Ex post evaluation – Tunisia

›››

Sector: Formal sector financial intermediaries (CRS code 24030)
Programme/Project: SME investment fund Tunisia (TunInvest Croissance)
BMZ No.: 2013 66 723*
Implementing agency: FCPR Tuninvest Croissance

Ex post evaluation report: 2019

		(Planned)	(Actual)
Investment costs (total)	EUR million	2.50	2.50
Counterpart contribution	EUR million	0.00	0.00
Funding	EUR million	2.50	2.50
of which BMZ budget funds	EUR million	2.50	2.50

*) Random sample 2018

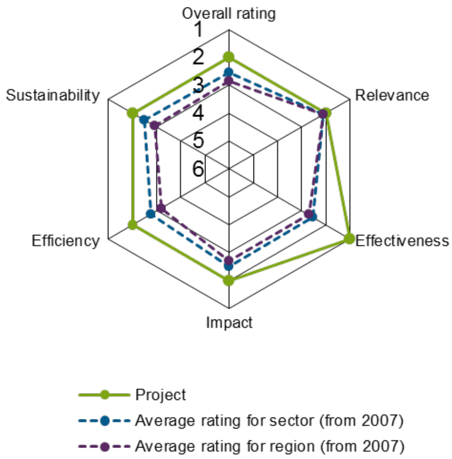
Brief description: The SME investment fund TunInvest Croissance (TIC) project – through investment in a Tunisian fund – makes it possible to promote innovative Tunisian small and medium-sized enterprises (SMEs) by providing them with equity capital. As part of the investments, the fund also actively supports the management of the SMEs and helps them to grow and transition from family-run businesses to public limited companies. It is also intended to give SMEs, which do not yet have sufficient equity capital, access to the capital market.

Development objectives: The project was designed to contribute to efficiently meeting the long-term demand of Tunisian SMEs for financing and to increase their economic strength (outcome). The aim of providing equity capital and management support was to enable the recipient companies to cover their long-term capital needs, expand their business activities and create new jobs. Spill-over effects were also intended to help establish the innovative financial instrument of "equity capital" in the Tunisian market and develop the market. The project thus aimed to reduce unemployment and income poverty in Tunisia (impact).

Target group: The target group were and are Tunisian SMEs with a high potential for innovation, which, through their access to capital, are given the opportunity to expand their business activities, create jobs and generate additional income. The project also indirectly targets employees, their families and supplier companies.

Overall rating: 2

Rationale: SMEs form the backbone of the Tunisian economy, particularly in terms of generating income and jobs. However, SMEs often suffer from a lack of equity and business expertise. TIC has succeeded in achieving significant improvements in the capital structure, the level of professionalism of company management and the strategic focus of a portfolio of SMEs from completely different sectors. However, this required major effort and expense on the part of the fund management and thus also on the part of the fund investors, which negatively affected the efficiency of the project. Structural improvements in the Tunisian equity finance market can also only be seen in isolated cases at present.



Highlights: The fund has clearly succeeded in reliably selecting several companies that have important unique selling points – and thus considerable growth potential – in their respective markets. As a result, the project objectives in terms of turnover growth and job creation were exceeded well before the project was completed (dissolution of the fund).

Rating according to DAC criteria

Overall rating: 2

Ratings:

Relevance	2
Effectiveness	1
Efficiency	2
Impact	2
Sustainability	2

General conditions and classification of the project

The TunInvest Croissance (TIC) fund, established in January 2013, is managed by the experienced fund manager Tuninvest Gestion Financière, which is part of the AfricInvest Group and is also the project executing agency. AfricInvest has been active in 9 locations since 1994, 7 of which are in Africa, and has made more than 150 investments in over 25 African countries through its funds.

The “Fonds Commun de Placement à Risque (FCPR)[1] TunInvest Croissance” project aimed to help Tunisian small and medium-sized enterprises (SMEs) meet their long-term financing needs efficiently and to increase their economic strength. Through the provision of equity capital and an active presence of the fund manager in strategic and supervisory bodies (“hands-on” approach), the aim was to enable the financed companies to meet their long-term capital needs, develop their business activities, create new jobs and retain existing ones (project objective). The project was also designed to give SMEs, which previously had little opportunity to strengthen their equity base, access to the capital market. Genuinely small companies are rarely eligible for the fund, in part because the equity capital would be too low. The focus is on medium-sized companies.

TunInvest Croissance (TIC) aimed to support selected innovative SMEs in their growth and transition from family businesses to institutional enterprises (usually in the form of a public limited company) with market-based, transparent governance structures in line with best practices. The fund acquires significant minority stakes in the companies and actively participates in the company's boards in an advisory capacity (in particular Supervisory Boards; there is a dual board system). Due to its specific expertise, the fund was intended to create added value for the companies, i.e. improve stability and growth prospects and contribute to increasing the value of the company in order to then withdraw from the companies (“exit”) and dissolve the fund. The latter is to be achieved by the end of 2024 and at the latest by 2026 (fund term). As a result, the fund manager must think about exit plans and prepare for fund dissolution at an early stage. The acquisition of investor funds and the investment in new companies was completed by the end of 2018, so the fund management can currently concentrate on the development of the companies and, in the future, on the first exits (preferably through sales to strategic investors).

Relevance

SMEs form the backbone of the Tunisian economy, particularly in terms of income and jobs. The vast majority of SMEs are family businesses, often with weak management and limited access to bank loans and equity.

In an economic environment characterised by slow growth, high unemployment, rising inflation, devaluation of the national currency and a liquidity crisis (especially due to low growth of deposits), the fund's ac-

[1] FCPR is the legal form of the fund under Tunisian law. The legal basis is established by the “Code des Organismes de Placement Collectif” in accordance with Law No. 2001-83 of 24 July 2001, as amended by Decree No. 2011-99 of 21 October 2011 and its implementing provisions.

tivities were intended to enable companies to diversify their risks by broadening their product range and, if possible, by expanding exports, and to achieve more stable and sustainable company growth. This was to be achieved through active and ongoing involvement in the company's boards, albeit on a temporary basis for the duration of the fund's commitment, and by making available its international network and the experience and expertise of AfricInvest's local teams in Sub-Saharan Africa and the rest of the continent.

This will ultimately help reduce unemployment and poverty in Tunisia. The “spill-over effects” (imitation projects inspired by the project) were also intended to contribute to the establishment of other similar financial actors that would improve access to equity financing in the Tunisian market and contribute to the development of the equity market as a complement to bank financing which had previously been dominant.

The Tunisian stock market was and is very underdeveloped and many SMEs were and are undercapitalised. The stock exchange that has been in existence since 1969 is not really undergoing further development. Banks have traditionally been the largest providers of equity capital in addition to their credit financing, but these equity finance arrangements are usually linked to fixed repayment agreements and therefore do not represent genuine risk capital.

Funds offering genuine risk capital and added value in the area of business management and strategy development were and are virtually non-existent in Tunisia. AfricInvest is by far the most important player on the Tunisian market and supported not only the financing of enterprises at the time of the project appraisal, but also their strategic development and transition from family businesses to institutional enterprises. However, the focus of business development is on more professional structures (including bookkeeping, defining strategies in writing, etc.) that make it possible to take on new investors or shareholders (quickly) if necessary and that also facilitate how succession issues are handled, rather than pushing out the family that founded the company.

Portfolio companies are not selected based on a fixed industry composition or other hard criteria, but on an “opportunistic” selection concept. The focus is on which companies the fund can help to create the greatest added value for.

The fund's business model and underlying impact logic were and are therefore very relevant, but due to the fund's small size in the Tunisian context – regardless of the fact that a somewhat higher fund volume was planned at the beginning of the planning phase – it can only have a limited impact.

The project was and still is aligned with the strategy of the partner country, the BMZ and the DC programme strategy, each of which focuses on entrepreneurship and job creation.

Relevance rating: 2

Effectiveness

TunInvest Croissance has a volume of TND 25.8 million (Tunisian dinar). KfW holds a stake of EUR 2.5 million (22.5% of the fund capital) on behalf of the German Federal Government.

As is customary in the industry, the fund manager has also made a small investment in the fund (3.9%), but its main role is to act as an intermediary between the investors and the investment companies and to advise these companies.

The project objective (outcome) was to enable the financed SMEs to have better access to equity capital, to develop their business activities and ultimately to create new jobs. The project’s objectives defined at the time of the project appraisal are measured by the following indicators:

Indicator	Status PA, Target value PA	Ex post evaluation
Average growth of the promoted companies during the investment period in relation to the total turnover of the companies invested in (comparison of turnover upon purchase with turnover upon sale of the company shares).	0 > 25%	Achieved: +94% by the end of 2017 (current evaluation, see Efficiency for a discussion)
Development in the number of employees in the promoted companies during the investment period (average change in the promoted SMEs)	0 > 10%	Achieved: +82% by the end of 2017

Source: TIC

The fund has apparently succeeded in investing in companies from a wide range of sectors (including construction, industry, finance, education, food) that have very good growth prospects and unique selling points compared with their competitors. The fund capital available for investments was fully invested or committed.

The defined target indicators are currently already far exceeded, although from the fund's perspective, the project has only reached the middle of its life cycle. This is an impressive result.

In addition, a closer look at the companies shows that improvements have been made in many areas, such as governance, the expansion of product ranges and risk diversification through export development. However, in terms of profitability, the picture is still mixed at this stage. However, most (7 out of 9) companies reported a positive gross profit (EBITDA) by mid-2018.

All companies surveyed confirmed that the positive developments could not have been achieved without the strong support of the fund, its expertise and the close relationship with the employees of the fund manager.

Effectiveness rating: 1

Efficiency

It appears that Africinvest and its staff have succeeded in applying their specific knowledge of company organisation and management, company restructuring and the development of business strategies in a targeted manner and in achieving the positive effects mentioned above at company level, which are evidence of the efficiency of the fund and the project.

A venture capital fund focusing on the early-stage segment, like TunInvest, is generally characterised by relatively low investment amounts and high management costs. Still, the fund volume of TND 25.8 million is also quite small for a venture capital fund and therefore problematic in terms of efficiency. In addition – due to caution on the part of investors – it is almost TND 10 million below the originally planned value of TND 35 million. As a result, the fund's fixed costs are relatively significant. However, this effect is mainly at the expense of the fund management or its remuneration, which is linked to the fund volume.

A high level of efficiency would be warranted if it were possible to achieve positive effects in the companies while at the same time generating attractive returns for investors and attracting a lot of private investors. The fund has only been able to achieve this to a limited extent to date. Although it is still too early to calculate reliable returns, the available company evaluations show that the return of investors after costs are deducted is currently close to zero (and even negative if exchange rate changes are taken into account). On the other hand, in the case of venture capital funds, it is not unusual for real value to only be added after the exits, and that previous evaluations – often estimated on the basis of actuarial methods – have only limited informative value. A fund comparable to TunInvest Croissance, its predecessor TunInvest Innovations, developed along similar lines in the early years and in the end generated high returns.

Overall, it seems as if the fund concept only works when helped by a certain (cross) subsidy – either because development-oriented investors compromise on returns or because the fund management foregoes the kind of remuneration that would be achievable with larger funds. However, there are no indications that the cost-benefit ratio is less favourable for TIC or that the subsidy requirement is higher than for comparable other funds focused on small equity investments. The fund is also an innovative project for FC.

Efficiency rating: 2

Impact

The overarching development objective is to reduce poverty in the long run by creating and retaining jobs and expanding and strengthening the Tunisian financial sector.

Indicator	Status PA, Target PA	Ex post evaluation
Long-term reduction of poverty by creating and retaining jobs	n.a.	Achieved through direct effects with the companies in the portfolio.
Expansion and strengthening of the Tunisian financial sector	n.a.	Partially achieved, mainly through involvement in the establishment of the microfinance institution CFE

Source: TIC

The project can contribute to the long-term reduction of poverty by creating and retaining jobs at its portfolio companies. The number of newly created jobs at the portfolio companies can be estimated at around 750 since the start of the project. Although this is of little significance from the perspective of the labour market as a whole, it is nevertheless a success in view of the manageable project volume and the country's challenging economic situation.

It is not possible at present to say that the project has made a significant contribution to expanding and strengthening the Tunisian financial sector – yet this could not be expected of an individual fund project ex ante either. The Tunisian stock exchange did not develop significantly over the course of the project. There are also currently no imitation projects involving other providers of equity financing entering the market.

In any case, TIC's investment activity was able to attract the participation of several Tunisian co-investors in equity and mezzanine financing for portfolio companies. In addition, TunInvest Croissance's exit strategy allows some exits through IPOs, which could have a positive impact on the Tunisian stock market.

An indirect, positive impact of the project on the entire Tunisian financial sector stems from the fund's participation in the establishment of the microfinance institution CFE. It is active in the “larger microloan” segment (volume up to TND 20,000 (currently about EUR 6,000), up to as much as TND 40,000 in the future). This segment has so far been inadequately served in Tunisia, as it is too small for banks and too large for traditional microfinance institutions.

A specific, but significant impact of the project in its segment, which could not have been anticipated in advance, can be seen in the portfolio company “Esprit”, a private university with a focus on engineering courses. It was already supported by the predecessor fund “Tuninvest Innovation” starting in 2002 and has since achieved a leading position in Tunisia in terms of quantity as well as the quality of and career opportunities for graduates. In this area, it appears that it has been possible to improve the overall quality of training in an area that is important for long-term economic development, not least through support from the fund.

The project also contributes to better management of environmental and social risks. With the support of external experts, environmental and socially relevant processes (e.g. working conditions) are reviewed in all portfolio companies, resulting in a binding action plan to eliminate weaknesses.

Impact rating: 2

Sustainability

It is the nature of the fund project to bring about structural changes in the portfolio companies, including more professional organisation and corporate strategy. These are established as permanent changes and do not depend on the continued commitment of the fund. Overall, the fund concept is geared towards creating sustainable change.

These measures, in particular the institutionalisation of companies (usually in the form of public limited companies with executive boards), also aim to make a company less dependent on the founding family and to establish permanent decision-making structures (such as executive boards, supervisory boards, etc.) which are independent of it.

The corporate strategies realigned over the course of the investments also largely serve to stabilise companies and increase their resilience to national economic crises and the devaluation of the domestic currency. To this end, the product range is regularly diversified and regionally expanded, often leading to a much stronger focus on exports (the latter was the case for three of the four companies analysed in more detail).

All of the surveyed companies affirmed that, with the help of the fund, they have realigned themselves for the long term and are on the road to stabilisation and growth. They stressed that their repositioning and strategic realignment would continue after the exit from the fund.

The development of the key company figures has so far confirmed the project's lasting structural impacts in part. These are clearly evident in terms of growth and export orientation, whereas this is not yet the case everywhere when it comes to earnings development. It is not certain that in each individual case the realignment of the companies will succeed in the long term, as several companies are still in a turnaround situation. In general, however, venture capital funds do not claim that every investment will develop successfully. Even with one or two failures, the project as a whole could still be regarded as successful or sustainable.

For a discussion on how to maintain the value of the investment in the fund, please also see the section on efficiency.

Sustainability rating: 2

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally “successful” only if the achievement of the project objective (“effectiveness”), the impact on the overall objective (“overarching developmental impact”) and the sustainability are rated at least “satisfactory” (level 3).