EIB GROUP EVALUATION

Evaluation of the EIB-AECID partnership in support of SMEs in the Southern Mediterranean region (2011-2023)

July 2024

European Investment Bank | Group

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European Investment Bank
98 -100, boulevard Konrad Adenauer
L-2950 Luxembourg

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This evaluation was carried out by the EIB's Evaluation Division (IG/EV), under the responsibility of Emmanuel Pondard, Head of Evaluation and under the supervision of Daniela Stoicescu (EIB senior evaluator). The team, led by Eric Buhl-Nielsen (Evaluation expert, PEM consult), included Stephanie Oksen (Evaluator, PEM consult) and Beatriz Sanz (EIB Principal operational assistant). Aron Gereben (EIB Evaluation expert) peer-reviewed the draft report and shared valuable insights with the team.

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ABBREVIATIONS AND ACRONYMS

AECID	Spanish Agency for International Development Cooperation
DAC	Development Assistance Committee of the Organisation for Economic Development and Cooperation (OECD)
DEG	Deutsche Investitions-and Entwicklungsgesellschaft (German Investment Corporation)
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ESG	Environment, social and governance
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
GDP	Gross domestic product
GLO	EIB Global
IFC	International Finance Corporation
IFI	International financial institution
IG/EV	Evaluation function within the EIB Group
IRR	Internal rate of return
JC	Judgement criterion
LP	Limited partner (have limited liability to the extent of their investment and have no management authority)
MBIL	Multi-beneficiary intermediated loan
MSMEs	Micro, small and medium-sized enterprises
SDG	Sustainable Development Goal
SMEs	Small and medium-sized enterprises

KEY TERMS

Buyout capital	Financing provided to acquire a company. Typically involves purchasing majority or controlling stakes.
Growth capital	A type of private equity investment (often a minority investment) in relatively mature companies that are looking for primary capital to expand and improve operations or enter new markets to accelerate the growth of the business.
Mid-cap enterprises	Enterprises that employ between 250 and 3 000 people. This is not the same as micro, small or medium-sized enterprises as defined in Commission Recommendation 2003/361/EC. Criteria relating to balance sheet total and turnover are not relevant for this definition of mid-caps.
Private equity	An alternative investment class that invests in or acquires private companies that are not listed on a public stock exchange. Private equity funds invest in private companies or engage in buyouts of public companies.
Quasi-equity	A category of "debt" which bears equity-type risks but does not carry all the risks of pure equity. Quasi-equity investments can assume different forms/names including, but not limited to: mezzanine debt, subordinated debt, profit-participating debt and high-risk yield senior debt, possibly combined with warrants or stock options and convertible debt. These instruments may, de facto, be considered quasi-equity if they expose the holder to equity-type risk. They rank between equity and debt, with higher risk than senior debt and lower risk than common equity; their return for the holder is predominantly based on the profits or losses of the underlying target undertaking; and they are unsecured in the event of default.
Risk capital	Funds that are invested in high-risk investments. That can mean alternative investments such as venture capital, hedge funds or private equity; or it could be funds used to start small businesses.
Seed funding	Funding provided before the investee company has started mass production/distribution, used to complete research, product definition or product design, including market testing and prototyping. This funding is not used to start mass production/distribution.
Startup funding	Funding provided to companies, once the product or service is fully developed, to start mass production/distribution and to cover initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not yet sold their product commercially. This funding is mainly used to cover capital expenditure and initial working capital.
Venture capital	Venture capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential.

EXECUTIVE SUMMARY

Context

The Spanish Agency for International Development Cooperation (AECID) and the European Investment Bank (EIB) established a partnership in 2011 to invest up to €100 million in the Southern Mediterranean region. The partnership's main objective was to support private sector development in the region, primarily MSMEs. The partnership's approach was to co-finance risk capital operations with the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) risk capital mandate.

The partnership resulted in a portfolio of seven operations, including six investments in private equity and venture capital funds, and one direct equity operation. Private equity and venture capital funds realised 52 investments totalling €538 million. Morocco, Tunisia and Egypt were the countries with the highest volume of investment.

The Evaluation function within the EIB Group evaluated this partnership at the request of AECID. The evaluation assessed the management of the partnership and of the underlying operations, the results achieved, as well as the extent to which the approach taken served the partnership's objectives. The evaluation used a mix of methods, including field visits in Morocco, Tunisia and Jordan, to 15 out of the 51 companies invested in by the six funds in portfolio.

Key findings and conclusions

The partnership approach was sound and its activity generally well managed at all levels. The selection of funds and investments, combined with the choice of working in tandem with the FEMIP risk capital mandate, supported the partnership objectives well.

The risk capital investments provided by the EIB-AECID partnership were needed in a context of scarce equity capital for the private sector. In the challenging investment environment of the Southern Mediterranean region, investor decisions were negatively impacted by the general context of instability (inflation, devaluation and unrest) and the increased availability of sovereign debt.

The partnership was designed for and worked in tandem with the FEMIP risk capital mandate, which allowed its portfolio to be built up quickly. The FEMIP risk capital mandate had compatible objectives and the same geographic focus as the partnership. Co-investments were used to capitalise on the EIB's experience supporting risk capital operations in the region and on work already carried out to identify and select potential operations under the FEMIP mandate.

However, this approach also limited the full utilisation of the €100 million envelope in the given time. The annual available envelope under the FEMIP mandate for risk capital was roughly €30 million. Following the principle of equal investments in each operation from the two sources, not all €100 million could be utilised in the given time. Even though the partnership allowed for investments to be made on a standalone basis (outside of the FEMIP mandate), this did not occur.

The funds and investments were carefully selected, and their objectives and modus operandi were generally well aligned with the partnership's objectives. The EIB subjected the funds to a comprehensive and systematic due diligence using robust sources of evidence and assessments that were followed up in the contractual agreements with the funds. The funds themselves undertook a professional due diligence of the companies and the search for opportunities was thorough, at least in terms of numbers of opportunities identified. 96% of the funds' investments were in companies within the partnership's geographic focus, well above the 60% requirement.

Overall, the partnership was well managed by the EIB, with regular and high-quality monitoring and reporting on activities, though different interpretations of specific terms of engagement emerged occasionally during the mandate lifecycle. Annual reports followed contractual reporting requirements and were informative. The EIB addressed the vast majority of requests for additional information from the mandator. Given the complex nature of the private equity activity supported by the partnership and the intricacies of the context in which it operated, AECID pointed out that simplified summaries of reports could have further facilitated interaction. In addition, different interpretations of the respective roles of the partners, as well as of definitions and expected level of KPIs, emerged occasionally during the lifecycle of the mandate. Periodic reminders of the partners' common objectives and initial terms of engagement may have contributed to re-aligning mutual expectations.

Against the backdrop of a difficult investment landscape, the COVID-19 pandemic and macroeconomic deterioration, the portfolio did not reach the initial financial projections, but contributed to noticeable non-financial benefits.

The financial performance of the portfolio varied over the period, with an overall decline from 2020 attributed to the COVID-19 pandemic and the exceptionally challenging investment environment. By 2023, financial returns across funds were below expectations. Challenges in achieving the hurdle rate were attributed to weak secondary markets, lower valuation multiples than expected leading to delayed exits and low returns, and macroeconomic shocks affecting the investment landscape. Some flagship companies demonstrated resilience and strategic agility, executing moves such as share repurchases, mergers and acquisitions, and organisational restructuring. The achievements reflected positively on changes in management and business practices, contributing to sustainability.

Most operations achieved noticeable non-financial results. Most funds were able to report high levels of job creation in the companies they invested in, with particularly good results for female and youth employment. Funds increasingly focused on impact, with a commitment to Environmental, social and governance (ESG) standards. Investee companies engaged in socially and environmentally responsible practices, with many holding quality certificates and maintaining Environmental and Social Management Systems. Some leading practices included training programmes for women's leadership skills and initiatives for energy efficiency and waste management.

Although with less emphasis on MSMEs than initially projected, the partnership supported the private sector as well as the emergence of a private equity ecosystem in the Southern Mediterranean.

The partnership contributed to private sector development, though with less emphasis on MSMEs than expected. The reduced focus on MSMEs is explained primarily by the realities of the economic context in the Southern Mediterranean, which had a limited pool of companies that could be supported though private equity on the terms provided by the funds to the segment of larger SMEs. Furthermore, the partnership strategy also prioritised economic and financial sector development with priority given to job-creating ventures. As such, the investment strategies of the funds selected were not exclusively focused on MSMEs, but on a mix of SMEs and mid-caps, to achieve these broader objectives. Several funds prioritised larger SMEs for their higher prospects of expansion and economic return.

The EIB's cooperation with the funds, as well as the support provided by the funds to companies, yielded benefits beyond the provision of finance. Funds paid increasing attention to ESG aspects. They passed on this expertise to companies they invested in by helping them structure themselves, advocating in favour of longer-term planning and more ambitious growth strategies and spearheading the development of environmental and social action plans. In addition to generating employment, support provided through the partnership also resulted in more tax generation in the region.

The regional ecosystem for equity capital has improved, although private investing remains scarce. The partnership had a catalytic effect for the funds and companies it supported directly, as the EIB's early commitment allowed funds to attract more finance and close successfully. Through its activity, combined with that of other DFIs present in the market, the partnership has also contributed to increasing the number and depth of expertise of investment managers, lawyers and financial experts which, together, have improved the ecosystem for private equity. Although the equity market in the region was and remains dependent on interventions by DFIs, the preconditions are set to allow it to take off and support a wider range of private investors once the economic climate improves sufficiently.

Recommendations

The EIB-AECID partnership is currently winding down. However, the Bank's support for the private sector in the Southern Mediterranean region continues, including through mandates and partnerships and using risk capital instruments. To improve the Bank's performance and results in these areas, it is recommended for the EIB to:

1. **Develop a toolkit for EIB engagement with mandate providers, specifically for private equity operations in risky environments.** It is important to align and manage the expectations of all parties in order to develop a common, realistic level of ambition in terms of deployment, likely results and the degree of risk involved.

2. **Combine risk capital operations with other products that can help enhance the results of support for SMEs in the Southern Mediterranean region.** Risk capital operations are one of the products the EIB has available to support private sector development and in particular SMEs, along with multi-beneficiary intermediated loans, technical assistance, support for startup incubators, microfinance operations, etc. However, in the context of the AECID mandate operations, the set of available EIB products was not combined to tackle the wider objective of SME and private sector development more holistically. A beneficiary-centric approach in determining how to serve identified needs would greatly strengthen the potential for impact.

RECOMMENDATIONS AND MANAGEMENT RESPONSE

The EIB management **appreciates the positive conclusions of the Evaluation** on the EIB-AECID partnership in support of SMEs in the Southern Mediterranean region (2011-2023). The partnership **contributed to the development of an equity market and of the private sector in the Southern Mediterranean region.** Despite the complex environment and the troubled period in which it operated, the partnership reached sustainable financial results, albeit below the initial projections. Most operations achieved noticeable non-financial results.

The EIB management is pleased to conclude that, through **careful and adequate management**, **the EIB has delivered** on the commitments made to its partner and mandator, AECID, and it contributed tangible results to the economy and the people of the Southern Mediterranean region.

The Management takes note of the lessons learnt and of the two recommendations put forth in the evaluation. The Management subscribes to the observation in the evaluation that the two recommendations are not meant for implementation in the context of the AECID partnership, which will soon reach its end.

Instead, it views the two recommendations as lessons learnt for its future activities in support of the private sector in the Southern Mediterranean region, including through mandates.

Table 1: Recommendations and management response

Recommendation 1

Develop a toolkit for EIB's engagement with mandate providers, specifically for private equity operations in risky environments.

<u>Underlying issue and potential benefits</u>: For an efficient and mutually beneficial implementation of a mandate, it is important to align, manage and reiterate expectations of all parties to ensure a common, realistic level of ambition in terms of deployment, likely results and the degree of risk involved. Considering that the partnership deployed with the EIB had a long lifespan and that the products were atypical for AECID, periodic reminders of the common objectives and initial terms of engagement (e.g. respective roles and KPIs) could have helped re-align mutual expectations, sustain trust and thus lead to efficiency gains in the management of the mandate.

<u>Potential means of implementing</u> this recommendation include:

- Developing an outline presentation of the EIB approach and business model for private equity investments in risky environments, to be shared with partners and internal EIB staff.
- Developing internal guidelines for EIB staff highlighting the key aspects to look out for in the mandate relationship. Examples of such points for attention include:
  - Ensuring that mandator and EIB expectations are fully explored, discussed and documented.
  - Assessing the feasibility of proposed targets and conditions and, where possible, proposing a range rather than an absolute figure.
- Envisaging a mid-term review and re-assessment of the initial mandate agreements.

Management response: Partially agreed

The EIB management would like to note that the AECID partnership was originated in 2011 and was already fully invested by 2015, when the Bank made a push to standardise its approach to mandate management.

Currently, all new mandates originated by EIB Global are developed and managed by dedicated teams within the Partnerships for Impact Department (GLO/PFI), which ensures a standardised approach and knowledge sharing for future mandates. Specific procedures have been developed in the meantime, covering all aspects of the development and monitoring of a new mandate. These procedures, which are reviewed and updated regularly to reflect new insights and experience, play an important role in facilitating and streamlining EIB engagement with mandate providers. Alignment and management of mandators' expectations are an important underlying objective for these procedures.

The utility of a generic toolkit for mandate engagement, in addition to the set of procedures mentioned above, would be limited. The successful management of each mandate is determined by several factors, including: the composition and nature of the mandate providers, the targeted regions, the expected outcomes, etc. In this context, adapting the features of a generic toolkit to the characteristics of a specific mandate would amount to a design of the mandate itself. The development of a shared and realistic level of ambition in terms of deployment, likely results and the degree of risk involved can be achieved through interactions with mandate providers during the negotiation and design phase of each mandate.

However, conscious of the value of capitalising on lessons learnt from the EIB-AECID partnership, the Bank will make sure these are available to mandate officers for future reference and use in similar contexts.

Recommendation 2

Combine risk capital operations with other products that can help enhance the results of support for SMEs in the Southern Mediterranean region.

Underlying issue and potential benefits: The needs of SMEs in the Southern Mediterranean region are more diverse and complex than what risk capital operations like those in the EIB-AECID partnership portfolio can address. Risk capital operations are one of the products the EIB has available to support private sector development and in particular SMEs, along with multi-beneficiary intermediated loans, technical assistance, support for startup incubators, microfinance operations, etc. In the context of the AECID mandate operations, however, the available products were not combined to tackle the wider objective of SME and private sector development more holistically. A beneficiary-centric approach in determining how to serve identified needs would greatly strengthen the potential for impact.

Potential means of implementing this recommendation include:

- Exploring the extent to which SMEs could access other types of EIB-backed support, outside the relationship with the fund (e.g. applying for loans through one of EIB's multi-beneficiary intermediated loans (MBIL) operations); this could be done by proactively discussing such options with the funds and proactively introducing other EIB products.

- Exploring the need for and providing a small grant component that funds can use to support specific needs of investee companies; financing such small grants could be explored through a framework operation in the context of the FEMIP Trust Fund, for example.

Management response: Partially agreed

The management agrees that combining the EIB's available products to best support clients and beneficiaries is good practice and essential for maximising impact. This is one of the premises that, with the creation of EIB Global in 2022, led to the centralisation of all activities outside the EU in one directorate, with a special department – Partnerships for Impact Department (PFI) – in charge of developing new products and mandates.

However, combining risk capital operations with other products depends on many factors. Examples of such factors include the availability of funding for deploying such a combined approach, the approval of governing bodies and the appetite of the mandator (which evolves over the lifetime of a mandate). It is therefore difficult, ex-ante, to fully foresee the scope and best approach to deploying EIB support through multiple products. In the specific case of AECID, the mandate was originally set up in 2011 as a co-investment programme with the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Risk Capital Mandate (European Neighbourhood and Partnership Instrument – ENPI), raised from the European Commission. Because of this setup and background, the planned range of products was dependent on the products offered under the FEMIP-ENPI initiative, in order to reduce any potential misalignment between the two initiatives. Given this AECID mandate-specific feature, combination with other EIB tools was limited by design.

The strategy of EIB Global supports a more integrated approach across various product lines and instruments provided by the Bank. Looking forward, the Bank will ensure that guidance is available to GLO officers (including mandate officers) to perform an early and a more systematic analysis of beneficiaries' needs and the potential options for meeting them.

Especially for officers involved in the development and negotiation of new mandates, officers in charge will be encouraged to explore whether technical assistance funding may be relevant and added to mandates for risk capital operations in the Southern Mediterranean region. Mandate officers will also be encouraged to use the evidence put forth in this evaluation and other similar ones (e.g. the 2023 Evaluation of the FEMIP Trust Fund) as an additional argument in discussions with mandators, to secure resources that can be used flexibly to best serve final beneficiaries' needs.

1. INTRODUCTION

In 2011, the Spanish Agency for International Development Cooperation (AECID) and the EIB signed a partnership agreement to carry out risk capital investments in the Southern Mediterranean region, targeting mainly micro, small and medium enterprises (MSMEs).

Upon request of AECID, the Evaluation function within the EIB Group evaluated this partnership. The evaluation focused on the results of the underlying investments, on the EIB's management of the partnership and its operations; as well as on the extent to which these responded to the partnership's objectives.

The evaluation covered all activity carried out under this partnership. It spanned the period from 2011 to 2023. It analysed all of the seven EIB operations and 52 investments realised in 51 companies across nine countries.

1.1 The EIB-AECID partnership

Partnership objectives and approach

The purpose of the EIB-AECID partnership was to support private sector development in the Southern Mediterranean region through risk capital investments. This was a new area of work for AECID and was built on the EIB's long track record of experience with risk capital operations, including in the Southern Mediterranean region. Initially, AECID had planned a contribution of €300 million, with €100 million for investments in risk capital activities for MSMEs and €200 million for the creation of a "new multi-partner vehicle (…) with the aim of catalysing additional funds from other public and private contributors, among others the EIB and on a voluntary basis, Member States".[1] The creation of this new multi-partner investment instrument was not taken forward, mainly due to budget constraints on the AECID side, and the partnership primarily focused on the €100 million of investments in risk capital activities for MSMEs.

The operations were to be done on a co-investment basis with the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) risk capital mandate. This mandate, which the EIB also managed, was financed by the European Commission from the European Neighbourhood Partnership Instrument 2007-2013. The geographical area of the EIB-AECID partnership coincided with that of the FEMIP mandate and covered Algeria, Egypt, Jordan, Lebanon, Mauritania, Morocco, the Palestinian territories, Syria and Tunisia.[2] Objectives were also broadly aligned, as the FEMIP was set up to foster private sector investments and development of the financial sector. The end of the investment period for the AECID funds also coincided with that of the FEMIP mandate (mid-2014).[3]

Risk capital operations aimed at reinforcing the capital base of MSMEs. MSMEs were defined as per European Commission Recommendation 2003/361/EC.[4] Support took the form of equity financing of non-publicly quoted enterprises, fostering development of local capital markets.

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[1] EIB-AECID Partnership Agreement, 2011.

[2] The EIB-AECID Partnership Agreement mentioned the possibility to add "any other country as may be agreed from time to time by the Parties". More specifically, it indicated that "Spain can invest in funds where regional scope is wider than targeted if either at least 60% of fund's commitments are invested in Spain's priority countries; or Spain's commitment amount is deployed in desired region (e.g. geographic earmarking)".

[3] The initial investment period for both the FEMIP risk capital mandate and the EIB-AECID partnership was December 2013 but was subsequently prolonged until 2014.

[4] Microenterprises are defined as enterprises that employ fewer than ten people and whose annual turnover or annual balance sheet total does not exceed €2 million.
Small enterprises are defined as enterprises that employ fewer than 50 people and whose annual turnover or annual balance sheet total does not exceed €10 million.
Medium-sized enterprises are defined as enterprises that employ fewer than 250 people and have either an annual turnover that does not exceed €50 million or an annual balance sheet not exceeding €43 million.

This objective was pursued by the EIB through:

- Participation in private equity funds, i.e. investments in specialised financial vehicles, which themselves take equity stakes in private companies with a clear focus on growth. These holdings are referred to as "investments in funds" for the purpose of this report.

- Direct investments, i.e. acquisition of equity in private companies, including financial institutions such as banks. These investments are referred to as "direct investment" for the purpose of this report.

The eligible operations were described in the partnership agreement as "equity or quasi-equity, senior debt or guarantee schemes".

Risk capital operations were expected to align with the EIB's established risk equity guidelines and procedures and structured in accordance with the EIB standards of compliance.

The partnership agreement acted as a mandate from AECID to the EIB and essentially took the form of a trust fund. It was accompanied by an investment strategy and principles to guide the EIB in its implementation. The main features and parameters of the mandate are presented below:

- Investment strategy for risk capital operations:
    - At least 70% of total investments were to reach MSMEs, implying that mid-caps or larger companies were also eligible for financing.
    - No more than 25% of investments were to be made in a single country.[5]
    - Financial return target: aggregate return of 10%.
    - Investment term: maximum 15 years.

- Investment principles:
    - Direct operations ticket size: €5 million to €20 million.
    - Indirect operations ticket size: €10 million to €30 million, not to exceed 25% of total fund commitments.
    - Hurdle rate: 8%.

The partnership is founded on the shared view that private equity investments and venture capital are important in bridging the financing gap for MSMEs in the Mediterranean region. Beyond capital investments, and drawing upon the EIB's role as trust fund manager, the partnership's approach was expected to benefit from:[6]

- The EIB catalysing additional investments in the selected private equity funds from other sources.
- The EIB's experience in encouraging selected private equity funds to follow good international market practice in terms of governance and reporting.
- EIB engagement in helping first-time private equity fund managers structure their funds and becoming investment ready.
- EIB participation in the selected private equity funds' advisory committees.

The partnership aimed to provide financial support but also to act as a catalyst for strengthening MSMEs and ensure their growth and long-term sustainability. It was anticipated that by engaging in equity investments and venture capital activities in MSMEs, the funds selected would bring knowledge and expertise to the enterprises in which they invested. This was expected to facilitate adjustments in the management and operational practices of these enterprises. For instance, as part of the investment due diligence process and through active participation in the enterprises' board of directors, the intermediary private equity funds would actively advocate

[5] The EIB-AECID Partnership Agreement mentioned that the "Geographic concentration limits (of 25% of total invested amount) may be superseded by priority interventions in countries committed to democratic transformation" (2011).
[6] EIB annual report to AECID 2022.

for enhancements in the governance of MSMEs, for improved financial accounting procedures, and other elements that contribute to the overall performance and sustainable growth of these companies.

The partnership and its investment strategy prioritised the promotion of employment opportunities. It signalled a commitment to contribute to job creation through the statement that priority "will be given to job-creating ventures" and highlighted a reporting obligation to provide "an analysis of the development impact (…), including development indicators such as the number of jobs created, or the proportion of women recruited".[7]

Partnership activities

The partnership resulted in a portfolio of seven operations – one direct investment and six investments in private equity and venture capital funds, amounting to €53.4 million of committed AECID resources as of end 2023 (Table 2).[8]

Table 2: Overview of the operations funded under the partnership

Counterpart	Counterpart presentation	Objective of EIB operation	AECID net commitment (EUR million)	Inv. Date
Fund 1	Closed-end sector generalist private equity fund focused on growth capital investments in SMEs in North Africa.	Contribute risk capital funding to established, growth-oriented mid-market SMEs. Target individual equity and/or quasi-equity investments between €2 million and €10 million.	8.805	2011
Fund 2	Sector generalist private equity fund targeting expansion capital investments in private companies in North Africa (Morocco, Algeria, Tunisia and Egypt).	Take minority or majority stakes in mid-market SMEs with proven business models and the ability to grow into regional leaders	11.320	2014
Fund 3	Closed-end venture capital fund seeking to invest startup and expansion capital in seed, early and growth-stage information and communications technology (ICT) of SMEs in Jordan.	Nurture early-stage entrepreneurship from local seed to global competitiveness.	3.715	2012
Fund 4	Sector generalist private equity fund targeting growth capital investments in private sector companies in North Africa, especially Morocco.	Contribute risk capital funding to established, growth-oriented mid-market SMEs. Target: individual equity and/or quasi-equity investments between €2 million and €8 million.	4.136	2013
Fund 5	Sector generalist private equity fund targeting expansion capital investments in private companies in the Middle East and North Africa region.	Take minority or majority stakes in the established mid-market SMEs operating in strongly growing industries that have the potential to become regional leading groups.	9.918	2013

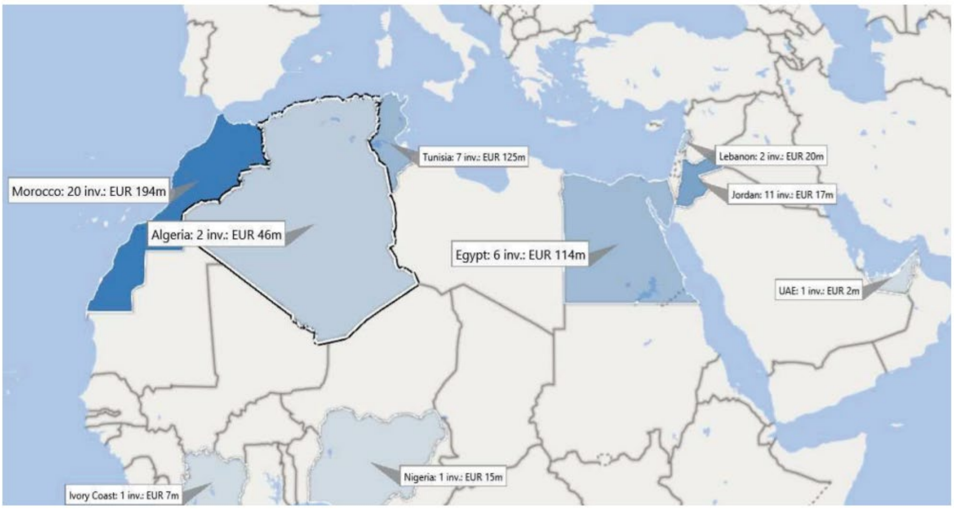
[7] EIB annual report to AECID 2022.
[8] The net commitment is calculated using the exchange rate of 31 December 2023 for investments made in foreign currencies.

Counterpart	Counterpart presentation	Objective of EIB operation	AECID net commitment (EUR million)	Inv. Date
Fund 6	Sector generalist private equity fund targeting growth capital investments in SMEs in Mediterranean partner countries.	Generate returns by investing in and adding value to multi-sector SMEs that seek capital to expand their operations, enter new markets and/or finance a significant acquisition and that have the potential to become regional champions.	10.000	2012
Local Bank	Commercial, retail and investment bank	Support the bank's expansion plan, including increasing access to finance to SMEs and expanding to other countries, primarily in sub-Saharan Africa.	5.504	2013[9]

Sources: EIB Project Summary sheets (columns 2 and 3); EIB annual report to AECID 2023 (column 4); EIB Board reports (column 5).

The private equity and venture capital funds performed 52 investments[10] **for a total amount of €538 million, across nine countries.**[11] Morocco, Tunisia and Egypt were the countries with the highest volume of investment (€194 million, €125 million and €114 million, respectively), while Morocco and Jordan were the countries with the highest number of investments (20 and 11, respectively). Investments outside the Southern Mediterranean region (i.e. one each in Côte d'Ivoire, Nigeria and the United Arab Emirates) represented 4% of the total financial volume invested (Figure 1).

Figure 1: Geographical distribution of the funds' investments (number and volume of investment)



Source: EIB annual report to AECID 2023.

The breakdown of investments performed by each of the funds is presented in Table 3 below.

[9] The disbursement was made in October 2014. The operation was closed in 2023.
[10] The funds performed 52 investments in 51 companies, as two separate funds invested in the same company.
[11] Algeria, Egypt, Côte d'Ivoire, Jordan, Lebanon, Morocco, Nigeria, Tunisia and the United Arab Emirates.

Table 3: Volume and number of investments realised by funds

Funds	Volume of investment (EUR million)	Number of investments
Fund 1	48.58	7
Fund 2	240.22	9
Fund 3	23.83	14
Fund 4	30.16	7
Fund 5	97.88	7
Fund 6	97.81	8
Total	**538.48**	**52**

Source: EIB annual report to AECID 2023.

The direct investment in a local bank was the EIB's first direct equity operation in a bank in the FEMIP region, with the objective of broadening FEMIP's risk capital mandate to other financial intermediaries than private equity funds. The equity operation was aligned with the EIB-AECID partnership investment strategy and intended to increase access to finance to MSMEs.

1.2 Evaluation approach

Three questions frame the evaluation. The questions echo OECD DAC's criteria of relevance, effectiveness and efficiency. Table 4 provides an overview of the evaluation questions and judgement criteria. The judgement criteria test the partnership's intervention logic, which was outlined in Section 1.1, and which is shown in Annex 1.

Table 4: Overview of the evaluation questions and the rationale behind them

EQ 1: Selection	Did the selection of operations and companies serve the partnership objectives?
Judgement criteria	1.1 Need for EIB intervention: The selected investments could not have been made through market forces alone. 1.2 Due diligence: quality of the due diligence of the funds and investments. 1.3 Alignment of objectives: The objectives and modus operandi of the selected funds were aligned with the partnership objectives.
Rationale	This evaluation question looks at whether the partnership selected the right funds, and whether the funds in turn selected the right investments. The question echoes the OECD/DAC relevance and coherence criteria. It builds on the assumption that the success of the partnership depends on the quality of the partners/vehicles chosen. The first JC looks at the degree to which the investments made by the funds were additional, and justified by market weakness and sub-optimal investment situations. The second JC examines whether the due diligence that was made of the funds and the downstream investments provided a sound basis for decision-making on selecting the funds, and later the investments. The extent to which due diligence was systematic, comprehensive and selective is analysed. Lastly, the third JC looks at the extent to which the selected funds had objectives and a modus operandi that were aligned with the partnership objectives. Together, these JCs reflect the extent to which the selection of funds and investments was well conceived and likely to help achieve the partnership objectives.

EQ 2: Results	Did the operations and companies in the partnership's portfolio achieve the expected results?
Judgement criteria	2.1 Financial: The expected financial results of the EIB operations and fund investments were achieved. 2.2 Non-Financial: The expected non-financial results of the EIB operations and fund investments were achieved.
Rationale	The evaluation question covers the criteria of effectiveness and sustainability, focusing on the results at operation and fund investment level. The first JC examines the financial results of the EIB operations and fund investments based on the results framework adopted by the partnership[12]. This involves the hurdle rate across the partnership the attainment of the key performance indicators of turnover, profit and qualitative evidence of financial sustainability of the investments. The second JC assesses the non-financial key performance indicators that form part of the partnership results framework. These include jobs, female and youth employment; presence of staff benefits such as health care as well as the adoption of international labour and environmental standards by the companies that were invested in.
EQ 3: Partnership approach	**Were the approaches adopted at partnership, operation and company levels conducive to reaching the partnership's objectives, in line with its stated principles and guidelines?**
Judgement criteria	3.1 Partnership: The EIB-AECID partnership was well managed. 3.2 Funds: The funds were well managed, benefited from EIB engagement and led to wider benefits beyond those related to the direct investments made. 3.3. Investments: There is evidence that the funds' management of the investments has led to wider benefits beyond those related to the direct investments made.
Rationale	The evaluation question touches on the criteria of efficiency and effectiveness. The first JC assesses how well the partnership was managed between AECID and the EIB in terms of implementing or adjusting the investment strategy if/when needed, monitoring, accountability and the quality of the interaction. The second JC examines how well the EIB managed the relationship with the funds, and whether its engagement with the funds enhanced their performance. The last JC examines how well the funds managed the investments to enhance wider contribution to society through increased tax generation and whether, after the investment, the companies were in a position to overcome market failures and finance expansion through market mechanisms.

To arrive at rigorous assessments, the evaluation combined several data sources, collection methods and approaches for each of the evaluation questions.

- Desk review and analysis of the documentation from various sources formed a substantial part of the evaluation process. Key references were consulted such as Partnership documentation, EIB internal documentation, fund and investee documentation, as well as past evaluations.

- Stakeholder perspectives were collected primarily through semi-structured interviews. Interviewees included EIB Group staff at headquarters as well as at country-office level. Stakeholders outside the EIB Group included those with direct involvement in the interventions: AECID; the management teams of all six funds supported through the partnership, as well as the management of the Local Bank; the management/staff of 15 out of the 51 companies that were invested in (see below); and other IFIs (the European Bank for Reconstruction and Development (EBRD), the German Investment Corporation (DEG) and the International Finance Corporation (IFC)).

[12] The results framework encompasses indicators as explicitly stated in the partnership agreement, e.g. the investments' hurdle rate, jobs created and employment of women, as well as other indicators of portfolio performance (e.g. TVPI, multiple realised, etc.) and of development impacts (e.g. employment of youth/persons under 25 years old, ISO certification, etc.).

- Site visits: The evaluation included on-site visits/direct observations in three countries – Morocco, Tunisia and Jordan. An illustrative sample of 15 out of the 51 companies invested in has been chosen based on (i) the distribution of the AECID partnership's financial volume and (ii) the number of investments at country level. Morocco and Tunisia were visited, as they account for 59% of the total investment in investee companies. Jordan, as the second country with the highest number of investments and the country representing the largest volume of investment of one of the funds, was also visited. The 15 visited companies represent 37% of the total portfolio invested in companies (in EUR million) and covered all six funds supported. A detailed overview of the sample is provided in Annex 3.

The main limitation of the evaluation stemmed from the difficulty of attributing the changes observed to the partnership, because the partnership is only one of many actors involved in the activities of the funds and MSMEs. To mitigate this, the team analysed the contribution of the partnership to changes in the risk capital market (e.g. changes in funds' practices, development of a private equity ecosystem) and private sector development (e.g. growth of companies invested in).

The following sections outline the findings across the three main areas of enquiry:

- Did the selection of operations and companies serve the partnership objectives? (Chapter 2)
- Did the operations and companies in the portfolio achieve their expected results? (Chapter 3)
- Were the approaches adopted at partnership, operation and company level conducive to reaching the partnership's objectives? (Chapter 4)

2. DID THE SELECTION OF OPERATIONS AND COMPANIES SERVE THE PARTNERSHIP OBJECTIVES?

The evaluation builds on the premise that the success of the partnership depended on the selection of reliable and aligned partners (investment funds and, further down the line, investment companies). The evaluation analyses the process of selecting partners by looking at the quality of the due diligence of both funds and investments, and by examining the extent to which the funds in particular had investment strategies that were aligned with the partnership objectives.

The EIB investments were needed in the challenging investment environment characterising the Southern Mediterranean region.

A thorough market analysis was done for the region and for each country at appraisal, and updated annually. A regional and country by country analysis was undertaken and presented at the appraisal stage. The analysis provided an overview of the macroeconomic situation and prospects in terms of economic growth, employment and social indicators. Risks factors related to economic and political factors were identified. The EIB annual reports provided a regular review of the regional operational context, including macroeconomic and financial developments, access to finance and an overview of the private equity market in the region. These analyses provide an updated overview of the economic context for the partnership's operations and have enabled a well-founded assessment of the continued and changing relevance of the partnership's intervention.

Equity funding was needed and not easy to obtain for companies – private sector risk capital was scarce. The main conclusion of the market analysis carried out by the EIB was that private sector risk capital was constrained in the countries targeted by the partnership. Increasing sovereign debt tended to absorb savings and crowed out private investment. Inflation, devaluation in some countries and capital outflows led to heightened risk adversity among private investors. Surveys such as the Enterprise Survey[13] found strong evidence of credit constraint among companies in the region. The level of private equity penetration (private capital invested/GDP) in the Middle East and North Africa in 2021 was 0.02 against a European/US level of 1.5 (as reported in the analysis of one of the funds). One reflection of the scarcity of private risk capital is the fact that DFIs are the dominant investors in the funds, as presented in Chapter 4.

The selection of operations and companies was supported by solid due diligence processes.

The EIB subjected the funds to a comprehensive and systematic due diligence using robust sources of evidence and assessments that were followed up in the contractual agreements with the funds. For all funds, the EIB conducted a systematic analysis of the management team's track record, the fund's governance, as well as the country and market context. The EIB's due diligence involved a full legal, operational and integrity check with a review by specialist entities within the EIB. Adjustments arising from the due diligence analysis were integrated into relevant side letters. For example, it was noted that the investment committee of one fund did not have any independent members. To respond to this issue, the EIB introduced measures to prevent conflicts of interest by ensuring that investments where a limited partner (LP) had a controlling interest would require clearance above the level of the investment committee.

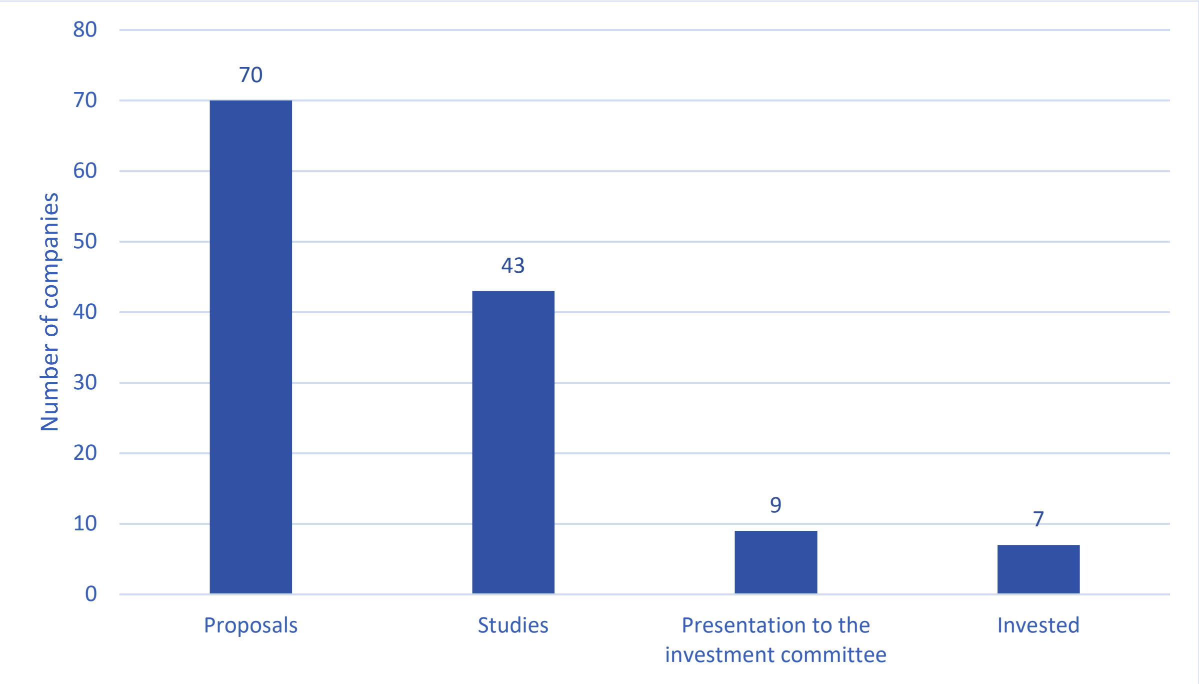
The EIB analysis of key persons was thorough; however, during implementation, two of the six funds were affected by varying degrees of unsound business practice. The due diligence carefully examined the presence

[13] EIB, EBRD, WB (2022) "Unlocking sustainable private sector growth in the Middle East and North Africa: Evidence form the Enterprise Survey".

of politically exposed persons as well as the profile and career history of key persons. Risks were identified which mainly related to insufficient experience across the full cycle of fund management, and especially in managing exits. Although thorough, the key person analysis was not able to foresee several cases of business practices, which led the LPs to require changes in the management teams or the structure of the funds. When operated, such changes were achieved without undue losses. In general, these issues are only clear ex-post, and so they can only be managed, and not entirely avoided.

The funds themselves used appropriate procedures for due diligence of the companies and the search for opportunities was thorough, at least in terms of numbers of opportunities identified. The funds' process of selecting and investing in companies varied in length from 8 to 16 months, and was conducted in a systematic manner, based on the investment strategy and overseen by the funds' investment committees. The process of identifying and selecting investments was extensive, as illustrated in Figure 2. Another element supporting the positive assessment of the funds' due diligence process is the low attrition rate of portfolio companies. Less than a handful of the 52 investments had been written off as of end-2023.

Figure 2: Typical sequence from proposal to investment at fund level (number of companies) – Example for one of the six funds



Source: EV analysis based on fund reporting.

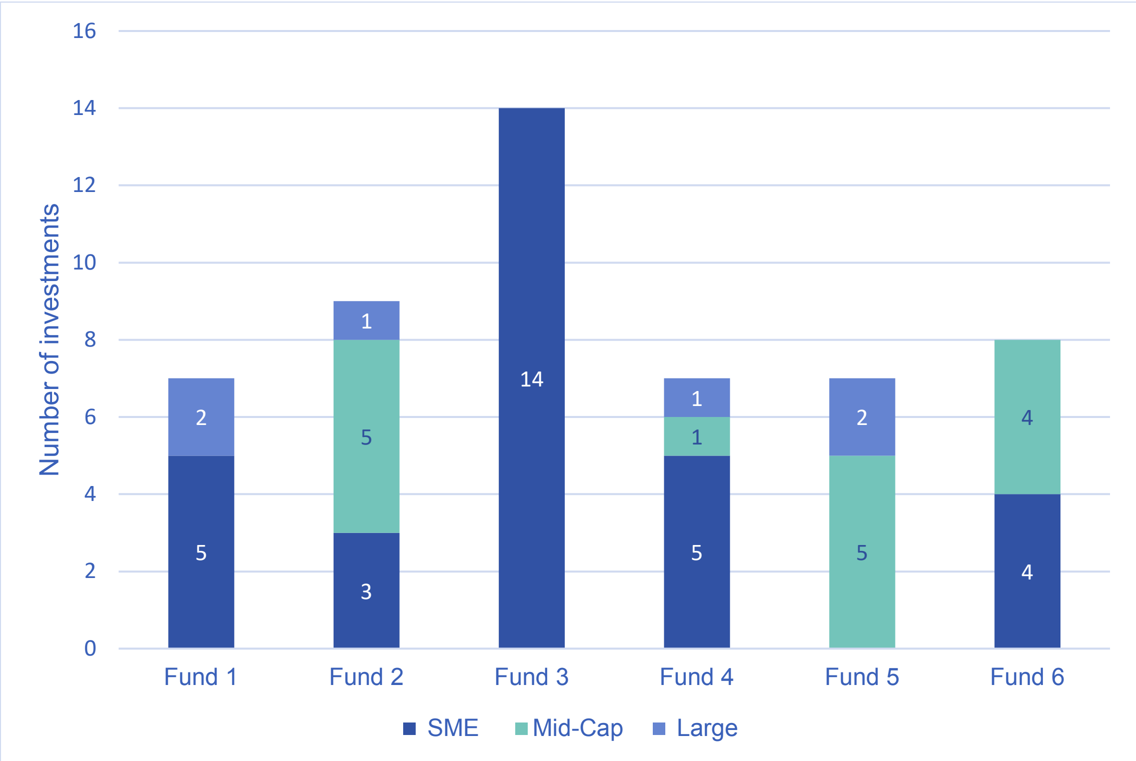
In hindsight, the prospects for profitable exit were overly optimistic. In general, compared to more mature private equity markets, the deal flow in the Southern Mediterranean region was narrow and constrained. This led to some competition between investment funds to invest in companies that were well-run and had potential to grow. Moreover, despite the thorough risk analysis the funds performed on the investee companies and the measures taken to support these companies, it was not possible to predict the downturn in the investment environment in the region. As a result, the valuation multiples were lower than expected, which could be traced either to entry valuations being high or to the deteriorating macroeconomic situation.

The objectives and modus operandi of the selected funds were generally well aligned with the objectives of the partnership, though some funds tended to focus on mid-caps rather than MSMEs.

The funds invested in the region/countries that corresponded with the partnership strategy. 96% of the amount invested was in companies within the partnership's geographic focus, i.e. in Algeria, Egypt, Lebanon, Jordan, Morocco and Tunisia. Out of 51 investee companies, only three were outside the geographic focus (one each in Côte d'Ivoire, Nigeria and the United Arab Emirates), well below the limits of the partnership agreement.[14]

The investment strategies of the funds focused on a mix of SMEs and mid-caps. The partnership strategy was to support economic development, particularly through investing in MSMEs[15] and the development of the financial sector directly or indirectly, with priority given to job-creating ventures. The investment strategies of the six funds selected by the EIB corresponded well to these overall objectives. However, with the exception of a venture capital fund, the funds selected had strategies that tended to favour larger SMEs and even mid-caps, since these types of companies were seen as offering better opportunities for expansion and economic return, but also for generating more employment. This mix of SMEs and larger companies is visible in Figure 3. One fund invested exclusively in SMEs, three funds had half or more of their investments in SMEs and one fund had no SMEs in its portfolio.

Figure 3: Overview of fund portfolio by size of investee companies



Source: EIB annual report to AECID (2023).

[14] The partnership agreement stipules that at least 60% of the fund's commitments must be invested in Spain's priority countries, i.e. the Southern Mediterranean.
[15] The partnership agreement stipulates that at least 70% of total investments must reach MSMEs.

3. DID THE OPERATIONS AND COMPANIES IN THE PORTFOLIO ACHIEVE THEIR EXPECTED RESULTS?

As noted in Chapter 1, the evaluation examined the financial results of the EIB operations and fund investments based on the results framework adopted by the partnership. This involves the hurdle rate (IRR) across the operations and the attainment of the key performance indicators for the investments (i.e. turnover and profit), as well as qualitative evidence of the financial sustainability of the investments. The assessment of non-financial results includes – in line with the partnership's results framework – jobs, female and youth employment, the existence of staff benefits such as health care schemes, as well as the adoption of international labour and environmental standards by the investee companies.

The financial performance of the partnership's portfolio shows significant variation. From 2020 onwards it declined overall, due to a deteriorating context. Some companies demonstrate promising financial results and a potential for sustained success.

The financial returns varied between funds, but in general, by 2023, they were below the hurdle rate of 8%. In 2023, two funds had a negative internal rate of return (IRR), three had an IRR that was positive but below 8%, and only one had an IRR well above the hurdle rate.

Of the 52 investments, 23 were still in the funds' portfolios by end-2023, although most funds are less than two years away from their terms.[16] The EIB annual reports underline the challenges in exiting.

Table 5: Number of exits by end-2023

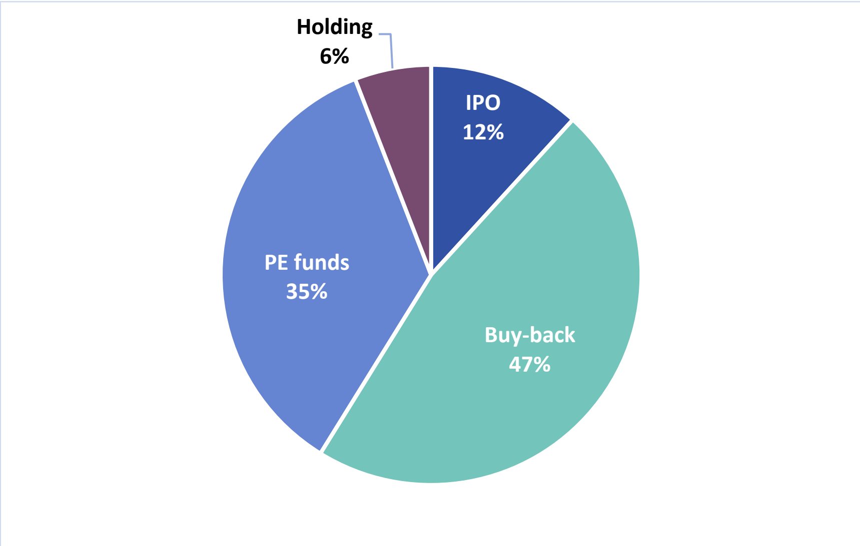
Funds	Number of investments	Number exited (end 2023)
Fund 1	7	6
Fund 2	9	5
Fund 3	14	5
Fund 4	7	3
Fund 5	7	0
Fund 6	8	4
Total	**52**	**23**

Source: EIB annual report to AECID, 2022 and 2023.

[16] Including possible contractual extensions.

Weak secondary markets and lower valuation multiples than expected posed challenges in the realisation of the fund's investments (i.e. exit). This also led to high fees that impacted overall returns. The distribution of exits by type supports the view of interviewees (fund management teams and DFI representatives) that secondary markets for private equity are weak in the region. Figure 4 shows that most exits occurred through buy-back, with two initial public offerings (IPOs) reported. Of the exits through sale to private equity funds, most involved trading shares with succeeding funds or with funds supported by other development finance institutions (DFIs).

Figure 4: Exit types in the overall portfolio – Percentage breakdown (number of exits)



Source: Funds quarterly reports and web search.

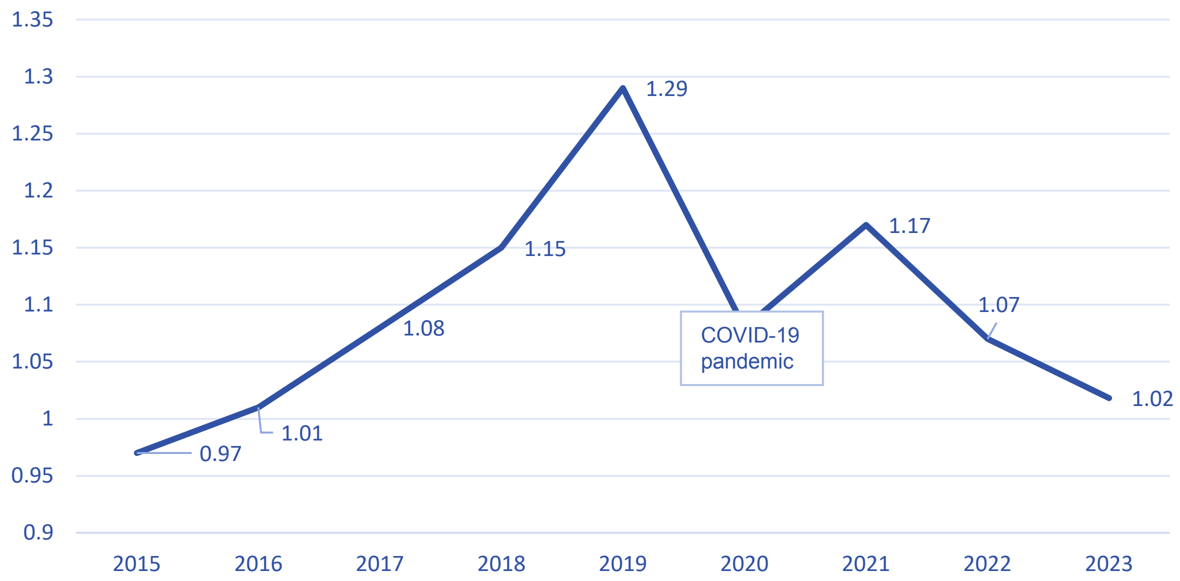
The challenges faced in realising investments and achieving the hurdle rate underscore the complexities inherent in the funds' investment landscape. Over the period, the investment landscape in the region has deteriorated, particularly in Lebanon, Egypt and Tunisia. Inflation rates, sharp currency depreciation and economic contraction due to a series of shocks (i.e. the COVID-19 pandemic and the Ukraine war) have affected the results.[17] The result of the only operation closed off as of end-2023 illustrates the weight of the macroeconomic, geopolitical and governance factors on the performance on the partnership's portfolio. Realising an exit was cumbersome because of a change in national legislation that posed a challenge in executing the exit rights, and because of the financial and economic crisis that has affected Lebanon since 2019. According to the analysis in the EIB annual report 2020, the situation in Lebanon contributed to a decrease in Total Value to Paid-In (TVPI)[18] between 2019 and 2020, affecting the financial performance of the partnership's portfolio (Figure 5).

The COVID-19 pandemic significantly impacted the performance of the funds' portfolios, resulting in a sharp decrease in the TVPI between 2019 and 2020. The TVPI was also hit by the devaluation of many currencies in the region. Still, the overall TVPI above 1.0x, despite the many contextual challenges, demonstrates an overall positive and resilient portfolio.

[17] Further described in the EIB's annual reports to AECID 2019-2022.

[18] TVPI ratio considers all cash outflows including investments, management fees and fund operational expenses on the one hand; as well as distributions received and net asset value (NAV) of the unrealised portfolio on the other hand. It therefore provides the best overall picture of the portfolio performance as of the reporting date (EIB annual report to AECID 2022).

Figure 5: Evolution of the portfolio's Total Value to Paid-In (TVPI) capital since 2015

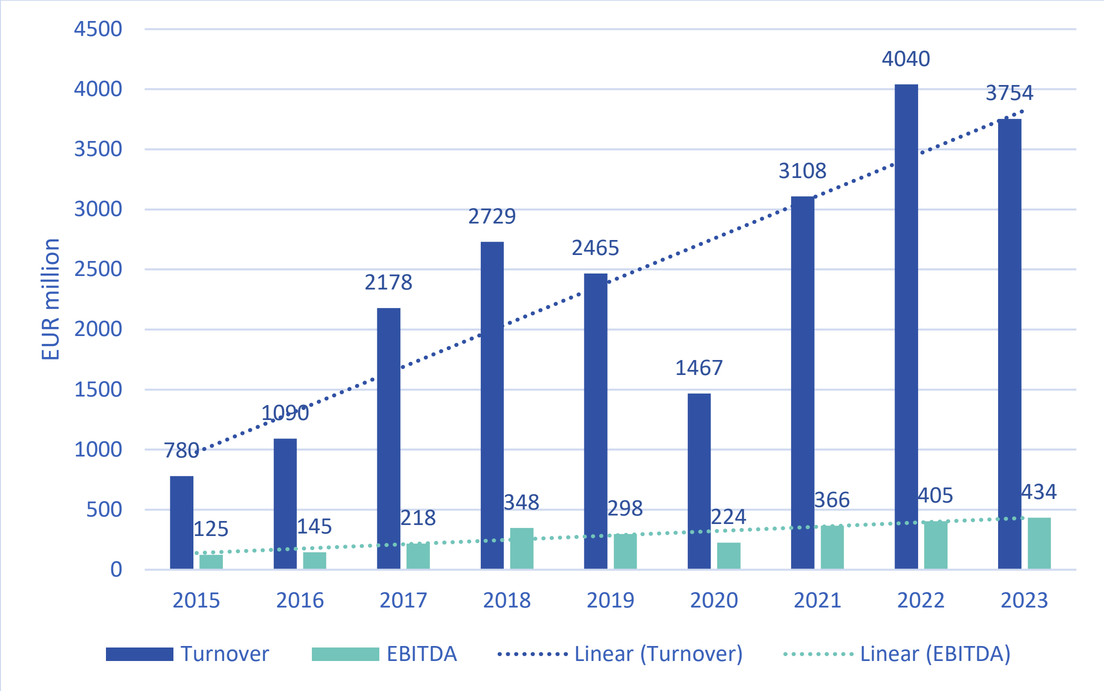


Source: EIB annual report to AECID 2023.

Most of the 15 companies visited in Jordan, Morocco and Tunisia reported being adversely affected by pandemic-related restrictions. According to feedback from these companies, activities began to resume in 2020, but the recovery was slow due to persistent restrictions. It wasn't until between 2022 and 2023 that companies started seeing return on their investments.

Despite the challenging environment, several flagship companies have done well and are likely to be sustainable. All companies visited drew benefits from the support provided by the funds on organisational restructuring. Some companies have successfully executed strategic moves such as repurchasing funds' shares, or proceeding with mergers and acquisitions to gain market share or expand the product range. Some companies were able to capitalise on new legislation such as the health financing and insurance reforms in Morocco and Tunisia. Furthermore, some companies have significantly reduced unproductive debt while investing in tool modernisation, reflecting positively on changes in management and business practices, essential for sustainability. The expansion into new markets as well as the growth initiatives undertaken by other companies, further contribute to the overall positive evaluation of changes and benefits for the companies. Finally, the investees' financial standing improved, as evidenced by the rising turnover and EBITDA figures (Figure 6). These achievements collectively signify the resilience and strategic agility demonstrated by some of the portfolio companies in navigating challenges and capitalising on growth opportunities.

Figure 6: Total turnover and EBITDA of investee companies by year



Source: EIB annual report to AECID 2023.

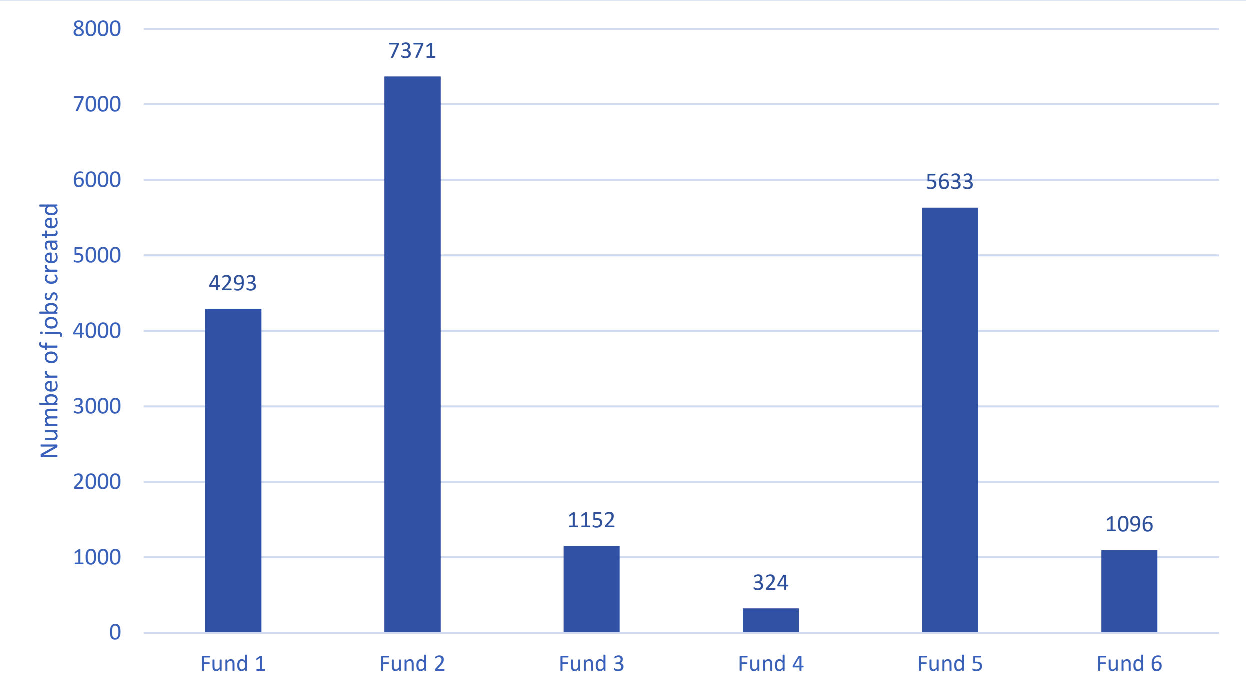
Some funds achieved significant non-financial results, with notable success in employment, particularly for women and youth. There is an increasing focus on impact measurement, with enhanced ESG results.

Employment, one of the main objectives of the partnership, has been promising for some funds. Figure 7 shows the number of jobs created up to 2023, as reported by the companies in the annual EIB surveys.[19] The achievements of the funds underscore the success in fostering economic opportunities within the invested sectors.[20] Results in terms of employment creation align with and reinforce the broader goals of the partnership, showcasing the tangible and sustainable benefits generated through strategic investments and operational engagement.

Some of the visited companies pointed out that restructuring sometimes leads to a net job loss, for example through the automation of industrial processes. However, they emphasised the importance of the modernisation process to gain a competitive edge, and that it ultimately results in a greater share of full-time, permanent and more stable employment. In other instances, some companies exerted considerable effort during the COVID-19 pandemic to retain all their employees.

[19] Jobs created were calculated based on the reported number of employees at end-2023 minus the reported number of employees at the investment date. The data set comprises 42 of the 51 companies in the portfolio.
[20] It remains unclear whether, for the investee holding companies, jobs created include staff from the acquisition of other companies.

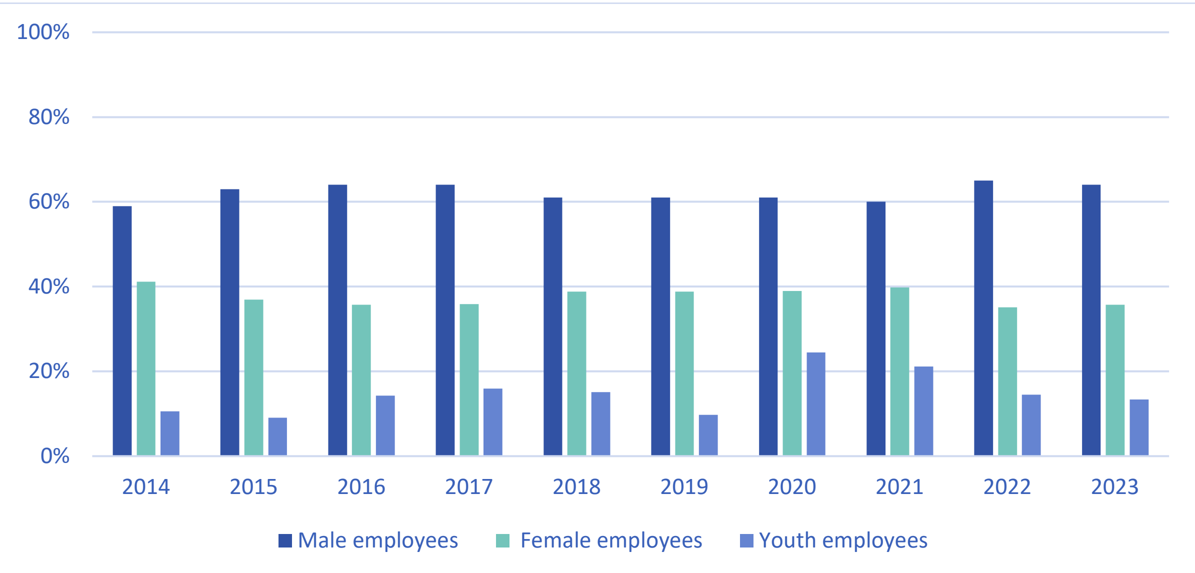
Figure 7: Number of jobs created up to 2023



Source: Calculations based on the EIB annual report to AECID 2023.

Female and youth employment[21] are high. Although the number of female employees has grown over the years, this group's share of the total workforce has not changed significantly. In 2023, the portfolio companies had 17 233 female employees and 6 467 employees under 25 years of age, representing 36% and 13% of the overall workforce, respectively. The proportion of these groups in the total workforce has not significantly changed, as illustrated in Figure 8.

Figure 8: Proportion of men, women and youth employees



Source: EIB annual report to AECID 2023.

[21] Youth employment considers employees under 25 years old.

From fund document reviews and field visits, the shares of women employed appeared high in mid-cap, large or technology-based companies, and lower in SMEs in Morocco and Tunisia. This speaks in favour of the choice made by some of the funds to invest in companies of different sizes.

Funds increasingly focused on impact, with some significantly enhancing application and measurement of ESG aspects. The commitment to ESG standards is consistent across all funds. Some distinctions emerged in the approaches adopted, showcasing the diversity of strategies. For instance, some funds engaged service contractors to independently monitor and verify ESG across its portfolio companies. Other funds strategically integrated specialised ESG staff to drive internal initiatives. Beyond adherence to ESG standards, some funds are actively reporting their impact against the United Nations Sustainable Development Goals (SDGs). All fund management teams underlined that the EIB has played a significant role in contributing to these developments, as further detailed in Chapter 4, exemplifying collaborative efforts to align with evolving standards and priorities in sustainable investment. Finally, there were several examples of funds passing on practices to companies they invested in, by systematically asking companies to develop environment, climate and/or gender action plans. While some visited companies pointed out that this came with an additional cost, they also recognised the associated benefits. These companies understood the positive returns, both in financial terms and as a boost to their branding efforts.

Training, job enrichment and salary levels at selected companies have shown improvement. Most of the companies visited emphasised their commitment to employee development by providing training programmes. In 2023, 69% of the 51 reporting companies indicated that they are providing training to their employees.[22] In the health sector, some retailers reaped benefits from training initiatives provided by multinational corporations manufacturing the products they sell, enhancing their operational capabilities.

Most of the investee companies reported engaging in socially and environmentally responsible practices, albeit with varying levels of intensity. In 2023, 26 companies had at least one quality certificate or had plans to obtain a certificate. Most portfolio companies emphasise that the products and services they provide consistently meet customers' requirements and that their quality is continuously improved. More than half of the funds' portfolio companies (31 out of 51) maintained an improved/comprehensive Environmental and Social Management System, and all companies declared that the minimum age for admission to employment is respected, and that a preventive health and safety culture is developed and applied in the workplace. [23] Some funds' ESG reports highlighted pioneering initiatives for the sector/region, such as training programmes designed to enhance women's leadership skills. Additionally, there were initiatives aimed at the recruitment and promotion of women employees into executive and middle management positions. Some companies implemented energy efficiency programmes and waste management initiatives, and expanded their product offerings to better cater to diverse "ethnic markets", including outside the region.

[22] EIB annual report to AECID 2023.
[23] Ibid.

4. WERE THE APPROACHES ADOPTED AT PARTNERSHIP, OPERATION AND COMPANY LEVEL CONDUCIVE TO REACHING THE PARTNERSHIP'S OBJECTIVES?

This chapter presents the assessment of the partnership's management at different levels, and the manner in which relations between key stakeholders at each level contributed to the achievement of the partnership's wider objectives. As outlined in Chapter 1, these related to strengthening the private sector and equity markets in the Southern Mediterranean region.

The EIB-AECID cooperation and the choices made at partnership level have contributed to private sector development, though with less emphasis on MSMEs than initially projected.

The choice of working in tandem with the FEMIP risk capital mandate was sound, and ensured that the partnership's portfolio could be rapidly built up. The FEMIP risk capital mandate had compatible objectives and the same geographic focus as the partnership. By 2011, it had been in operation for many years and had established, proven procedures, as well as a pipeline of scalable operations to finance.[24] Co-financing with the FEMIP risk capital mandate therefore played an important role in the prompt deployment of the partnership's funds, as many operations had already been identified, and were ready for or were already undergoing due diligence.

However, this approach also limited the full utilisation of the €100 million envelope in the given time. The annual available envelope under the FEMIP mandate for risk capital was roughly €30 million.[25] This meant that in the two-year investment period set out in the AECID partnership agreement,[26] and following the principle of equal investments in each operation from the two sources, not all €100 million could be utilised in the given time. The €100 million envelope was also ambitious in light of the limited pool of funds that met the partnership's investment criteria (e.g. geography and size of targeted companies) and the EIB's standards at the time. Even though the partnership agreement allowed for investments to be made on a standalone basis (i.e. not co-financing with the FEMIP mandate), this did not occur.[27]

The EIB's monitoring of and reporting on the activities carried out under the partnership were regular and of high quality. The EIB's annual report on the partnership was timely and comprehensive, and it systematically reported on financial and non-financial results, in compliance with contractual requirements. The annual report was based on reporting from the funds themselves, supplemented by additional information gained through regular engagement with the fund managers. In addition, a survey of companies was conducted annually, which provided direct information on topics such as employment, provision of training, adoption of ESG and labour standards. An analysis was done at portfolio level showing the disbursement, distribution and evaluation of fair value, and the performance of each fund. A detailed monitoring sheet for each fund also provided information on the fund's status, and the list of shareholders with their investment amounts. Moreover, the analysis provided an investment overview of the fund, a highlight of significant events and an outline of exit plans. In addition, the

[24] Funding from additional sources, such as the EIB-AECID partnership, would allow funds already identified under the FEMIP mandate to reach closure more rapidly or increase their projected size.

[25] The total envelope coming from the EU budget under the FEMIP risk capital mandate was €96 million for a three-year period (2011-2013) and was to finance both equity and quasi-equity operations and technical assistance for investment projects in the region.

[26] Effectively, the investment period ran from January 2012 to June 2014, as per the partnership's amendment. The end of AECID's mandate investment period coincided with that of the FEMIP risk capital mandate.

[27] The EIB-AECID Partnership Agreement stresses that such investments may only be made on an exceptional basis and subject to the agreement of AECID.

analysis provided an overview of each investment by each fund with key indicators at the individual company level, including estimates of fair value, proceeds received, cost of investment, internal rate of return and jobs supported. The EIB and AECID representatives also maintained regular contact, including in-person discussions in Luxembourg and Madrid, exchanges of letters and emails, as well as regular and ad hoc calls. On these occasions, the annual reports were discussed and EIB staff provided updates on individual operations and answered specific questions from AECID representatives.

Incidents linked to the portfolio were managed transparently and cooperatively. During the period, two portfolio operations were affected by incidents. In both instances, the EIB kept AECID informed at key points throughout the process. AECID was also directly involved in discussion and negotiations with the local bank to find an acceptable solution to the deadlock.

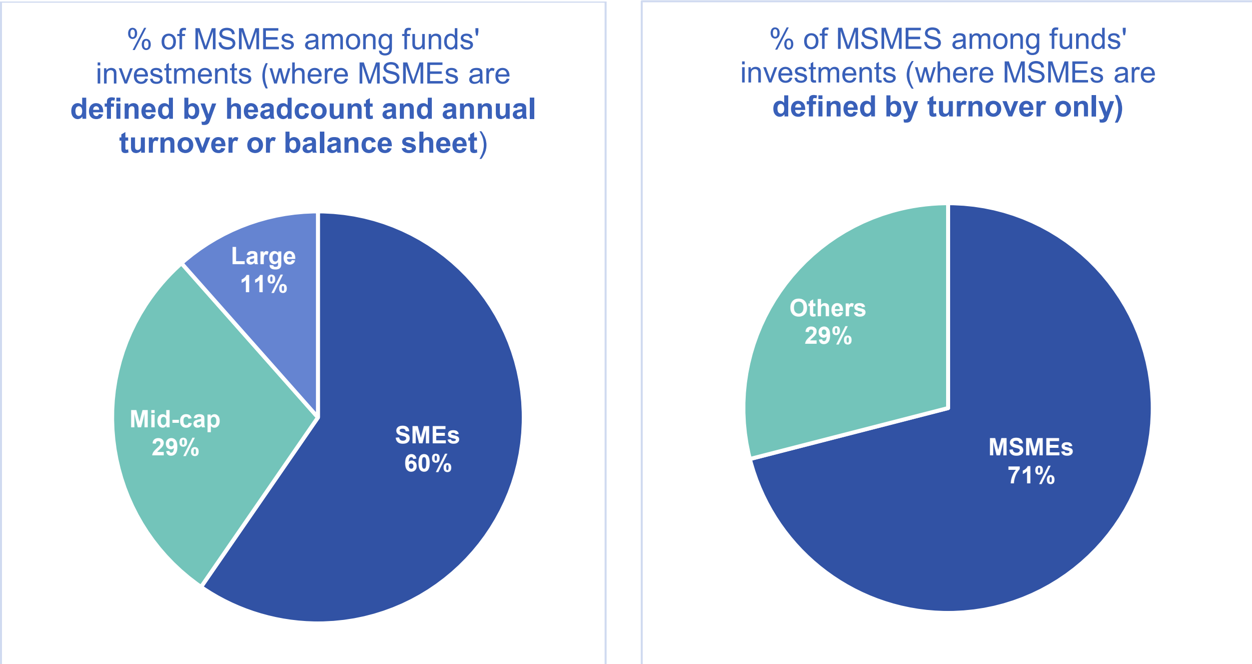
Despite close contact between the EIB and AECID, different interpretations of specific terms of engagement emerged occasionally during the mandate lifecycle. AECID interviewees pointed out that, in their view, the information provided by the EIB – in line with and beyond contractual arrangements – was extensive and necessary (e.g. for formal auditing purposes); however, it did not fully cover AECID's needs. Indeed, interviewees underlined that, given the complex nature of the private equity activity supported by the partnership and the intricacies of the context in which it operated, simplified summaries of the extensive information provided quarterly would have been a welcome addition. Furthermore, different interpretations emerged occasionally during the mandate lifecycle concerning the roles of each partner in a delegated management arrangement, and on some KPIs (e.g. expected share of MSMEs to be part of the portfolio, expected financial performance in the difficult regional context, or geographical distribution of investments). Considering that the partnership had a long lifespan and was atypical for AECID,[28] periodic reminders of the partners' common objectives, and of the initial terms of engagement and their feasibility in the difficult economic context, could have helped re-align the partners' mutual expectations.

The partnership's investments reached the private sector in the Southern Mediterranean region. The selection and engagement in the funds served the geographic scope of the partnership. As noted earlier, only three out of 51 fund-related investments were outside the chosen focus on Southern Mediterranean countries. All final beneficiaries were private companies, for the most part SMEs.

The partnership's level of ambition concerning MSMEs was not fully met, due to several factors. The partnership's investment strategy stipulated that at least 70% of investments should reach MSMEs, as per the EC definition. The EC definition puts forth three conditions for a company to be considered an SME: headcount (maximum 250 employees), annual turnover (maximum €50 million) and annual balance sheet (maximum €43 million). To qualify as SMEs, companies must meet the headcount criterion and at least one of the other two criteria. Using this strict interpretation of conditions, only 60% of the funds' investments were in MSMEs. The funds themselves tended to use the financial criteria (turnover and balance sheet) as the determining factor to define SMEs, without considering the number of employees. This interpretation led to EIB reporting of 72% of investments being MSMEs – just within the limit mentioned in the partnership strategy (Figure 9). It could be argued that relegating the headcount criterion to secondary status is a sensible approach in the Southern Mediterranean region, where the cost of labour, labour law and hiring practices are different from the ones in the European Union, making the headcount criterion less relevant. Financial criteria are also easier to verify through annual accounts than headcount.

[28] The EIB-AECID partnership is one of the only two examples in AECID's portfolio involving delegation of responsibility for the management of an action to a multilateral development bank.

Figure 9: Share of MSMEs using different interpretations of the criteria in the EC definition



Source: EIB annual report to AECID 2022, annual surveys and interviews with the funds' management teams.

Some of the reasons for the lesser focus on MSMEs include:

- The presence in the partnership's portfolio of funds (at least two of the six) that had investment strategies and a staff skillset that focused on the boundary between SME and mid-cap, rather than on MSMEs.
- The perception by the fund managers that the investment environment in the South Mediterranean was more favourable for companies that were larger and had a potential regional outreach, given the relative difficulty of reaching scale within limited country markets. Fund managers often targeted companies with certain characteristics, including capable management teams, proven business models and the ability to grow into regional leaders.
- Confusion among some fund managers over the interpretation of the criteria. In one instance, for example, the "M" in SME was believed to mean mid-cap.
- The partnership's approach to co-finance operations already identified for and/or supported though the FEMIP risk capital mandate, which did not have hard targets for the share of MSMEs to be reached.

The EIB's cooperation with the funds and the support provided by the funds to companies yielded benefits beyond the provision of finance.

The EIB's engagement with the management teams of the operations in the partnership's portfolio reflected industry best practices and the realities of the regional context. In most cases, prior to committing to investing in a fund,[29] the EIB provided advice and support to management teams to ensure that the proposed fund met minimum standards. Once the investment in a fund was done, the EIB scrupulously respected the independence of the management teams, for example with regard to the selection of investments. The EIB provided guidance in line with its role as a limited partner and member of the funds' advisory committees. When warranted, it took a role in the supervisory committee, which gave it additional opportunities to monitor the operation of the funds and provide support as needed. In challenging times, together with other LPs, mostly DFIs, the EIB found mutually beneficial solutions for funds. The management teams of the seven portfolio operations were almost

[29] In some cases, these are the predecessor funds on the ones the partnership supported.

unanimously positive in their assessment of the relationship with the EIB, citing EIB officers' assiduousness in following the operations' evolution, their responsiveness and their constructive approach as key factors in the relationship.[30] Some of the managers pointed out that the EIB's practice of handing over an operation's management to a monitoring team once the funds' investment period was finished required additional efforts to build new relationships. It also required managers to understand and adapt to the varying degrees of emphasis placed by the EIB on financial and non-financial results throughout the lifetime of the operation.

EIB and, more generally, DFI involvement in funds resulted in increased focus on ESG matters. DFIs typically demand higher standards and levels of documentation than other private equity investors, both to commit to investing in a fund and throughout the lifetime of the fund. Several of the funds studied are able to demonstrate new ESG-related strategies, procedures and monitoring systems. For example, one fund developed a five-step approach to ESG involving (i) monitoring compliance with national laws and the IFC performance standards; (ii) developing an investment exclusion list; (iii) undertaking ESG risk analysis; (iv) incorporating environmental and social due diligence at investment level; and (v) developing environmental and social action plans and covenants in shareholder agreements at investment level. The EIB is singled out as one of the DFIs that has contributed most to this general improvement and to ESG and impact investment. This contribution has come about through (i) clarity in the contractual obligations around ESG; (ii) the obligation to report systematically on ESG indicators, such as female employment and the adoption of environmental certifications; and (iii) support in improving procedures and systems.

The companies visited by the evaluation team benefited from support provided by the funds that went beyond financing. All of the 15 companies visited reflected positively on the engagement of the funds, and were able to provide concrete examples of how the funds had supported their operations in addition to the ESG aspects mentioned above. Typical examples include:

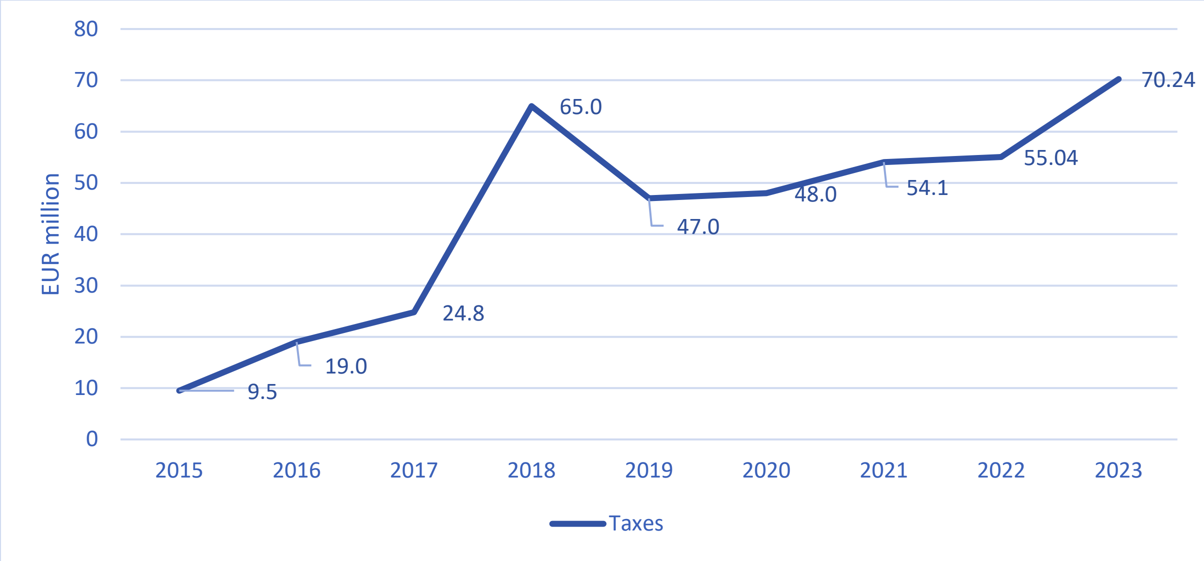
- support in structuring the company's finances and finding professional financial staff;
- advocacy on company boards in favour of developing more ambitious and longer-term strategies for these companies;
- commitment to company development, as opposed to opportunistic use of downturns.

Unlike other DFI investors interviewed in the context of this evaluation (the EBRD, IFC and DEG), the EIB did not provide grants to the funds to support the companies they invested in. Some funds and companies found that technical assistance and other grants would have been useful, for example to finance studies at company level with a view to drafting ESG-related action plans, obtaining certifications, etc.

The partnership contributed to wider social benefits, such as tax generation. In addition to employment being created and sustained, EIB reporting shows that the partnership investments also led to more taxes being paid in the region (Figure 10). These wider economic and social benefits provide a "proof of concept" which, in turn, could motivate governments to create a more favourable enabling environment for private equity.

[30] The evaluation identified only one isolated case where an issue remained pending for several years due to complications on the EIB side.

Figure 10: Taxes paid by the companies invested in by the funds (2015-2023)



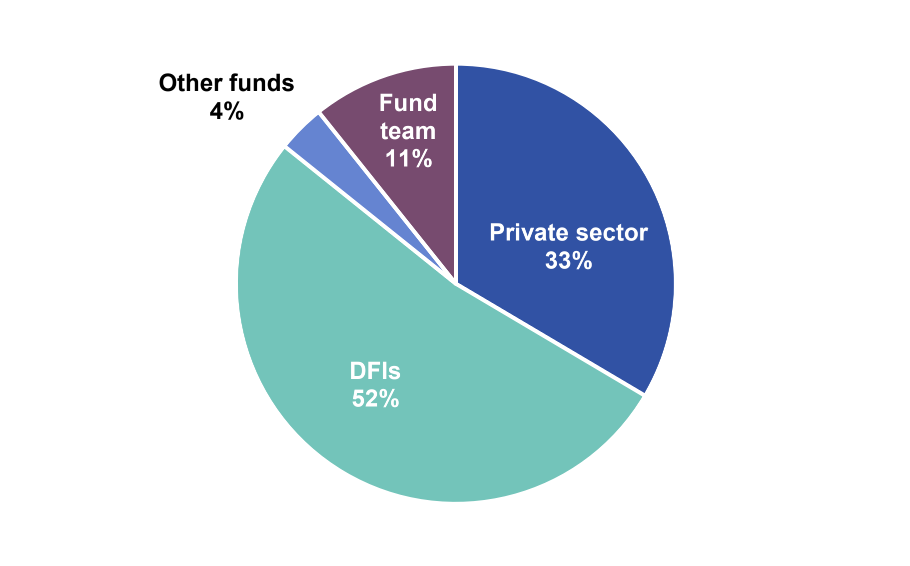
Source: EIB annual report to AECID 2023.

The joint action of partners at all levels helped strengthen the equity investment ecosystem, though private investing is still scarce.

Equity funding through the partnership has had a catalytic effect at both the fund and company levels. All but one of the funds interviewed noted the signalling effect of EIB investment and considered it an essential element in their being able to raise funds from other investors and close the fund. In most cases, the EIB was an early mover, and attracted investors into the funds by signalling confidence in the fund management and governance. The gross catalytic effect of the AECID funding alone, defined at the ratio of total fund commitment to the AECID commitment, is 13x (EIB annual report 2022). While it is not possible to argue that the AECID commitment was the only catalysing factor or that the funds would not have successfully closed without AECID, it is plausible that it made a significant contribution. All the funding managers interviewed noted that the AECID funding, channelled by the EIB, was highly instrumental in attracting additional funds and ensuring the successful closure of funds. The due diligence and analysis, as well as the EIB's provision of support in improving fund management practices, was also a contributing factor. These efforts raised the fund management standards and enabled other DFIs and local private sector investors to invest with confidence.

A wider catalytic effect in terms of attracting private investors to the equity market is not yet evident. The equity market in the region was and remains dominated by DFIs. The funds invested in through the partnership were also primarily financed with DFI funds. As shown in Figure 11, less than a third of the investment in the funds came from the private sector, with an additional 11% coming from the funds' management teams. The DFI dominance in the market, including their policy mandates compelling them to pursue both financial and non-financial objectives (e.g. ESG aspects), was cited by some fund managers as having a potential deterrent effect on private investors, which generally seek high financial returns first and foremost. This argument should nonetheless be put into perspective, in light of the significant challenges the region poses for all investors, as mentioned in previous chapters.

Figure 11: Sources of investment commitment in the six funds supported by the partnership



Source: EIB annual report to AECID 2022.

All in all, the ecosystem for venture capital has improved as a result of the scale of the EIB and DFI funding and technical support. The private equity market in the region was embryonic in the years before 2013. Regional fund managers had difficulty identifying companies (especially SMEs) that were willing to engage with private equity investments and that had a potential to grow and develop along the lines that funds expected and pursued. Services to support private equity (e.g. specialised lawyers or accountants who understood the nature of these types of transactions) were also limited. Many funds drew their key persons, even those of a nationality from the region, from well-established international banks and funds. The investment of EIB and other DFIs created a market for specialised services, and enabled younger staff to be hired and acquire experience as part of the fund management. Funds report that the ecosystem is more responsive in 2023 than it was 10 years ago:

- "It was a difficult market – the ecosystem was not there – since then the ecosystem has improved from night to day because people such as lawyers and auditors are available and better experienced. But there is still much missing. There is not a good ecosystem for exits with thin secondary markets, so that has not yet worked; add to this the fact that the macroeconomic situation is still not good for exits." - Fund manager

- "The main issue that blocks expansion and profitability is access to talent, technical skills, supply chain…The equity stake funding helped us recruit talent, and we have used it for that." - Fund manager

The EIB recognised the importance of the ecosystem not just in terms of initial support, but also in terms of creating a competitive and rewarding market. As noted in the EIB rationale for investing in one fund, "The competition on the investment segment targeted by the Fund is currently low. However, the establishment of other funds may also prove to be a positive development given the incipient nature of the venture capital market, where the demand exceeds the supply and investment partners are needed."

5. CONCLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS

5.1 Conclusions

The partnership approach was sound and its activity generally well managed at all levels. The selection of funds and investments, combined with the choice of working in tandem with the FEMIP risk capital mandate, supported the partnership objectives well.

The partnership's investments were needed in the challenging investment environment of the Southern Mediterranean region. Market analyses carried out by the EIB and others demonstrated that private sector risk capital was scarce in the countries targeted by the partnership. Increasing sovereign debt tended to absorb savings and crowd out private investment. Without DFI support, private equity investment through funds was scarce.

Cooperation with the FEMIP risk capital mandate proved to be a strength. The choice to work in tandem with the FEMIP risk capital mandate enabled a rapid startup of the partnership and ensured that it gained from the nearly 10 years of experience supporting risk capital operations in the region. However, the decision to link AECID financing with the FEMIP risk capital mandate, together with the short investment period agreed, hindered the full deployment of the AECID resources.

The EIB's identification and due diligence of the six funds was comprehensive, and the strategies and modus operandi of the selected funds generally aligned with partnership objectives. The EIB's due diligence was rigorous, with a thorough analysis of the track record of the funds, of their governance and management team, as well as of the country and market context. A full legal, operational and integrity check with a review by specialised entities within the EIB was conducted, supplemented in some cases by field visits.

The six funds invested in companies based on a solid due diligence and adherence to their investment strategies. The funds went to great lengths to identify viable investment opportunities. This approach paid off, as there were few cases of failure across the 52 investments made, which is remarkable given the adverse conditions in a number of the countries invested in. One of the main issues encountered by the funds in building up their portfolios was the low number of companies that had promising prospects for growth.

Despite the EIB's regular, high-quality monitoring of, and reporting on, the partnership's activities, different interpretations of specific terms of engagement emerged occasionally during the mandate lifecycle. The EIB's reports were generally timely and comprehensive, and they systematically reported on financial and non-financial results, in compliance with contractual requirements. The EIB and AECID representatives also had regular contact, and EIB staff provided updates on individual operations and answered specific questions from AECID. Given the complex nature of the private equity activity supported by the partnership and the intricacies of the context in which it operated, AECID pointed out that simplified summaries of the periodic reports could have facilitated the interaction further. Furthermore, different interpretations emerged occasionally during the mandate lifecycle concerning the roles of each partner and KPIs. Periodic reminders of the partners' common objectives, and of the initial terms of engagement as well as their feasibility in the difficult economic context, could have helped re-align mutual expectations.

Against the backdrop of a difficult investment landscape, the COVID-19 pandemic and macroeconomic deterioration, the portfolio did not reach the expected financial target, but contributed to noticeable non-financing benefits.

The financial performance of the partnership's portfolio was below initial projections, in part due to the investment landscape, but also because of a deteriorating macroeconomic environment. The expected hurdle rate of 8% across the partnership's portfolio was not achieved. The key factors in determining results were the investment landscape in the region, the COVID-19 pandemic and the deteriorating macroeconomic environment (including rapid devaluation of currency), combined with social and political turmoil (e.g. a coup in Egypt, mass protests over the financial crisis in Lebanon, and the protracted wars in Syria and, most recently, in the Palestinian territories), which curtailed the likelihood of profitable exits. At the end of 2023, the portfolio's TVPI was still above 1.0.

Non-financial benefits are evident and, in the context, commendable. The funds managed to support most companies in deploying strategies for growth and resilience and in creating or sustaining employment, particularly female and youth employment. Moreover, there has been an increasing focus on impact measurement, with enhanced contribution to ESG. Investee companies engaged in socially and environmentally responsible practices, with many holding quality certificates and maintaining Environmental and Social Management Systems. Some leading practices included training programmes for women's leadership skills and initiatives for energy efficiency and waste management.

Although with less emphasis on MSMEs than initially projected, the partnership supported the private sector and the emergence of a private equity ecosystem in the Southern Mediterranean.

The approaches adopted have generally been conducive to supporting private sector development in the region, albeit with a somewhat reduced focus on MSMEs compared to expectations. The reduced focus on MSMEs can be traced back to the economic realities of the region, with small economies that meant that only larger companies with prospects of regional expansion would be likely to grow. This influenced the investment strategies of the funds, which tended to favour larger SMEs and even mid-caps.

The regional ecosystem for equity capital has improved, thanks in part to funding and support provided by the EIB and other DFIs. The joint efforts of the DFIs and their continuous investments in the equity market in the region helped sustain the equity capital market throughout the period. A significant number of younger investment managers have gained experience, and the availability of specialist legal and financial expertise is now much greater than before. This has not yet led to increasing levels of participation by private investors in the market, but it has created some of the preconditions for private equity activities to take off once the economic climate improves.

5.2 Insights and lessons learnt

Over the ten years of the partnership, lessons arose from both good practice and opportunities to enhance performance. Some of these lessons have already been integrated in the way the EIB works. Together with the conclusions, they provide a basis for recommendations.

Partnership level

- Mandates with partners who are less well versed in the type of activity the mandate finances require intensive engagement. This engagement is necessary to ensure that all those involved find the cooperation transparent, and the reporting clear and useful.

- Access to equity is crucial for some MSMEs, such as innovative, young firms with high growth potential. Typically, microenterprises in the tech startup field would fall into this group. To reach their potential, MSMEs often need a combination of products alongside equity risk capital, such as grants or technical assistance. They often also need close management support and specialised assistance. Only some of the funds with larger management teams, or those specialised in a particular segment (i.e. technology startups), were able to offer the degree of assistance needed. When discussed early on between the EIB and mandators and embedded in mandate agreements, such a combination of products could enhance the support provided to this type of firm.

- Building a portfolio of viable operations in line with a partnership's objectives can be challenging. The terms of the agreement need to be kept as open and flexible as possible. This entails a careful, realistic assessment of what can be achieved in a given period and a given context. For example, an investment period of 2.5 years to invest €100 million has proven quite ambitious in retrospect. Similarly, it may be judicious to express targets as ranges rather than absolute figures for the main parameters of an agreement (hurdle rates, type of companies in the portfolio, etc.) in order to accommodate unexpected events like the ones this partnership faced throughout the decade.

Operation level

- A careful selection of operations and investments, based on solid due diligence processes, is important for achieving success. However, the most important factors affecting operations in the region are the investment climate and the overall (macroeconomic and regulatory) environment. Active monitoring and early warning mechanisms are needed in risky environments such as the Southern Mediterranean region.

- Funds require greater clarity on the balance of impact and financial results in order to optimally respond to and report on investor objectives. The financial targets in the results framework were clear; the impact targets less so.

- The time lag between investment and a potentially profitable divestment can be significant in unfavourable economic environments. This implies that the expectation for hurdle rates needs to be realistic, and possibly lower than that set by this partnership agreement.

- Support from the EIB and DFIs has been crucial in building up fund management and investor confidence. Subsequent raising of new funding rounds is a testimony to the benefit of close support provided and recognised as such by the fund management.

Company level

- The longer-term economic performance of MSMEs in the region is critically dependent on the size of the market and the potential scaling effect. This means that companies aiming to grow (at least those that rely on the consumer market and come from smaller economies) need to find strategies beyond national borders, and target regional expansion. The ability to plan and successfully implement such strategies is rarely present among the micro and lower SME segment of the market.

5.3 Recommendations

The EIB-AECID partnership is currently winding down. However, the Bank's support for the private sector in the Southern Mediterranean region continues, including though mandates and partnerships and the use of risk capital instruments. In this context, and in the light of the findings, conclusions and lessons learnt outlined above, it is recommended for the EIB to:

1. Develop a toolkit for EIB engagement with mandate providers, specifically for private equity operations in risky environments.

Underlying issue and potential benefits: For an efficient and mutually beneficial implementation of a mandate, it is important to align, manage and reiterate expectations of all parties to ensure a common, realistic level of ambition in terms of deployment, likely results and the degree of risk involved. Considering that the partnership deployed with the EIB had a long lifespan and that the products were atypical for AECID, periodic reminders of the common objectives and initial terms of engagement (e.g. respective roles and KPIs) could have helped to re-align mutual expectations and sustain trust and thus lead, to efficiency gains in the management of the mandate.

Potential means of implementing this recommendation include:

- Developing an outline presentation of the EIB approach and business model for private equity investments in risky environments, to be shared with partners and internal EIB staff.

- Developing internal guidelines for EIB staff highlighting the key aspects to look out for in the mandate relationship. Examples of such points for attention include:
  - Ensuring that mandator and EIB expectations are fully explored, discussed and documented.
  - Assessing the feasibility of proposed targets and conditions and, where possible, proposing a range rather than an absolute figure.

- Envisaging a mid-term review and re-assessment of the initial mandate.

2. Combine risk capital operations with other products that can help enhance the results of support for SMEs in the Southern Mediterranean region.

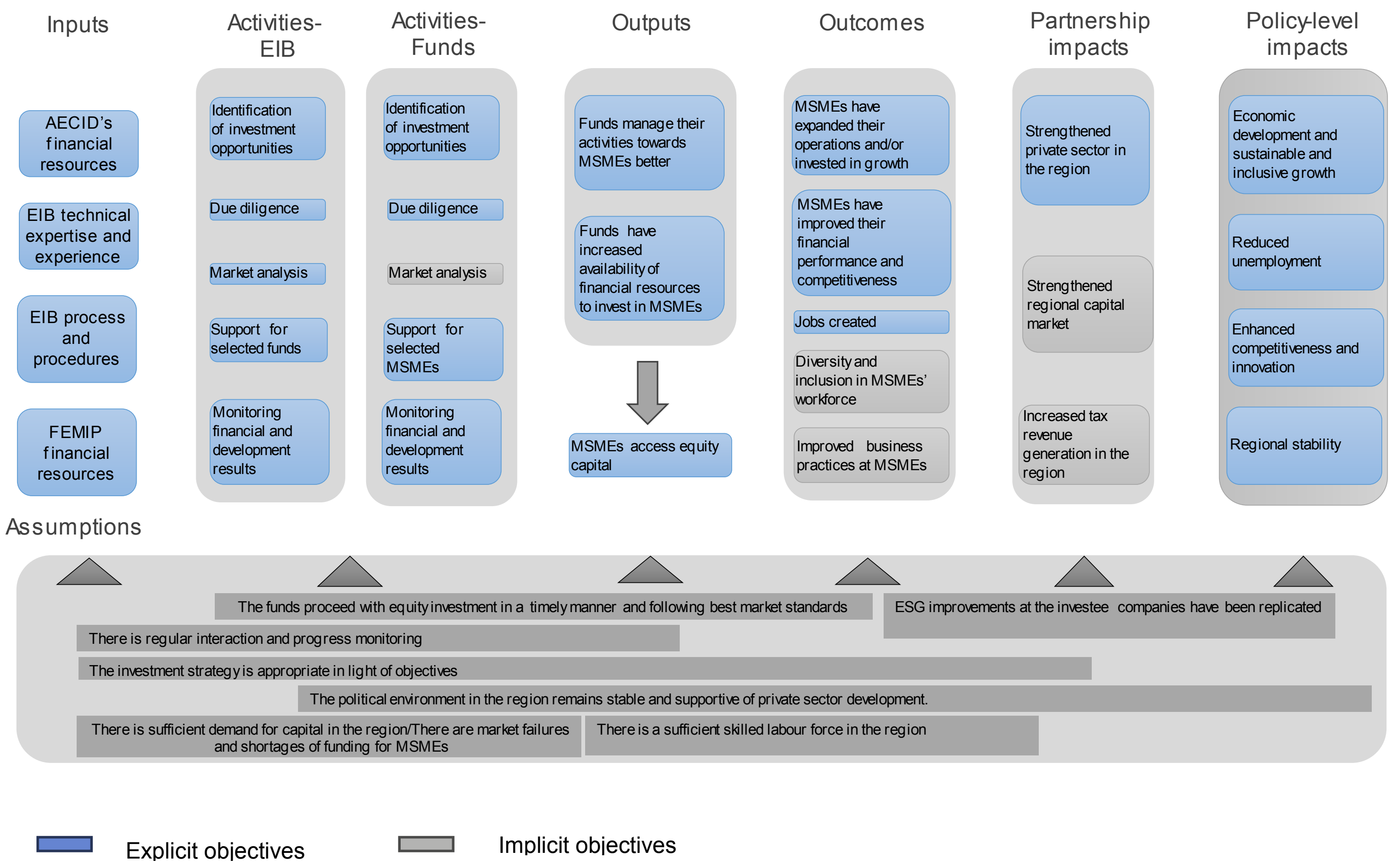
Underlying issue and potential benefits: The needs of SMEs in the Southern Mediterranean region are more diverse and complex than what risk capital operations like those in the EIB-AECID partnership portfolio can address. Risk capital operations are one of the products the EIB has available to support private sector development and in particular SMEs, along with multi-beneficiary intermediated loans, technical assistance, support for startup incubators, microfinance operations, etc. In the context of the AECID mandate operations, however, the available products were not combined to tackle the wider objective of SME and private sector development more holistically. A beneficiary-centric approach in determining how to serve identified needs would greatly strengthen the potential for impact.

Potential means of implementing this recommendation include:

- Exploring the extent to which SMEs could access other types of EIB-backed support, outside the relationship with the fund (e.g. applying for loans through one of the EIB's multi-beneficiary intermediated loans (MBIL) operations); this could be done by proactively discussing such options with the funds and proactively introducing other EIB products.

- Exploring the need for and providing a small grant component that funds can use to support specific needs of investee companies; financing such small grants could be explored through a framework operation in the context of the FEMIP Trust Fund, for example.

ANNEX 1 - THE PARTNERSHIP'S INTERVENTION LOGIC



ANNEX 2 - RATIONALE FOR SUPPORTING SMES IN THE SOUTHERN MEDITERRANEAN

Supporting MSMEs in the Southern Mediterranean region is a key component of EU policies for regional development, economic cooperation and stability in neighbouring countries. It is also on the main agenda of the Sustainable Development Goals (SDGs 8 and 9, and it contributes indirectly to others). The international and EU policy rationale[31] for supporting MSMEs is to foster:

- **Economic growth and job creation:** MSMEs are a major driver of economic growth and job creation in the Mediterranean region. MSMEs have been shown to be one of the fastest routes to increasing employment opportunities, particularly in countries with high youth unemployment rates. Supporting MSMEs helps to boost economic development and reduce poverty through income generation.

- **Economic resilience:** By supporting MSMEs, the EU aims to enhance the economic resilience of Mediterranean countries. A strong and diversified MSME sector, because of its spread across sectors and exploitation of different niches, can reduce vulnerability to economic shocks and contribute to sustainable economic growth in the region.

- **Sustainable Development Goals (SDGs):** MSMEs can support the achievement of SDGs, contributing to gender equality, inclusivity, environmental responsibility, youth employment, etc. They can also act as service providers including in healthcare, education, water supply and energy, ensuring access to fundamental services.

- **Competitiveness and innovation:** MSMEs and especially startups are seen as hubs for innovation, technology adoption and sustainable business practices. They play an essential role in driving economic progress and environmental responsibility while maintaining ethical standards.

The EU's support for MSMEs in the Southern Mediterranean region emerged as a response to longstanding economic and sociopolitical challenges. The EU's involvement in the region is embedded in the context of the European Neighbourhood Policy (ENP), which aimed to address these barriers and promote inclusive and sustainable economic development. One of the critical issues identified was the underdeveloped private sector and the limited network of MSMEs within the region. Furthermore, economic growth had failed to advance inclusiveness and generate employment opportunities, particularly for youth and women; high levels of unemployment persisted.[32] Critical factors restraining the development of the private sector and the growth and competitiveness of MSMEs in the Mediterranean region include the lack of a conducive business environment and difficulties in accessing finance.

In line with the ENP, the EIB established the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in 2002. FEMIP combined all resources available to the Southern Mediterranean region financed or managed by the EIB into one facility. This included EIB own resources (both with and without the EU budget guarantee) as well as resources from the EU budget for lending, technical assistance, risk capital, etc. It also included a trust fund that pooled resources from EU Member States. FEMIP encouraged modernising and opening up the Mediterranean partner countries' economies, focusing its activities on two main priorities: supporting the private sector and creating an investment-friendly environment.

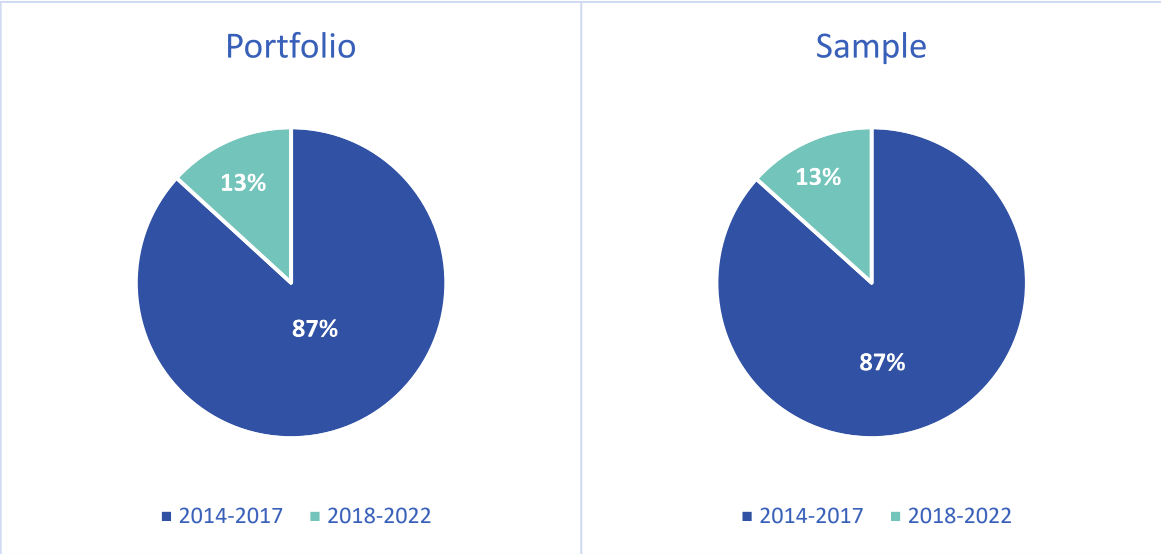
[31] Several sources were used to inform this section: (i) the Aston Centre for Europe: The Role of Small and Medium-sized Enterprises in the Mediterranean, 2011; (ii) UNDESA: Micro, small and medium-sized enterprises (MSMEs) and their role in achieving the Sustainable Development Goals.

[32] EU, Programming of the European Neighbourhood Instrument (ENI) – 2014-2020.

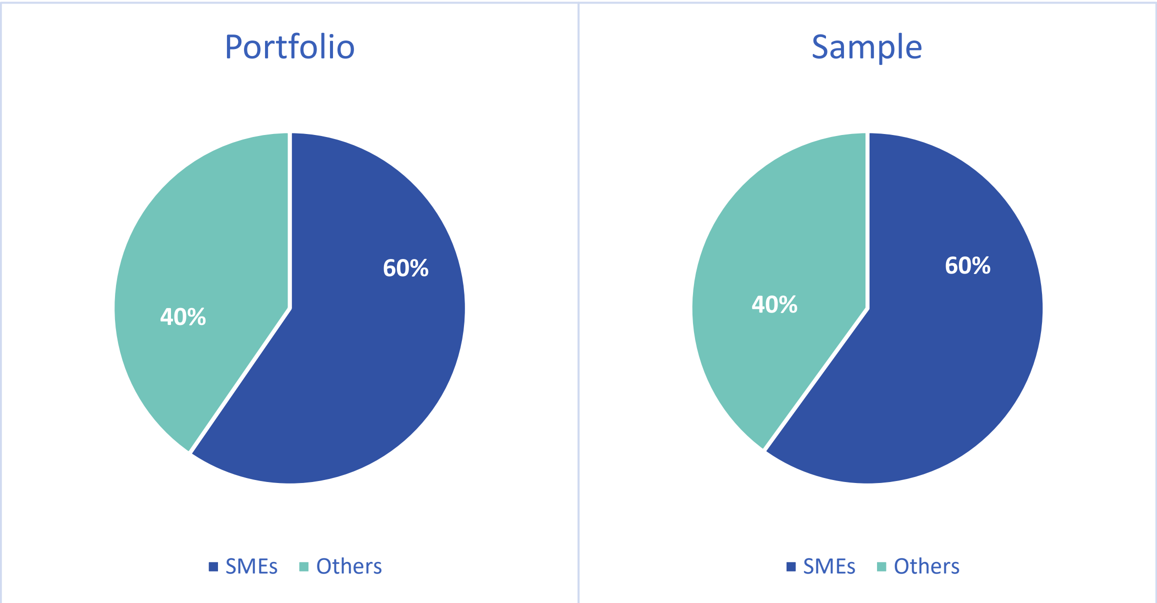
ANNEX 3 - SAMPLING APPROACH

Sampling was carried out on the basis of the information available for year-end 2022. The sample of visited companies represents **around 30% of the number of investments, and 35% of the total volume of investment in the portfolio**. Visited companies were selected and screened against the following criteria, to ensure that the sample would cover the main investment types and sizes:

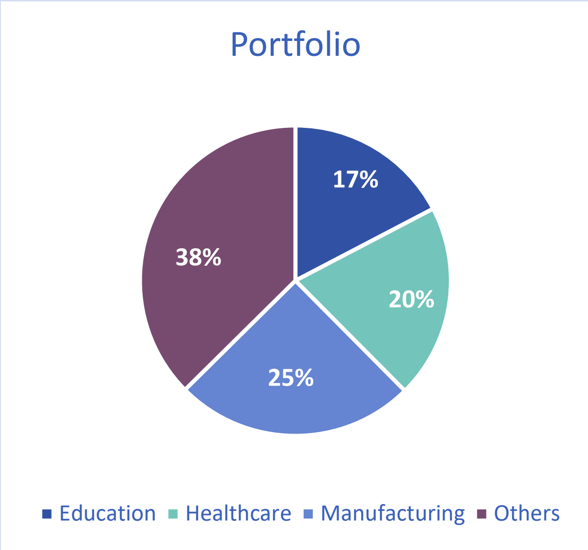
A) Investment date: Out of 15 sampled companies, 13 are older investments, while two are more recent.

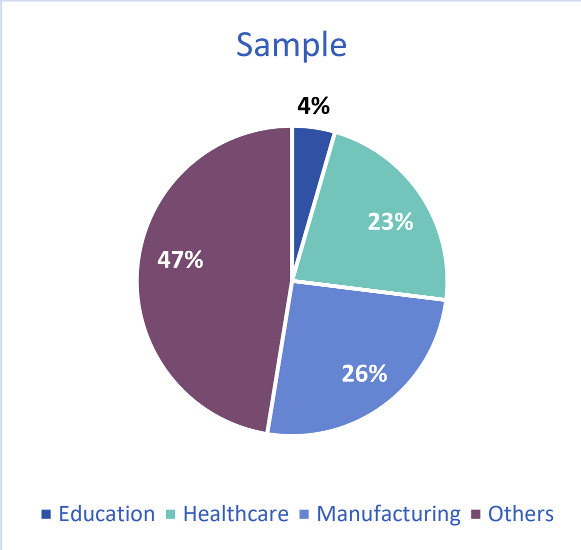


B) Size of the company: Nine out of 15 of the sampled companies are SMEs (strict EU definition).

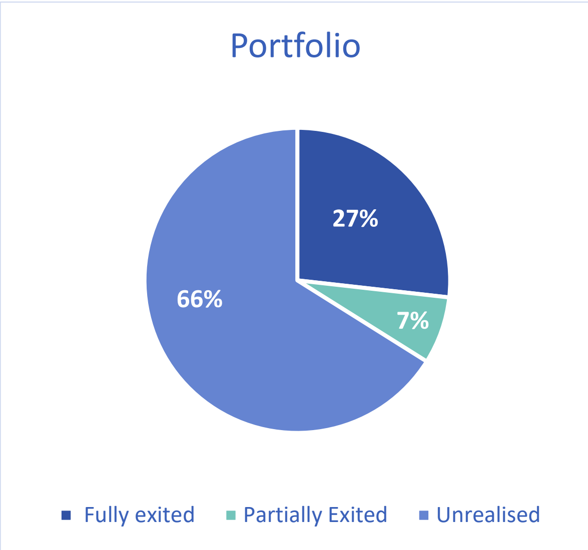


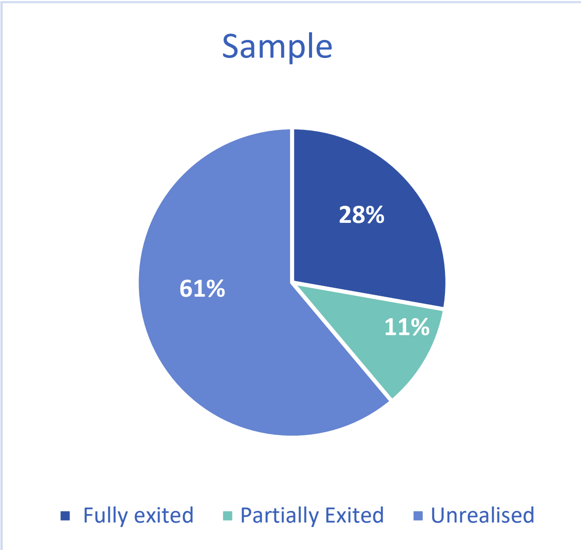
C) Sector of activity: Out of 15 sampled companies: two companies in the manufacturing sector, representing €90.3 million of investment; four companies in the health sector, representing €42.8 million of investment; and one company in the education sector, representing €8.5 million investment.





D) Status of the investment in 2022: Out of 15 companies: five realised-fully exited, two partially realised, 11 unrealised).





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The Evaluation Division of the EIB Group conducts independent evaluations of the EIB Group's activities. It assesses the relevance and performance of these activities in relation to their objectives and the evolving operating environment. It also helps the EIB Group draw lessons on how to continuously improve its work, thereby contributing to a culture of learning and evidence-based decision-making.

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EIB GROUP EVALUATION

Evaluation of the EIB-AECID partnership in support of SMEs in the Southern Mediterranean region (2011-2023)

August 2024

European Investment Bank | Group

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