Egypt and in particular Hosni Mubarak's son Gamal**.

The report also reveals however that some of the EIB's strategic investment partners in the region such as **EFG Hermes Investment Bank in Egypt** and the **Palestine Investment Fund** themselves have a history of highly questionable associations and business dealings that have financially benefited the cronies of the ruling regimes of Egypt, and Palestine. Individuals such as Gamal Mubarak and his close associate and financial proxy at EFG Hermes, Walid Kaba, **the sons and associates of the President of the Palestine Authority, Mahmoud Abbas and Firas Tlass a close associate of Syria's President Bashar al Assad**. In a couple of cases, as with the real estate investments made by **EFG Hermes Horus Private Equity Funds II and III and the diversion of investment funds and aid money held by the Palestine Investment Fund**, the conduct of these investment partners has in fact been deemed to be unlawful.

Many of the investment companies, funds and individuals in the region are heavily interconnected. Indeed, it could best be characterised as a web spun by a handful of players which stretches virtually across the entire MENA region. This echoes a common complaint across the various Arab Spring protests: the control of wealth by a select, politically connected few to the detriment of the rest of the population. What has also emerged from this investigation is that even where the EIB's financial partnership with such institutions does not directly benefit the ruling regime, it nonetheless legitimises it since these institutions are often so closely linked to the political regime of their state.

In the last ten years, the European Investment Bank invested almost twice as much in the MENA region as in any other outside Europe--some €15.5 billion of support,<sup>21</sup> exceeding the World Bank Group's volume (just over \$17 billion, a figure which includes long term interest free development loans from its International Development Association<sup>22</sup>). The two leading recipients of that investment have been Egypt (nearly €4 billion<sup>23</sup>) and Tunisia (just under €3.5 billion<sup>24</sup>). Both were viewed by Western states as 'moderates' and courted as by them as allies however both were autocratic and repressive regimes where a small elite ruled for decades over millions of people. A fact which goes a long way to explaining why Tunisia and Egypt both became the epicentres of the Arab Spring. And the language used to justify the Bank's past investments in these regimes bears a striking resemblance to the EIB's new strong 'supporter of the revolution' rhetoric of today.

A 2004 joint financial package between the EIB, World Bank and EU Commission for the MENA region claimed it "*will be used to lend support to institutional and economic reform, human rights and democracy projects, the fight against poverty and education and training.*"<sup>25</sup> In its 2005 Corporate and Social Responsibility statement, the EIB declared it, "*recognises the growing awareness that major improvements are needed in welfare for all citizens of the region.*"<sup>26</sup>

21. European Investment Bank, <http://www.eib.org/projects/loans/regions/index.htm?start=2000&end=2011>.

22. World Bank Group, total of signed, open and closed projects for the MENA region between 2000 and 2011 agglomerated, results exported into Excel and total amount (IBRD+IDA committed) of US\$17.054 billion

23. Total projects financed in Egypt 2000-2011 €3,876,179,235. European Investment Bank, <http://www.eib.org/projects/loans/regions/mediterranean-countries/eg.htm?start=2000&end=2011&sector=>

24. Total projects financed in Tunisia 2000-2011 €3,457,791,000. European Investment Bank, <http://www.eib.org/projects/loans/regions/mediterranean-countries/tn.htm?start=2000&end=2011&sector=>. Morocco, a constitutional monarchy in which executive power is largely held by the king and also the site of Arab Spring protests, is the third largest recipient at nearly €3 billion. No other country has received more than €1.5 billion

25. Europolitics, 'EU/Mediterranean States: EU to put up Euro 1.2 billion co-operation funding', <http://www.europolitics.info/eu-mediterranean-states-eu-to-put-up-euro-1-2-billion-co-operation-funding-artr181560-44.html> published 4/5/2004

26. European Investment Bank, [http://www.eib.org/attachments/strategies/statement\\_csr\\_en.pdf](http://www.eib.org/attachments/strategies/statement_csr_en.pdf)

And how was the fight against poverty and the promotion of human rights and welfare to be achieved? **The EIB's stated vehicle for achieving these aims is private sector development, with a special onus on investment in private equity funds.** Since 2002 the EIB has operated its investments in the region through FEMIP (the Facility for Euro-Mediterranean Investment and Partnership), whose aims are "to encourage the modernisation and opening-up of the economies of the Mediterranean partner countries" through "support for the private sector and creating an investment-friendly environment"<sup>27</sup> The EIB has proudly stated that FEMIP is "playing a pioneering role in the development of private equity in the Mediterranean".<sup>28</sup>

Private equity was not devised to alleviate poverty. Private

equity's primary aim is not to promote human rights. As its own proponents will openly state, **private equity is designed to make greater than average amounts of money for a select small number of people.** That is also why private equity has been so popular among Wall Street banking houses and London pension funds. **And due to the fact that minimum entry investments are typically set very high, those that do invest in private equity could hardly be considered in need of development,** especially when compared to the vast majority of the people living in the MENA region. **But the need for outsized profits should not apply to the EIB, which is an avowedly non-profit bank, required by the Treaty of Lisbon to serve European development goals and whose mandate contains explicit development criteria.**<sup>29</sup>

### WHAT IS A PRIVATE EQUITY FUND?

A TYPE OF INVESTMENT FUND WHICH INVESTS ITS MONEY IN COMPANIES THAT ARE PRIVATE (AS OPPOSED TO PUBLIC OR EXCHANGE LISTED) OR WHICH IT MAKES PRIVATE ONCE IT INVESTS. A PRIVATE EQUITY FUND USUALLY ATTEMPTS TO GAIN SOME IF NOT ALL CONTROL OVER THE TARGET COMPANIES IN ORDER TO IMPLEMENT ITS STRATEGY.

THE FUND IS GENERALLY CONTROLLED THROUGH A SEPARATE MANAGEMENT COMPANY (THE FUND'S INVESTMENT MANAGERS) WHICH EFFECTIVELY RUNS THE FUND AND MAKES DECISIONS ABOUT ITS FUTURE. THIS COMPANY WILL USUALLY COLLECT A MANAGEMENT FEE AS WELL AS PERFORMANCE FEES ON THE INVESTMENTS IN THE FUND. THE INVESTMENT COMPANY WILL OFTEN BE THE FUND'S PROMOTER AND ONE OF THE FOUNDING INVESTORS IN THE PRIVATE EQUITY FUND. IT MAY HOLD A SIGNIFICANT SHAREHOLDING IN IT, THUS MAXIMISING ITS INVESTMENT THROUGH POTENTIAL PROFITS ON TOP OF THE LUCRATIVE FEE INCOME IT EARNS. SUCH A SET-UP IS ALSO DESIGNED TO MAKE SURE THAT THOSE MANAGING THE INVESTMENT HAVE A VESTED INTEREST IN SEEING IT SUCCEED. AS A RULE, DUE TO THE NATURE OF THE INVESTMENT MADE BY THE FUND, THE MONEY WHICH INVESTORS HAVE INVESTED WITH THE FUND IS LOCKED IN FOR A SPECIFIC TIMEFRAME.

A KEY FEATURE OF ALMOST ALL PRIVATE EQUITY FUNDS IS THAT THEY SEEK TO MAKE THEIR INVESTMENTS FOR A PREDETERMINED LENGTH OF TIME; IE A FUND MAY HAVE A MANDATE THAT IT WILL OPERATE FOR SAY, 7 YEARS. THE AVERAGE HOLDING PERIOD OF AN INVESTMENT BY A FUND VARIES, BUT CAN AVERAGE AROUND 5-7 YEARS. SOME WILL, IN REALITY BE MUCH SHORTER (EG. ALL 5 OF THE CASHED OUT INVESTMENTS OF THE EFG HERMES HORUS PRIVATE EQUITY FUND II WERE HELD FOR LESS THAN 3 YEARS, WHILE THE ONE INVESTMENT SO FAR EXITED BY THE EFG HERMES HORUS PRIVATE EQUITY FUND III WAS HELD FOR ONLY 1 YEAR).<sup>30</sup> OTHER PRIVATE EQUITY FUNDS MAY HAVE A LONGER MANDATE DUE TO THE INHERENT NATURE OF THEIR INVESTMENT, SUCH AS THE INFRA Med INFRASTRUCTURE FUND, WHICH IS SET TO BE OPEN FOR 12 YEARS. COMMONLY, PRIVATE EQUITY FUNDS 'EXIT' THEIR INVESTMENTS AND REALISE A PROFIT THROUGH A SALE OR FLOAT OF THE COMPANY ON THE STOCK EXCHANGE. PRIVATE EQUITY FUNDS SEEK TO MAKE ABOVE AVERAGE PROFITS (OFTEN TARGETING ABOVE 20% ANNUAL RETURNS OVER THE LIFE OF THE FUND) ON THEIR INVESTMENTS IN SUCH A RELATIVELY SHORT TIMEFRAME. A KEY COMPONENT OF GENERATING THESE ABOVE AVERAGE PROFITS IS ACHIEVED BY HAVING THE FUND REGISTERED IN A TAX HAVEN, THEREBY ENSURING THAT VERY LITTLE OR NO TAX IS PAID ON THE PROFITS. PRIVATE EQUITY IS CONSIDERED A HIGH RISK INVESTMENT.

THERE ARE A NUMBER OF INVESTMENT STRATEGIES WHICH CAN BE USED BY EQUITY FUNDS INCLUDING LEVERAGED BUY-OUT, DISTRESSED 'TURNAROUND' INVESTMENTS, OR VENTURE CAPITAL. DUE TO THE FAIRLY HIGH THRESHOLD MOST FUNDS SET FOR INITIAL INVESTMENTS, THEY ARE GENERALLY CONSIDERED OFF LIMITS TO ORDINARY 'MUM AND DAD' INVESTORS. THE MOST COMMON INVESTORS ARE THEREFORE OTHER INVESTMENT FIRMS (SUCH AS INVESTMENT BANKS, PENSION FUNDS AND MUTUAL FUNDS) AND WEALTHY 'HIGH NET WORTH INDIVIDUALS'.

A VERY IMPORTANT FEATURE OF ALMOST ALL PRIVATE EQUITY FUNDS IS THAT THEY OFTEN OPERATE IN VIRTUAL SECRECY AND WITH MINIMAL DISCLOSURE OF THEIR OPERATIONS. THIS MAKES IT NOT ONLY DIFFICULT TO TRACK THEIR OPERATIONS AND THEIR IMPACT BUT ALSO TO WORK OUT WHO ACTUALLY CONTROLS THE FUNDS. IN MOST COUNTRIES, PRIVATE EQUITY FUNDS, UNLIKE BANKS OR INSURANCE COMPANIES ARE PRESENTLY SUBJECT TO MINIMAL REGULATION AND GOVERNMENT OVERSIGHT AND THIS MAKES TRACKING THEIR ACTIVITIES EVEN MORE DIFFICULT.

27. European Investment Bank, <http://www.eib.org/projects/regions/med/index.htm>

28. European Investment Bank, [http://www.eib.org/attachments/country/femip\\_capital\\_investissement\\_en.pdf](http://www.eib.org/attachments/country/femip_capital_investissement_en.pdf)

29. Treaty of Lisbon, Article 208, 1: "Union development cooperation policy shall have as its primary objective the reduction and, in the long term, the eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries."

Article 209, 1: "The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall adopt the measures necessary for the implementation of development cooperation policy, which may relate to multiannual cooperation programmes with developing countries or programmes with a thematic approach. 3: The European Investment Bank shall contribute, under the terms laid down in its Statute, to the implementation of the measures referred to in paragraph 1." <http://eur-lex.europa.eu/JOHtmL.do?uri=OJ:C:2007:306:SOM:EN:HTML>

EIB Mandate: "More generally, EIB financing operations shall contribute to the general principles guiding the Union's external action, as referred to in Article 21 of the Treaty on European Union, of consolidating and supporting democracy and the rule of law, human rights and fundamental freedoms, and shall contribute to the implementation of international environmental agreements to which the Union is a party." [Art. 3. Par. 1a] <http://www.counterbalance-eib.org/?p=847>

30. EFG Hermes website, <http://www.efg-hermes.com/English/Services.aspx?PageID=266&expandable=3&li=5719933> for Horus II investments exited thus far and <http://www.efg-hermes.com/English/Services.aspx?PageID=264&expandable=3&li=57199> for investment exited by Horus III fund

Thus there certainly seems to be a straight forward money making motive to the increasing use of private equity by the EIB. Private equity is far too irresistible for the outsized returns it promises. When one examines the relentless push by the EIB to continually grow its lending portfolio, to keep its costs low and generate more 'surplus' (as EIB likes to call its profit) in order that it be able to increase its reserves and subscribed capital base so it can lend more,<sup>31</sup> it is little wonder that outsourcing its investments to private equity operators with their promise of lower costs and greater returns has become so attractive!

In 2010 the 'surplus' which the EIB generated on its operations was over €2 billion. Although an impressive enough figure on its own, this represented a net profit margin of just 10.88% - on the lower end for the investment banking sector.<sup>32</sup> The InfraMed Infrastructure Fund, a private equity fund which the EIB invested in is targeting an annual return of between 12% and 16% while one EFG Hermes fund managed an impressive internal rate of return of 70%!<sup>33</sup>

## The European Investment Bank and the MENA region

The EIB, the EU's house bank, is an institution at the heart of Europe which is steadily coming to greater prominence as its growing portfolio of projects around the globe wildly outstrips its developmental competence. Far greater in size than the World Bank, the EIB subscribes to a trickle-down' economic model whereby paper growth and high returns driven by the private sector are held to translate to more development, irrespective of the nature, distributional impacts and consequences of that growth. In this context, combined with the high returns on offer it is evident why private equity holds so much appeal to the EIB. However in the MENA region this has resulted, not to put too fine a point on it, in the Bank getting into bed with autocrats and their cronies.

The EIB claims it brings the following to private equity transactions:

*Governance: the EIB's hands-on approach to individual investment leads to the application of best market practice (often EU standards) in the areas of financial discipline and governance.*

*Sustainability: Private equity operations are designed to support profitable ventures creating value added and jobs. The achievement of an expected return commensurate with the risk taken is a sine qua non for each investment decision by the EIB.<sup>34</sup>*

But governance and sustainability are not what have occurred in the examples Counter Balance has examined. Instead, Counter Balance has found a series of EIB partnerships and investments linked to scions and friends of some of the most ruling dynasties in the Middle East and North Africa. There were many more allegations than what was included in this report, however only those which could be credibly checked through widely accessible and accepted public sources were included.

The EIB now claims it "strongly supports the aspirations of the Arab Spring and the need for sustainable and inclusive growth" and will "financ[e] investments aimed at job creation, private sector development including support for SMEs, infrastructure and climate action."<sup>35</sup>

Indeed, in July 2011 EIB President Philippe Maystadt and European Commission President Jose Manuel Barroso made a joint trip to Egypt seeking business opportunities for the EU and promising "nine Egyptian projects in the pipeline over the coming 12 months, worth well over one billion Euro."<sup>36</sup>

However the Arab Spring was not merely a "protest at widespread unemployment", as EIB President Maystadt described it. It was fundamentally an **uprising against the corruption, poverty and lack of democracy brought to the region by a small group of autocrats some of whom it turns out, Europe's house bank had been supporting.**

31. European Investment Bank, 2010 Financial Report, <http://www.eib.org/attachments/general/reports/fr2010en.pdf> page 29, the actual net profit stood at €2,116,642,010

32. Seeking Alpha website, <http://seekingalpha.com/article/258714-fundamental-analysis-top-10-global-investment-banks> published 17/3/2011

33. European Investment Bank, press release for launch of InfraMed Infrastructure Fund, [http://www.eib.org/attachments/inframed-note-de-presen-tation-en\\_fin.pdf](http://www.eib.org/attachments/inframed-note-de-presen-tation-en_fin.pdf), and PEI - Private Equity International, 'Goldman trio leaves for EFG Hermes private equity wing', posted 9 July, 2008 at <http://www.privateequityonline.com/Article.aspx?article=15319&hashID=BD9BC1A49199E0BE110F76EE4C27FA897B8616F4>

34. European Investment Bank, <http://www.eib.org/projects/regions/med/instruments/private-equity/index.htm>

35. European Investment Bank; press release, 'EIB welcomes Deauville Partnership for Middle East and North Africa', <http://www.eib.org/about/press/2011/2011-073-eib-welcomes-deauville-partnership-for-middle-east-and-north-africa.htm> published 27/5/2011

36. European Investment Bank, [www.eib.org/about/news/commission-and-eib-presidents-visit-egypt.htm](http://www.eib.org/about/news/commission-and-eib-presidents-visit-egypt.htm) published 27/7/2011

## The Predations of Private Equity

More and more lending with a development mandate is being intermediated as Development Finance Institutions move away from project finance to giving loans to intermediary banks and to private equity operations. Counter Balance has documented the negative impacts of development financialisation, or as we also call it **financial outsourcing**, in our report Hit and Run Development. This report includes cases of corruption, extreme lack of transparency, loans ending up in the wrong countries, the promotion of capital flight and use of tax havens.<sup>37</sup>

Private equity may be the investment bankers' popular band wagon to jump on for its promise of high returns, but it is a particularly odd vehicle for a bank like the EIB, which has clear developmental responsibilities in its mandate to adopt. Private equity funds on their own admission have one overriding objective: to make outsized, **above market returns** for their investors. "It's about money – very specifically, cash-on-cash returns", says Dan Schwartz of Asian Venture Capital Journal. "It's about beating the returns of listed markets."<sup>38</sup>

According to the British Private Equity and Venture Capital Association, "Over the past five years, UK private equity returned 20.9% compared with the overall 8.3% per annum return on total UK pension fund assets".<sup>39</sup> Most sustainable, long-term forms of investment, including conventional banking, would be lucky to garner 5-7% growth annually.<sup>40</sup> Some of the means by which such abnormally large returns are made often include fire sales of a company's most valuable assets before the investor resells what is left of the company back onto the market. Private equity inherently focuses on high short-term returns to drive up share prices (typical funds seek to exit their investments in c. 5-7 years) which also often results in significant layoffs of employees to reduce costs.<sup>41</sup> While these practices generate revenue, they are clearly the opposite of basic requisites for sustainable development like stability, employment and reliable long-term investment. Private equity is also predicated on **extreme secrecy and lack of transparency**, conducting as

much of its operations as possible out of the public (and regulatory) eye through secretive offshore jurisdictions and minimal reporting.

In short, private equity's obsession with high returns and its shadowy operating habits make it actively **anti-developmental**: its methods and aims are not just incompatible with real development, but making it less likely to occur. So what accounts for the growing popularity of private equity among development banks? There are several inter-related factors:

- The push by Development Finance Institutions to maximise their returns and impacts. DFIs have latched on to the finance sector's concept of 'leverage' (central to the banking collapse), whereby finite public resources can be put to maximum use through the private sector. Of course, to do this, the private sector insists it needs to be 'incentivised', by reducing social constraints like regulation and expediting maximisation of returns. Where such incentives are not forthcoming, there is the ever present threat from the private sector that it cannot fulfil such requirements as well as remaining competitive. Interestingly, this is the same kind of rhetoric now used by the EIB to justify why it does not adopt EU guidelines to its lending outside the Union.
- Stretching internal resources to breaking point. One hindrance of project finance for Development Finance Institutions has been the amount of time and work it takes to get projects past banks' standards and protocols, time that impacts on the amount of money the bank's officers could lend out. These standards, the main protection for affected people and the environment, have already come under sustained attack in recent years, notably from the World Bank's International Finance Corporation. Added to this factor is also the EIB's preoccupation with keeping its internal operating costs very low (which are already well below the levels of other IFIs).

37. See CounterBalance, Hit and Run Development, November 2010, [www.counterbalance-eib.org](http://www.counterbalance-eib.org)

38. Dan Schwartz, "The Future of Finance: How Private Equity and Venture Capital will shape the Global Economy", Wiley Finance, 2010, p.23.

39. British Private Equity and Venture Capital Association, Annual Review 2008 [http://admin.bvca.co.uk/library/documents/BVCA\\_AR\\_2008.pdf](http://admin.bvca.co.uk/library/documents/BVCA_AR_2008.pdf)

40. The obsession of chasing large returns makes many financiers disregard the basic tenets of financial risk as well as its consequences. In one recent example Denis O'Brien, board member of the Bank of Ireland in 2005 stated: "I remember the CEO coming in and saying, 'We're going to grow at 30 per cent a year.' I said how the fuck are you going to do that? Banking is a five-to-seven-percent-a-year growth business at best." Michael Lewis, Boomerang: The Meltdown Tour, Allen Lane, 2011, p.129. Three years later the entire Irish banking system collapsed.

41. For a varied discussion on this topic, see the following: ITUC International Trade Union Confederation Report, 'Where the house always wins: Private Equity, Hedge Funds and the New Casino Capitalism', [http://www.ituc-csi.org/IMG/pdf/ITUC\\_casino.EN.pdf](http://www.ituc-csi.org/IMG/pdf/ITUC_casino.EN.pdf), June 2007, see the discussion from pages 28 onward as well as Public Services International Research Unit (PSIRU) Report by David Hall, 'Private equity and employment – the Davos/WEF/Harvard study', [www.psiru.org/reports/2008-02-PE-WEF.doc](http://www.psiru.org/reports/2008-02-PE-WEF.doc), published on 1 February 2008

**The great advantage of financial outsourcing for banks is then that they don't need to apply standards to specific individual projects. They can simply allocate the money to a trusted intermediary or well-known equity fund, ask them to apply the standards and in return they get a far greater number of projects funded, with the added promise of a much higher rate of return on their money.** The negatives are the developmentally catastrophic investments private equity funds make and the kind of people the banks and funds get into bed with.

Thus there certainly seems to be a straight forward money making motive to the increasing use of private equity by the EIB. Private equity is far too irresistible for the outsized returns it promises. When one examines the relentless push by the EIB to continually grow its lending portfolio, to keep its costs low and generate more

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A close-up, low-angle shot of several 100 Euro banknotes fanned out, with a yellow horizontal bar at the top. The banknotes are the primary focus, showing the large '100' denomination and the intricate patterns of the currency. The background is blurred, suggesting more banknotes or a similar setting. The overall color palette is dominated by the yellow and brown tones of the Euro notes.

## Dodgy Deals and Dubious Individuals: The EIB's

## Investments in the MENA Region

### EFG Hermes and the InfraMed Infrastructure Fund

The InfraMed private equity fund was launched in May 2010 with a mandate to be the “biggest infrastructure fund in the MENA region”, with a specific focus on Egypt, Morocco and Libya. The EIB committed €50 million out of an initial commitment of EUR 385 million. One of the other strategic partners and seed investors in this fund was Egypt’s largest investment bank, EFG Hermes, which invested €15 million. The bank is not only Egypt’s largest but one of the largest in the Arab world, and is dual listed on the Egyptian and London stock exchanges.

In addition, EHPE is also the manager of one of InfraMed’s regional co investment funds, InfraEgypt,<sup>42</sup> which aims to become ‘the biggest direct investment fund inside the Egyptian market’,<sup>43</sup> and EHPE is also responsible for attracting new capital to it. As at January 2011, it has managed to secure 75% of the target, or around 3 billion Egyptian pounds (c. €350 million).

### Rachid Mohamed Rachid

At inception, the designated Chairman of InfraMed’s all important Strategic Board, ‘which will be responsible for providing strategic guidance on the overall development of InfraMed’s activities’<sup>45</sup> was none other than the then Egyptian Minister of Trade and Industry, Rachid Mohamed Rachid. Quite the coup to designate a sitting minister with close connections to the Egyptian President as the strategic chairman of an infrastructure fund. No doubt the EIB and other partners were thrilled at the kind of value Rachid could unlock for the investors.

But as a sign that the EIB (and for that matter anyone else) ought to think twice before partnering with figures politically connected to undemocratic regimes with murky business connections, Rachid not only lost his cabinet post during Egypt’s recent revolution, but was also charged with multiple counts of corruption including profiteering, squandering and misusing public funds. He was tried in absentia on these charges and found guilty.

### EIB INVESTMENTS IN EFG HERMES’ FUNDS AND COMPANIES THUS FAR

1. OCTOBER 2000, 4.5 MILLION EUROS TO JORDAN HIGH TECH FUND, A FUND SET UP AND MANAGED BY EFG HERMES PRIVATE EQUITY
2. FEBRUARY 2001, 6 MILLION EUROS TO MIDDLE EAST TECHNOLOGY FUND, A FUND SET UP AND MANAGED BY EFG HERMES PRIVATE EQUITY
3. DECEMBER 2005, 6.3 MILLION EURO RISK CAPITAL FACILITY TO EFG HERMES HOLDING COMPANY (EFG HERMES PARENT COMPANY)
4. MAY 2010, 39 MILLION EUROS TO INFRA-MED INFRASTRUCTURE FUND, CO INVESTOR WITH EFG HERMES PRIVATE EQUITY.<sup>44</sup>

In the latest case he was **sentenced to 15 years in prison and reportedly ordered to pay a US \$237 million fine,<sup>46</sup> which now makes it three convictions and a total of 35 years in jail.<sup>47</sup>**



Rachid Mohamed Rachid  
*World Economic Forum*

Prior to his downfall, Rachid was widely described as ‘reform-minded’,<sup>48</sup> a label which given what he has been convicted of, is now highly ironic if nothing else. And where is he now? With the assistance of Egypt’s former security chief Omar Suleiman, he fled Egypt in a chartered private jet on February 1st 2011, in the dying days of the Mubarak regime. Well before a travel ban was issued and his assets frozen on the 4th of February.<sup>49</sup> Rachid has now been granted asylum in Qatar.

While Rachid Mohamad Rachid may only have been designated as Chairman of the fund and never actually took up the mandate, this still raises the question why he was suggested in the first place. According to Inframed’s own website, a board meeting of investors to appoint another Chairman wasn’t actually held until May 2011, 3 months after the start of the Egyptian revolution.

44. European Investment Bank; followings links in corresponding order to above investments, <http://www.eib.org/attachments/general/reports/st2002en.pdf> , [http://www.eib.org/attachments/general/events/apc2006\\_stats\\_en.pdf](http://www.eib.org/attachments/general/events/apc2006_stats_en.pdf) , <http://www.eib.org/about/press/2010/2010-078-lancement-du-fonds-dinfrastructure-inframed.htm>

45. EFG Hermes, ‘EFG Hermes Private Equity Will Play a Key Role in MENA’s Largest Infrastructure Fund’, [http://www.efg-hermes.com/userfiles/image/Press%20Release%20\(27%20May%202010\).pdf](http://www.efg-hermes.com/userfiles/image/Press%20Release%20(27%20May%202010).pdf) published 27/5/2010

46. Jurist legal news & research, <http://jurist.org/paperchase/2011/09/egypt-court-sentences-former-mubarak-associates-on-corruption-charges.php> published 16/9/2011 and

47. The New York Times, ‘Steel tycoon with links to a Mubarak is sentenced’, <http://www.nytimes.com/2011/09/16/world/middleeast/egypt-sentences-mubarak-era-tycoon-ahmed-ezz-to-prison.html> published 15/9/2011

48. Financial Times, ‘Cairo angered by US trade talks freeze’ <http://www.ft.com/intl/cms/s/0/9e439112-a5a3-11da-bf34-0000779e2340.html#axzz1eCmZ30PF> published 25/2/2006 and New York Times, ‘Steel Tycoon With Links to a Mubarak Is Sentenced’, <http://www.nytimes.com/2011/09/16/world/middleeast/egypt-sentences-mubarak-era-tycoon-ahmed-ezz-to-prison.html> published 15/9/2011

49. Washington Post, ‘Mubarak ally watches Egypt from uncertain exile’, <http://www.washingtonpost.com/wp-dyn/content/article/2011/03/02/AR2011030206744.html> published 3/3/2011

So only a year on from the InfraMed launch and Rachid has been quietly replaced on the Strategic Board by Mohamed Berrada, the former Moroccan Minister of Finance.<sup>50</sup> Perhaps appointing another figure politically connected to an undemocratic regime which has also been experiencing political unrest is not the wisest of moves.

Perhaps appointing another figure politically connected to an undemocratic regime which has also been experiencing political unrest<sup>51</sup> is not the wisest of moves.

And another appointment in the Strategic Board's reshuffle was **none other than Philippe Maystadt, the recently departed President of the EIB!**

### Questions for the EIB:

- **Provided that the EIB conducted enhanced due diligence of Rachid Mohamed Rachid's activities before it designated him to the Strategic Chairmanship of a key investment fund? On what basis was he designated?**
- **At what point did the bank become aware of Mr Rachid's corruption? If not prior to his designation then why did he never take up his mandate?**
- **Why was Mr Maystadt only appointed a year after the inception of the fund appointment of a serving President of the EIB to the board of one of its funds?**

## EFG Hermes, its Horus Private Equity Funds, Gamal Mubarak and his money man Walid Kaba

### Gamal Mubarak's shareholding in EFG Hermes Private Equity

**Gamal Mubarak, younger son of the deposed Egyptian President Hosni Mubarak, has held an 18% shareholding in EFG Hermes Private Equity (EHPE) since the late 1990s.** According to an EFG Hermes press release, the shareholding was first made public in 1997,<sup>52</sup> three years before the EIB made its first investment in a EHPE fund and thirteen years before the EIB invested in the InfraMed fund.<sup>53</sup> Moreover, according to local press reports and a diplomatic cable sent by the US ambassador in Egypt, in March 2006 Gamal Mubarak himself acknowledged his links with EFG Hermes, first in an online interview conducted in 1999,<sup>54</sup> then in 2006 on an Egyptian evening talk show where he noted that he held a seat on the board. All of this was also repeated a few days later in an article published by the Al Ahram Weekly newspaper.<sup>55</sup> (see timeline below for full details) Thus, **as a Politically Exposed Person (PEP), Gamal Mubarak and EFG Hermes itself should have been subject to enhanced due diligence procedures before the EIB made any of its earlier investments into EFG Hermes, its private equity funds or in InfraMed.** Since the revolution in Egypt, Gamal, Ala'a and Hosni Mubarak have all been arrested and charged with corruption.<sup>56</sup>



Gamal Mubarak World Economic Forum

The Egyptian daily Al Masry al Youm has estimated that in the first nine months of 2010 alone, Gamal Mubarak's earnings from his shareholding in EFG Hermes came to over 37 million Egyptian pounds (or just over €4 million).<sup>57</sup>

So why is Gamal Mubarak's involvement with EFG Hermes such a big deal? After all, Gamal accumulated private equity investments across a range of industries in Egypt including oil, tourism and agriculture.<sup>58</sup> Egyptian law banned the President and Ministers from owning businesses, but this did not extend to Gamal and Ala'a, neither of whom were ever ministers in the government (Gamal was however the deputy Secretary General of his father's ruling National Democratic Party as well as head of its influential Policies Committee).<sup>59</sup>

50. InfraMed, <http://www.inframed.com/actus/InfraMed>

51. Think Africa Press, 'Will Voter Apathy Strike Morocco's Parliamentary Elections?', <http://thinkafricapress.com/morocco/election-voter-apathy> published 17/11/2011

52. EFG Hermes Press Release, <http://www.efg-hermes.com/English/NewsDetails.aspx?NID=173&h=h1>, published on 17/2/2011, also separately reported by Reuters, 'Egyptian bank EFG-Hermes says Mubarak stake minor' <http://www.reuters.com/article/2011/02/13/egypt-efghermes-mubarak-idUSLDE71C0AE20110213> 13/2/2011

53. The New York Times, 'Mubarak family riches attract new focus', [http://www.nytimes.com/2011/02/13/world/middleeast/13wealth.html?\\_r=1&pagewanted=all](http://www.nytimes.com/2011/02/13/world/middleeast/13wealth.html?_r=1&pagewanted=all) published 12/2/2011

54. WINNE, World Investment News, 'Interview with Mr Gamal Mubarak', 14 January 1999, <http://www.winne.com/topinterviews/gamal.htm> (see Appendix for full transcript)

55. Wikileaks, <http://wikileaks.poliisi.mobi/cable/2006/04/06CAIRO2010.html> and Al Ahram Weekly, 'Re Introducing Gamal Mubarak', <http://weekly.ahram.org.eg/2006/788/eg3.htm>, issue no. 788, published 30th March-5th April 2006

56. Al Arabiya, 'Mubarak sons have millions in Swiss banks: Egyptian justice official', <http://www.alarabiya.net/articles/2011/10/17/172279.html> published 17/11/2011

57. Al Masry al Youm, 'Presidential scion Gamal Mubarak took LE189.45 million in profits from EFG-Hermes', <http://www.almasryalyoum.com/en/node/320162> published 15/2/1011

58. The New York Times, 'Mubarak family riches attract new focus', see above web link

59. Ahram online, the internet publication of the Al Ahram daily, 'All the king's men: Who runs Mubaraks' money?', <http://english.ahram.org.eg/News-Content/3/12/8793/Business/Economy/All-the-king%E2%80%99s-men-Who-runs-Mubaraks-money-.aspx> published 15/5/2011





EXTRACT FROM INTERVIEW WITH  
**MR. GAMAL MUBARAK**  
CHAIRMAN OF MEDINVEST ASSOCIATES LTD

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**MR. MUBARAK, COULD YOU GIVE OUR READERS A HISTORICAL BACKGROUND OF YOUR COMPANY?**

I HAVE BEEN WORKING IN BANKING SINCE I GRADUATED. I STARTED WITH THE BANK OF AMERICA IN EGYPT. THEY USED TO HAVE A BIG OPERATION IN EGYPT FOR 5 OR 6 YEARS. I WAS THEN TRANSFERRED TO LONDON, ALSO WITH THE BANK OF AMERICA BUT ON THE INVESTMENT BANKING SIDE. I SPENT SIX AND A HALF YEARS IN LONDON. THEN, I BRANCHED OUT WITH A FEW OF MY COLLEAGUES IN LONDON. WE SET A SMALL INVESTMENT BANKING OPERATION IN LONDON. WE STARTED OUT BY DOING CORPORATE FINANCE BUSINESS, WHICH IS VERY MUCH RELATED TO THE MIDDLE EAST AND AFRICA. THAT WAS THE REGION THAT WE USED TO COVER IN THE BANK OF AMERICA. WE HAVE EXPANDED IN THE PAST TWO YEARS AND WE SET UP AN OFFICE IN EGYPT. A YEAR AND A HALF AGO WE SET UP A PRIVATE EQUITY FUND THAT IS PURELY DEDICATED TO EGYPT, I.E. TO INVEST IN AN EGYPTIAN FUND EQUITY. THIS HAS BEEN OUR MAIN ACTIVITY IN EGYPT IN THE PAST YEAR AND A HALF. THE FUND HAD AN INVESTING BASE FROM EGYPT AND THE GULF AREA. IT IS VERY MUCH MODELED ON THE U.S PRIVATE EQUITY FUND SYSTEM. WE HAVE PARTNERS WITH US IN THE MANAGEMENT FUND EFG PRIVATE EQUITY. WE HAVE A U.S. PRIVATE EQUITY MANAGEMENT FIRM IN THE U.S., WHICH IS ONLY SPECIALIZED IN THE UNITED STATES BUT WE GOT THEM BECAUSE OF THEIR TECHNICAL EXPERTISE. SO, BETWEEN THE PRIVATE EQUITY AND BETWEEN SOME CORPORATE FINANCE ADVISORY FOR PRIVATE SECTOR COMPANIES THAT ARE NOW GOING GLOBAL OR OVERSEAS AND TRYING TO BASE FUNDING AND PROJECT FINANCES FROM INTERNATIONAL MARKETS IN PARTICULAR.

THESE ARE THE TWO MAIN AREAS OF FOCUS THAT WE HAVE. OUR OPERATIONS ARE MAINLY BASED IN LONDON. WE HAVE A SMALL HEAD OFFICE IN CAIRO BUT WE ALSO HAVE A FULL-TIME OFFICE ASSISTING US IN THE PRIVATE EQUITY. SO, I HAVE BEEN MAINLY IN THE FINANCIAL WORLD SINCE I GRADUATED. I WENT THROUGH DIFFERENT PHASES FROM COMMERCIAL BANKING IN EGYPT TO INVESTMENT BANKING IN LONDON.

**IS YOUR COMPANY UNDERGOING A PROCESS OF DIVERSIFICATION OR RATHER SPECIALIZATION?**

INVESTMENT BANKING IS QUITE A BROAD AREA AND OBVIOUSLY FOR A RELATIVELY SMALL ENTITY LIKE OURSELVES WE HAVE TO FOCUS. WE CAN NOT AFFORD TO BE IN EACH AND EVERY AREA OF INVESTMENT BANKING. WE HAVE TO GROW GRADUALLY. ONE AND A HALF-YEARS AGO, WE BRANCHED OUT INTO PRIVATE EQUITY, WHICH WAS A NEW VENTURE THAT WE HAVE BEEN THINKING ABOUT FOR A WHILE. THIS BUSINESS ITSELF CAN GROW. WE STARTED WITH A FUND IN WHICH WE RAISED \$54 MILLION AND THIS HAS BEEN OUR INITIAL FUND. WE BELIEVE THAT THIS BUSINESS IS GOING TO MATURE AND GROW, WHETHER IT GROWS AS A FUND IN EGYPT OR REGIONALLY IS SOMETHING THAT WE STILL HAVE TO DECIDE. BUT, I BELIEVE THAT THERE IS MORE ROOM FOR EXPANSION IN THE PRIVATE EQUITY SIDE OF THE BUSINESS, NOT ONLY IN EGYPT BUT ALSO IN THE REGION. WE HAVE OUR HANDS FULL WITH EXPANDING THE PRIVATE EQUITY BUSINESS AND MAINTAINING OUR ADVISORY CORPORATE FINANCE. OBVIOUSLY, AS YOU HAVE SEEN, THE WAY THINGS HAVE BEEN PROGRESSING IN EGYPT, THE FINANCIAL SIDE IS AT THE CORE OF ACTIVITIES. THERE IS A LOT OF ROOM FOR PRODUCTS AND SERVICES IN THAT PARTICULAR INDUSTRY.

**A NUMBER OF LEADING COMPANIES ARE STARTING TO PAY MORE AND MORE ATTENTION TO THE EGYPTIAN MARKET CREATING A VERY COMPETITIVE ENVIRONMENT. WHAT ARE MEDINVEST' STRONGEST ASSETS TO COMPETE?**

WE VERY MUCH WELCOME A LOT OF MULTATIONALS AND FOREIGN INVESTMENT BANKS OR FOREIGN FIRMS IN THE FINANCIAL SERVICES TO COME TO EGYPT. I REALLY BELIEVE THAT THE COMMERCIAL BANKING BUSINESS HAS REALLY OPENED UP TO THE OUTSIDE WORLD IN THE SEVENTIES AND HAS BEEN GRADUALLY IMPROVING. THE INVESTMENT BANKING SIDE HAS NOT REALLY BEEN IN THE FOREFRONT BECAUSE THERE HAS NOT REALLY BEEN MUCH OF INVESTMENT BANKING PRODUCTS AND SERVICES THAT WERE REQUIRED BECAUSE OF THE STRUCTURE OF THE ECONOMY. NOW, THERE IS AN OPENING UP THAT WE HAVE BEEN WITNESSING IN THE LAST COUPLE OF YEARS. THERE IS A LOT OF ASSISTANCE THAT WE NEED FROM FOREIGN FIRMS IN TERMS OF TECHNOLOGY, PRODUCTS AND SERVICES, HUMAN RESOURCES TRAINING AND SO ON. THE FACT THAT EGYPT IS AN EMERGING MARKET AND IS OPENING UP, I THINK THE REAL POTENTIAL IS NOT REALIZED OR WITNESSED YET BY THE MARKET. THERE IS A LOT OF ROOM FOR MORE PLAYERS WHETHER DOMESTIC OR INTERNATIONAL PLAYERS OR FOREIGN COMPANIES COMING IN AND SETTING IN HOUSES HERE. ON THE PRIVATE EQUITY SIDE THERE ARE A NUMBER OF ADVANTAGES. FIRST OF ALL, WE STARTED RELATIVELY EARLY. ONE AND A HALF YEARS AGO PEOPLE WERE NOT REALLY FOCUSED ON PRIVATE EQUITY. THEY WERE VERY MUCH GEARED TOWARDS THE SECURITIES MARKET BECAUSE THE STOCK EXCHANGE WAS STILL DEVELOPING AND EVOLVING. THE MUTUAL FUND BUSINESS AND OFFSHORE FUNDS THAT WERE INVESTING IN THE EGYPTIAN STOCK EXCHANGE WAS THE NAME OF THE GAME AT THE TIME. WE DECIDED TO START A LITTLE BIT EARLY IN THE PRIVATE EQUITY BECAUSE IT IS RISKIER AND NOT LIQUID BECAUSE YOU DO NOT REALLY INVEST IN LIQUID STOCKS, AT LEAST IN THE INITIAL STAGE. IT WAS THEREFORE NOT THAT EASY TO PLACE BECAUSE YOU WERE DEALING WITH AN INVESTOR WHO WAS USED TO A LIQUID MARKET. OUR STRONG POINT WAS THE MANAGEMENT GROUP THAT WE HAD, INCLUDING MYSELF AND MY COLLEAGUES. WE ALL HAD EXPERIENCE IN INTERNATIONAL MARKETS. EFG HAS GROWN TO BE A SUCCESSFUL REGIONAL INVESTMENT BANKING COMPANY AND THE THIRD GROUP WHICH IS A PURELY PRIVATE EQUITY MANAGEMENT COMPANY IN THE U.S. THEY DO NOT KNOW EGYPT VERY WELL, SO THEY HELP US BY BRINGING A PURELY TECHNICAL AND IMPARTIAL VIEW TO OUR DEALS. WITH PRIVATE EQUITY, I BELIEVE THAT THE KEY SUCCESS FACTORS ARE DEEP FLOW AND THE ABILITY TO MAKE PRUDENT DECISION AT THE PROPER TIME. WE HAVE A VERY SOLID INVESTMENT BASE IN OUR FUND THAT IS BOTH EGYPTIAN AND FROM THE GULF. THEY GIVE US THE OPPORTUNITY TO TAKE A LOOK AT SOME OF THEIR TRANSACTIONS. A LOT OF THE COMPANIES THAT YOU HAVE SEEN ARE GOING PUBLIC, SO WE DO TRY TO WORK WITH THEM. WE ARE ALSO COMPETING IN THE MARKET AND WE ARE TRYING TO DO GOOD DEEDS AT THE RIGHT TIME AND MAKE SURE THAT WE MAKE THE RIGHT DECISIONS.

**1996**

GAMAL MUBARAK AND WALID KABA LEAVE BANK OF AMERICA TO ESTABLISH OWN FINANCE CO.

**AUGUST 1996**

GAMAL MUBARAK & WALID KABA ESTABLISH MEDINVEST ASSOCIATES (LONDON) AND BULLION Co.LTD (CYPRUS). BULLION IS 100% SHAREHOLDER OF MEDINVEST. GAMAL IS CHAIRMAN OF MEDINVEST. GAMAL AND WALID ARE DIRECTORS OF BOTH AND ALA'A MUBARAK IS DIRECTOR OF BULLION

**1997**

MEDINVEST ASSOCIATES & EFG HERMES INVESTMENT BANK JOINTLY ESTABLISH EFG HERMES PRIVATE EQUITY (EHPE). BULLION (THROUGH MEDINVEST) OWNS 35% OF EHPE.

**DECEMBER 1997**

EHPE'S FIRST FUND LAUNCHED: HORUS PRIVATE EQUITY FUND I (CAYMANS), MANAGED BY EHPE VEHICLE EGYPT FUND PARTNERS

**15 JANUARY 1999**

GAMAL MUBARAK GIVES INTERVIEW TO (ONLINE) WINNE WORLD INVESTMENT NEWS AS CHAIRMAN OF MEDINVEST. SPELLS OUT PARTNERSHIP BETWEEN MEDINVEST & EHPE

**OCTOBER 2000**

EHPE LAUNCHES JORDAN HIGH TECH FUND WHICH IT WILL ALSO MANAGE. EIB INVESTS 4.5 MILLION EUROS AT LAUNCH

**FEBRUARY 2001**

EHPE LAUNCHES MIDDLE EAST TECHNOLOGY FUND AND WILL ALSO MANAGE IT. EIB INVESTS 6 MILLION EURO AS SEED INVESTOR

**5 FEBRUARY 2001**

BULLION Co. SETS UP INTERNATIONAL SECURITIES FUND (CYPRUS). ACTS AS MANAGER OF FUND. ALA'A MUBARAK & WALID KABA ARE DIRECTORS OF FUND. AS AT MID 2004, FUND HAS 7 UNIT HOLDERS AND \$9.7 MILLION IN NET ASSETS

**2001**

GAMAL MUBARAK RESIGNS AS DIRECTOR OF MEDINVEST

**2005**

HORUS PRIVATE EQUITY FUND II (CAYMANS) LAUNCHED BY EHPE. TO ALSO BE MANAGED BY EHPE.

**17 OCTOBER 2005**

HORUS FOOD AND AGRIBUSINESS FUND (CYPRUS) LAUNCHED. MANAGER OF FUND IS HORUS FOOD AND AGRIBUSINESS MANAGEMENT LTD. WALID KABA IS ONE OF THE DIRECTORS OF THE FUND. GAMAL MUBARAK, WALID KABA + HASSAN HEIKAL (CEO OF EFG HERMES BANK) & MOHAMAD TAYMOUR (CO FOUNDER AND MD OF EFG HERMES BANK) ARE ALL DIRECTORS OF FUND MANAGER.

**DECEMBER 2005**

EIB PROVIDES 6.3 MILLION EURO RISK INVESTMENT FACILITY TO EFG HERMES HOLDING COMPANY (THE PARENT COMPANY OF THE BANK)

**MARCH 2006**

GAMAL MUBARAK GIVES PRIME TIME INTERVIEW ON EGYPTIAN TV IN RESPONSE TO AN ARTICLE PUBLISHED ON HIM. ADVISES THAT HE HAS A BOARD SEAT AT EFG HERMES AND THAT HIS WORK CONCERNS A SUBSIDIARY OF IT. ALL THIS REPEATED IN AN AL AHAM WEEKLY ARTICLE A FEW DAYS LATER

**2007**

HORUS PRIVATE EQUITY FUND III LAUNCHED. MANAGED BY EHPE

**MARCH 2007**

HORUS PE FUND II MAKES INVESTMENT IN TALAAT MUSTAFA GROUP HOLDING. A REAL ESTATE COMPANY WHOSE CORRUPT LAND DEALINGS ARE EVENTUALLY EXPOSED IN 2010

**NOVEMBER 2007**

HORUS PE FUND III ALSO MAKES AN INVESTMENT IN TALAAT MUSTAFA GROUP

**APRIL 2009**

WALID KABA LAST KNOWN AS DIRECTOR OF BULLION Co. (RESIGNS DURING THE FOLLOWING YEAR) CONTINUES TO OWN 25% OF BULLION

**JUNE 2009**

HORUS PE FUND II EXITS ITS INVESTMENT WITH TALAAT MUSTAFA GROUP (PROFIT UNDISCLOSED)

**MAY 2010**

LAUNCH OF INFRA MED INFRASTRUCTURE FUND. EIB AND EHPE CO INVESTORS AND EHPE MANAGER OF THE LOCAL SATELLITE FUND INFRA EGYPT. RACHID MOHAMAD RACHID, MINISTER OF TRADE AND INDUSTRY IS APPOINTED CHAIRMAN OF INFRA MED'S STRATEGIC BOARD

**JUNE 2010**

EGYPTIAN COURT ANNULS SALE OF 33 MILLION SQ. FEET TO TALAAT MUSTAFA GROUP FOLLOWING A CHALLENGE.

**15 NOVEMBER 2010**

EFG HERMES BANK PROSPECTUS STILL LISTS WALID KABA AS DIRECTOR OF EFG HERMES HOLDING Co AND EHPE

**JANUARY 2011**

EGYPTIAN REVOLUTION STARTS

**1 FEBRUARY 2011**

RACHID MOHAMAD RACHID FLEES EGYPT (SUBSEQUENTLY TRIED AND CONVICTED IN ABSENTIA TO A TOTAL OF 35 YEARS)

**FEBRUARY 2011**

ALA'S MUBARAK REMOVED AS DIRECTOR OF BULLION

**17 FEBRUARY 2011**

EFG HERMES ISSUES PRESS RELEASE CONFIRMING GAMAL MUBARAK'S SHAREHOLDING IN EHPE. DENIES MANAGING THE MUBARAK'S MONEY OR THAT SENIOR EXECUTIVES HAD ANY RELATIONSHIP WITH MUBARAK OR FAMILY.

**13 APRIL 2011**

GAMAL AND ALA'A MUBARAK BOTH ARRESTED

**21 APRIL 2011**

WALID KABA RESIGNS AS DIRECTOR OF EFG HERMES FUND COMPANY

**AUGUST 2011**

FINAL SET OF COMPANY ACCOUNTS LODGED BY MEDINVEST. CONFIRMS BULLION IS STILL 100% SHAREHOLDER OF MEDINVEST WITH WALID AND SAID KABA JOINTLY OWNING 50% OF BULLION.

**NOVEMBER 2011**

MEDINVEST APPLIES TO BE VOLUNTARILY WOUND UP

The New York Times summed up the concerns of many Egyptians: *"Since Egypt privatized its economy in the 1990s, the Mubaraks and a few dozen elite families have held stakes in the sale of state assets and in new business ventures. Later, some of these businessmen were appointed to government positions overseeing the very businesses they ran."*

According to Samer Soliman, professor of political economy at American University in Cairo: ***"The corruption of the Mubarak family was not stealing from the budget, it was transforming political capital into private capital"***<sup>60</sup>

And right in the thick of all this, according to Egyptian newspaper al-Ahram, was **EFG Hermes as "the largest advisor to the Egyptian government on the privatisation programme:"**<sup>61</sup> a privatisation programme from which given the involvement of the President's son and the nature of the firm's investments, it seems highly likely that the bank would have benefitted from.

### **EFG Hermes, its Horus Private Equity Funds and dodgy land sale investments**

The issue of privatisation was widely flagged after the revolution, not least by the military, as being one of the greatest causes of popular rage at the Mubarak regime. Privatisation featured "the transfer of billions of dollars' worth of public assets to private hands [via] the sale of companies cheaply, without sufficient oversight, to foreign investors and firms, [while] a large number of workers were made redundant in the process and accusations flew of corruption and kickbacks."<sup>62</sup>

There is now evidence **that two EFG Hermes private equity funds which were also partially co owned by Gamal Mubarak, the Horus Private Equity Funds II and III, were embroiled** in one such scheme - **a suspicious land privatisation deal**- through one of their investments. Both investment funds took a shareholding in the real estate focused **Talaat Mustafa Group in 2007** and it now seems likely that both funds also profited from the association.<sup>63</sup> It is alleged that in 2005, the Talaat Mustafa Group was illegally awarded 33 million square metres of land by the state for the country's largest housing project, the Madinaty project on Cairo's outskirts "without an auction, and for nearly nothing".<sup>64</sup>

The conduct of the company in this land deal and the role played by senior government officials was uncovered by an Egyptian engineer, who, having repeatedly missed out on purchasing land for his family, gathered evidence on Talaat Mustafa's dealings and took them to court. The land sale was eventually annulled by the courts in September 2010, yet the then Mubarak government, not satisfied with the judicial ruling, prepared to amend the law to circumvent the courts. Subsequent to the revolution, the former housing minister Ahmed El Maghraby has been convicted of corruption and misuse of public funds over another similarly notorious property deal, the Palm Hills Developments sale. In that instance, the then minister himself signed a property sale to the Palm Hills Developments company, in which he held a stake through another entity. Now there is no suggestion of impropriety by the EIB in the investments made by the Horus Private Equity Funds, however the Bank ought to have conducted on going due diligence of EFG Hermes' private equity operations and its funds.

60. The New York Times, 'Mubarak family riches attract new focus', [http://www.nytimes.com/2011/02/13/world/middleeast/13wealth.html?\\_r=1&pagewanted=all](http://www.nytimes.com/2011/02/13/world/middleeast/13wealth.html?_r=1&pagewanted=all) published 12/2/2011

61. Sherine Abdel-Razak, 'Costly Connections', Al-Ahram, 17-23 February 2011, <http://weekly.ahram.org.eg/2011/1035/sc80.htm>

62. Emad Mekay, 'Privatisation Aided Egypt Revolt', Army Says, IPS, published April 8 2011, <http://theglobalrealm.com/2011/04/12/privatisation-aided-egypt-revolt-army-says/>

63. Bloomberg Businessweek, 'The Man behind Egypt's real estate rebellion' [http://www.businessweek.com/magazine/content/11\\_23/b4231041996189.htm](http://www.businessweek.com/magazine/content/11_23/b4231041996189.htm), published May 26, 2011. While this article specifically only mentions Horus PE Fund III, Horus PE Fund II also made an investment in 2007 which it has since sold in the Talaat Mustafa Group as per the fund's website: EFG Hermes website, <http://www.efg-hermes.com/English/Services.aspx?PageID=266&expandable=3&li=5719933>. Also refer following article: Bloomberg, 'Egypt's Developers Pay the Price for Ties to Mubarak's Regime' <http://www.bloomberg.com/news/2011-06-06/mubarak-s-legacy-clouds-future-of-egypt-s-property-boom-as-deals-unravel.html>, published on June 8, 2011, which states that two investment funds co owned by Gamal Mubarak were shareholders of the Talaat Mustafa group.

64. Bloomberg Businessweek, 'The Man behind Egypt's real estate rebellion' [http://www.businessweek.com/magazine/content/11\\_23/b4231041996189.htm](http://www.businessweek.com/magazine/content/11_23/b4231041996189.htm), published May 26, 2011.

## EFG Hermes and the Mubaraks' personal money manager Walid Kaba's seat on various EFG Hermes' boards

Many of Gamal Mubarak's business interests including his shareholding in EFG Hermes Private Equity, were controlled through a Cyprus-registered offshore entity, Bullion Company Limited, of which Gamal owned half and Ala'a Mubarak (Hosni Mubarak's other son) was on the board. This information is now a matter of public record, as is the close association between Gamal Mubarak and Walid Kaba, another Bullion shareholder, and the role which Kaba played in managing the Mubarak financial interests at EFG Hermes. Kaba was the company director of at least three Mubarak private interests - Bullion, Medinvest Associates and the Mubarak's private investment fund, the Cyprus registered International Securities Fund. **However he not only managed the Mubaraks' private offshore business interests but he also sat on the boards of the Bank's parent company, EFG Hermes Holding (along with the CEO and co founder of EFG Hermes Bank), its private equity division EHPE, as well as a number of EHPE funds and investment companies** (see map below for details).

Walid Kaba owns 25% of Bullion and as late as November 2010, he was described by EFG Hermes bank in an official document as the representative of Bullion on the board of EFG Hermes' parent company and 'an active advisor' to EFG Hermes Private Equity'.<sup>65</sup> EFG Hermes clearly had no issues doing business with Gamal Mubarak and his close associate and indeed, until the revolution earlier this year seems to have openly welcomed Kaba's (and in some cases Gamal Mubarak's) active participation in its operations. Clearly such a close association must have brought some very real political and financial benefits to EFG Hermes including investments such as those made by the Horus Private Equity Funds II and III in the Talaat Mustafa Group.

Predictably, following the revolution EFG Hermes was keen to distance itself as much as possible from its associations with the Mubaraks and in its press release from February 2011 went as far as to claim that:

*EFG Hermes Holding has received a statement from its executives confirming that they have no direct or indirect personal or financial ties to the former president nor to members of the former president's family, neither locally nor globally*<sup>66</sup>

In at least one case this would appear to be patently incorrect. The board members of EFG Hermes Holding were Hassan Heikal and Mohamad Taymour (the CEO and co founder of the bank) who were also directors of one EHPE fund management company - the Cyprus registered

**Horus Food and Agribusiness Management Co which also had none other than Gamal Mubarak as director.** Yasser el Mallawany, the head of the EFG Hermes private equity division was also a director on the same board as well as being a director of EFH Hermes Holding. (See map along with Cyprus Registry extracts in Appendix for details on Horus Food and Agribusiness Management Co directors). **Thus all three of these EFG Hermes executives also sat on the board of an investment company along with Gamal Mubarak (and Walid Kaba).**

As fund manager, this company was directly responsible for running the Horus Food and Agribusiness Fund, making all decisions regarding its investments and direction. According to information from the EIB Gamal Mubarak's involvement in the Management company stood at a shareholding of 8.4% and thus he would have once again earned income from management fees charged. The EIB has also advised that it was an investor in this fund together with Proparco, Rabobank and others. Contrary to EFG Hermes' statement, **the executives of the bank did indeed have direct financial ties** (not to mention personal ones since they clearly sat on the same board) **with Gamal Mubarak.** It would be almost ludicrous to also assert that Gamal as director would not have exercised influence over decisions which this company made - in fact as company director he would have been required to! While investigations have thus far only uncovered this one example of Gamal's board seat on an EFG Hermes fund, **we challenge EFG Hermes bank to prove that he at no time sat on the boards of any of the bank's other funds or fund management companies.** In particular, that he was in no way involved (either personally or through Bullion) as director or shareholder of EFG Hermes' primary funds management company, the Bermuda registered EFG Hermes Financial Management (Egypt) Limited, which was the fund manager of the two private equity funds that the EIB invested in - the Middle East Technology Fund and the Jordan High Tech Fund. (see Appendix for company extracts of these two funds)

Gamal and Walid Kaba jointly established Bullion and its subsidiary Medinvest Associates, their corporate investment and advisory company based in London, with Gamal acting as Medinvest's chairman. In 1997, **through Medinvest's partnership with EFG Hermes bank, the EFG Hermes Private Equity division was formed.** Medinvest became a 35% shareholder in EHPE and this shareholding was in turn owned and controlled by Bullion as the 100% shareholder of Medinvest.<sup>67</sup> Walid Kaba owns 25% of Bullion and since the establishment of Bullion and Medinvest, appears to have acted as Gamal Mubarak's proxy, publically representing Mubarak's (and his own) financial interests in external business dealings with EFG Hermes (Gamal Mubarak resigned as director of Medinvest in 2001 and it

65. EFG Hermes Holding SAE, 'EFG Hermes Mena securities Limited Prospectus', [http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_7739e412-4781-4f97-a514-765296088494.pdf](http://www.ise.ie/debt_documents/Base%20Prospectus_7739e412-4781-4f97-a514-765296088494.pdf), issued 15 November 2010

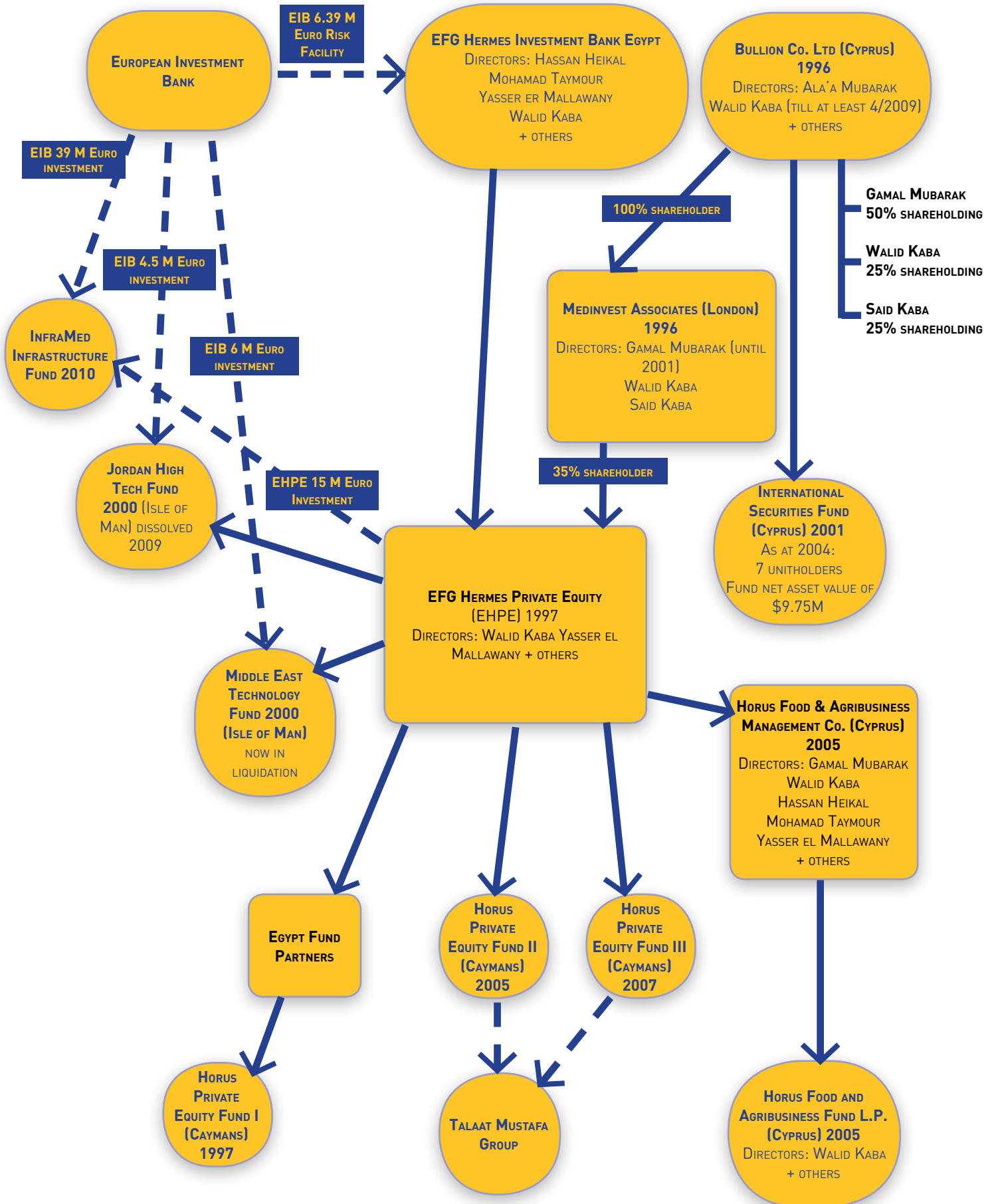
66. EFG Hermes, press release, published on the 17th of February <http://www.efg-hermes.com/English/NewsDetails.aspx?NID=173&h=1>

67. For details of Medinvest Associates' directors and shareholders please refer to Medinvest's company accounts in Appendix 1. For details of Bullion's directors, please refer to extract from Cyprus company register, also in Appendix 1. For confirmation of Gamal Mubarak's 50% shareholding in Bullion Company, see above EFG Hermes press release (his stated 18% shareholding in EHPE is half of the 35% holding which Bullion Company owns of EHPE. Gamal Mubarak is therefore a 50% shareholder of Bullion.

68. Yahoo UK & Ireland Finance, 'EFG-Hermes Egypt - Resignation of Director' Company announcement, dated 21st April 2011, at <http://uk.finance.yahoo.com/news/EFG-Hermes-Egypt-Resignation-afxcnf-2450047774.html?x=0>

# THE MUBARAKS, EFG HERMES AND GAMAL'S MONEY MANAGER WALID KABA

## HOW THESE INTERCONNECT AND HOW THE EIB IS INVOLVED



DOTTED LINE :INVESTMENT ONLY WITH NO MANAGEMENT CONTROL    CIRCLES: PRIVATE EQUITY FUNDS    SQUARES: MANAGEMENT COMPANIES OF FUNDS

Since the establishment of EFG Hermes' Private Equity (EHPE) division, it has expanded and set up a number of offshore registered private equity investment funds, **(including the two that received direct EIB investment - the Jordan High Tech Fund and the Middle East Technology Fund).**<sup>69</sup> These new private equity investment funds quickly went on to register large increases in assets under management and profitability, seemingly benefiting enormously from their connections.<sup>70</sup> As the promoters, managers and co investors in these funds, EHPE (and by extension Gamal Mubarak and Walid Kaba) would have profited from the EIB's investments into those funds through management fees which were charged to all investors, even if no profits were generated. Since both funds were deemed successful, it is likely that profits were also returned on the EIB's and EHPE's investment in those funds. The EIB and its investments thus directly contributed to the profitability of the Mubaraks and their allies, partnering with them in pursuit of profits.

While many in Egypt have long held their suspicions about how the Mubaraks acquired their vast wealth (estimates vary widely from a few hundred million dollars to tens of billions, all alleged to have been hidden in a complex web of Swiss and other offshore accounts), it is hardly surprising that no illegal activity was ever proved during Hosni Mubarak's regime. But the political landscape in Egypt has changed - since the revolution and the downfall of that regime, **Gamal, Ala'a and Hosni have all been arrested and charged with corruption.**<sup>71</sup>

To reiterate, according to the national press coverage and the *Wikileaks* cable, **Gamal Mubarak's ties to EFG Hermes had been widely publicised in Egyptian national media a full four years before the InfraMed fund was launched by the EIB and EFG Hermes.** Indeed, according to EFG Hermes' own press release, Gamal Mubarak's shareholding was publicised in the late 1990s at the time the bank jointly formed its private equity division with him and Kaba. Yet despite this, since the year 2000, the EIB made four separate investments into EFG Hermes and its affiliated funds. As the EIB has had a regional office in Cairo since late 2003, one would have to seriously question how such a highly sensitive association could have been missed, especially given the EIB's due diligence obligations when doing business in such undemocratic regimes.

If an Egyptian national newspaper is able to investigate and reveal the connections within EHPE (even where these stretch to Cyprus and beyond), then the world's largest public bank, with international operations and access to company registers and databases in numerous countries would certainly have been able to do the same had it tried.

It also appears however that the EIB's senior management had some direct dealings with the Mubarak regime. The then EIB President Philippe Maystadt and Vice President Philippe de Fontaine Vive held a personal meeting with Hosni Mubarak while in Cairo for the inauguration of the EIB office in 2003. Two years earlier, in 2001, the entire EIB board plus Mr Maystadt toured projects in Egypt and likewise met the Egyptian president.<sup>72</sup>

The EIB's association with EFG Hermes is a long standing one, dating back to the year 2000. And since that year, the EIB has made four separate investments or co investments with EHPE or EFH Hermes Holding Company. EFG Hermes even participated as speakers at an EIB conference in 2003 entitled 'Sustainable Investment in the Mediterranean' where Ayman el Gammal, a partner at EFG Hermes Private Equity was invited to take part.<sup>73</sup>

It therefore seems impossible that EIB could not have found these prima facie indications of Gamal Mubarak's deep involvement with its main investee company in Egypt. Either it did indeed fail to do so, demonstrating incompetence, or it was pursuing a key 'North/South partnership'.<sup>74</sup> Or perhaps it just came down to the fact that:

*The co-investments with EFG Hermes... provide InfraMed with the best regional talent and unparalleled deal origination and execution in Egypt...*<sup>75</sup>

Rachid Mohamed Rachid. Gamal Mubarak. Certainly "unparalleled" in their ability to extract value. Also popularly hated and deeply enmeshed in webs of corrupt activity for which they have now been made accountable.

69. PEI Media, 'The third annual emerging markets private equity forum', <http://www.peimedia.com/Product.aspx?cID=5496&pID=168330&contType=11&spkID=538> Description of EHPE investment funds by its chairman is more complete than information currently available on EHPE's website. Published November 2007

70. Ahram online, the internet publication of the Al Ahram daily, 'All the king's men: Who runs Mubaraks' money?', <http://english.ahram.org.eg/News-Content/3/12/8793/Business/Economy/All-the-king%E2%80%99s-men-Who-runs-Mubaraks-money-.aspx> published 15/5/2011 As a starting point, this article provides a detailed explanation of the alleged links between all the various entities set up by the Mubarak brothers and their involvement with EFG Hermes PE.

71. Al Arabiya, 'Mubarak sons have millions in Swiss banks: Egyptian justice official', <http://www.alarabiya.net/articles/2011/10/17/172279.html> published 17/10/2011

72. European Investment Bank, <http://www.eib.org/about/events/cairo-office-opening.htm>; also Al-Ahram Weekly, <http://weekly.ahram.org.eg/2001/529/ec2.htm> issue no.529, published 12-18 April 2001

73. European Investment Bank, [http://www.eib.org/attachments/general/events/pres\\_marseille.pdf](http://www.eib.org/attachments/general/events/pres_marseille.pdf)

74. European Investment Bank, [http://www.eib.org/attachments/inframed-note-de-presentation-en\\_fin.pdf](http://www.eib.org/attachments/inframed-note-de-presentation-en_fin.pdf)

75. InfraMed, [http://www.inframed.com/cms/Our\\_Strengths.html](http://www.inframed.com/cms/Our_Strengths.html)

**Questions for EIB:**

- Provided that the EIB conducted enhanced due diligence on EFG Hermes Investment Bank, EHPE, its directors and shareholders as well as the investments it made in EHPE funds, why was its connections with Walid Kaba and Gamal Mubarak not considered sufficient to refrain from the investments?
  - Was the EIB aware of Walid Kaba's close business association with Gamal Mubarak and his role as the representative of Bullion Co. on the boards of EFG Hermes parent company and its private equity division? If it was, why was this not considered an issue and why did it not stop the EIB's investments from going ahead?
- z
- What measures did EIB take to ensure that none of EFG Hermes's profits (and its own) from any EIB-backed operations were derived from possible preferential treatment as a result of EHPE's partnership with Gamal Mubarak or from any privatisation schemes now ruled illegal but at the time given political cover by the Mubarak regime?
  - What measures did the EIB take to ensure that none of its investments in EHPE profited any of the Mubarak family or its close associates?
  - What measures did EIB take to ensure that none of EFG Hermes' profits (or its own) were tainted by money laundering and tax evasion via routing through Bullion Company, an offshore company controlled by Walid Kaba and Ala'a Mubarak, registered in Cyprus with a 35% holding in EFG Hermes Private Equity?





## EFG Hermes in Syria

In 2010 EFG Hermes decided to expand its operations into Syria and established a subsidiary there, EFG Hermes (Syria). The new subsidiary is a joint venture between EFG Hermes (70%) and Syrian businessman Firas Tlass (30%) and Tlass has been appointed as its new Chairman. The expansion of EFG Hermes into Syria was also accompanied by the launch of a new \$300 million Syrian Private Equity Fund. Here is how Tlass described the new joint venture:

*"I figured that a partnership with the leading investment bank in the Arab world along side with the establishment of the Syrian Private Equity Fund would probably be one of the best ways to develop investment in the Syrian economy, [and] prepare the companies to enter into the financial market..."*<sup>76</sup>

Firas Tlass is a prominent member of Syrian President Bashar al Assad's inner circle. The son of the former Defence Minister Mustapha Tlass, he is also thought to be one of the wealthiest and powerful men in Syria and has according to sources, financially benefited from his close ties with Assad.<sup>77</sup> His business dealings have however raised questions on a number of occasions and **there have even been some publicly voiced accusations from the US that Tlass smuggled arms to Iran on behalf of the regime**, an allegation which, although not substantiated, he publicly addressed on his website.<sup>78</sup>

Tlass controls his business empire through the MAS Group. The acronym translates as "For The Sake of Syria" and the sentimentousness extends to its description of its activities:

*"A miniature image of Syrian society, MAS is composed of men and women who are true believers in Syria, for all that it stands for. These fine young people work relentlessly with all members of society, striving for collective development that enriches both the mind and heart. One of the fundamental theories at MAS is corporate social responsibility towards Syrian society..."*<sup>79</sup>

According to the Israeli newspaper Haaretz, due to his close ties with the regime, in the recent unrest in Syria Tlass along with other key figures have been targeted by public boycotts.<sup>80</sup> But perhaps the best evidence of Tlass

and EFG Hermes' style of doing business in their new joint venture is their first transaction:

*EFG Hermes announced today that it has acted as sole buy-side advisor to top Egyptian real estate developer, Sixth of October Development & Investment Company ("SODIC") on its acquisition of a 50% stake in Syria's Palmyra Real Estate Development Company ("Palmyra"), a \$40.5m transaction.*<sup>81</sup>

Palmyra Real Estate Development Company is owned by Tlass' MAS Group. **So EFH Hermes Syria (partly owned by Tlass) with Tlass as its Chairman was acting as the sole advisor for SODIC, the buyer, on its purchase of 50% of Palmyra which is likewise owned by Tlass.**

Tlass heading up a group, which he also part owns, giving 'independent' advice to SODIC on a purchase of a group he also owns. This fairly screams "conflict of interest", as well as being reminiscent of EFG Hermes's role in advising the Mubarak regime on privatisation.

Moreover, until May 2011 **the Chairman of SODIC was Magdi Rasekh, the father in law of Ala'a Mubarak**. Some of SODIC's past operations have also been under a cloud of suspicion. A former Egyptian housing minister, Ibrahim Soliman has been charged with corruption for selling land to SODIC for less than its worth, while Magdi Rasekh was forced to step down from SODIC, has since fled Egypt and is also facing charges of corruption.<sup>82</sup> While the EIB did not have any direct dealings with EFG Hermes Syria, this again serves to illustrate that the dubious business associations and dealings of EFG Hermes were not confined to Egypt.

So whether it's EFG Hermes' operations in Egypt or EFG Hermes in Syria, there is a pattern which the investment bank has seemingly followed in the region: **to align itself with the ruling regime and use the association to boost its income. A partnership for the development of a select few rather than the development of the region.**

76. AMEinfo.com, 'EFG Hermes expands into Syria, launches Syrian private equity fund', <http://www.ameinfo.com/225733.html> published 3/3/2010 and Dubai beat, 'EFG Hermes launched \$300 million Syrian private equity fund', [http://www.dubaibeat.com/2010/03/07/efg\\_hermes\\_launched\\_300\\_millio.php](http://www.dubaibeat.com/2010/03/07/efg_hermes_launched_300_millio.php) published 7/3/2010

77. Mid East Monitor, [http://www.mideastmonitor.org/issues/0801/0801\\_8.htm](http://www.mideastmonitor.org/issues/0801/0801_8.htm) issue January-March 2008

78. Asia Times, 'Syria: Odd man out in a tough neighbourhood', [http://www.atimes.com/atimes/Middle\\_East/EJ09Ak05.html](http://www.atimes.com/atimes/Middle_East/EJ09Ak05.html) published 9/10/2003 details the allegation and Tlass' personal website addresses the allegations at <http://www.firastlass.com/press.php>

79. Personal website, <http://firastlass.com/>

80. Haaretz.com, 'The Syrian people's new weapon against Assad: Boycotts', <http://www.haaretz.com/print-edition/features/the-syrian-people-s-new-weapon-against-assad-boycotts-1.377913> published 10/8/2011

81. Ame Info, 'EFG Hermes Syria closes first transaction', <http://www.ameinfo.com/235574.html> 17/6/2010

82. Ahram Online, 'Mubarak-linked chairman of land developer SODIC resigns, real estate shares down', <http://english.ahram.org.eg/NewsContent/3/12/11900/Business/Economy/Mubaraklinked-chairman-of-land-developer-SODIC-res.aspx> published 11/5/2011 and also, The Daily News Egypt, 'Ex Housing Minister's trial adjourned to September 24', <http://www.thedailynewsegyp.com/crime-a-accidents/ex-housing-ministers-trial-adjourned-to-sept-24.html>, published August 28, 2011

The EIB invested into the Palestine Growth Capital Fund (PGCF) relatively recently, signing the facility in December 2010. The fund has a total investment of \$50 million with the EIB's contribution a fairly small \$6.74 million. It was set up as a joint investment between the Palestine Investment Fund (PIF), a Palestinian sovereign wealth fund (which made a \$10 million contribution) and Abraaj Capital, the largest private equity firm in the MENASA (\$5 million contribution).<sup>83</sup> The fund is managed by Abraaj Capital's subsidiary Ryiada Enterprise Development Company.

This fund has no specific mandate, calling itself "sector agnostic" and seeking to invest in the best opportunities available regardless of the sector.<sup>84</sup>

### Allegations of impropriety at the PIF

Investigations into the background of the Palestine Investment Fund reveal some fairly serious allegations of irregularities and corruption, some dating back to Yasser Arafat's time. The PIF was created around the year 2003 (reports seem to vary depending on which source one reads) as the sovereign wealth fund of the Palestinian people, with a stated mission to:

*strengthen the local economy through key strategic investments, while maximizing long-run returns for its ultimate shareholder; the people of Palestine.*<sup>85</sup>

Created from funds which were recovered from Yasser Arafat's accounts following his death, **the state owned investment fund** was charged with administering and growing these monies independently of the government, for the future benefit of the Palestinian people.<sup>86</sup>

However according to (pro-Israeli) sources, since Abbas's personal advisor Mohamed Mustafa took over the reins of the fund in 2005, the fund is alleged to have been improperly used by Mahmoud Abbas to further his own political interests.<sup>87</sup> Recently a former associate of Abbas has also come out to claim that **vast sums of money have allegedly gone missing from the fund.**<sup>88</sup> While under Mustafa's control, some of the allegations include the fact that **the fund has been improperly used to pay the salaries of Abbas' associates at the behest of Mahmoud**

### Abbas himself.

A further irregularity which appears to support the claims of improper dealings at the PIF dates from April 2009 and concerns the PIF and the Wataniya Palestine telephone company. The PIF has a 43% shareholding in Wataniya and Mohamed Mustafa, Mahmoud Abbas' personal advisor is not only Chairman of PIF but also Chairman of Wataniya. According to a Reuters report, **\$16 million of US aid assistance in the form of loan guarantees that were specifically intended for Palestinian farmers and SMEs were diverted instead to Wataniya.**<sup>89</sup>

The transfer of the guarantees was apparently done at the behest of PIF and Wataniya's head Mohamed Mustafa in order for Wataniya to secure bank funding in the midst of the financial crisis. However critics pointed out that the phone company's backers, including the PIF, were highly profitable in their own right and thus there was no need for the transfer. Furthermore, the guarantees that were diverted were part of a targeted programme backed by the US based Aspen Institute and the US government. Special legislation had been passed in the US to create the programme which was mandated to assist small and medium sized businesses with a target loan size of \$10,000 to \$500,000 in financial assistance;

*"The initiative will provide affordable, long term loans to small and family owned Palestinian businesses that would otherwise not have access to them."*

*"These might include an olive grower who wants to expand operations, a young person with a small information technology company, or someone who wants to hire neighbours to produce and export Palestinian embroidery."*

When the funding was diverted to Wataniya, local Palestinian business owners and associations were incensed, with advocates pointing out that, **"it sent the wrong message about Washington's growing role in the Palestinian private sector, which is dominated by a small group of wealthy companies and investors linked by a web of cross-holdings."**<sup>90</sup>

A now familiar theme in the world of private investment in the MENA region.

83. European Investment Bank, <http://www.eib.org/projects/pipeline/2010/20100648.htm>

84. Albawaba, 'Abraaj Capital Appoints Palestine Manager for \$50 Mln SME Fund. Opens Palestine Office', <http://www.albawaba.com/banking-finance/abraaj-capital-appoints-palestine-manager-50-mln-sme-fund-opens-palestine-office> published 15/8/2010

85. Palestine Investment Fund, <http://www.pif.ps/index.php?lang=en>

86. Reuters, 'Debate over control of Palestinian investment fund', <http://www.reuters.com/article/2009/04/28/idUSLQ581028> published 28/4/2009

87. Haaretz, 'Congress mulls closing PLO mission in Washington in light of UN bid', <http://www.haaretz.com/news/diplomacy-defense/congress-mulls-closing-plo-mission-in-washington-in-light-of-un-bid-1.384930> published 16/9/2011 and Commentary Magazine, 'Who Owns the Palestine Investment Fund?', <http://www.commentarymagazine.com/2011/09/15/palestine-investment-fund-congress/> published 15/9/2011

88. Jerusalem Post, 'Abbas 'feels he's above the law,' charges Dahlan', <http://www.jpost.com/MiddleEast/Article.aspx?id=231686> published 31/7/2011

89. Reuters, 'Exclusive: US aid goes to Abbas backed Palestinian phone venture', <http://uk.reuters.com/article/2009/04/24/idUKL1783372>, April 24, 2009

90. Reuters, 'Exclusive: US aid goes to Abbas backed Palestinian phone venture', <http://uk.reuters.com/article/2009/04/24/idUKL1783372>, April 24, 2009

## The PIF, Tony Blair and the Abbas family's business interests

In 2010 however, the PIF was embroiled in another Wataniya scandal which was first revealed in an exclusive report by the UK's *Daily Mail* in September of that year. It centred around **former British Prime Minister Tony Blair, in his capacity as Special Envoy to the Middle East, intensively and successfully lobbying the Israeli Government on behalf of Wataniya** to allow the company access to Israeli telephone frequencies without which its £450 million investment was in jeopardy. Wataniya, incidentally, is part-owned by a Qatari client of JP Morgan, the US investment bank that pays Blair a \$2million consultant salary. While there is no suggestion that Mr Blair lobbied the Israelis on behalf of JP Morgan, his success certainly would not have hurt his client's interests. Interesting then to note that "until he finally managed to sort [Wataniya] out at the end of last year, it was difficult to get [Blair] to engage with anything else."<sup>91</sup>

**The PIF owns 43% of Wataniya so it clearly also stood to benefit from any lobbying success.** Other significant beneficiaries were Mahmoud Abbas's sons Tarek Abbas and Yasser Abbas, along with a friend and associate of the Abbas family, Firas Nasruddin (whose private security company was contracted to providing security to Wataniya at its installations<sup>92</sup>). Yasser Abbas has a seat on the panel of investors which decides how Wataniya allocates its money, while one of Tarek's firms has a lucrative contract providing advertising to Wataniya.

As the situation stands, **Tony Blair does not deny lobbying the Israeli government** thus seemingly the Abbas sons and other associates stood to personally profit from a successful outcome along with the PIF.

This scandal is yet another example of the EIB choosing a large, powerful investment company that is profiting from well established political connections to the ruling regime and its cronies as its investment partner in the region. **The signature date for the EIB's investment into the Palestine Growth Capital Fund was the 21st of December 2010, three months after these stories broke.** Thus again, had the EIB done proper due diligence into the PIF, it would have uncovered these two incidents. (The *Daily Mail* exposé contains details of the earlier incident). Given the high profile nature of the exposé and its subsequent publication by other media outlets, it is also hard to see how the EIB could have missed it. **Yet**

**although it occurred BEFORE the investment into the Palestine Growth Capital Fund was approved, the EIB went ahead with its partnership regardless.**

Again, it raises the possibility that the bank did in fact know about the management of PIF, its links to the Abbas regime, PIF's entanglement in the Wataniya scandals and the implications of financial gain for the Abbas family and its associates—and that it did not consider these issues a serious concern. In other words, by choosing the PIF and investing alongside it, the EIB is really making a statement that it considers the performance, operations and management of the fund to be acceptable and is prepared to invest with such a business partner. And if the EIB did not know of these allegations, questions clearly arise over its competence.

The EIB's investment in the joint fund may only have been very small, clearly intended to be more of a symbolic gesture rather than a truly financially meaningful one. For this reason, the choice of the PIF as a partner is surprising and disappointing. It sends entirely the wrong message about the kind of investment partners the bank is looking to make in the region.

### Questions for the EIB:

- **What kind of enhanced due diligence was carried out into PEPs involved with the Palestine Investment Fund, particularly Mohamed Mustafa, its Chairman and his connections to Mahmoud Abbas as well as Abbas' sons Tarek and Yasser? What were the conclusions?**
- **How does the Bank justify forming an investment partnership with the Palestine Investment Fund after at least two well-chronicled incidents of potential malfeasance involving the fund and its management? Were these incidents noted and recorded by the Bank? If not, why not? If so, why were they deemed insignificant enough to justify a joint partnership?**

91. Daily Mail, 'Special Investigation: How Blair rescued Palestine deal worth \$200m to his £2 m-a-year paymasters', <http://www.dailymail.co.uk/news/article-1311237/Special-investigation-How-Blair-rescued-Palestine-deal-worth-200m-2m-year-paymasters.html> published 12/9/2010

92. Indy News Israel, 'Blair & Abbas caught in Wataniya scandal', <http://www.indynewsisrael.com/blair-abbas-caught-in-wataniya-scandal> published 13/9/2010

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## Private Equity Investments

What, then, are the direct consequences of European Investment Bank investments into private equity funds in the MENA region? Let's start with the more technical and then move towards the bigger political issues:

- **Fostering a total lack of transparency: The EIB is one of the least transparent donors with a development mandate in the world.** So concludes the Publish What You Fund (PWYF) investigation published in November 2011, which ranked **EIB 37th and on the low side of the 'Poor' range**. EIB scored a total of 26% for disclosure of information, against an average score of 34%, and nothing at all for country-level disclosure. It's a shockingly awful performance for a publicly owned body at the heart of European democracy, made all the worse by the fact that other European institutions surveyed ranked considerably higher (the European Commission came 9th, for example).<sup>93</sup>

The EIB's increased use of financial intermediaries and private equity funds is not just partly responsible for this terrible ranking. It is likely to make it even worse in future. Among three of the worst performers on Publish What You Fund's list were EIB, USAID and CDC, the UK's private Development Finance Institution, controlled by the Department for International Development (DfID). All three are at the forefront of the financialisation and privatisation of development lending, which is a prime cause of their woeful efforts at transparency.

In project finance, thanks to years of pressure from civil society and other groups, there is normally some public disclosure of project information like Environmental and Social Impact Assessments. And the chain of causality is reasonably clear: lenders provide money to a project promoter, who builds a dam or mine whose impact on people and the environment can be measured. None of this appears to apply to intermediated and equity finance. In theory, the private equity funds should follow the environmental and social guidelines of the Development Finance Institutions that invest in them. But in many cases the fund managers seemingly monitor their own compliance of this.

- Thus when the EIB uses intermediaries, the destination, use and impact of its financial assistance

is unclear. Only basic information is given as to the total amount of funding to be provided by the Bank and the type of investments targeted by the equity fund. As such, not only it is difficult to assess exactly where the money has gone and what impact it has had, it's also extremely hard to track the chain of causality. Money is channelled in convoluted journeys via impenetrable offshore accounts and fund subsidiaries until it arrives at its destination, often untraceable. This becomes **deeply problematic for people affected by such projects. For them it is even harder to hold the bad ones to account if they cannot trace who is responsible for them.**

- **The Outsourcing of Responsibility:** The lack of accountability is not an unfortunate consequence of equity and intermediated finance: it is the cynical crux of it. **Financial outsourcing is a key opportunity for the EIB and other IFIs to make much more money while doing less work and receiving less criticism for it.** This is because it allows the Bank to subcontract much of its due diligence work to the recipient fund, which may not possess either the skills or the interest in environmental and social impact analysis. The fund then sets out to make multiple profit-maximising as well as being asked to enforce the IFI's due diligence and statutory obligations.

In *Hit and Run Development*, (Counter Balance report on financial intermediaries) it was discovered that many intermediated loans given out by the EIB in Africa ended up in the wrong countries, there was extremely scant feedback of information on loan impacts and a systemic tendency on the part of recipients to believe the EIB would not want loan information to be made public. Needless to say, the implications for oversight and accountability of loans made by the body charged with the EU's development mandate are simply disastrous.

93. Publish What You Fund, 2011 Pilot Aid Transparency Index, <http://www.publishwhatyoufund.org/resources/index/2011-index/> and specifically <http://www.publishwhatyoufund.org/resources/index/2011-index/eib/>

- **The Reinforcement of Corruption and Autocracy:** It is no coincidence that high-performing equity funds in autocratic regimes are closely linked to the ruling clique. Let's not be naïve: if one wished to make high returns with lower risks in a country dominated by an undemocratic ruling elite, where would one go? To the people with the money, who have the money because they have the protection of political power. This is the logical corollary of the privatisation of development in such regimes: **once sustainability and fairness is subordinated in favour of maximum growth, development finance is placed in the hands of people who have minimal interest in development outcomes.**

The examples we have documented show EIB investments into funds associated with ruling elites, where such associations and the possibility of illegality were so publicly known as to make those investments and partnerships unacceptably risky. However the lure of lucrative returns was seemingly enough to override any concerns. If cases such as these are evident in the Middle East and North Africa, how many other similar episodes might there be in

places where the political climate is still too frozen for the truth to come out? It must be remembered too that these are far from victimless crimes: many of the individuals associated with the investments have now been prosecuted and found guilty of a range of offenses from embezzlement and corruption to defrauding the state coffers.

For all of the EIB's sudden enthusiasm for the revolutions of 2011, it is clear that the Bank's financial support of the MENA region and the partnerships it made there at times also benefited some of their autocratic regimes, their key individuals, as well as the circle of elites which orbited these regimes seeking to profit from their association with them. These unsavoury actors benefited by increasing their profits through joint investments with the EIB but importantly, they gained the legitimacy that stems from interactions with major Western funders and governments. As we conclude below, the EIB has not always been a friend to the people of the region; rather, some of its actions can be seen as a betrayal of the Arab Spring.







## Part 2: A Betrayal of the Arab Spring

Let's ask a simple question. Why would enormously wealthy autocrats such as the Mubarak clan seek to have banks like the EIB involved in their investments? It would hardly be for the money per se—as is evident, they had many avenues of generating money without the EIB which they fully exploited. In terms of the overall fund volume too, the EIB contribution is often fairly small (5-10% in the InfraMed case for example), so other investors would likely be found fairly easily. And if the EIB were to carry out proper due diligence and scrutiny of Politically Exposed Persons and other senior figures controlling the funds, it could make life for those people very inconvenient indeed. (Perhaps the fact the EIB was allowed to take part in the funds speaks volumes about how far it was expected to fulfil such responsibilities.) In reality, the reason the Mubaraks et al welcomed the EIB's investments with open arms appears quite obvious: they sought the credibility and political risk insurance that comes from an association with the EU's house bank.

External investments into undemocratic regimes help to legitimise them. **That is the basic reason why political and business elites in such regimes seek the support of Western public lenders in private equity: to give a patina of legitimacy and developmental credibility to what often proves to be asset-stripping and return maximisation for self-enrichment.** In this light, far from being a big player in the world of private equity investments, the EIB is the financial equivalent of a look out at a robbery: the low level investment grunt brought in to provide some security in the form of political risk insurance. The EIB's inability to recognise this true function, while having a

certain pathos, stems from a hubristic desire to employ the same kind of mechanisms private sector investment bankers do, a desire totally at odds with its legal and moral obligations as a public owned body charged with a development mandate.

This then goes a long way towards answering the other big question: why would the EIB do deals with the scions of hated, autocratic, anti-developmental regimes? Because it presumably thought it could get away with it. And because others in the country and region did as well. This seemingly being an extension of the assumption that corruption is part of doing business in "that part of the world". The EIB could have invested directly in small businesses where such corruption would not likely have been part and parcel of the deal, but it chose otherwise. For whatever reasons, the Bank simply has not been able to restrain itself from getting involved where it clearly ought not to have. However the EIB is not a privately owned investment bank. Involving itself with such questionable individuals and investments (ie private equity) that other investment banks are pushing forward, has an entire set of bigger ramifications. The privately owned investment banks have a completely different remit and set of objectives based on profit maximisation, as compared to the EIB, the EU's publicly owned house bank which has been given a development mandate by the EU. Furthermore, the shareholders of the EIB are the citizens of all of its member states and as such, the EIB is accountable to them for its actions. And they deserve more from the EIB than investments such as these.

### RECOMMENDATIONS:

The implications of the EIB's involvements in the region go far beyond merely criticising the past actions of the Bank. How could the EU, with its continued rhetoric about democracy and human rights, allow the EIB to make these kinds of investments and partnerships? And given these examples outlined here, despite its frantic scramble to support the newly transformed post Arab Spring nations, **how can the EIB be entrusted with the future development of Egypt and the MENA region?**

Since the EIB has ostensibly implicated EU citizens as the backers of the Bank in any impropriety committed by the Bank's investments and business associations, EU citizens have a right to demand higher standards of

behaviour and accountability from their house bank.

Although such malfeasance as was uncovered in this report could naturally occur in any kind of project financing, the fact remains that these were all examples of private equity related investments. Although the EIB has advised us that its Anti Fraud policy applies to all of its operations we note that **there is no single specific provision dealing with its investment operations, or intermediaries and private equity funds which it invests with.** In fact there are no paragraphs dealing with any of the EIB's other operations aside from lending. This is a serious oversight.

Counter Balance believes that the findings of this report support its long held position regarding private equity and calls on the EIB to:

- **Stop all its investments into private equity in the developing world** as well as in countries governed by undemocratic or corrupt regimes where there is an even greater risk that such investments are ultimately benefiting the ruling elite.
- Given the past track record of the EIB's support of the former regime in Egypt and the evidence uncovered in this report, to **immediately cease all lending and investments into Egypt until that country has successfully transitioned to democracy.**
- **Adopt new enhanced standards of due diligence on Politically Exposed Persons. To disclose such assessments and make them publicly available** at the time of its investment.
- Review its own 2008 Anti Fraud Policy and update it appropriately to include specific provisions regarding its investment operations and interactions with financial intermediaries.
- Conduct mandatory ex post assessments of the investments made by all the private equity funds it has invested in and to publish these assessments on its website.
- Limit its investment partners to entities that are incorporated in the same countries as the ultimate beneficiaries. And to then impose fully transparent and stringent standards on them for the projects they support

Bearing in mind the proven criminality of many of the individuals chronicled in this report and the illegality of the processes they have used to profit, we believe that there may be sufficient evidence **to support the relevant authorities in both Luxembourg and Egypt as well as at EU level, to conduct a possible investigation of the European Investment Bank and some of the funds it supports in relation to potential breaches of the relevant**

**money laundering legislation.** Legal research suggests the EIB holds no immunity from prosecution under local legislation, the substance of which we are not qualified to comment on. However, relevant EU legislation to consider, in addition to EIB's Anti-Fraud Policy, would be European Union Directives 2005/60/EC<sup>95</sup> and 2001/97/EC<sup>96</sup> (which modified Directive 91/308/EC), and above all Article 325 of the Treaty on the Formation of the European Union (TFEU), which places an overriding duty on the Union and its bodies to counter fraud.<sup>97</sup>

**To EU member states and the European Parliament, both of which have supervisory responsibilities over the Bank, we recommend such an investigation of the EIB's conduct in Egypt.**

The EIB, as the leading financial institution of the EU with a specific development mandate has played a key role in Europe's response to the Arab Spring.

Given the current threat of EU member states and the EIB itself losing their AAA credit ratings, the states and the EP must also consider the potential damage that this kind of poorly supervised and regulated financial conduct might do to the Bank.

To prevent such damage, the EIB's move to outsourcing its development objectives via an ever greater number of intermediated, equity and other fund investments needs to be reined in.

94. European Investment Bank, 'Policy on preventing and deterring Corruption, Fraud, Collusion, Coercion, Money Laundering and the Financing of Terrorism in European Investment Bank activities', [http://www.eib.org/attachments/strategies/anti\\_fraud\\_policy\\_20080408\\_en.pdf](http://www.eib.org/attachments/strategies/anti_fraud_policy_20080408_en.pdf)

95. Official Journal of the European Union, 'Directive 2005/60/EC of the European Parliament and of the Council', [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/L\\_309/L\\_30920051125en00150036.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/L_309/L_30920051125en00150036.pdf)

96. EUR-Lex; Access to European Union Law, [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!CELEXnumdoc&numdoc=32001L0097&lg=EN](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&numdoc=32001L0097&lg=EN)

97. EU Wiki, 'Consolidated version of the treaty on the functioning of the European Union' <http://euwiki.org/TFEU> as follows:

1. The Union and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Union through measures to be taken in accordance with this Article, which shall act as a deterrent and be such as to afford effective protection in the Member States, and in all the Union's institutions, bodies, offices and agencies.
2. Member States shall take the same measures to counter fraud affecting the financial interests of the Union as they take to counter fraud affecting their own financial interests.
3. Without prejudice to other provisions of the Treaties, the Member States shall coordinate their action aimed at protecting the financial interests of the Union against fraud. To this end they shall organise, together with the Commission, close and regular cooperation between the competent authorities.
4. The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, after consulting the Court of Auditors, shall adopt the necessary measures in the fields of the prevention of and fight against fraud affecting the financial interests of the Union with a view to affording effective and equivalent protection in the Member States and in all the Union's institutions, bodies, offices and agencies. Treaty

