15 PAPERSIEMed.

PRIVATE EQUITY IN THE NORTH AFRICAN REGION CASE STUDY OF MOROCCO, TUNISIA AND ALGERIA

Albert Alsina

IEMed.
European Institute of the Mediterranean

IEMed.
European Institute of the Mediterranean (IEMed.)

Consortium formed by:
Ministry of Foreign Affairs and Cooperation
Government of Catalonia
Barcelona City Council

President:
Artur Mas
President of the Government of Catalonia

Vice-Presidents:
José Manuel García-Margallo
Minister of Foreign Affairs and Cooperation
Joana Ortega
Vice-President of the Government of Catalonia
Xavier Trias
Mayor of Barcelona

President of the Executive Committee:
Senén Florensa

Director General:
Andreu Bassols

Board of Trustees:
Banco Bilbao Vizcaya Argentaria, BBVA
La Caixa
Cambra de Comerç, Indústria i Navegació de Barcelona
El Consorci. Zona Franca de Barcelona
Endesa
Iberia
Telefónica

PapersIEMed.
Published by the European Institute of the Mediterranean
Coordination: Javier Albarracín
Proof-reading: Neil Charlton
Layout: Núria Esparza
ISSN: 1999-7981
July 2013

Project funded by
the European Union

This publication has been produced with the assistance of the European Union. The contents of this publication are the sole responsibility of the author and can in no way be taken to reflect the views of the European Union or the European Institute of the Mediterranean.

The IEMed is a think tank for the identification and interpretation of the challenges in the Euro-Mediterranean area and for the preparation of proposals to confront them. It offers spaces for reflection and debate as well as advice and assistance to cultural and cooperation projects in the Mediterranean. Moreover, it promotes the participation of civil society in the Euro-Mediterranean space through several networks and in collaboration with entities from the social, economic and cultural worlds.

The **PapersIEMed.** collection seeks to approach the study of key issues on the current Euro-Mediterranean agenda. Its objective is to provide a new and original view of these issues through the publication of painstaking analyses by recognises experts and researchers in this field.

CONTENTS

Private Equity in the North African Region Case Study of Morocco, Tunisia and Algeria

*Albert Alsina**

ACRONYMS AND ABBREVIATIONS 8

SUMMARY 10

1. WHAT IS PRIVATE EQUITY 14

1.1. How Private Equity Business Works 15
1.2. The Importance of Private Equity in Economic Growth 16
1.2.1. Private Equity Helps Companies Grow 16
1.2.2. Private Equity Contributes To Job Creation 17
1.2.3. Private Equity Promotes Company Investments 18
1.2.4. Private Equity is the Key to Innovation 18
1.2.5. Private Equity Increases Companies' Internationalisation Capabilities 18
1.2.6. Private Equity Lowers Companies' Failure Rate 18
1.2.7. Private Equity's Commitment to Socially Responsible Investments 19
1.3. Private Equity Growth Related to GDP 19

2. PRIVATE EQUITY FUNDS IN THE NORTH AFRICAN REGION 22

2.1. The Early Days of Private Equity Industry in the North African Region 23
2.2. The Current Trend of Private Equity Funds in the North African Region 23
2.3. Main Funds in the Region and General Trends 24
2.4. The Role of Private Equity in the Economy of the Region 28
2.4.1. Powerful Channel for Financing SME 28
2.4.2. Impact on Jobs 29

* Albert Alsina has more than 20 years of experience in business management and private equity. He is the founder and Managing Partner of Mediterrania Capital Partner, investing in SME's in the Magreb with two vehicles MC I and MC II with a total investment fund of $300 million. He is a professor at EADA Business School and has written several articles on private equity and SME's, being an expert in SME's management in the Mediterranean region.

2.5. Global Results of Funds of the Region 30
2.5.1. Internal Rate of Return (IRR)of Funds in the Region 30
2.5.2. Investment Sectors 30
2.5.3. Exits 30

3. LEGAL FRAMEWORK OF PRIVATE EQUITY IN MOROCCO, TUNISIA AND ALGERIA 32

3.1. Morocco 33
3.1.1 Current Legal Framework of Private Equity in Morocco: Analysis and Recommendations 33
3.1.2 Tax Analysis 35
3.2. Tunisia 36
3.3. Algeria 38

4. REGIONAL INTEGRATION IS THE KEY TO THE GROWTH OF THE ECONOMIES OF MOROCCO, TUNISIA AND ALGERIA 40

4.1.Recommendations for Regional Integration in North Africa 43

5. RECOMMENDATIONS AND CONCLUSIONS ON THE PRIVATE EQUITY INDUSTRY IN THE NORTH AFRICAN REGION 44

BIBLIOGRAPHY AND REFERENCES 48

Acronyms and Abbreviations

ADB Report: African Development Bank Report "Unlocking North Africa's Potential through Regional Integration. Challenges and Opportunities" 2012

AMIC: "Association Marocaine des Investisseurs en Capital"

ANIMA Report 2011: ANIMA Investment Network Survey "MedFunds 2011: An Overview of Private Equity in the MED Region"

BA: Business Angels

EIB: European Investment Bank

EU: European Union

EVCA: The European Private Equity and Venture Capital Association

FA: "Fonds d'amorçage"

FCPR: "Fonds Commun de Placement à Risques"

FEMIP: Facility for Euro-Mediterranean Investment and Partnership

GDP: Gross Domestic Product

IRR: Internal Rate of Return

IT: Information Technology

Maghreb: region formed by the countries of Morocco, Tunisia, Algeria, Libya and Mauritania

OPCR: "Organismes de Placement en Capital-Risque"

PE: Private Equity

S.A.: "Société Anonime"

SICAR: "Société d'Investissement en Capital à Risque"

SME: Small and Medium-Sized Enterprises. In each country the legal elements that form an SME are different. One of the purposes of this paper is to describe these elements and analyse whether they promote or deter investments.

VC: Venture Capital

Summary

This study examines the current state of private equity in North Africa, particularly in the countries of Morocco, Tunisia and Algeria. It has been developed from two perspectives: as a document research task and from the point of view of an operational fund manager in the region.

The aim of the study is to share with the key stakeholders of this industry a few recommendations and challenges for private equity and to point out the great opportunities this industry can offer the region.

Private equity is a key catalyst for growth in terms of job creation, increasing tax revenues, improving SME governance and many other very positive outcomes, all of which could create significant benefits for the region.

Firstly, the study starts by explaining the private equity industry and includes a brief summary of its history in Morocco, Tunisia and Algeria. Although North African countries started working in this field later than other countries, there is currently a significant growth and interest in private equity in these economies.

Furthermore, the study details the regulatory framework of these three countries and compares it with other developed economies. By means of this comparison, it points out the current legal elements that deter private equity from growing in Morocco, Tunisia and Algeria. It itemises the elements that from the legislative standpoint should be changed in order to call for further private equity funds to be invested in the region.

Moreover, the study includes a detailed section on how private equity has proven to help economies grow. In this respect, it provides evidence that demonstrates the importance of adopting the recommendations made to achieve further economic growth. In particular, it shows how companies with private equity capital have: (i) experienced material growth; (ii) contributed to job creation; (iii) promoted investment in related sectors of the economy; (iv) invested in sectors with high growth potential in the long term as technologies; (v) promoted internationalisation of the economy; (vi) overcome the failure of company management; and (vii) developed socially responsible investment policies.

Finally, the study presents a view of the private equity sector in the North African region as a whole, with regional integration as one of the most needed reforms. It details the current legislative and policy constraints, which prevent ordinary cash flow and movement of capital between the economies of the region. Therefore, it highlights these limitations and obstacles present throughout the entire region, which ultimately constitute barriers for the development of the economic potential of North Africa.

Briefly, the conclusions of this study are the following:

- Private equity is underpenetrated in the region. In fact, it is between 30 to 40 times less developed than in most developed countries, and 5 to 10 times less developed if compared with some emerging markets in Eastern Europe or Asia.

- There is little presence of foreign commercial investors in the region due to its perceived high-risk business regulations and the lack of professional teams capable of carrying the weight of private equity deals.

- This industry, despite starting in North Africa in the mid-1990s, is relatively new if we compare it with well-developed markets such as the UK, France or the USA. In these markets, private equity and venture capital have been catalysts of growth for their financial landscape.

- Private equity is a catalyst of regional integration and the concept of "regional leaders" is growing in the region. Private equity can build economic bridges between the three countries under study.

- The regulatory framework for creating local funds to invest across the region is "not there yet" despite the efforts of some governments. The region is still far from being an "investor-friendly" market.

- Local investors face the challenge of investing in regional funds given that foreign exchange regulators hold the key to their engagement with the regional private equity industry.

- There is not enough talent in the region to manage the industry's potential. In addition to the difficulty that local money encounters when investing in cross-regional funds and the "unfair" perception of the region as a high-risk area, this makes it very difficult to do business in Algeria or Tunisia and to some extent in Morocco as well. These elements reveal that there is still much to be done in these three countries and that there is a need to implement some reforms in the sector.

There are many investment opportunities in the Small and Medium-Sized Enterprise (SME) world. Local governments will have to apply more pressure to push through reforms in order to get access to private capital. Although foreign direct investment driven by international institutional investors(DFI) is one of the major catalysts for attracting these investors, the domestic governments should consider the following recommendations:

1. Allow local investors to invest in private equity funds outside their country without limits and provide a control programme to ensure that the money reverts back to the region.

2. Change the local regulatory framework to make these kinds of funds “investor-friendly” in their domestic markets and in any developed market.

3. Allow “Fast Track” approvals by local foreign exchange regulators within Central Banks for SMEs that have private equity in their capital, when (i) asking to invest outside their countries for internationalisation of SMEs, (ii) buying other SMEs in other countries for consolidation or (iii) creating build-up. Basically, the creation of regional leaders should be allowed and promoted.

4. Set aside public funds to invest in such private equity funds to encourage foreign investors’ money to come to the region.

1. What is Private Equity

Private equity is understood as funds invested in non-public companies by means of entering in their capital and ultimately in their management after evaluating the company's growth rate over a mid-term period. Given this entrance of capital, private equity allows companies to grow. In an estimated period of time, investors exit the company's capital after achieving the expected rate of return.

As the British Venture Capital Association (BVCA) points out, "private equity is invested in exchange for a stake in [the] company and, as shareholders, the investors' returns are dependent on the growth and profitability of [the] business."[1]

Private equity invests in all stages of company development:

(i) in initial company projects: the capital entering in this phase of project development is known in the industry as venture capital or seed capital;
(ii) in already well-developed projects: the capital entering in the company in order to make the project already underway grow is called growth capital; and
(iii) in well-established companies: the investment in these companies is in the form of mature investments.

The Spanish Association of Capital Risk Entities (ASCRI) has defined private equity as follows:[2]

"Private equity = Capital + Management Support + Experience + Contacts"

Indeed, a private equity firm injects capital into the company by: (i) increasing capital and becoming one of the shareholders or by (ii) acquiring the company. In both scenarios a private equity firm may or may not become a member of the governing body of the company, and may or may not ultimately have voting rights on the management decisions of the company.

1.1. How Private Equity Business Works

Private equity is represented by firms whose goal is to identify potential investee companies that can yield revenues for investors. These firms identify investment opportunities, present them to investors and prepare the deal for the capital to enter the target company. Therefore, key elements of a private equity firm are:[3]

(i) A top-ranked company evaluation team;
(ii) Long experience in the market where the target company is operating;
(iii) Long experience in the private equity sector;
(iv) Contacts which may bring opportunities to investors.

1. British Venture Capital Association (BVCA), A *Guide to Private Equity,* 2010. http://www.bvca.co.uk/home/Home-for-launch/features/AGuidetoPrivateEquity2010
2. ASCRI, *Report 2012: Social and Economic Impact of Private Equity.*
3. G. Thorton, *Global Private Equity Report 2012. The Search for Growth,* p. 17.

Investment opportunities emerge worldwide. The industry is subject to global competition, as are the rules and regulations that each country establishes to attract foreign investment and private equity industry development. The main country leaders in this business sector, according to the World Economic Forum report, are listed in table 1.

Table 1: Private equity industries deals and deal volume per country

Country	PE Industries	Deals	Deals Volume
US	333	7,123	1,518.47
UK	318	2,312	390.44
France	274	1,294	122.34
Germany	220	598	109.79
Canada	218	294	99.48
Italy	210	345	42.3
Netherlands	204	323	85.15
Swewdwn	186	271	43.33
Spain	171	222	38.98

Source: World Economic Forum[4]

1.2. The Importance of Private Equity in Economic Growth

According to the ASCRI Report of 2012 "Social and Economic Impact of Private Equity", private equity has been proven to bring the following advantages to the economy:

(i) Growth and development of companies
(ii) Job creation
(iii) Increased investment
(iv) Investment in leading sectors, such as innovation
(v) Increased internationalisation
(vi) Lower entrepreneurial failure
(vii) Increased productivity
(viii) Tendency to develop socially responsible investments

1.2.1. Private Equity Helps Companies Grow

ASCRI publishes the figures on how private equity investee companies grow significantly, much more than those without private equity funds. Therefore, private equity cannot only be considered

4. World Economic Forum, *The Global Impact of Private Equity Report 2010,* p. 12. (Results based on a sample of 8,596 country industry observations of OECD countries between the years 1991-2007. Figures appear in US$ billions.)

as a remote financial tool but as a real alternative for companies to improve their revenues and growth.

Table 2: Comparison of growth rates

Countries	Companies with PE funds (%)	Companies without PE funds (%)
France	9.8	3.2
United Kingdom	8	5
Italy	21	5.7
Spain	8	-7.7

Source: ASCRI, Report 2012: Social and Economic Impact of Private Equity[5]

Indeed, private equity has been proven to accelerate company growth through the introduction of new products (or services) in the market. According to US experts, there is evidence that companies that receive private equity capital increase their market share at a higher rate of 1.88% compared to those without private equity funds.[6] This higher market share consequently increases company sales and revenues and, therefore, company growth.

1.2.2. Private Equity Contributes to Job Creation

According to the ASCRI report, there are two key figures indicating that private equity contributes to job creation:

- In the European Union (EU), from 2000 to 2004 private equity firms created 1 million new jobs, which is an annual employment rate of 5.4%, whereas EU annual job creation was 0.7%.

- Start-up companies financed by seed capital have an employment rate of 30.5%, and university seed capital projects have a job creation rate of 62%.

Table 3: Comparison of average employment growth (data from 2002 to 2008)

Countries	Companies with PE funds (%)	Companies without PE funds (%)
EU	5	1
USA	8	5.7
Italy	8.2	1
United Kingdom	8	3
Spain	11	-5.8

Source: different sources[7]

5. ASCRI Report 2012, op. cit., pp. 16-17.
6. ASCRI Report 2012, ibid.
7. Source: for EU data EVCA 2002 (period 2002-2004), for UK data BVCA 2008 (period 2001-2007), for Spain data ASCRI 2011 (period 2005-2008), for US data PEGCC 2008 (period 2002-2007).

1.2.3. Private Equity Promotes Company Investments

Companies with private equity funds have been proven to invest more than those that limit their investment capacity to their cash flow capability.

In 2011 in Spain, companies with private equity funds increased their investment power by 33.9%, whereas those without those funds had an investment power rate of 16.7%.[8]

1.2.4. Private Equity is the Key to Innovation

Worldwide studies show the direct relationship between private equity investments and patent registrations.[9] A successful private equity case is the company Fractus, where investment by private equity funds in R&D yielded registration of 500 patents in Europe, Asia and the USA.[10] Moreover, as will be further explained in this study, Morocco has followed the trend of investing in innovation and since 2002 has had a number of investment funds specialised in innovation (see point 2.2. below).

1.2.5. Private Equity Increases Companies' Internationalisation Capabilities

As stated above, a private equity firm which invests in a company may or may not choose to participate in its management.

Those companies with private equity fund managers on their management boards have been proven to have increased their internationalisation capabilities and, therefore, their profits, given that today's economy is essentially a global economy.

In Canada, for example, companies that receive venture capital export 70% of their production whereas companies without private funds export only 17%.[11]

1.2.6. Private Equity Lowers Companies' Failure Rate

Entrepreneurial projects entail a risk. Although this is not ordinarily discussed, the fact is that not all company projects succeed.

According to ASCRI 2010 data, 60% of companies set up are dissolved within 3 years, whereas only 6% of companies with private equity funds are dissolved within this period.[12]

Therefore, it is a fact that private equity helps companies success.

---

8. ASCRI Report 2012, op. cit., p. 23.
9. Ibid, p. 24.
10. Ibid.
11. Canada's Venture Capital & Private Equity Association (CVCA) data for 2009.
12. ASCRI Report 2012, op. cit.

1.2.7. Private Equity's Commitment to Socially Responsible Investments

The private equity industry is aware of the importance of leading socially responsible investments. This trend has also been promoted by their own investors, who are increasingly more concerned about how their money is invested.[13] Therefore, private equity has adopted socially responsible investment policies as an important element when deciding to invest.

In 2006 there was an initiative promoted by UN Secretary General Kofi Annan, and coordinated by the UN Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. It consisted of a list of principles of socially responsible private equity investments, and today has 979 signatories.[14]

Moreover, the private equity industry takes into account the importance and benefit of conducting socially responsible investments as this brings new business opportunities, reduces risks and costs, and promotes the reputation of the industry and corporate transparency.[15]

1.3. Private Equity Growth Related to GDP

According to EVCA statistics, private equity in Central and Eastern Europe (CEE) appears to have brought a significant economic growth for Europe.[16]

Table 4: 2011 Central and Eastern Europe (CEE) data

Funds Raised	€940M
PE Investments (CEE's GDP)	0.3%
VC Investments	7.6%
Companies receiving PE	49%
Companies receiving VC	195
Total PE industry (CEE's GDP)	1.5%

Source: European Private Equity and Venture Capital Association (EVCA) data[17]

If we compare these figures with those of the North African region, we will see that there is a significant gap between the growth arising out of private equity firms in EU countries and those in the Maghreb region. The reason is simply that private equity is not yet fully developed in the North African region.

At present, the private equity industry in Morocco only accounts for 0.04% of GDP.[18] The total market capitalisation of the Moroccan stock exchange was US$75bn.[19]

13. A.L. Friedman and S. Miles, *Socially Responsible Investment and Corporate Social and Environmental Reporting: An Exploratory Study,* The Management Research Centre, University of Bristol and School of Business, Oxford Brookes University.
14. UNEP, Finance Initiative, *Principles for Responsible Investments.*
15. ASCRI Report 2012, op. cit.
16. D. Höppner, *Tapping potential out east,* European Private Equity and Venture Capital Association (EVCA).
17. Ibid.
18. CFA Institute, *The Challenges of Private Equity Investing in the Middle East, 2012.*
19. R. Rosenberg, *Algeria,* Financial Institutions Center, Wharton University of Pennsylvania.

Table 5 presents the rate of private equity investments in terms of GDP:

Table 5: European private equity investments as % of GDP (2007 industry statistics)

Country	PE Investments as % of GDP
UK	1.69%
Sweden	1.25%
Netherlands	0.7%
France	0.6%
Finland	0.55%
Denmark	0.53%
Norway	0.33%
Germany	0.30%
Spain	0.29%
Belgium	0.28%
Romania	0.24%
Greece	0.19%
Poland	0.18%
Ireland	0.15%
Czech Republic	0.10%

Source: EVCA data[20]

Moreover, for 2012 and as stated by the European Bank for Reconstruction and Development (EBRD), Tunisia still has an "underdeveloped and nascent" private equity industry. The total market capitalisation of the Tunisian stock exchange was US$5bn.[21]

Finally, in Algeria the private equity industry hardly exists despite several reforms passed by the government to promote it.[22]

20. ECVA data (www.evca.eu/uploadedFiles/Home/Knowledge_Center/EVCA_Research/Statistics/4_3_Investment/08INV_5_PEinvestmentsGDP.pdf).

21. European Bank for Reconstruction and Development (EBRD), *Country Assessment: Tunisia,* 2012.

22. R. Rosenberg, op. cit.

Private Equity Funds in the North African Region

2.1. The Early Days of the Private Equity Industry in the North African Region

Private equity is relatively new in North African countries. Although some started operating in the industry by the 1980s, Morocco, Algeria, and Tunisia, which are the countries under study, all started operating by the year 2000. In this ten year period, the development of this industry has been uneven:[23] from 2003 to 2007 private equity funds grew in the region alongside the worldwide growth trend; from 2008 to 2009 the industry suffered from a period of recession; and since 2010 we have been witnessing a promising upturn of this sector.

One issue that may be under discussion is the relationship between private equity and sharia law, and how the former has adopted business models in compliance with the latter. Indeed, private equity finances projects through channels that do not involve paying interest but rather sharing the economic benefits, or losses, of the financed business project, all in accordance with the principles of sharia law.[24]

Below are the key figures on private equity growth in the Maghreb region:

Table 6: Funds in the Maghreb region

Funds created in 2010	Amount targeted in 2010 ($M)
14	3,672

Source: ANIMA Report 2011[25]

Although the data above indicates that 14 funds were created in 2010, and this could be understood as a positive figure, it is important to bear in mind that all funds included in this figure are large spectrum funds: that is, they are formed by various types of investments.

Funds focused on SMEs, which account for 95% of the economy, are less than 20%.[26]

Later in this study we will outline the importance of having private equity ingrained in the economy. In other words, investing in SMEs in order to benefit the economy by: (i) job creation, (ii) modernisation and internationalisation; and (iii) preventing company failures.

2.2. The Current Trend of Private Equity Funds in the North African Region

The trend in the region has ordinarily been to invest in development investment projects of a considerable size; energy, infrastructure and real estate were the main sectors for investment. Now

23. ANIMA Investment Network, *Medfunds 2011: An Overview of Private Equity in the MED region.*
24. World Savings Banks Institute, European Savings Banks Group, *Islamic and Banking Finances Report: Insight on possibilities for Europe,* 2009, p. 83.
25. ANIMA Investment Network, op. cit.
26. Data from a survey carried out with private equity firms operating in the region.

the trend might be changing. There has been an increase of funds investing in start-up and venture capital stages of IT or clean-tech companies. This trend has been partially promoted by the government, which has set up initiatives such as business angels (BA) networks, oriented to promote investments in start-up companies and business projects. In Morocco, the Business Angels Network, which tends to match potential venture capital investors and company projects, was created in 2008.[27]

This public interest is based on the importance of developing the innovation industry in the region through private equity funds, although this is still in its infancy.[28]

Notwithstanding this institutional trend, private equity funds alone have also started to invest in local seed capital and venture capital. The reason for venture capital funds investing in local projects is the decline of investments originally from the Gulf economies (Dubai, UEA) and a “back to the origins” trend of the country-focused funds.[29] As stated, this is applicable to venture capital funds but not private equity funds, which continue to invest in large trans-regional projects.

Institutions promoting start-up investments in the region are: (i) EU EIB – FEMIP (Facility for Euro-Mediterranean Investment and Partnership); and other initiatives also promoted by the public sector such as Medibtikar and Invest in Med.

Table 7: Funds investing in start-up local companies:

Fund	Project invested	Stage of investment	Country of origin
Morocco numeric fund	IT start-ups w/ tickets of investments from 1 MMAD	Start-up	Morocco
Diva Sicard	Innovation	Start-up	Tunisia

Source: ANIMA Report 2011[30]

2.3. Main Funds in the Region and General Trends

In Morocco in particular, we found the following investment funds specialised in innovation. This is a key trend towards innovation that Morocco tends to follow since it has been proven that private equity is a key element in making the innovation sector grow in economies throughout the world.

Moreover, Morocco has shown its commitment to the private equity industry with the promotion of Casablanca Finance City (CFC), which is a new financial centre opened in late 2010 to promote finantial services in Casablanca which the private equity industry is included in this sector.

27. Association Marocaine des Investisseurs en Capital (AMIC) Report, *3ème journée du capital investissement : Capital Investissement, un levier pour l'innovation,* 2012.

28. Ibid.

29. Ibid.

30. ANIMA Investment Network, op. cit.

As the public authorities in Morocco have stated, this financial centre is considered an asset for the creation of growth, and it is expected to create around 55,000 indirect jobs. Therefore, this is additional evidence of how private equity could be a larger key catalyst of growth although, particularly in Morocco, a few fundamental corporate and tax reforms are needed to ensure a booming private equity sector in the country.[31]

Table 8: Innovation investment funds in Morocco

Fund	Fund manager	Amount raised	Target amount	Date of creation	No. projects
DAYAM	Sherpa	50 MMAD	5 MMAD	2007	5
SINDIBAD	CDG Capital Private Equity	48 MMAD	5 MMAD	2002	9
OIFFA	Upline Investments	200 MMAD	40 MMAD	2010	2
Morocco Numeric Fund	MITC Capital	100 MMAD	8 MMAD	2010	8

Source: AMIC[32]

In the case of Morocco we have included a column entitled "corporate structure" in order to determine the corporate legal structure through which these funds are channelled. This is important in order to analyse whether the corporate reforms passed on by the Moroccan government to promote investment funds through other corporate structures are being validated by the main agents in the industry.

According to the above, only two of these funds have taken on these new regulations and have been incorporated under OPCRs (Organismes de Placement en Capital-Risque) whereas the others continue operating in the market through classic corporate vehicles (S.A.; Company Limited by Shares).

We will also study whether there is a relation between the fact that the funds focused on seed capital are the only ones hosting new corporate structures and traditional investment funds that continue channelling the investments through former corporate structures.

The data leads us to three primary conclusions:

1) Legislative reform which introduced OPCRs as corporate structures to channel investments provides clearly insufficient advantages for the agents to change their corporate structures. These scarce advantages will be analysed, but we can anticipate that tax advantages are scarce and regulatory restrictions are still too high.

The funds operating in the region are listed below:

31. AMIC, *Report 2011: Private Equity Activity, Growth and Performance in Morocco,* 2011, p. 36.
32. Association Marocaine des Investisseurs en Capital (AMIC) Report, op. cit, 2012.

Table 9: Moroccan funds

Management Investment Companies	Corporate structure	Funds Managed	Investment Stage	Amount Raised €	Country of Investment	Sector
ABRAAJ CAPITAL	Classic Vehicles	Al Kantara Morocco	Development	125M	Cross-Border Trnsct. Morocco - Algeria - Tunisia - Egypt	Electricity - Utilities
		Al Kantara LP	Development	126M	Cross-Border Trnsct. Morocco - Algeria - Tunisia - Egypt	Electricity - Utilities
ALMAMED	Classic Vehicles	Massinissa	Development	50M	Morocco	Industry
		Massinissa Lux	Development	50M	Morocco	Industry
ALTAMED	Classic Vehicles	AM Invest Morocco	Development	1.3M	Morocco	Industry
ATTIJARI INVEST	Classic Vehicles	Agram Invest	Development	70M	Morocco	Agriculture
		Igrane	Development	N/A	Souss Massa Drâa (Morocco)	Agriculture
		Moroccan Infrastructure Fund (MIF)	Development	70M	Morocco	Infrastructure
		Morocco Hospitality Investment Fund	Development	1.4 billion dirhams	Morocco	Tourism - Infrastructure
AUREOS CAPITAL	Classic Vehicles	Aureos Africa Fund	2nd Generation	N/A	Africa Region	Real Estate
		African Health Fund	1st Generation	N/A	Africa Region	Health
AZUR PARTNERS	Classic Vehicles	NEBETOU	Development	5.35M	Morocco	Agriculture
CAPITAL INVEST	Classic Vehicles	Capital Morocco	Development	20M	Morocco	Industry - Services - Distribution
		Capital North Africa Venture Fund	Development / Transmission	36M	Morocco - Algeria - Tunisia	Industry - Services - Distribution
CDG CAPITAL PRIVATE EQUITY	Classic Vehicles	Accès Capital Atlantique	Development	16.3M	Morocco	Real Estate, Agriculture, Commodities, Defense Sectors
		Fonds Sindiband	Development	41M	Morocco	Energy
		Cap Mezzanine	Development / Transmission	30M	Morocco	Environment, Energy - Health, Industry and Services, TIC
CFG CAPTIAL	Classic Vehicles	CFG Développement	Development	72M	Morocco	Real Estate
DAYAM CAPITAL RISQUE	Classic Vehicles	Dayam SA	Seed Capital	5M	Morocco	Innovation
HOLDRAGO, S.A.	Classic Vehicles	Targa	Development	2.5M	Morocco	Agriculture
MAROC INVEST	Classic Vehicles	MPEF I et Afric Invest I	N/A	N/A	N/A	N/A
		MPEF II et Afric Invest II	N/A	N/A	N/A	N/A
		MPEF IV	N/A	N/A	N/A	N/A
		PME Croissance fund	Growth Capital	40	Morocco	Generalist
MITC	Classic Vehicles	Morocco Numeric Fund (Institutional Fund)	Seed Capital	8M	Morocco	IT
PRIVATE EQUITY INITIATIVES						
	OPCR	PME Croissance	Seed Capital	37.7M	Morocco	Innovation
MEDITERRANEA CAPITAL PARTNERS (former RIVA Y GARCIA)	Classic Vehicles	Mediterranea Capital I	Growth Capital	62.5M	Morocco - Algeria - Tunisia	Generalist
		Mediterranea Capital II (in closing)	Growth Capital	120M	Morocco - Algeria - Tunisia	Generalist
UPLINE INVESTMENTS	OPCR	Upline Technologies	Growth Capital	17M	Morocco	Generalist
		Upline Investment Fund	Growth Capital	1.5M	Morocco	Generalist
		Fonds Moussahama I et II	N/A	N/A	N/A	N/A
		OCP Innovation Fund for Agriculture	Seed Capital	N/A	Morocco	Agriculture

Source: ANIMA Report 2011[33]

33. ANIMA Investment Network, op. cit.

2) OPCR channels are only taken on by investments of innovative and new industries at the seed capital stage. As stated below, this industry is being promoted by the public sector. We would have to consider whether the legal framework only works for funds ultimately promoted by the public sector whereas for private industry it does not meet their needs.

3) There is an inadequate regulatory framework for private equity to be developed to a normal level in the country.

Table 10: Tunisian funds

Management Investment Companies	Funds Managed	Investment Stage	Amount Raised	Country of Investment	Sector
AfricInvest TunInvest Group	Tuninvest Sicar	Venture and Growth Capital	TND 10M	Tunisia	Generalist
	Maghreb Private Equity Fund II	Growth Capital	€124.2M	Morocco - Algeria - Tunisia	Generalist
	MPEF IV	N/A	N/A	N/A	N/A
	Tuninvest Innovations Sicar	N/A	TND 5.5M	North Africa	Technology
	Tuninvest International Sicar	N/A	TND 10M	North Africa	Generalist
	Tunisie Sicar	N/A	TND 5M	North Africa	Generalist
AfricInvest Capital Partners	AfricInvest Fund II (AFII)	Development	€7M	North Africa	Generalist
Alternative Capital Partners	Altermed APEF	Development	€25M	Tunisia	Generalist
	Phenicia Seed Fund	Seed Capital	TND 10M	Tunisia	Innovation
Fidelium Finance	FIDELIUM ESSOR I (FCPR)	Closed	Closed	Closed	Closed
	FIDELIUM PERFORMANCE	Development	TND 50M	Tunisia	Generalist
	FIDELIUM ESSOR II	Development and Growth Capital	TND 20M	Tunisia	Generalist
MEDITERRANEA CAPITAL PARTNERS (former RIVA Y GARCIA)	Mediterranea Capital I	Growth Capital	62.5M	Morocco- Algeria - Tunisia	Generalist
	Mediterranea Capital II (in closing)	Growth Capital	120M	Morocco - Algeria - Tunisia	Generalist
SAGES Capital	FCPR – GCT (" Groupe Chimique Tunisien")	Growth Capital	TDN 1.5M	Tunisia	Chemicals
	FCPR-CIOK	Growth Capital	TDN 1M	Tunisia	Infrastructure
Tuninvest Finance Group	Tuninvest International	Growth Capital	TND 13M	Maghreb	Generalist
Tunise Télécom / Diva Sicar	Diva Sicar	Seed Capital	TDN 20M	Tunisia	Technology

Source: ANIMA Report 2011[34]

From this table we can see that in Tunisia funds are still not specialised and follow the original trend of generalist investment funds. On the other hand, as far as the regulatory and investment vehicles are concerned Tunisia has more developed legislation, as will be further explained in the study, and a set of instruments encouraging private equity investments.

34. ANIMA Investment Network, op. cit.

Table 11: Algerian funds

Management Investment Companies	Funds Managed	Investment Stage	Amount Raised $M	Country of Investment	Sector
Banque Extérieure d'Algérie	2 (fund created by BEA and Sonatrach)	Second Stage - Development	144	Algeria	Generalist
Banque Nationale d'Algérie	1	Second Stage - Development	144	Algeria	Generalist
El-Djazaïr Istithmar Spa	1	Second Stage - Development	230	Algeria	Generalist
Finalep	2	Early Stage - Second Stage	106	Algeria	Generalist
Société Algéro-Saoudienne d'Investissement	1	Second Stage	43	Algeria	Generalist
Sofinance	1	Second Stage	43	Algeria	Generalist
MEDITERRANEA CAPITAL PARTNERS (former RIVA Y GARCIA)	Mediterranea Capital I	Growth Capital	62.5M	Morocco Algeria Tunisia	Generalist
	Mediterranea Capital II (in closing)	Growth Capital	120M	Morocco Algeria Tunisia	Generalist
Africinvest MPEF III	1		150	Algeria	Generalist

Source: ANIMA report 2011[35]

As shown in this table, in Algeria there are very few private equity funds. Moreover, these funds are in very few hands (the banking system), which hold capital intensive funds fed by the hydrocarbons industry which, in the end, is the Algerian State. It is seldom the activity of "genuine" private equity firms operating in the market.

Therefore, we may conclude that the private equity industry as a private sector industry itself hardly exists in Algeria.

2.4. The Role of Private Equity in the Region's Economy

As stated in point 1.2. and noted by highly regarded private equity associations (ASCRI, EVCA, and BVCA[36]) and the World Economic Forum, private equity has been proven to be a powerful tool for economic growth.[37]

2.4.1. Powerful Channel for Financing SMEs

35. ANIMA Investment Network, op. cit.
36. British Venture Capital Association (BVCA), *The VC Factor,* 2011.
37. World Economic Forum, *The Global Economic Impact of Private Equity Report 2010,* 2010, p. 7.

SMEs are a powerful channel for prosperous economies. In the Maghreb, SME funds are approximately $600m, which is 0.0056% of the GDP in a region with over 1,280,000 SMEs and a population of over 80 million. Moreover, the region's overall GDP in 2011 was around $350bn, specifically $100.2bn in Morocco, $45.86bn in Tunisia and $188.7bn in Algeria.[38]

All of these numbers make the region a very attractive market for private equity, so this industry's interest in the region is growing.[39]

Moreover, private equity has been proven to be an efficient source of financing for SMEs. Therefore, the cooperation between private equity and SMEs is rewarding for the economy, investors and private businesses. The private equity industry has proven to make economies grow and is increasingly interested in the region. If we combine these two elements we obtain a great opportunity for economic growth in the region, which needs government support to crystallise.

Table 12: Investment amounts since 2005 in the Maghreb region (%)

Targeted amounts	Amounts raised	Amounds invested
92%	87%	62%

Source: ANIMA Report 2011[40]

2.4.2. Impact on Jobs

Again, as stated in point 1.2 and supported by data from relevant private equity sector institutions, one of the positive factors brought about by the private equity industry is job creation.

Statistics available apply to the entire Maghreb region but, in general terms, private equity in the region has a favourable impact on jobs.

Moreover, statistics show how investment amounts have a direct impact on job creation. Large investment projects do create more jobs. However, this statement should be qualified by two factors that also determine job creation. Depending on investment amount, these are:

(i) job-qualifications; and
(ii) salary-wages.

In the North African region, considering that wages and salaries are competitive and investments are oriented to non-qualified work sectors (i.e. infrastructure), we can state that the amount of investment is directly linked to the "amount" of jobs created. If we relate this information to the

38. Data compiled through a survey performed on several operators in the region and World Bank Data (http://data.worldbank.org/country/morocco;http://data.worldbank.org/country/tunisia; http://data.worldbank.org/country /algeria)
39. Data from a survey carried out with private equity firms operating in the region.
40. ANIMA Investment Network, op. cit.

investment requirements set out in the legal frameworks of the countries under study and, in particular, those investment requirements established in Morocco, we can state that this conclusion is of the utmost importance.

2.5. Global Results of Funds in the Region

2.5.1. Internal Rate of Return (IRR) of Funds in the Region

The gross expected IRRs for 2011 was estimated at 23% for the countries from the South and East of the Mediterranean (excluding Israel).[41] This share is fairly promising considering that the gross IRRs expected for global portfolios is 9%.[42]

2.5.2. Investment Sectors

According to the data above,[43] Morocco appears to be the country (when compared to Algeria and Tunisia) where private equity diversified investments.

In keeping with the general private equity trend, in this area the general practice for funds has been to invest in the opportunities as they come along. Funds do not have an investment sector strategy or a specialisation field as there can be in more developed economies. The trend is still to invest in general projects, although in recent years we have seen the launch of specialised funds, particularly seed capital funds specialised in IT and new technologies. Another reason for specialisation is the maturity of the industry and the training costs of a non-specialised investment fund team.

In summary, the general rule for investment funds in the region is generalist funds, followed by multi-sector investments in industry, real estate, end-user services and consumer goods.

2.5.3. Exits

According to the report issued by the African Development Bank on growth and integration in the North African region,[44] only 14% of the private equity deals undertaken since 1998 have been subjected to an exit. Trade sales appear to be the most frequent exit strategy followed by a buy-back, mostly occurring in private equity investments in family-owned companies.

The report lists the following as examples of private equity exits:

- 2007 secondary sale of Egyptian Fertilizers Company (portfolio company of Citadel Capital)

---

41. Ibid.
42. EMPEA, *Emerging Markets Private Equity Survey 2011.* This includes MENA, which also includes the Middle Eastern countries.
43. EMPEA, ibid.
44. African Development Bank, op. cit. 2012.

- 2006 IPO of Distrisoft (company backed by Morocco-based Capital Invest)
- 2005 Sale of FINAPACK (a Moroccan cardboard manufacturing company) by a Buy-Out
- 2005 exit of ECP (Emerging Capital Partners) from ORASCOM TELECOM Algeria ("OTA") by sale at four times the invested capital to a financial investor[45]
- 2013 exit of Tuninvest in Algeria of Aruba , a juice producer, through an IPO in the Algerian Market.

The number of exits carried out yearly are the following (this table includes more countries of the region than those under study):

Table 13: Total number of exits in the North African region per year

Number of exits	Exit year
2	1998
2	1999
1	2001
3	2002
3	2003
8	2005
6	2006
13	2007
6	2008
6	2009
5	2010
165	Not out yet
17	N/A
237	Total

Source: Emerging Capital Partners (ECP)[46]

In terms of the Moroccan market, in 2012 there were 12 divestment deals, which accounted for an accumulated amount divested of 1,825 million dirhams. One of these deals was Labinal Maroc, which was assigned to the four funds that were shareholders in Aeroinvest.[47]

45. Emerging Capital Partners (ECP), *Case Study: ORASCOM TELECOM* Algeria, 2006.
46. Ibid. IE Consulting stated as source of the chart included in the paper "Growth and Integration: Private Equity's Role in North African Economic Integration", 2012, p. 16.
47. AMIC, *Le Capital Investissement au Maroc : Activité, Croissance et Performance, Année 2012,* 2013.

Legal Framework of Private Equity in Morocco, Tunisia and Algeria

3.1. Morocco

As the Moroccan Association of Capital Investments (Association Marocaine des Investisseurs en Capital – AMIC) states in its report Benchmarking de cadres réglementaires étrangers relatifs au Capital Investissement, private equity funds are subject to global competition. Therefore, governments are responsible for providing a friendly legislative framework, which makes the country attractive for capital funds to invest.

At present, the tax and corporate legal framework in Morocco does not provide enough advantages for investors to develop the private equity industry. Morocco has still not been able to develop a sophisticated legal and tax framework, which is required for this industry to grow.

3.1.1 Current Legal Framework of Private Equity in Morocco: Analysis and Recommendations

Law No. 41-05 governs the structures of private equity investments or OPCRs. This law provides two corporate structures through which investments can be channelled. These are:

- Société de Capital Risque (SCR)
- Fonds Commun de Placement à Risque (FCPR)

SCRs are legal entities, which may be incorporated as a corporation or as a company limited by shares.

FCPRs are entities of common ownership of movable titles and assets. FCPRs do not have legal entity as such and therefore the shares in the common ownership may be issued and/or transferred in accordance with the conditions set out by the managing regulations (“règlement de gestion”).

As stipulated in the law, OPCR accounts must state ownership of at least 50% of SME shares, convertible bonds or financing grants to SMEs. SMEs are defined by law as:

- Companies incorporated for more than two years and with fewer than 200 employees for which over the last two tax years: (a) turnover is below 75 million dirhams; or (b) ownership in assets is below 50 million dirhams.
- Companies incorporated for less than two years and with an investment programme of an amount of less than 5 million dirhams.

If these investment requirements are compared with those stated in legislation from countries that have a more developed private equity industry, i.e. France, it may be concluded that Moroccan legislation is too restrictive on private equity investors, hence making it a burden on the growth of this industry.

Table 14: Investment requirements for "Véhicules de placement en capital risqué"

FRANCE	
FCPR	Investment of 50% minimum of the fund's assets consists of unlisted companies or of less than 150 million euros in stock-echange investments (with a limit of 20%)
FCPI	Investment of 60% minimum in non-listed innovation European companies subjected to company tax and with fewer tahn 2000 employees
FIP	Investment of 60% minimum in regional non-listed SMEs subject to company tax and with fewer than 2000 employees
SCR	Investment of 50% minimum of the fund's assets consisting of European non-listed or with less than 150 million euros in stock-echange investments and subject to company tax (with a limit of 20%)
MOROCCO	
OPCR	Investment of 50% minimum in SME, with SME defined as (i) incorporated for at least 2 years and fewer than 2000 employees and turnover lower tahn 75 MDHS or assets lower tahn 50 MDHS; (ii) incorporated less than 2 years with investments below 5 MDHS

Source: AMIC Report, Benchmarking de cadres réglementaires étrangers relatifs au Capital Investissement

From the data above we can see two clear differences with a direct impact on the private equity industry:

Investment amounts

a. In France amounts are within 150 million euros

b. In Morocco OPCRs are required to have over 50% of their net assets in SME shares or convertible bonds, or in financing granted to those SMEs. The law considers an SME to be a company incorporated for least two years, with a turnover over the last two years of less than 75 million dirhams or assets below 50 million dirhams. For SMEs incorporated for less than two years, the turnover requirement consists of an investment programme of less than 5 million dirhams.[48]

Employees

a. In France the number of employees is established at fewer than 2,000

b. In Morocco the number of employees is fewer than 200 (for SMEs incorporated for more than two years)

An argument to support these variations would be the differences between economies (France vs Morocco) or, in general terms, between developed and emerging economies. However, this is an argument that this study tends to dismantle.

Private equity is an industry in itself. It has its own rules, its own requirements and its own specialties. One of the key elements for private equity to exist is freedom in the amount and

48. Informe Garrigues Abogados, *Organismes de Placement en Capital-Risque* (OPCR), 2010.

channels of investment. It has been stated by the ANIMA Report and in several interviews with key private equity industry players in the region that limitations on how the amount is invested, which at present compels "small-size deals only", merely deters companies from investing.[49]

What are these concepts and which are essential for private equity to expand?

1. Flexibility in the investment
Private equity funds need to have wider limits on the percentages and ways of investing in order to make this industry grow. Private equity is an industry whose growth and revenues are directly linked to the capital raised and invested. Therefore, legal frameworks which limit ways of investing (i.e. 50% of investment must be kept in the company's capital, which is a requirement under Moroccan investment capital companies law) are contradictory to the essence of this industry itself by also limiting its profits.

2. Revenues
This industry is tax sensitive; therefore, it is governments' duty to have tax and legal frameworks in place that stimulate its growth. In the case of Morocco, as analysed below, the data will show how the current tax and legal framework does not provide advantages for investors, and hence does not make Morocco attractive over other countries.

3. Global competition
Governments should not only set out a legal framework considered advanced within the country, but also a legal framework that is competitive worldwide. As stated at the beginning of this study, private equity is subject to global competition, so the industry demands a legal framework which provides for investments in the country to be competitive with those performing worldwide.

3.1.2. Tax Analysis

The OPCR tax regime was amended by the Finance Law 2006, and later by the Finance Law 2011, which introduced a number of restrictions that are preventing private equity from growing.

The 2006 reform brought significant changes in favour of the private equity industry although there is still room for more competitive measures. The main traits are the following:

- OPCRs are now exempt from company tax on profits obtained within the scope of the company's objective, with 50% of shares in private Moroccan companies, whose turnover before VAT is below 50 million dirhams and with a specific compatibility as set out in the law;

49. ANIMA Investment Network, op. cit.

- OPCR profits are exempt from tax;
- OPCR interests are exempt from tax;
- Registration of amendments in share capital or amendments in managing regulations are exempt from registration tax;
- OPCRs are exempt from professional tax for the activity within the scope of the company's objective.

Meanwhile, the Finance Law 2011 introduced a number of corporate restrictions that have proven to invalidate the growth of private industry, which are:

- Regulatory investment ratios
- Prudential requirements
- Tax transparency

Finally, although some tax advantages have been provided for OPCR structures, as the AMIC report states[50] and this study attempts to prove, the tax regime for investments by private individuals and legal entities according to OPCR regulations is not advantageous enough for them to convert regular investments made under regular corporate forms of SA or SAS into OPCR structures.

OPCR regulations only offer tax savings (compared to corporate tax regulations) of:

- 10% on income from shares for non-resident legal entities
- 10% on interest for non-resident legal entities
- 5% on listed capital gains transfers for non-resident legal entities and individuals

In addition:

- Registration tax on capital amendments is excluded for funds
- Listed capital gains transfers are non-taxable for funds aimed at tax transparency

Therefore, although the government has made efforts to promote more favourable tax legislation on investments, this legislation when brought into practice still falls short on the advantages usually enjoyed by private equity investments in other countries with more favourable legislation.
Unless radical changes are introduced, this legislation as it is will deter the development of this industry.

3.2. Tunisia

Tunisia was the first Arab country to open to the private equity industry as a means of financing its economy. Tunisia started operating in this market by 1990 and, although its legislation and regulatory framework is fairly advanced, private equity funds still do not oil the Tunisian economy.

50. AMIC, op. cit., 2010.

In Tunisia, the legal framework set out by Laws 95-87 and 2008-78 provides three vehicles to channel private equity investments. These are:
(i) SICAR (Société d'Investissement en Capital à Risque)
(ii) FCPR (Fonds Commun de Placements à Risques)
(iii) FA (Fonds d'amorçage)
The law applies the same requirements to these three vehicles as for investment and tax incentives.

Investment and target companies' requirements are the same for SICAR and FCPR and slightly different for FA, which require constant investment in innovation and target companies to be start-up companies.

Below is a summary of the investment requirements set out under Laws 95-87 and 2008-78 for SICAR and FCPR investments:[51]

Table 15: SICAR-FCPR investment requirements

Tax incentives	For capital subscribers: tax exemption on reinvested revenues in SICAR capital issuance and hold for at least 5 years; for SICARs: tax exemption on collective dividends. Tax exemption on certain capital gains arising from assignments (assignment of listed titles)
Investment requirements	65% of the liberated capital in the subscription of the new shares issued by the target companies
Target companies	(i) companies located in specific areas of the country; (ii) SME projects; companies of new developers, that is, companies focused on technology and/or innovation in all sectors of the economy; (iii) companies focused on transfers; (iv) companies under upgrading process; (v) companies under economic difficulties
SME	companies whose net immobilized assets or the effective are lower than: (i) 2 million euros; or (ii) 300 people

Source: AMIC Report, Benchmarking de cadres réglementaires étrangers relatifs au Capital Investissement[52]

Again, like Morocco, Tunisia has a restrictive legal framework for investors to promote private equity. In the case of Tunisia, the restrictions are in the target companies. The law requires these investments to be targeted in "companies located in development areas" or in "improved companies". These two requirements are a clear example of how restrictive legal frameworks may prevent the private equity industry from growing.

Another element that experts suggest as a reason why private equity is underdeveloped in Tunisia concerns the cultural aspects of business management. In Tunisia there is a culture of indebtedness and the Tunisian population is still inclined to keep SMEs in family hands.[53]

51. AMIC, op. cit., 2010.
52. Ibid.
53. AMIC, op. cit., 2010.

In summary, although Tunisia has a more developed legislation, the requirements linked to zoning or to SMEs prevent private equity from growing in this country.

3.3. Algeria

The current legal framework in Algeria provides limitations on the level of participation in investment operations. This is an obstacle to the growth of private equity in this country.

In 2009 the Algerian government passed the Complementary Financial Law through By-Law 09-01 of 22 July 2009, which introduced several restrictive measures on foreign investments.[54]

- Elimination of free transfer of imports[55]
- 51% of a company's capital in foreign investments should be held by national partners
- State's right to "buy-back" assets of private companies

Although this law provides several tax and trade advantages to investments considered of "national interest", the impact of these restrictions prevents investors from entering this market.

Direct foreign investment from 2004 to 2008 increased from 0.62 billion dollars to 2.33 billion dollars;[56] whereas after this reform, foreign direct investment in Algeria dropped further than expected.[57]

These limitations also have an impact on the growth of private equity. If Algeria is compared with Morocco and Tunisia, according to ANIMA, Algeria creates 2 to 3 fewer SMEs than Morocco and Tunisia. Therefore, these limitations prove to be a burden on the growth of SMEs, which in the end channel the country's economy and services.[58]
Indeed, there is a lack of regulatory framework for this sector, and the restrictive measures passed on by new legislation have been proven to be a deterrent to foreign investments and private equity growth.

54. BEI and FEMIP, *Study on PPP Legal & Financial Frameworks in the Mediterranean Partner Countries,* Volume 2 – Country Analysis: Algeria, 2011, p. 4.
55. Ibid.
56. ICEX, *Informe Económico y Comercial: Algeria,* 2011.
57. UNCTAD, *World Investment Report 2011,* FDI Attraction Index, 2011, p. 66.
58. ANIMA Investment Network, op. cit.

Regional Integration is the Key to the Growth of the Economies of Morocco, Tunisia and Algeria

As the African Development Bank (ADB) states in its recent 2012 report "Unlocking North Africa's Potential through Regional Integration", the lack of regional integration within the countries of the region has an estimated economic cost of 3% of GDP. Moreover, the integration rate within these countries is the lowest worldwide.[59]

The ADB points out the benefits that regional integration could bring to the economies of these countries as well as the challenges that some sectors need to overcome to make this regional integration possible.

However, the report agrees on the potential benefits of regional integration for the countries' economies, including: economic growth, increase of international investments, management of common problems, increase of strong negotiating position internationally and increase of returns and competitiveness. Some of these benefits are brought by the private equity industry. Indeed, and as stated in point 1.2 of this study, private equity has proven to be a key tool of the country's productivity, internationalisation of companies, increase of investments and competitiveness of economies. Therefore, below we will study the elements that are preventing interregional private equity growth and, consequently, preventing the region from achieving its economic potential and social wealth.[60]

The issues that deter regional integration are:

Capital control legal framework

Below we outline as a limitation on regional integration the regulatory framework on capital controls that each country has in effect.

Table 16: Capital controls in Algeria, Morocco and Tunisia

Capital Controls Controls on	Algeria	Morocco	Tunisia
Capital Transactions	Capital transfers abroad are subject to Central Bank's approval	Subject to control	Subject to control
Portfolio Investment	Repatriation by non-residents of portfolio investments (i.e. equity market products) shall be conducted through authorized intermediaries	Residents require approval; non-residents no limitations except for using foreign exchange holdings	Controls on transactions in capital and money market instruments
Credit Operations	Controls apply to credit transactions, securities, and financial backup facilities	Approval required for some operations	Approval required for credit to non-residents by residents
Direct Investment	FDI is limited only to certain specific sectors	No limit for inward FDI. Outward FDI is subject to approval	Outward FDI is subject to Central Bank's approval. No limit for inward FDI.

Source: International Monetary Fund[61]

59. African Development Bank, *Unlocking North Africa's Potential through Regional Integration. Challenges and Opportunities,* 2012.

60. African Development Bank, op. cit., 2012.

61. A. Tahari et al., *Financial Sector Reforms and Prospects for Financial Integration in Maghreb Countries,* International Monetary Fund Working Paper, 2007.

Although Morocco has passed several financial reforms since 1990 and taken on several privatisation projects in order to attract foreign direct investment, outward foreign investment is still an issue. The financial reforms that Morocco has experimented with over these years in order to modernise the financial sector and, therefore, compete globally and move towards regional integration, have been: (i) removal of the credit ceiling; (ii) removal of restrictions on interest rate; (iii) new market-based instruments of monetary policy; (iv) development of capital markets.[62] However, as government sources state, Moroccans still cannot obtain foreign exchange for investments abroad. In figures, Moroccan investment abroad is around US$30m.[63] These limitations on outbound capital are a real constraint on integration.

Since 2008 Algeria has made trading across borders more difficult by increasing the amount of inspections carried out by authorities. Although this applies to trade policies, it is an example of how cross-border transactions are perceived as an issue for the country and for the entire region. Algeria adopted incentives in order to attract foreign direct investment. In 2010, Algeria reduced the corporate income tax rate from 25% to 19% for production of goods, construction and public works and tourism.[64] However, these policies have not been followed by those promoting foreign outward investment.

Tunisia has adopted policies on foreign direct investment attraction. Although in 2010 employment taxes were raised, in 2008 corporate and income tax were lowered.[65] Despite several other benefits and protections for investors there is no committed policy, as there is none in other countries, to promote outbound investment and therefore regional integration.

These limitations on investments abroad are still reminiscent of protectionist economies and key burdens on regional integration.

Regional integration

Despite the political actions taken in order to promote integration in the area (the Arab Maghreb Union was established in 1989), the fact is that no economic or social cooperation is taking place on any front. According to the latest studies of the African Development Bank, intra-regional trade of North African economies is rated at 3%, whereas other economic integrated regions such as the EU is 60.2% and the South East Asian countries (ASEAN) 22.3%.[66]

Singular market

One of the key characteristics of each country's market is the technical specifications within the markets themselves and the country's culture. This diversity – in other words, the lack of standard proceedings in conducting business – appears to be a burden on regional economic integration. In the countries under study, family-owned businesses are the core of SMEs. This

---

62. African Development Bank, op. cit., 2012.
63. The Moroccan American Business Council, *Investment Climate Statement for Morocco,* 2011.
64. Doing Business Project, *Business Reforms in Middle East & North Africa,* 2013.
65. Ibid.
66. African Development Bank, op. cit., 2012, p. 37.

corporate network is a burden on corporate integration and, therefore, economic regional integration.[67]

4.1. Recommendations for Regional Integration in North Africa

As the International Monetary Fund states in a working paper on financial integration for the North African region,[68] it is recommended that this objective adopt international legal regulations and standards (i.e. ISO Rules), which in other diverse regions have facilitated economic integration (e.g. the EU).

Moreover, by adopting international standards these countries would maintain an equal position with each other, and this may allow acceptance of a set of rules which are already working in other integration zones.

The IMF paper refers to the European Union and the Gulf countries as examples of diversified zones which have achieved a rate of success in regional integration. We agree that regional integration would improve the region's potential growth[69] and ease some of the common problems the region is facing.[70]

One of the discussions regarding integration is the type this region should adopt. As we know, the European Union is moving towards a fully integrated region where economic and tax policies are unified. However, other areas have simply opted for a free trade agreement (e.g. NAFTA).

At present, although some countries have signed free trade agreements with other countries in the region (e.g. GAFTA – Greater Arab Free Trade Area) this free trade is not fully in place. Moreover, considering today's economy in which capital flows are essential for the development of the industries (see point 1.2.), the member countries should consider whether a common market (a customs union with free movement of capital and labour) should be the key formula for their integration process or at least for private equity across the region.

67. African Development Bank, ibid.
68. A. Tahari et al., op. cit., 2007.
69. African Development Bank, Unlocking North Africa's Potential through Regional Integration. Challenges and Opportunities, 2012. This paper points out how energy and infrastructure resources should be developed under a common policy in order for this region to become an energy reference region.
70. Ibid.

Recommendations and Conclusions on the Private Equity Industry in the North African Region

After the analysis of the current situation of private equity funds in the North African region, and the corporate and tax policies behind this industry in each country, we present the following key recommendations for this paper:

1. Fast Track
    - Creation of a Fast Track approval process within Central Banks for Cross-Border investments in the three Maghreb countries. It should be limited to the PE firm involved in the process and capital of an SME.
    - Fast Track approvals if local investors want to invest in regional funds that will, in return, invest in the same region.

2. Need for a regional intergovernmental commission for regulatory framework improvements to allow the creation of management companies and to fund vehicles under a special tax and legal framework.

These recommendations are supported by the following conclusions:

1. Private equity funds in the North African region are scarce
The existing funds[71] have a very low, almost insignificant, impact on the economy of the region. Therefore, the region is missing the great economic and social impact that the private equity industry could provide.

2. There is a lack of commercial investors in the region
Commercial investors are essential to this profession. They are trained to identify the investment opportunities and make private equity funds invest; therefore, they are the agents that bring investments through private equity corporate channels. This scarce number of commercial investors in the region is due to several aspects:

- Local capital flow investing across the region is non-performing due to the control that the Central Banks exercise on money flows.
- There is a lack of professionals in the region that make size attractive to general partners as the country funds are too small for financing good quality teams.
- Regulatory frameworks are too restrictive, which prevents development of the private equity industry itself locally enabling the promotion of cash flow interaction regionally.

3. Governments are essential to developing private equity
There is a need for a regulatory framework and policies designed to attract capital flows from abroad and from cross-border transactions. In particular:

- Tax incentives for foreign and local investors. Worldwide funds do not pay taxes as such. This is the rule in all developed economies with a strong private equity industry. This tax

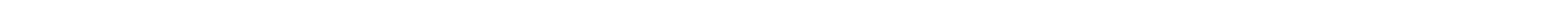
71. At present, around seventy funds are posted for Morocco, Tunisia and Algeria.

exemption means that private equity funds do not pay corporate tax, capital gains tax, or other taxes. Taxation on funds is restricted to a percentage of the fund vehicle. Therefore, a similar tax structure should be implemented in the North African countries to attract and promote the private equity industry in the region.

- Flexible rules on capital controls. As stated throughout this study, the private equity industry performs globally. Therefore, it is necessary for the countries under study to implement flexible rules on capital controls if they wish to obtain private equity investment. These flexible rules would allow Moroccan investors to invest, for example, in a regulated fund domiciled in Luxemburg or Malta and invest back in any of the three countries under study. Through these kinds of investments it is recommended that the government treat the investor with a beneficial tax impact since it is investing in a high risk product and creating wealth for the country.

4. Countries' legal framework should provide for cross-border transaction regional deals

- It is recommended that private equity industry transactions have a fast track business model which would allow these transactions to be concluded at a faster pace. The reasons for this needed "Fast Track Lane" would be:
  (i) confidentiality-sensitive industry;
  (ii) aggressive global competition; and
  (iii) monetary fluctuation.
- Having this "Fast Track Lane" would allow for creating regional players much faster, creating more jobs and stronger companies that could compete in Sub-Saharan Africa and Southern Europe.



Bibliography and References

African Development Bank, *Growth and Integration: Private Equity's role in North African Economic Integration,* 2012.

African Development Bank Report, *Unlocking North Africa's Potential through Regional Integration: Challenges and Oportunities,* 2012.

AMIC (Association Marocaine des Investisseurs en Capital), *Capital Investissement au Maroc : Activité, Croissance et Performance,* 2010.

AMIC (Association Marocaine des Investisseurs en Capital), *Private Equity Activity, Growth and Performance in Morocco,* 2011.

AMIC (Association Marocaine des Investisseurs en Capital), *Benchmarking de cadres réglementaires étrangers relatifs au Capital Investissement,* 2010.

AMIC (Association Marocaine des Investisseurs en Capital), *Le Capital Investissement au Maroc : Activité, Croissance et Performance,* 2013.

ANIMA Investment Network, *MedFunds 2011: An Overview of Private Equity in the Region,* 2011.

ASCRI (Asociación Española de Entidades de Capital Riesgo), *Informe 2012: Impacto Económico y Social del Capital Riesgo,* 2012.

Comisión Nacional del Mercado de Valores (CNMV), *El acceso de las pymes con potencial de crecimiento a los mercados de capitales,* 2011.

EIB, *Banking in the Mediterranean – Challenges and Opportunities,* 2011.

EIB and FEMIP, *Study on PPP Legal & Financial Frameworks in the Mediterranean Partner Countries, Volume 2* – Country Analysis.

EIB and FEMIP, *The crisis and ways out of it in the Mediterranean countries,* 2011.

EVCA, *2011 Pan-European Private Equity Performance Benchmarks Study,* 2011.

ICEX (Spanish Economic Agency in Algeria), *Economic and Commercial Report,* 2011.

ICEX (Spanish Economic Agency in Algeria), *Country Guide,* September 2012.

IMF, *Financial Sector Reforms and Prospects for Financial Integration in Maghreb Countries,* Working Paper, 2007.

IMF, *International Capital Flows and Development: Financial Openness Matters,* Working Paper, 2010.

Informe Garrigues Abogados, Organismes de Placement en Capital-Risque (OPCR), 2010.

KPMG, *Guide des Banques et des Établissements Financiers en Algérie,* 2012.

OECD, *The Private Equity Boom: Causes and Policy Issues,* 2007.

Proparco, "Le capital investissement contribute-t-il au développement de l'Afrique ?", *Secteur Privé & Développement,* No. 12, October 2011.

Thorton, Gran, *Global Private Equity Report 2012: The Search for Growth*, 2012.

UNCTAD, *World Investment Report,* 2012.

UNCTAD, *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development, Country Facts, Algeria.* 2000.

World Economic Forum, *Globalization of Alternative Investments: The Global Economic Impact of Private Equity, Report 2010,* 2010.
World Economic Forum, *The Global Competitiveness Report 2012-2013,* 2013.
WSBI, *Islamic Banking and Finance,* 2009.

IEMed.

The European Institute of the Mediterranean (IEMed), founded in 1989, is a consortium comprising the Government of Catalonia, the Spanish Ministry of Foreign Affairs and Cooperation and Barcelona City Council. It incorporates civil society through its Board of Trustees and its Advisory Council formed by Mediterranean universities, companies, organisations and personalities of renowned prestige.

In accordance with the principles of the Euro-Mediterranean Partnership's Barcelona Process, and today with the objectives of the Union for the Mediterranean the aim of the IEMed is to foster actions and projects which contribute to mutual understanding, exchange and cooperation between the different Mediterranean countries, societies and cultures as well as to promote the progressive construction of a space of peace and stability, shared prosperity and dialogue between cultures and civilisations in the Mediterranean.

Adopting a clear role as a think tank specialised in Mediterranean relations based on a multidisciplinary and networking approach, the IEMed encourages analysis, understanding and cooperation through the organisation of seminars, research projects, debates, conferences and publications, in addition to a broad cultural programme.