Private equity operations outside the EU – a boost for business

The European Investment Bank has been involved with equity funds in Africa, the Middle East, the Caribbean and the Pacific for over two decades now. We are active in around 50 funds in these regions, with a total value of nearly EUR 5bn. These funds represent another way for our financing to reach thousands of small and medium-sized businesses that need investment to grow, create jobs and meet the demands of evolving populations.

EIB operations outside of the European Union can broadly be broken down into different priorities. The first of these is private sector development, which is outlined in the EU Agenda for Change as the most effective means to create jobs and sustainable economic growth. Included in this, we find financial sectors. In emerging economies, these are often underdeveloped and do not have the means or capacity to support the ambitions of the private sector.

This is a situation that the EIB is helping to address. The Bank is perhaps better known for extending credit lines to financial institutions to support suitable projects, in addition to the complementary focuses on infrastructure and climate action which are our second and third priorities. Private equity is another way for us to reach the ambitious small and medium-sized companies that require financing. Through investing in equity funds, we can play a crucial role in developing the financial capacity in emerging economies, diversifying the financial system in those economies that are further along, and finally the ultimate goal, promoting the evolution of the small businesses themselves.

High standards, sound advice

There are other benefits too. The EIB brings certain standards with it, as an investor. This has a consequent catalytic effect because other investors will see the fund as a safer bet than they might have otherwise. The Bank also has the expertise and experience to provide guidance to the fund manager. In emerging markets, this too is a vital element, and one that is especially useful in getting a fund established and operational, and bringing first time fund managers into the market and developing the risk capital environment. Their subsequent investment in ambitious smaller businesses helps them with best practices, and creates a more robust and diverse formal economy, bringing more people into the financial system, and ultimately increasing tax revenues to help fund vital public sector projects. There is also a variation in the sectors in which EIB-supported funds invest, from those looking at smaller renewable energy facilities, through ICT, healthcare and manufacturing, while other funds take in several sectors.

Meeting needs

Demand works on several levels. Venture capital is developing, and more fund managers are emerging, while increasingly prosperous populations seek more and diverse goods and services. The knock on effect is that these niches will have to be filled – and it is smaller businesses that emerge to fill them. 2015 saw the EIB invest EUR 154m in nine private equity funds in sub-Saharan Africa, the Caribbean and Pacific Regions. This is the Bank’s highest ever total for a single calendar year, and taken together, these funds are expected to create directly 10 500 jobs in investee companies.
Convergence Partners is an investment management firm focused on the Technology, Media and Telecommunications (TMT) sector in Africa, and is responsible for the Convergence Partners Communications and Infrastructure Fund (CPCIF), in which the EIB invested EUR 22m. Investment in ICT infrastructure is vital to promote the development of the private sector in Africa, and at the same time mobile communications represent a significant success story on the continent. While mobiles and smartphones enjoy significant penetration, broadband lags behind somewhat: around 16% of Africans have broadband access. This is clearly restrictive to development. When we speak of infrastructure, an approach informed by regional integration is going to be the most effective for the whole population. This is a core component of EIB strategy in every market in which we operate. It also naturally applies to ICT, and this is the target area for the CPCIF. Convergence brings a wealth of experience in the sector, and supports critical communication infrastructure projects with a pan-African impact, as well as IT service providers which in turn provide the necessary tools for enterprises to thrive. With these come socio-economic development, competition and more economic diversification, from the smallest scales to the largest.

Supporting expansion in sub-Saharan Africa

What do a paint manufacturing company in Ghana, an insurance provider in Mauritius and a hotel in Madagascar have in common? All were seeking to expand, and all have benefitted from the investment and expertise of Adenia Partners. Founded in 2002, Adenia Partners have invested in businesses through their three funds, bringing their own experience to bear across a diverse range of sectors, which go far beyond hospitality and manufacturing to include mobile services, financial services and agribusiness. The EIB invested EUR 12m in the third fund in 2012, having also contributed to the two previous ones, along with development organisations and institutions and pension funds. The ethos behind Adenia is one that tallies strongly with our own: supporting private sector development to deepen economies in sub-Saharan Africa. Additionally, agribusiness is a huge employer in sub-Saharan Africa, and has the potential to be a key driver of sustainable development. In Madagascar, Adenia Partners are involved in Madagascar Litchis Export. The activities here involve buying the fruit from growers and preparing and packaging them for export to Europe. At harvest time, MLE employs around 1 600 people. For the EIB, there is a certain symmetry and heritage here. Our first ever operation in Africa was to support a banana packaging and export business in Côte d’Ivoire.
Developing private equity in the Caribbean

Portland Private Equity has been instrumental in developing private capital markets in the Caribbean since the 2007 launch of its inaugural vehicle, the AIC Caribbean Fund, in which the EIB invested EUR 25m. Core elements of Portland’s ethos are sustainable development, scalable businesses and regional integration. The impact of the AIC Caribbean Fund can be seen in two of its portfolio companies, Columbus International and InterEnergy Holdings. While the former is involved in telecommunications and the latter in power production, the lines they have followed are similar. Columbus has gone from providing cable services in the Bahamas to being a formidable player in ICT, increasing competition, introducing rational pricing and improving the quality of service in 34 different countries. InterEnergy has evolved from being an independent power producer in the Dominican Republic to an expanding regional player, present in Jamaica, Panama and Chile. In each of its markets, it is a community leader, providing reliable, well-priced power with an increasing emphasis on renewables. Portland launched its second investment vehicle in 2014, the Portland Caribbean Fund II. The EIB is again on board as an investor, continuing our shared focus: targeting fundamental sectors such as ICT, wind energy and financial services, and supporting high quality local businesses with regional aspirations.
Impact investing for Jordan’s youth

It cannot be disputed that young entrepreneurs and creatives can often see their ideas fall by the wayside. This applies across all sectors, and is something that should be addressed. In the Middle East, and especially in Jordan, the SiliconBadia Impact Fund is seeking to redress the balance by investing in technology start-ups at the earliest stages, with a particular focus on the emerging young population. The EIB has invested a total of EUR 8m in the fund. SiliconBadia’s role is not just to invest. Like all fund managers the EIB works with, it is committed to its investee companies. At the early stages of development, sound advice and collaboration is particularly vital, and the companies supported by SiliconBadia receive this support as they are establishing themselves, in preparation to meet the needs of burgeoning tech-savvy populations. To date, the fund has supported online companies which provide IT services to the healthcare industry, linking doctors and patients, as well as an e-commerce platform allowing vendors to connect with consumers, a document-sharing and distribution platform and an animation studio which brings Middle Eastern graphic design and cutting-edge animation technology to a global and commercial audience.

About EIB equity investment outside the European Union

EIB operations in the Middle East, North Africa and the Republic of South Africa are carried out through the External Lending Mandate (ELM). In sub-Saharan Africa, the Caribbean and the Pacific, the Bank’s investments are made under the Cotonou Agreement, using the ACP Investment Facility revolving fund and the ACP Impact Financing Envelope. In all of these territories, investment-grade operations may be carried out using the EIB’s own resources. These tend to be large-scale infrastructure or climate action projects.

The EIB is the bank of the European Union, and is owned by the 28 Member States. We support EU development policies outside the Union, in close collaboration with our partner institutions, the European Commission and the European External Action Service, as well as other development finance institutions. The EIB is the largest multilateral borrower and lender in the world, and is headquartered in Luxembourg.