



## FEMIP Trust Fund (FTF)

### Strategic Orientations & Operational Plan 2014-2020

The FTF has been playing a valuable role in endowing the EIB with a dedicated instrument delivering advisory services, capacity building support and risk capital operations to enhance the development impact of the Bank's activity in the Mediterranean Partner Countries (MPCs).

In view of the challenges the Mediterranean region is still facing three years after the Arab Spring, and building on the positive performance registered since the launch of the FTF in 2005, it is proposed to step up substantially over the next seven years FTF-supported initiatives. The strategy is set out in this note. As will be illustrated in the following sections, it is a very ambitious plan which can only be achieved with a commensurate increase in FTF resources.

#### 1. The Institutional Framework

In its decision of 14 October 2004, the Bank's Board of Directors approved the *Rules relating to the establishment and administration of the FEMIP Trust Fund* (the "Rules"). According to article 10.1 of the Rules relating to its establishment and administration, the main and broad purpose of the FTF is to foster private sector development in the MPCs, in this regard the FTF is active on two main fronts:

- (i) the development of an "enabling environment" for private sector activity by fostering the creation of adequate capital and human "infrastructure"; and
- (ii) fostering and diversifying the availability of financial instruments for the private sector.

#### 2. State of Play

Between 2005 and 2013, the FTF endorsed 62 operations for an aggregate amount of EUR 37.3m in seven target areas: finance sector and MSMEs; energy; transport; water and environment; RDI; urban development; and human capital. 70% thereof entailed a regional dimension and many of them involved close cooperation with the EU Commission through, *inter alia*, the Neighbourhood Investment Facility (NIF) and the FEMIP Support Fund. These operations enabled:

- the development of new areas of activity, among which PPPs, urban rehabilitation and mobile banking;
- a focus on the financial sector in order to facilitate credit access for MSMEs; and

- a focus on the infrastructure sector (energy and transport) in order to study how to optimally fill the existing infrastructure gaps in the region.

At the end of 2013, the remaining resources available for new activities amounted only to EUR 5m. By comparison, requests for FTF interventions are sharply increasing and the pipeline of projects exceeds already EUR 30m, with a particular focus on the following sectors: (i) finance and MSME (private sector) accounting for 37% of the projects, (ii) infrastructure and (iii) water and environment accounting for 21% and 21% respectively. About 60% of the transactions have a regional focus and about 40% are related to operations to be developed in Lebanon, Tunisia, Gaza/West Bank, Morocco and Jordan.

### 3. Operational Strategy for 2014-2020

The FTF will continue to focus on the overarching strategic objective of fostering private sector development in the MPCs. In line with the EIB Strategy for the Mediterranean (2014-2020), the utilisation of FTF funding will enable the EIB to adopt a more integrated approach to projects, providing advisory services, pre-feasibility studies in its priority sectors, as well as widen the scope for risk capital operations. This will entail a significant expansion, as is already reflected in the current pipeline of projects which shows an increasing demand by regional partners for FTF support.

More specifically, FTF activity would focus on the following **four priority sectors**:

**Finance and MSMEs:** The financial sector remains one of top priorities; FTF-financed activities will aim at contributing to improve the regulatory framework in which the different players involved in private sector development operate, as well as at encouraging the emergence of new financing instruments.

- The FTF will keep on supporting the MSMEs sector through studies and advisory services improving access to markets, financial services as well as guarantee mechanisms and mobile finance services.
- The FTF will aim at increasing its support to MSMEs through risk capital operations<sup>1</sup>. For this purpose it is proposed to create an “impact investment envelope” under the FTF enabling the EIB to consider more private sector operations with an important developmental impact, but also with a high level of risk and low return expectations. The envelope would target investments in fund structures, microfinance institutions, or other entities pursuing specific economic, innovation, social and environmental objectives without aiming and maximising financial returns. It is expected that a maximum of 2 to 3 projects would be considered per year, with an overall annual budgetary requirement of EUR 6 to 8m.

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<sup>1</sup> The share of risk capital operations compared to upstream technical advisory services and studies was so far rather limited (i.e. 32% against 68%), in line with a recommendation of the Donors to ensure the sustainability of the Fund.

Concretely, the EIB has so far identified the following operations:

- Taysir – Tunisia (EUR 1m): The project concerns a participation (either in the form of equity/similar instrument or subordinated debt) in Taysir, a newly created microcredit institution in Tunisia. This institution is being set up within the framework of the new law for microfinance activities. It is a project sponsored by Adie, a successful and well-known French microcredit institution. The social impact interest of this project mainly lies on the fact that Taysir will position itself as a Microfinance Institution active in disadvantaged urban and remote rural areas. Taysir has developed specific microcredit products to support small farmers and mild producers, in cooperation with a large European dairy company. Furthermore, it intends to cooperate with various existing civil society organisations in order to enhance the impact of microcredit on poverty reduction. As such, the project is expected to contribute to the development of the Tunisian financial sector and improve access to finance to microenterprises, unemployed and self-employed.
- Coopmed – Regional (EUR 4m in two tranches): CoopMed is a regional debt investment fund sponsored by the French *Crédit Coopératif*, alongside other French and Italian civil society organisations. CoopMed will provide debt funding to socially responsible SMEs, small environmental investments, cooperatives and microfinance institution in the FEMIP region. The first countries of operations are expected to be Morocco, Tunisia and Lebanon. The operation builds on the experience of CoopEst (with which it shares part of the management team), a similar structure launched in 2009-2010 in Eastern Europe. The operation is of particular interest because there is currently no such fund operating in the Mediterranean region, and the funding of cooperatives, environmental SMEs and socially responsible investments is very innovative and new in that market.
- Pilot for missing middle – Jordan (EUR 3m): The EIB is currently exploring the possibility to setting up a Mediterranean regional platform to finance generalist companies that are too large for micro-finance, too risky for commercial banks and too small for private equity. i.e. the “missing-middle” segment. The type of financing would be quasi-equity and debt instruments in the range of USD 50,000 to USD 1m. The vehicle would be managed by a specialised “missing-middle” investment company with local managers in every country. It is envisaged to start with a pilot in Jordan

### **Expected results:**

- facilitation of credit access to MSMEs, including through riskier initiatives on the impact finance envelope;
- increasing support to MSMEs through risk capital operations and development of equity markets;
- supporting the development of banking intermediation services and mobile financial services.

**Infrastructure**: The EIB estimates that over EUR 23 billion of investments are required every year until 2020 in order to meet the Mediterranean region’s infrastructure needs, both for upgrades and new developments. The focus of EIB’s lending will remain on

transport and energy sectors. However, in order to accelerate and optimise the quality of upstream project preparation, including feasibility studies, the EIB has recently been developing advisory initiatives which will provide specific frameworks to help generate bankable projects. Specific examples are the development of LOGISMED and TRANSTRAC initiatives with the Deauville Partnership Trust Fund, whose resources are channelled to the EIB through the FTF, and the EU through the Neighbourhood Investment Facility.

Over the next seven years, the EIB intends to pursue and develop further this specific advisory activity. In particular it will support pre-feasibility and market studies for specific projects in the transport and energy sectors:

- **Transport:** The FTF will accompany FEMIP's plans for an integrated and effective Euro-Mediterranean transport system through the provision of advisory services and studies. These initiatives aim at (i) extending the major trans-European transport axes to the neighbouring countries and regions through a regular and intensive policy dialogue between the countries concerned and also at (ii) providing upstream technical advisory for urban mobility and public transport initiatives through the major cities across the region.
- **Energy:** The main goal of FTF initiatives will be to unlock significant energy efficiency and small renewable energy investments in the region through the provision of advisory services and studies in order to promote (i) the use of renewable energies throughout the Mediterranean region and (ii) energy efficiency in urban areas with the aim to foster economic development as well as contribute to reducing GHG emissions. Another FTF priority will remain to provide capacity building aiming to promote the integration of the Euro-Mediterranean energy market including the development and efficient operation of electricity interconnections.

### **Expected results:**

- improved interconnection across the region and between the EU and the MPCs through the extension of an integrated transport network;
- improved urban mobility and public transport services in the major cities;
- promotion of renewable energy, energy saving and cleaner production investments;
- increased security of energy supply across the region.

### **Environment:**

- **Climate Action:** Climate change will severely impact the Mediterranean region and the need for a focused and wide-encompassing approach to this problem is well recognised. To this end, it is proposed to create a "climate action envelope" within the FTF aiming to support improved energy security, emission reductions and strengthened climate resilience through the identification and development of new climate action projects.
- **Water:** The Mediterranean environment is recognised as one of the richest and most vulnerable in the world, in particular with regard to its biodiversity. The FTF will remain open to initiatives in favour of environmental protection, through the provision of advisory services such as pre-feasibility and feasibility studies aimed at

promoting and identifying the best practices in the water and wastewater management sectors in order to support the preparation of new projects able to tackle the scarcity and the pollution of waters across the region.

### **Expected results:**

- development of a strong pipeline of feasible climate action projects;
- promotion of integrated water and wastewater management including necessary related infrastructures;
- implementation and promotion of PPP schemes and initiatives;
- reduction of water and air pollution across the Mediterranean region.

Under the infrastructure and environment targets, the FTF will continue to support Public-Private Partnership (PPP) initiatives. In this field, opportunities of cooperation with other institutions (international and bilateral) will be crucial to reach the regional goals and fill the existing gaps.

**Human Capital and Research Development and Innovation:** The FTF will continue to play a crucial role in the creation, transfer and application of knowledge in the Mediterranean region providing advisory services and studies supporting capacity building, research and innovation activities. At the heart of this challenge is the increasing need for initiatives able to promote education as well as investments in the field of innovation such as, for example, in the information and communication technology. The overall aim remains to support sustainable inclusive growth, innovation and job creation in the region by increasing the overall level of knowledge and human capital and indirectly contributing to the creation of enterprises.

Under this target, the **FEMIP Internship** and the **FEMIP Secondment Programmes**, which offer talented graduates and young professionals from the Mediterranean region the opportunity to gain work experience at the EIB, contribute to capacity building efforts. The extension of the initial envelopes will enable the programmes to be carried out beyond 2014, training additional young academics in the fields of economics, finance, environment, engineering and urban planning.

### **Expected results:**

- dissemination of know-how and transfer of knowledge especially to the young professionals;
- facilitate the development of innovation-based start-up in the region;
- provision of capacity building services focusing on project-related knowledge;
- increase number of professionals benefiting from EIB Internship and Secondment Programmes.

## **4. Needs assessment**

The objectives illustrated in the previous sections are very ambitious. As indicated, they will translate into a step increase in the activity of the FTF which, on the basis of the

pipeline of existing requests and sectorial forecasts, is expected to reach EUR 72m until 2017, doubling achievements to date.

This will require a commensurate increase in the contributions of donors. Table 1 provides an extrapolation of the expected amounts needed per objective and per year based on forecasts per target. The increasing demand for FTF support coming from regional partners as well as the creation of the two dedicated envelopes for impact investment and climate action explain this significant increase in FTF activities compared to the previous period.

**Table 1: Expected amounts per objective in 2014-2020 (EUR '000)**

Objective/Sector	2014	2015	2016	2017	2014-2017	2018	2019	2020	Total
Impact investment envelope	7,000	7,000	7,000	7,000	28,000	7,000	7,000	7,000	49,000
Infrastructure	5,000	5,000	5,000	5,000	20,000				20,000
Climate action envelope	5,000	5,000	5,000	5,000	20,000				20,000
Human Capital	1,000	1,000	1,000	1,000	4,000	1,000	1,000	1,000	7,000
<b>Total per year</b>	18,000	18,000	18,000	18,000	<b>72,000</b>	8,000	8,000	8,000	96,000

FTF activity will obviously be limited by resources available and in case the needed amount of resources should not be available to carry out all the currently envisaged activities it will be necessary to re-prioritise them according to the EIB overall strategy in the region and to the needs of MPCs.

The Bank will launch a replenishment campaign, tapping into new funding sources, proactively fundraising and engaging with shareholders, as well as non-traditional donors, including non-EU lenders.

As in the past, the FTF will closely cooperate with other multilateral and bilateral Financial Institutions active in the region.

Given the ambitious and challenging plan envisaged for the next seven years' period, the EIB counts on the FTF Donors in order to successfully accomplish with the above operational targets and to contribute to the development of the Mediterranean region as a whole. Only with the support of all the parties involved it would be possible to further increase the substantial leverage from FTF resources.