

ACTION FICHE FOR SUPPORT TO FEMIP/MEDITERRANEAN REGION/PRIVATE SECTOR DEVELOPMENT

1. IDENTIFICATION

Title	Support to FEMIP		
Total cost	€ 32 million		
Aid method / Management mode	Project approach – centralised indirect management		
DAC-code	32130	Sector	SME Development

2. RATIONALE

2.1. Sector context

The overall objective of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) is to promote sustainable economic growth in the region through investments in infrastructure and especially in private sector development. The specific objective of FEMIP is to enhance the supply of foreign and domestic financing mainly for private, also public, investments in the region, through direct provision of financial resources.

Access to finance remains difficult for most small and medium enterprises (SMEs) in most Mediterranean Partner Countries. It concerns both credit and equity financing. Concerning the latter, the Middle East and Africa remain markets which foreign investors find, among other regions, least attractive due to perceived high risk. As a result, private equity markets in the region are highly dependent on investments provided by development finance institutions and a relatively small number of Arab institutions. Risk capital from the EU budget is thus much needed in a region where SMEs have difficulty accessing finance, whether in the form of a loan or equity.

The EU has been financing risk capital operations since the seventies and emphasizes its importance and complementarity to other EIB activities (global loans financed on own resources) as well as to private sector development projects carried out by the European Commission.

In 2003, the FEMIP Support Fund was created as the technical assistance component of FEMIP. This Fund finances support activities linked to potential or existing investment projects. The activities range from feasibility studies, preparation of terms of reference to support to the implementation of projects including training of project promoters.

2.2. Lessons learnt

A review of FEMIP was conducted by the European Commission in 2006. The review concluded that risk capital operations carried out by the EIB, have played an important role in bringing capital to the private sector in Mediterranean Partner

countries. EIB direct or indirect participation in companies induces over time better market practices such as better enterprise governance, respect of environmental norms, labour legislation. Moreover, EIB interventions have a catalytic effect on other sources of finance and can lead to innovative projects, such as, for example, the creation of the first private sector leasing company in Algeria or the first technology seed fund in Tunisia.

FEMIP's portfolio includes more than 600 operations (co-investments, direct operations, investment funds). Under MEDA II (2000-2006), the EIB has committed a total of € 182 million out of the € 212 million allocated to risk capital operations in that period.

- Morocco, Tunisia and Egypt are the main recipients of investments. An increasing number of regional or sub-regional operations, mainly through investment funds, have been carried out and an increasing number of equity operations through investment funds have been led by the EIB.
- The EIB has also begun to invest in the microfinance sector (Morocco and Tunisia).

As regards technical assistance, a mid-term evaluation was conducted in 2006 by independent consultants. The evaluation conclusions were positive, assessing that the Support Fund has been successfully implemented. 63 contracts have been signed by the EIB between 2004 and 2006. Morocco, Tunisia and Syria are the main recipients of technical assistance whilst the main sectors of intervention remain Environment/water and infrastructures, the traditional areas of investment of the EIB in this region.

2.3. Complementary actions

The Facility for Euro-Mediterranean Investment and Partnership (FEMIP), established in 2002, gives priority to expanding the private sector in the Mediterranean Partner countries. Under FEMIP, one instrument complements risk capital operations: global loans, financed on EIB own resources. Global loans target SMEs' financing needs via local banking intermediaries.

Technical assistance in itself is perfectly complementary to risk capital operations and global loans as regards the general objective of developing the private sector of Mediterranean Partners. TA funds have been successfully used for instance to create a private equity fund in Lebanon and train equity fund managers in Tunisia.

The European Commission implements in most countries projects in the fields of private sector development, infrastructure, human capital and environment. The EIB and the Commission coordinate their actions and ensure their complementarity through regular and direct contacts.

2.4. Donor coordination

The Commission and the EIB have reinforced their coordination in order to ensure that actions carried out by each are coherent and complementary. The opening of local EIB offices has facilitated and strengthened this coordination effort.

3. DESCRIPTION

3.1. Objectives

The objective of FEMIP is to provide capital to the private sector of Mediterranean partner countries on terms that are not available locally.

Risk capital will be invested directly or indirectly in order to (i) support the private sector, ie. enable the creation, restructuring or growth of enterprises (ii) strengthen the role of the local financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector.

Technical assistance will be mobilised to strengthen FEMIP operations in the Mediterranean region, with a special focus on private sector development.

3.2. Expected results and main activities

The expected results of the risk capital facility are direct or indirect investments in private sector enterprises. Investments will also be made in new or existing financial institutions in as much as their activities are geared to the private sector and in particular SMEs.

The EIB continues to diversify the geographical coverage of these operations, and seeks to strengthen the local financial sector in order to satisfy the needs of the private sector, SMEs in particular, with a wider range of financial products on better terms.

As a result of these investments, a number of companies should be established and/or made more competitive jobs should be created and/or maintained.

The expected result of technical assistance is an improved conception and implementation of projects, which should in turn improve the rate of lending and disbursement as well as the development impact of loan projects. The Support Fund will ensure transfer of know-how to various project promoters and the local financial sector. Assistance related to environmental infrastructure will be given a particular focus, building on prior FEMIP work in this sector.

3.3. Stakeholders

The beneficiaries of the Risk Capital Facility are the private sector in general and SMEs as well as financial intermediaries.

The beneficiaries of technical assistance are private enterprises, public institutions and the financial intermediaries.

3.4. Risks and assumptions

A stable political and security climate on the regional level in general and on the country level in particular is needed to promote and secure investments.

The will to reform and liberalise the financial sector of Mediterranean Partner countries is also necessary for the further development of risk capital operations.

Strong commitment of beneficiaries.

3.5. Crosscutting Issues

The EIB ensures that projects financed with EU budget risk capital respect environmental norms. Some projects, in particular in the field of microfinance aim at the integration of women in the labour market.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Risk capital operations are managed by the EIB on behalf of the European Commission under the indirect centralised management mode.

A framework agreement laying down the rules for management of Community budgetary resources by the EIB will be elaborated in the course of 2007. This agreement will cover all instruments of cooperation under the European Neighbourhood and Partnership Instrument.

4.2. Procurement and grant award procedures

The EIB's contractual and financial rules will be applied to risk capital operations.

For technical assistance, procurement of services will be executed according to the Commission procedures in force when the tenders are published.

4.3. Budget and calendar

The Commission allocates a budget of € 32 million to the EIB for the year 2007. This amount will be paid to the EIB following an assessment of FEMIP's needs.

The distribution of funds between risk capital and technical assistance will be decided jointly by the EIB and the Commission, based on needs and relevance of proposals.

4.4. Performance monitoring

The EIB will submit to the Commission annual implementation reports for technical assistance and risk capital indicating progress on use of funds and the outcome of operations.

For risk capital operations, performance indicators will include an estimation of the economic and financial value of investments made with risk capital funds as well as an indication of the socio-economic impact achieved through these operations.

4.5. Evaluation and audit

The Commission foresees the monitoring of FEMIP operations through external consultants.

4.6. Communication and visibility

The EIB will seek to give maximum visibility to FEMIP risk capital and technical assistance operations and the Commission's financing of this.