

# PROPARCO in the **Maghreb region** and **Middle-East**



# CHALLENGES IN THE MEDITERRANEAN

Southern and Eastern Mediterranean countries have experienced strong growth in recent years – around 4% annually – which has led to a reduction in certain macroeconomic imbalances (particularly inflation levels, debt, budget balance). Yet this growth is still not enough to bridge the employment deficit: almost a hundred million jobs will need to be created over the next twenty years in order to face the sharp rise in an extremely young population.

These countries are also geographically and culturally very close to Europe, yet this advantage is underexploited: the Euro-Mediterranean area suffers from a great asymmetry in terms of economic development and a low level of regional integration. How to adapt to European market requirements constitutes a major challenge for Southern and Eastern Mediterranean economies.

The main development challenge in this region is consequently to boost growth in order to create jobs and build convergence among Mediterranean economies. The Union for the Mediterranean – an initiative launched by France in 2008 – aims to provide solutions to these challenges via major joint projects between the two Mediterranean shores.

**The private sector has the capacity to be a key player. It is the main engine of growth and job**

**creation. It creates precious resources that allow States to play their role as regulators and wealth distributors. It helps provide certain essential services and plays a key role in meeting environmental and social challenges.**

The Mediterranean is a top priority for PROPARCO. The company is dedicated to financing the private sector and catalyzes private investment. With 25% of its business conducted in the region, PROPARCO is the most “Mediterranean” European Development Finance Institution.

PROPARCO has traditionally focused on the Maghreb region and Turkey, but has now extended its activity to the Middle East. Today, it relies on three regional offices located in Cairo, Casablanca and Tunis which cover an extensive area (Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Mauritania, the Palestinian Autonomous Territories, Syria, Tunisia, Turkey and Yemen).

This field presence allows PROPARCO to work closely with its clients and tailor its business to local needs. ■

## KEY FIGURES

2007 - 2009

**3**  
regional offices

**€ 603M**  
of commitments

**25%**  
of business



# BOOST GROWTH AND JOB CREATION

## BUILDING BUSINESS COMPETITIVENESS

The main causes of the employment deficit that the Mediterranean region needs to address are the fragility of the local SME fabric and the need for businesses to upgrade.

PROPARCO supports SMEs and provides an alternative to them becoming overindebted by making equity investments *via* two main vehicles:

- direct equity investments in businesses;
- equity investments in local and regional funds.

Funds are selected in terms of their capacity to assist businesses during their development phase by providing real support for their governance in addition to financing. PROPARCO gives priority to experienced local teams and makes every effort to bring in European investors. The leverage is two-fold since it makes it possible to reach a greater number of local businesses and also to train teams in the highest business management standards.

PROPARCO is one of the pioneers in private equity investment in the region and has made a major contribution to the development of this industry over the past fifteen years. The launch of AverroesII underscores PROPARCO's will to continue to be a reference player in the region.

## RAISING LOCAL FINANCING CAPACITIES

One of the structural challenges facing the region is the need to structure and sustainably develop the banking sector.

PROPARCO supports banking activities in order to raise local financing capacities and offer longer maturities. It achieves this by offering a wide range of lines of credit which are mainly earmarked for major banks and their subsidiaries. PROPARCO also helps shore up the equity of financial establishments, thus allowing them to maintain good solvency ratios and supporting their international expansion.

## HELPING TO FINANCE MICROFINANCE INSTITUTIONS

PROPARCO promotes the creation and development of very small enterprises. By supporting microfinance institutions (MFIs), it helps develop the economic fabric and combat poverty. It provides financing via bank guarantees and subordinated financing. It also ensures MFIs are oriented towards greater professionalization in terms of both financial management and integrating environmental and social "best practices". ■



### LEBANON Supporting banks' international development strategies

*Lebanon has now become a regional financial center and its banks, which benefit from depositor confidence and a sharply growing market, are increasingly seeking to develop at the international level (particularly in the*

*Mediterranean region and Africa). PROPARCO is supporting this expansion – a factor for regional integration – by offering them long-term resources. For instance, in 2009 PROPARCO took a \$30M equity stake in Byblos Bank. In the same year, it also allocated a \$15M subordinated loan to Fransabank. ■*



# PROMOTE BALANCED AND SUSTAINABLE REGIONAL DEVELOPMENT

## FINANCING CORE INFRASTRUCTURE FOR GROWTH

Sharp urban population growth leads to huge needs in terms of land use development, as well as access to infrastructure and public services (water and sanitation, energy, transport).

PROPARCO, by offering long-term resources, participates in financing major industrial and infrastructure projects in the region that involve specific financial structures (PPPs, private electricity producers, concessions...). Financing these projects led by major corporates also has a considerable impact on the development of the SME fabric (for instance, in the framework of construction sites or subcontracted activities).

## PROMOTING SUSTAINABLE GROWTH

The Mediterranean region at the same time faces an environmental challenge that gives increasing cause for concern. Pressure on natural resources is largely exacerbated by demographic expansion and climate change.

PROPARCO pays particular attention to promoting development that is both productive and sustainable. For instance, in the energy sector PROPARCO

helps raise power generation capacities, reduce external energy dependence and specifically focuses on promoting renewable energies.

It also offers banks lines of credit earmarked to finance exemplary environmental projects. In the framework of the Union for Mediterranean, PROPARCO, CDC Climat and AFD, alongside other public finance institutions, launched a Mediterranean carbon fund in May 2010. This initiative should be operational by 2011 and aims to support the deployment of environmental projects in Mediterranean countries. ■

## TUNISIA Developing air transport

*Tunisia's airport capacities are heavily saturated as a result of the increasing number of tourists. The authorities came up with the solution of building a new airport in Enfidha.*

*The new airport, operated by TAV, has been operational since 2010. It has a capacity to handle 7 million passengers a year. PROPARCO's €30M participation in the project aims to support the tourism sector, create employment (over 7,000 jobs linked to the project) and is in line with its strategy to make sizeable investments in Tunisia. ■*

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## JORDAN Financing water supply in the City of Amman

*Jordan is one of the ten cities to be the most affected by a water shortage. Amman's inhabitants only have access to drinking water twice a week. In order to raise the volume of available water in the capital, PROPARCO has participated in financing a project to convey water from*

*Disi – 320 km away – to Amman. The drinking water supply system built by the project will make it possible to withdraw 100 million m<sup>3</sup> of water over a 50-year period. 2.5 million people in Amman will consequently have access to drinking water. ■*



# CUSTOMIZED FINANCIAL SOLUTIONS

PROPARCO focuses exclusively on long-term financing in countries or for counterparts that are considered too risky by commercial banks. It offers a range of financial products that are complementary to traditional commercial products.

## ■ Equity investments

PROPARCO always acquires minority stakes which are destined to be sold after a 4 to 8 year period, once the business has reached a level of maturity that allows it to raise capital on markets or request financing from private investors.

PROPARCO supports the development of private equity investment by acquiring stakes in investment funds or funds of funds. It also makes direct equity investments in businesses and financial establishments.

## ■ Loans

PROPARCO tailors its medium and long-term loan products to the depth of each market. It offers senior, junior, mezzanine and subordinated loans ranging between €5M and €100M. Maturities range between 5 and 15 years depending on project requirements. These loans are offered to financial institutions – including MFIs – and businesses and may be denominated in euros, dollars or local currencies.

## ■ Local currency products

PROPARCO offers guarantees or direct loans in local currency in order to reduce the foreign exchange risk for its clients. Its signature is a guarantee of solvency and may take several forms:

- Guarantees for bond issues or other market products;
- Guarantees for interbank loans;
- Guarantees for loans in local currency;
- Liquidity guarantees for mutual funds. ■



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## MEDITERRANEAN Averroes II fund of funds

*Building on the success of Averroes Finance (first fund of funds specialized in the Mediterranean area), in November 2009 PROPARCO and CDC Entreprises launched a new fund of funds called Averroes II. It will be investing in roughly ten private equity funds and will support around a hundred SMEs. ■*

## MOROCCO Developing microfinance

*Al Amana is one of Morocco's largest microfinance associations. Since it was founded, it has allocated 2 million loans and helped create 120,000 jobs. In 2007, PROPARCO guaranteed an MAD 100M loan (€9M) that Al Amana took out from Société générale marocaine des banques in order to strengthen its equity capital. Al Amana was consequently able to develop its range of financial products and offer training to its clients. ■*



PROPARCO is a development finance institution jointly held by Agence Française de Développement (AFD) and public and private shareholders from the North and South. The company has a mandate to galvanize private investment in emerging and developing countries with the aim of supporting growth, sustainable development and the achievement of the Millennium Development Goals (MDGs).

PROPARCO was founded thirty years ago on the conviction that the private sector is a key player in development. It tripled its capital in 2008. PROPARCO finances investments that are economically viable, socially equitable, environmentally sustainable and financially profitable. It tailors its sectoral strategy to the level of development of each country and focuses on productive sectors, financial systems, infrastructure and private equity investment. PROPARCO invests in a vast geographical area that encompasses both the major emerging countries and the poorest countries, particularly Africa. The company has extremely high requirements in terms of social and environmental responsibility.

PROPARCO offers a full range of financial products tailored to the needs of private investors in developing countries (loans, equity, guarantees and financial engineering). In 2009, PROPARCO invested 1.1 billion euros in twenty-four projects in over thirty countries.



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