



European
Commission

Your guide to the EU External Investment Plan

Release No 1

November 2017



Contents

The External Investment Plan – in practice	04
1 The External Investment Plan – an overview	05
Why an External Investment Plan?	06
Where will the External Investment Plan work?	07
What is the External Investment Plan?	08
How to measure the impact?	11
Who manages the External Investment Plan and how is it governed?	12
2 The External Investment Plan – implementation	13
The EFSD	14
Promoting a conducive investment climate	16
Technical assistance	19
Abbreviations	21
Footnotes	22

This guide is a reference document for people interested in the External Investment Plan (EIP), such as public and private investors, national authorities, businesses in Africa, the European neighbourhood and Europe, civil society organisations (CSOs) and any other stakeholders who would like to know more about this European Union initiative.

It aims to provide a quick overview, with answers to general questions (what is the EIP? how does it work? what can it do for me?). The guide also aims to answer more specific questions relating to the policy rationale and legislative framework of the EIP.

The EIP guide is a practical document and not legally binding and will be updated on a regular basis.

LEGAL NOTICE :

Neither the European Commission nor any person acting on behalf of the Commission is responsible for the use which might be made of the following information.

More information on the European Union is available on the Internet (<http://europa.eu>).

© European Union, 2017

Reproduction is authorized provided the source is acknowledged.

The External Investment Plan – in practice

The European Commission would like to mobilise all partners that share the External Investment Plan (EIP) development objectives and to harness all experts, knowledge, resources and instruments to achieve the objectives.

Submitting proposals

Please note that the European Fund for Sustainable Development (EFSD) guarantee can only be extended to eligible entities that are assessed by the Commission and can be entrusted to manage EU resources.

Other businesses and investors are encouraged to contact these eligible entities and the EIP secretariat and present their investment projects in order to potentially access the EFSD Guarantee and/or technical assistance. If there is no suitable investment window, the EIP secretariat will advise you on which relevant eligible partner, such as financial institutions, is active in the region and that you can contact.

Assisting partners and investors

The Commission and the EU Delegations have strong experience in providing technical assistance to national and local authorities in partner countries.

Under the EIP, part of that technical assistance in Africa and the European neighbourhood will benefit authorities, investors and companies. It will help them develop, together with financial institutions, sustainable and financially viable projects and attract potential investors. Technical assistance will also inform and support our joint effort at improving the investment climate and the general business environment.

Technical assistance

Under the EIP, technical assistance may include, for example:

- market intelligence and investment climate analysis;
- (sector) policy and political dialogue on priority reforms;
- targeted legislative and regulatory advice;
- strengthening capacity of partners countries, local financial intermediaries and investors;
- upgrading value chains;
- identifying, preparing, and helping to implement necessary investments.

A conducive investment climate

The EIP will provide a multi-level approach in our partner countries through the following elements, in which EU Delegations will play a key role:

- structured dialogue with businesses at country, sector and strategic levels, including through Sustainable Business for Africa platform (SB4A) and promotion of European and national business fora;
- policy and political dialogue with partner governments to address key constraints to investments and promote good governance;
- support to regulatory, policy and governance reforms, building upon market, sectoral and value-chain intelligence at country level; and
- ensuring coherence with other European Union policies, aid modalities and EU country initiatives.

Contact details

Secretariat of the External Investment Plan

European Commission

41, rue de la Loi/Wetstraat, 1040 Bruxelles/Brussels, Belgium

Get updates or submit proposals:

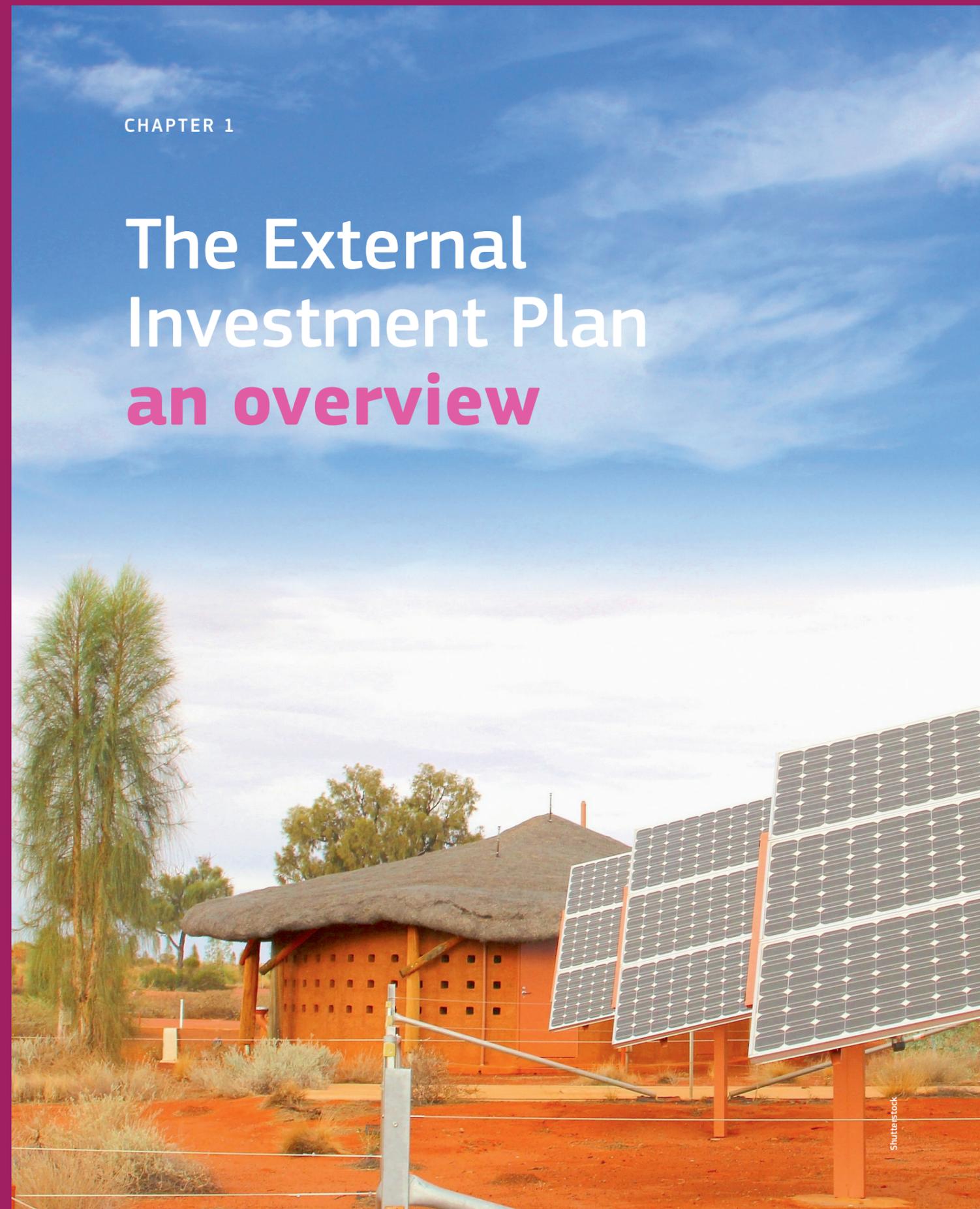
Email: EC-EIP-EFSD-SECRETARIAT@ec.europa.eu

For more information, please also check:

https://ec.europa.eu/commission/external-investment-plan_en

CHAPTER 1

The External Investment Plan an overview



The External Investment Plan an overview

Why an External Investment Plan?

Through the External Investment Plan (EIP), the EU will support its partner countries in their efforts to meet the UN sustainable development goals (SDGs) by 2030. The EIP will also address specific socioeconomic root causes of migration, including irregular migration, and contribute to the sustainable reintegration of migrants returning to their countries of origin and to the strengthening of transit and host communities.¹

For the first time, the EIP ensures an integrated approach to boosting investments in Africa and in the European neighbourhood with a focus on fragile, conflict and violence-affected countries, landlocked countries and the least developed countries that are in greatest need.

Therefore, in September 2017, the European Union adopted the European Fund for Sustainable Development (EFSD), as one of the centrepiece of the External Investment Plan, which is now ready to be implemented.²

On average, it is estimated that meeting the SDGs at global level, will require investments of USD 3.3 to 4.5 trillion a year. Given the current level of public and private investment (USD 1.4 trillion), the average funding shortfall is estimated at around USD 2.5 trillion a year globally over the period 2015 to 2030. Recent estimates indicate that the African continent will require between an incremental USD 200 billion and USD 1.2 trillion per year for the SDGs to be achieved.³



Field workers beneficiaries of the EIP programme in ACP countries, 2010

What are the EIP goals?



Improve investment climate



Encourage private investments



Focus on jobs and growth



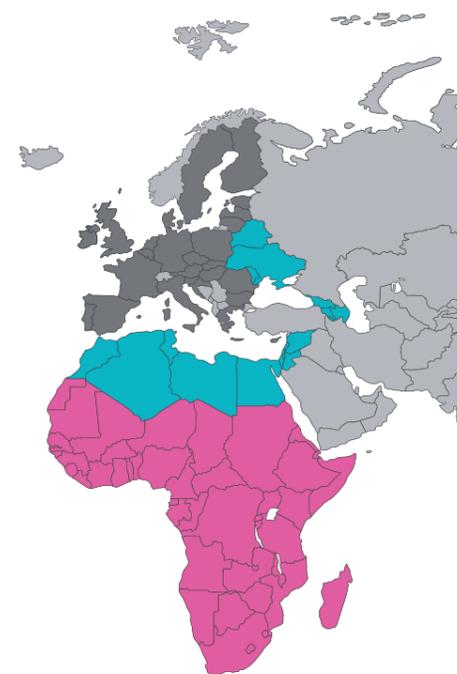
Contribute to Sustainable Development Goals



Tackle some of the root causes of migration

The EIP will help to address this funding gap by working through partnerships and finding innovative ways to mobilise public and private investments. It will promote inclusive and sustainable development and create opportunities for decent jobs, with a focus on young people and women. Its implementation will allow the EU to develop more effective partnerships with its partner countries and at the same time implement international commitments on financing for development.⁴ The EIP will support partner countries' strategies and policies in line with EU development policy and the European neighbourhood policy.

Where will the External Investment Plan work?



■ EU neighbourhood countries
■ Sub-Saharan Africa

Africa

Despite a recent slowdown in economic growth in Africa, the continent is expected to be the second-fastest growing region in the world between 2016 and 2020, with annual growth rate of 4.3 % per year.

However, poverty levels remain high and inequalities have widened in many countries.⁵ With growing population in sub-Saharan Africa and high unemployment and underemployment, in particular among young people and women, strong job creation is an absolute necessity, in particular in the formal sector. According to forecasts, the region will need to create about 18 million new jobs per year, between now and 2035 to absorb the growing labour force. This demand for jobs is a big challenge for the African continent but also offers huge opportunities as those entering the labour force are more educated and skilled than ever before.⁶

EU neighbourhood countries

In many of the European neighbourhood countries⁷ growth is still slower than before the 2008 financial crisis. In general, the neighbourhood countries are suffering from sluggish growth, high unemployment (especially among young people), low employment participation by women, below-average foreign direct investment and rising public debt. Some of them have gone through a period of civil unrest or conflicts that has damaged the region's economy.

The neighbourhood countries face significant structural economic challenges of underdeveloped infrastructure, poor human capital development, poor competition in internal goods and services markets, digital economy development lagging well behind the EU average and above all, a weak business environment that presents obstacles to growth and job creation, especially as regards bringing women and young people into the labour market.

What is the External Investment Plan?

The EIP sets out a coherent and integrated framework to improve investment in Africa and the European neighbourhood in order to promote decent job creation and inclusive and sustainable development, and tackle some of the root causes of migration. With the EIP, the EU will go beyond 'traditional' development aid based on grants and instead use innovative financial products such as risk sharing guarantees instruments and the blending of grants and loans to ensure that investments have a major development impact.

At the same time, it will encourage an enabling investment climate and business environment, including through promotion of structured dialogue with the private sector.

The EIP has three important innovative elements:

-  an integrated 3-pillar approach to improve the conditions for investments and good governance;
-  a single entry point (web portal) for submitting requests for financing investments, thus ensuring transparency, efficiency and leverage of public and private finance; and
-  a new guarantee mechanism to mitigate investment risk in difficult environments such as fragile, and conflict and violence-affected countries.

The EIP will support a broad range of sectors, provided they generate measurable, economic, social and environmental benefits. These could include sustainable energy, water, transport, information and communication technologies, environmen-

tal protection, the sustainable use of natural resources, sustainable agriculture and the green and blue economy, social infrastructure, health, and investments in human capital in order to improve the socio-economic environment. In particular, the EIP will focus on micro, small and medium-sized enterprises (MSMEs) and private-sector development, while promoting gender equality and the empowerment of women and young people.

EIP activities should respect internationally agreed guidelines, principles and conventions, including the principles for responsible investment, the UN guiding principles on business and human rights, the OECD guidelines for multinational enterprises, the UN Food and Agriculture Organisation's principles for responsible investment in agriculture and food systems, International Labour Organisation conventions and international human rights law.

The EIP has a strong environment and climate change component, as at least 28% of EFSD Guarantee financing is to be allocated to investments in sectors that contribute to climate action, renewable energy and resource efficiency. This will help the EU to meet its political commitment under the Paris Agreement on Climate Change.

The EIP is structured around three pillars of interventions:

- investments are mobilised through the EFSD, which features two regional investment platforms and the new, innovative EFSD Guarantee;
- technical assistance (TA) is provided to develop bankable projects and help improve the investment climate and business environment in partner countries; and
- the investment climate and business environment are also improved through structured dialogue with the private sector and enhanced policy dialogue.

The three pillars of the External Investment Plan



European
Fund for
Sustainable
Development
(EFSD)

Technical
Assistance

Investment
Climate



The EFSD and the EFSD Guarantee

The main feature of the first pillar is the creation of the EFSD and the EFSD Guarantee that has its legal basis in Regulation (EU) 2017/1601 of the European Parliament and of the Council establishing the European Fund for Sustainable Development, the EFSD Guarantee and the EFSD Guarantee Fund.⁸ It started operations in September 2017, when the Regulation was adopted.

The EFSD combines the new EFSD Guarantee, for a total of EUR 1.5 billion, with two regional investment platforms – *the Africa Investment Platform*⁹ and the *Neighbourhood Investment Platform*¹⁰ with EUR 2.6 billion corresponding to blending operations, currently under the two investment facilities. The EFSD Guarantee will be managed by the Commission, in close cooperation with the European investment bank (EIB).

The EIP will draw on lessons learned from the current EU blending framework and enable the EU, international financial institutions, donors, civil society, public authorities and the private sector to cooperate fully in a coordinated way.¹¹

Blending is one of the instruments, managed by the Commission for achieving the EU's external policy objectives in line with relevant regional, national and overarching policy priorities.

It complements other forms of aid by combining EU financial support with loans or equity from public and private financiers. The EU financial support can be used in a strategic way to attract additional financing for important investments in EU partner countries by reducing exposure to risk. It can take different forms case by case to support investment projects:

- investment grant and interest-rate subsidy - reducing the initial investment and overall project cost for the partner country;
- TA - ensuring the quality, efficiency and sustainability of the project
- risk capital (i.e. equity and quasi-equity) - attracting additional financing; or
- guarantees - unlocking financing for development by reducing risk.

The EFSD aims to support investments, to foster inclusive and sustainable economic and social development, in sub-Saharan Africa and the European neighbourhood, maximising additionality, delivering innovative products and crowding in private-sector funds.¹²

'Additionality' is the principle ensuring that the EFSD Guarantee support contributes to sustainable development through operations which could not have been carried out otherwise, or which achieve positive results above and beyond what could have been achieved without it.

Additionality also means crowding in private sector funding and addressing market failures or sub-optimal investment situations, and improving the quality, sustainability, impact or scale of an investment.

It also ensures that EFSD Guarantee operations do not replace the support from a Member State, private funding or Union or international financial intervention, and avoid crowding out other public or private investments.

Projects supported by the EFSD Guarantee typically have a higher risk profile than the portfolio of investments supported by eligible counterparts under their normal investment policies.

EFSD Regulation, Chapter 1, article 2





The total EU funding (EUR 4.1 billion) is expected to leverage more than EUR 44 billion of public and private investments until 2020, assuming a leverage ratio of 1:11.¹³ If EU Member states and other partners match the EU contribution, the total could reach EUR 88 billion.

The technical assistance

Technical assistance is support that enables key stakeholders to implement a project or programme relating to international cooperation and development. It normally involves the provision of know-how in the form of short and long term staff placements, training and research, policy and advisory services, studies, communication and knowledge sharing.

Pillar 2 is essential for the EIP as a means for scaling up technical assistance (TA). This will help national and local authorities in partner countries and companies to develop sustainable and financially viable projects and attract potential investors (link with pillar 1). TA will also improve analysis of the investment climate and help partner countries to put in place economic reform programmes aimed at improving the investment climate and business environment (link with pillar 3). TA is crucial to the successful implementation of pillars 1 and 3.

In the EIP context, the aim of technical assistance is twofold:

- to maximise the quality and impact of the investments mobilised with the help of the EFSD (pillar 1); and
- to promote a conducive investment climate with and/or in support of partner countries and in close cooperation with the private sector (pillar 3).

TA operations should:

- ✓ deliver clear results in terms of output, outcome and estimated impact;
- ✓ provide additionality and ensure ownership; and
- ✓ be aligned with EIP architecture, EU policies and beneficiary strategies and priorities.

Promoting a conducive investment climate

The objective of pillar 3 is to promote necessary reforms and value chain improvements in order to have in place framework conditions that are conducive for doing business and investing.

In the first place, it will be based on a structured dialogue with the private sector at country, sector and strategic level, depending on the subject matter and the country's needs. The EU delegations will play a key role to support such a dialogue.

The Sustainable Business for Africa (SB4A) platform will be rolled out for this purpose. The SB4A, launched at the EU-Africa Business Forum in Abidjan in November 2017, will be instrumental in promoting structured dialogue with the private sector in Africa.

Structured dialogue with business will improve the overall country-analysis, provide market intelligence, highlight investment opportunities and promising sectors and value chains. It therefore helps improving the evidence-base for a policy dialogue with the government and allows for better targeted support interventions.

The policy dialogue could cover *inter alia*, the fight against corruption, organised crime and illicit financial flows, good governance, the inclusion of local markets, the boosting of entrepreneurship and local business environments, respect for human rights and the rule of law and gender-responsive policies, with the aim to creating the conditions for sustainable economic and social development.

In the neighbourhood regions, the EU will use existing dialogue structures set up under the Association Agreements or similar types of bilateral agreements to discuss the investment climate with national authorities. These discussions will aim at promoting policy reforms that contribute to a better investment climate for local and foreign investors. In parallel, the Commission will also promote a stronger engagement with European businesses and strengthen local coordination mechanisms, both in Europe and in partner countries. This engagement will aim at reinforcing the voice of the private sector towards governments in partner countries, thus contributing to a participatory identification of priority reforms and areas for investments.

Similar initiatives are under preparation to coordinate dialogue with the private sector in the southern neighbourhood countries, building on coordination and work by regional organisations such as the Union for the Mediterranean and following the example of the EU4Business platform, an EU initiative that provides finance, support and training to help SMEs unlock their full potential and boost economic growth across the eastern partnership countries.¹⁴

Additionally, in the context of the eastern partnership countries, the Commission has recently launched a dedicated structural reform facility with the aim to supporting the improvement of economic policy, business and the institutional environment in partner countries which are all critical factors to ensure that investment under the EIP can materialise.

How to measure the impact of the EIP?

The success of the EIP will depend on the extent to which it mobilises investments that promote sustainable and inclusive growth and create decent jobs for all. In this respect, the EFSD Guarantee is particularly important as a powerful financial instrument, to support investments in fragile and conflict and violence-affected countries while crowding in private-sector players. The additionality of supported activities is crucial.

The contribution of the EIP to the objectives set will be measured against specific targets with a series of outcome and impact indicators as regards:

- the contribution to the achievement of the SDGs;
- generating inclusive and sustainable growth;
- creating decent jobs;
- promoting gender equality and the empowerment of women and young people;
- a positive impact on climate change;
- contributing to poverty eradication; and
- addressing root causes of (irregular) migration, fostering the sustainable re-integration of migrants returning to their countries of origin, and strengthening transit and host communities.

All the above elements are crucial if the EIP is to achieve the expected results while ensuring coherence with EU policies in Africa and the neighbourhood, and with the partner countries' priorities.



EU funded project on slums and refugee settlements in Uganda, 2016

Who manages the EIP and how is it governed?

The Commission, through a secretariat, manages the EIP and the EFSD. The EIP secretariat is also responsible for coordinating the three pillars and the web portal.

The EIP secretariat will ensure that requests for funding undergo the same procedure and the same assessment for all project proposals. It will also support the strategic board and the two operational boards (one for each regional investment platform).

The strategic board will advise on the strategic orientation and priorities of EFSD Guarantee investments. It will also support coordination to ensure coherence with existing operations and initiatives. It will be composed of representatives of the Commission, of the EU Member States, of the High Representative and of the EIB, with the European Parliament acting as observer. The board may decide to grant observer status to other actors. It will operate according to adopted rules of procedure. The strategic board shall be co-chaired by the Commission and the High Representative.

The first meeting of the strategic board took place in Brussels on 28 September 2017, the day of the entry into force of the Regulation establishing the EFSD.¹⁵



School demonstration of solar technology

The two operational boards will support the Commission in implementing regional and sectoral investment goals and the investment windows. They will give opinions on blending operations and the use of the EFSD Guarantee.

One-stop shop and the web portal

A web portal specifically designed for the EIP and managed by the EIP secretariat will provide a 'one-stop shop' for all those interested in working with the EIP. It will inter alia direct requests with project proposals to eligible counterparts (e.g. financial institutions), which will assess, develop and finance projects with a view to benefiting from the Guarantee.



Rural development in Morocco project

CHAPTER 2

The External Investment Plan implementation



The External Investment Plan implementation

The EIP is a multi-stakeholder initiative involving several actors, national authorities, stakeholders in a number of different sectors e.g. MSMEs in Africa, companies in the European neighbourhood, European companies investing in those regions and financial institutions and local banks and the civil society. Ultimately, the EIP's success will depend on whether it achieves its objectives in terms of impact and improves people's lives in our partner countries by promoting inclusive and sustainable growth, creating decent work, eradicating poverty and addressing some of the root causes of migration.

The EFSD

The regional investment platforms will use the same forms of EU financial support as the current blending investment facilities.¹⁶ In addition, there is now the new EFSD Guarantee.

The EFSD Guarantee may mitigate the following types of risks :



commercial risks—losses due to a borrower or counterparty failing to meet its obligations in accordance with agreed terms (e.g. payment risk, performance risk, etc.);



political and country risk—all risks relating to actions of a state or a government, over which the investors have no influence (e.g. expropriation, coup d'état, civil war, legal and regulatory risk);



currency risks—potential losses due to fluctuations, convertibility, transferability and exchange rates; and



climate change and environmental risks (e.g. droughts, flooding, extreme weather events, temperature rises, etc).

The EFSD Guarantee will mitigate investment risk and attract private investment to activities that would not take place otherwise. The investor will need to prove the additionality of the investment. Within the African Investment Platform, a significant share of the EFSD Guarantee shall be allocated to fragile and conflict-affected, landlocked and least developed countries, where the perceived risk is higher and there is a great need for private investment.¹⁷

The Guarantee can cover a wide range of financial instruments that eligible counterparts may propose to use, with the aim of achieving development impact:

- loans, including local currency loans;
- guarantees;
- counter-guarantees;
- capital market instruments; and
- any other form of funding or credit enhancement, insurance, equity or quasi-equity participations.

For example, in the case of a commercial contract between the private sector and a public entity, the EFSD Guarantee could be used to mitigate the risk of a non-payment from the public entity. This would reduce the project risk and thus improve the bankability of the project, as loans would be protected against this risk. Such use should be balanced with less risky uses and crowding out of commercial finance should be avoided.

The Guarantee can operate in various ways, exposing the fund to varying degrees. The most powerful measure, a first-loss guarantee on a portfolio of assets, can relieve the beneficiary of virtually all risk.



Eligible counterparts include a broad range of actors¹⁸:

- a) the EIB and the European Investment Fund;
- b) public law bodies;
- c) international organisations and their agencies;
- d) bodies governed by private law but with a public service mission (subject to adequate financial guarantees);
- e) bodies governed by the private law of a Member State (subject to adequate financial guarantees); and
- f) bodies governed by the private law of a partner country (subject to adequate financial guarantees).

To be able to sign an EFSD guarantee agreement with the Commission, eligible counterparts must undergo a 'pillar assessment', a screening process that enables the Commission to entrust budget implementation tasks to certain countries, organisations and bodies.¹⁹

At present, pillar-assessed eligible counterparts for the guarantee are mainly:

- financial institutions such as the EIB and the EBRD;
- bilateral development banks in the Member States, such as the AFD, KfW, CDP, AECID;
- European development finance institutions, such as Proparco, FMO, DEG, COFIDES; and
- other regional and multilateral development banks, such as the AfDB.

The Investment Windows

The pillar-assessed eligible counterparts will channel the guarantee funding to concrete areas for investment ('investment windows'), which are made up of sectors that have been identified as crucial for creating decent and sustainable jobs in Africa and the European neighbourhood.

For each investment window, amounts are indicatively earmarked for selected policy priorities under which one or more eligible counterparts will implement one or more proposed investment programmes (PIPs). The guarantee should be applied

to sectors and projects that have the potential to attract private investments and create decent jobs.

In addition, investment proposals should be geared to²⁰:

- contributing to sustainable development, in its economic, social and environmental dimensions, with a focus on eradicating poverty, creating decent jobs and promoting the empowerment of women and young people, while pursuing and strengthening the rule of law, good governance and human rights;
- by promoting sustainable development, helping to address specific root causes of migration, including irregular migration, fostering the resilience of transit and host communities, and contributing to the sustainable reintegration of migrants returning to their countries of origin;
- strengthening socioeconomic sectors and related public and private infrastructure, including renewable and sustainable energy, water and waste management, transport, information and communication technologies, environmental protection, the sustainable use of natural resources, sustainable agriculture and blue growth, social infrastructure, health and human capital; and
- maximising private-sector leverage, with a particular focus on MSMEs, by addressing bottlenecks and obstacles to investment.

As a general principle, windows should be neither too small, nor too narrow as regards activities and products, so that the new portfolio approach can work effectively and riskier investments in fragile or difficult situations can be balanced by other less risky operations.

The Commission has proposed a number of investment windows, which the strategic board discussed and agreed in its first meeting in September 2017.²¹ These are in line with national and regional priorities, EU strategy and policies, and the strategic orientations for the Neighbourhood and Africa Investment Platforms.

EIP investment windows

-  Sustainable energy and connectivity
-  Micro, Small and Medium-sized Enterprises (MSMEs) financing
-  Sustainable agriculture, rural entrepreneurs and agribusiness
-  Sustainable cities
-  Digital for development

A first set of investment windows includes:

- **Sustainable energy and connectivity** — targeting sectors such as renewable energy, energy efficiency and transport, enhancing energy security and sustainable development, while addressing climate-change risks and helping partner countries to deliver on their commitments under the Paris Agreement;
- **Micro, Small and Medium-sized Enterprises (MSMEs) Financing** — addressing the main constraints hampering MSME development by means of a differentiated approach. This will result in more job opportunities, especially in countries affected by conditions of fragility, while promoting innovation and the gradual transition of businesses from the informal economy;
- **Sustainable agriculture, rural entrepreneurs and agribusiness** — responding to the lack of financing mechanisms serving farmers and agri-entrepreneurs, particularly smallholders, cooperatives and agribusiness MSMEs, in order to promote inclusive and sustainable growth;
- **Sustainable cities** — exploring innovative mechanisms to address the challenges of sus-

tainable urban development faced in partner countries; and

- **Digital for development** — focusing on innovative digital solutions, especially those addressing local social needs and financial inclusion, and promoting the creation of decent jobs.

As yet, there are no fixed amounts for support for any investment window; these will depend on the regions/countries/sectors/beneficiaries that are addressed.

The investment windows have been formally adopted by the Commission. Following the adoption, interested financial institutions and other eligible partners can submit their proposal, as from December 2017 onwards.

The investment actions that are selected will be accompanied if needed by proposals for improving the business environment and investment climate in the partner countries, and TA support.

Promoting a conducive investment climate

The third pillar of the EIP is aimed at promoting an enabling investment climate and business environment. This builds on the EU and its Member States' increasing efforts to engage with the private sector, which are based on the following criteria.²²

- **Measurable development impact:** support for a private enterprise or financial intermediary contributes in a cost-effective way to the achievement of development goals such as job creation, green and inclusive growth, or broader poverty reduction. This requires transparency as regards objectives and results, along with appropriate monitoring, evaluation and arrangements for measuring results.

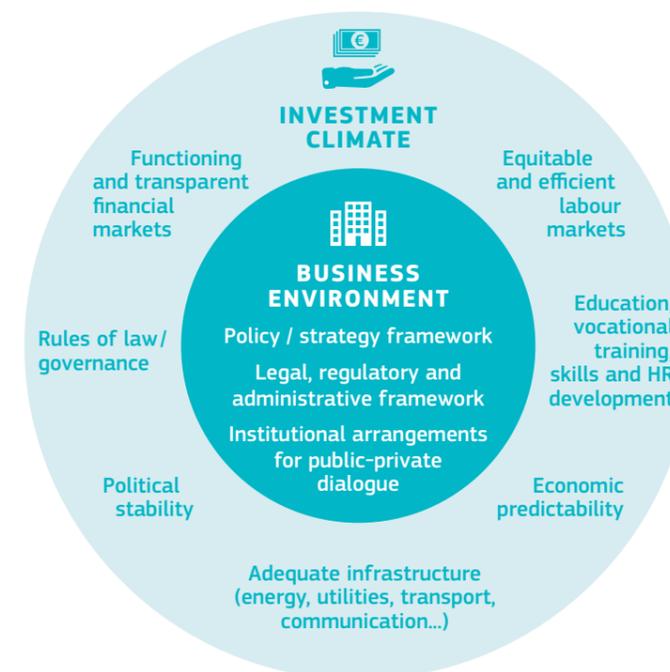
- **Additionality:** without public support, the private enterprise would not undertake the action or investment, or would not do so on the same scale, at the same time, in the same location or to the same standard. The action should not crowd out the private sector or replace other private financing.
- **Neutrality:** the support does not distort the market and the award system is open, transparent and fair. Support is temporary, with a clearly defined exit strategy. Support justified by market failures and consequent risks should not have the effect of discouraging regulatory reform efforts addressing the causes of market failure.
- **Shared interest and co-financing:** partnerships with the private sector are based on cost-effectiveness, shared interest and mutual accountability for results. The risks, costs and rewards of joint projects are shared fairly.
- **Demonstration effect:** action aims to have a clear demonstration effect that catalyses market development by crowding in other private-sector actors for the replication and scaling-up of development results; and
- **Adherence to social, environmental and fiscal standards:** private enterprises receiving support must demonstrate that their operations comply with environmental, social and fiscal standards, including respect for human and indigenous rights, decent work, good corporate governance and sector-specific norms.

The importance of private investments

The main challenge for developing countries is creating (in particular, decent and sustainable) jobs. While the private sector is the engine for job creation and there is a strong need for private investments, the investment climate and overall policy environment are not always conducive.



The private sector provides some 90 % of jobs in developing countries and is thus an essential partner in the fight against poverty. According to an International Finance Corporation study, MSMEs account on average for about 66 % of permanent, full-time employment.²³ The same study shows that small firms tend to contribute more to employment than medium-sized and large enterprises. They are also more likely to operate in the informal sector.



MSMEs are an essential component of local ecosystems in developing countries and often represent the vast majority of businesses operating in African and neighbourhood countries. Nevertheless, their growth is constrained by limited access to affordable sources of financing, inadequate technical, professional, financial and managerial skills, unconducive legal and regulatory frameworks, and a lack of good governance. This is particularly evident in fragile and conflict- and violence-affected countries.

Therefore, it is particularly important to address MSMEs' main challenges and remove the constraints to starting, growing and expanding a business. This will also require policies that encourage gradual transition from the informal to the formal sector.

As indicated above, one of the proposed investment windows is MSME financing. This will address the main constraints that hinder MSMEs' development by means of a differentiated approach resulting in increased job opportunities, especially in fragile and conflict and violence-affected countries, while promoting innovation and the gradual transition of businesses from the informal to the formal economy.

The investment window on MSME financing should promote instruments and facilities serving new sub-sectors in the region, in particular in the field of innovation²⁴, start-ups, climate-smart investments, early-stage support (e.g. incubators), digital entrepreneurs, social entrepreneurs and agri-business, and the integration of MSMEs into value-chains.



Addressing investment constraints

In business surveys, businesses and investors generally point to the following broad areas of concerns:

- ✓ political instability;
- ✓ the macroeconomic framework;
- ✓ governance, the rule of law, judicial security and public finance management;
- ✓ business-enabling environment (the legal and regulatory system);
- ✓ infrastructure and logistics;
- ✓ human resources and skills;
- ✓ financial markets and access to finance;
- ✓ economic and trade prospects, economic efficiency;
- ✓ investment incentives; and
- ✓ climate-related risks.

A more detailed picture of a country's investment climate requires digging deeper into data that is available or may require further analysis. Existing national-level actions to improve the investment climate by partner governments need to be considered and supported where appropriate. Existing efforts by donors also need to be taken into account.

Structured dialogue with the private sector

The EIP will be a tool to promote conducive investment climate through structured dialogue with business, bringing in private sector perspective on business constraints. This will improve the country analysis and market intelligence. In turn, this will mean a more effective policy and political dialogue with partner countries as well as EU cooperation.



In parallel, the Commission will also promote a stronger engagement with European businesses and strengthen local coordination mechanisms.

What do we mean by structured dialogue?

In order to boost investment in a country and promote private sector investment in particular we need to understand and identify the main bottlenecks and obstacle that prevent investments to take place in a country and what kind of reforms that are needed in the country for increasing investments.

In this framework the EU is setting up a new platform – the Sustainable Business for Africa (SB4A in short), as indicated in the 'Joint Communication for a renewed impetus of the Africa-EU Partnership'.²⁵



Final event of the ACP/EU Microfinance project, Brussels, 2015

The SB4A will ensure the link and coherence between investments proposed under pillar 1 and the policy reform agenda under pillar 3 and is key for the success of the EIP.

Sustainable Business for Africa Platform

The SB4A was conceived to provide an overarching framework for structured dialogue with the private sector under the EIP. It is an essential building block of pillar 3 of the EIP and will operate at country, sector and strategic levels to pull in African and EU private-sector perspectives and ownership of the EIP.

The purpose of SB4A is to help identify and prioritise investment climate reform needs, particularly those that are country or sector-specific. Only sustained dialogue with the key players can help identify the most important barriers to private investment and ways of addressing them. Structured dialogue will enable more effective political dialogue with governments and the design of a tailored (best-fit) package of TA, programmes, budget support and financial instruments.

The SB4A also enables a wider multi-stakeholder approach, where necessary bringing together other stakeholders, including other donors, CSOs, and international and regional organisations. As a rule, and in order to provide adequate support for the implementation of the EIP, European and international financial institutions should play a role in SB4A dialogues.

Economic development and market opportunities in the Eastern Partnership – EU4Business

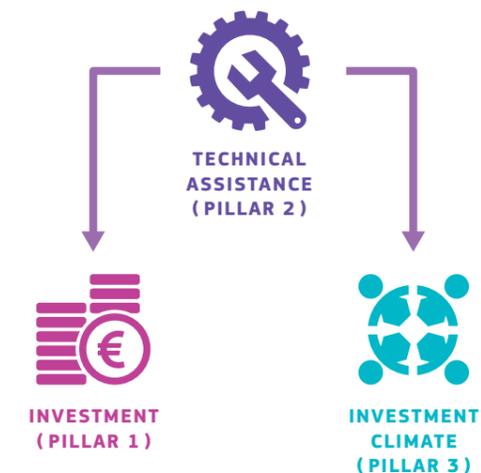
Inclusive and sustainable development is at the heart of EU's contribution to stabilising the neighbourhood and supporting an economic transition process with a view to create an attractive environment, a level playing-field for investments and business, as well as to improve their capacity to take advantage of the trade opportunities with the EU, such as the Deep and Comprehensive Free Trade Areas (DCFTAs).

SMEs in the region have the potential to create decent jobs and drive economic growth but still face challenges. The EU4Business Initiative gathers all EU support to SMEs in the eastern partnership region under one umbrella addressing all the different aspects that are central for creating business opportunities and jobs: the design and implementation of sound SME policies, encouraging public-private dialogue and enhancing the services provided by business support organisations to their members, as well as providing increased access to new markets and improved conditions to access finance, notably in the DCFTA countries where EUR 200 million of grants from

the EU budget will unlock at least EUR 2 billion of new investments. All available support, programmes, events and contacts are available on the EU4Business website.²⁶

Technical Assistance

The aim of TA is to develop bankable projects and support the improvement of the investment climate and business environment in partner countries. TA is crucial to the successful implementation of pillars 1 and 3.



The EU already supports its partner countries' efforts to prepare investments and improve the business environment and investment climate.

The current Pillar 1 TA is geared to improving the quality of investments or portfolio of investment from financial institutions, governments or private investors. It is provided at all levels of the project cycle, from the identification phase (feasibility studies), through planning and preparation (for bankable projects) to implementation (supporting financial institutions and final beneficiaries), monitoring and evaluation.

Much of the EU's current pillar 3 TA (and most of the TA) is capacity development, and policy and advisory services to national and local authorities to enhance economic and governance reforms, of the climate in which businesses and investors operate in a region, country or sector. This also includes sector budget support operations and it also covers (although to a limited extent to date) the facilitation of private-public dialogue and building the capacity of private-sector representatives. Global thematic facilities in sectors such as energy and climate change also help to strengthen sectoral reforms and the capacities of local administrations. Some TA complements budget support.

Once EIP implementation picks up, with engagements in concrete investments, the EU will advise public and private stakeholders as to the support



Project to support vocational trainings in Malawi, 2014

provided under EIP. To this end, the specific web portal will link investors and promoters directly to the EIP secretariat, allowing it to act as a one-stop shop.

The eligible financial institutions may also identify the TA that is needed in terms of investment preparation and investment climate improvements for the investment pipeline. They are expected to do so in close cooperation and coordination with the local EU Delegation and the partner country's authorities.

The objective of pillar 1 TA: improving the quality of investments

Pillar 1 TA is aimed at improving the quality of the investments or portfolio of investments from financial institutions, governments or private investors. Following the successful blending experience, TA may be provided at all levels of the project cycle, from the identification phase (feasibility studies), through planning and preparation (bankable projects) to implementation (supporting financial institutions and final beneficiaries), monitoring and evaluation. This may include data production, key information for risk evaluation, and inflation (essential for the financial institutions to produce adequate risk profiles of the new investments).

Pillar 1 TA:

Technical assistance in various phases of project cycle:

- investment pre-identification phase;
- investment preparation phase;
- investment implementation phase; and monitoring and evaluation.

The objective of pillar 3 TA: improving the investment climate

Pillar 3 TA:

- promoting investment climate analyses
- promoting and facilitating policy and political dialogue
- strengthening the capacities of private sector and public authorities and monitoring and evaluation.

The objective of pillar 3 TA is to improve the investment climate and promote an enabling business environment by:

- **promoting investment climate analyses:**
 - market intelligence work and diagnosis to identify key constraints related to investment climate and business environment;
 - structured dialogue with the local and international private actors, including the promotion of private and public dialogue (business and government);
- **promoting and facilitating policy and political dialogue** with local and international private sector and national/regional governments to better identify key investment and business constraints and implement conducive investment climate reforms; and
- **strengthening the capacities of private sector and public authorities** — supporting governance, strengthening specific value-chains, promoting innovation, quality and international standards and entrepreneurship. Monitoring and tracking impact measurement in terms of job creation, women's empowerment and youth entrepreneurship.

Abbreviations

AECID: Agencia Española de Cooperación Internacional para el Desarrollo

AFD: French Development Agency

AfDB: The African Development Bank

CDP: Cassa Depositi e Prestiti

COFIDES: Compañía Española de Financiación del Desarrollo

CSO: Civil Society Organization

DCFTA: Deep and Comprehensive Free Trade Areas

DEG: Deutsche Investitions- und Entwicklungsgesellschaft

EBRD: The European Bank for Reconstruction and Development

EEAS: European External Action Service

EFSD: European Fund for Sustainable Development

EIB: European Investment Bank

EIP: External Investment Plan

EU: European Union

FDI: Foreign Direct Investment

FMO: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden

GDP: Gross Domestic Product

KfW: Kreditanstalt für Wiederaufbau

MSME: Micro, Small and Medium-sized Enterprises

OECD: Organisation for Economic Co-operation and Development

PIP: Proposed Investment Programme

PROPARCO: Promotion et Participation pour la Coopération économique

SB4A: Sustainable Business for Africa

SDG: Sustainable Development Goal

SME: Small Medium Enterprise

TA: Technical Assistance

UN: United Nations

Footnotes

¹ This is in line with the EU Communication *A new partnership framework with third countries under the European agenda on migration*, 2014: https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/proposal-implementation-package/docs/20160607/communication_external_aspects_eam_towards_new_migration_ompact_en.pdf

² The EIP was implemented in September 2017 when EFSF regulation was adopted: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:249:TOC>

³ The Sustainable Development Goals for Africa, *SDG Financing for Africa: key propositions and areas of engagement*, January 2017: http://sdgcafrica.org/wp-content/uploads/2017/03/sdg-financing-for-africa_key-propositions-and-areas-of-engagement-.pdf and UNCTAD, *Economic development for Africa*, report 2016: http://unctad.org/en/PublicationsLibrary/aldcafrica2016_en.pdf

⁴ This is in line with the 2015 Addis Ababa action agenda on financing for development, which called for new partnerships, notably mobilising private resources and applying innovative financing models to achieve the SDGs.

⁵ EU, *Income inequality and poverty reduction in sub-Saharan Africa*, December 2016: <https://publications.europa.eu/en/publication-detail/-/publication/913d9058-b864-11e6-9e3c-01aa75ed71a1>

⁶ The share of population in sub-Saharan Africa with at least a secondary education is estimated to increase from 36% in 2010 to 52% in 2030. World Economic Forum, *The future of jobs and skills ion Africa*, May 2016: http://www3.weforum.org/docs/WEF_EGW_FOJ_Africa.pdf

⁷ EU neighbourhood countries: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia, Ukraine. See the website of DG NEAR: https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries_en

⁸ Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSF), the EFSF Guarantee and the EFSF Guarantee Fund: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:249:TOC>

⁹ Previously the Africa Investment Facility.

¹⁰ Previously the Neighbourhood Investment Facility.

¹¹ https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en

¹² See Article 3 (Purpose) of the EFSF Regulation.

¹³ The leverage ratio of 1:11 is assumed on the basis of the EU's experience of blending operations.

¹⁴ See the website of EU4Business: <http://www.eu4business.eu/>

¹⁵ See the website of DG DEVCO: https://ec.europa.eu/europeaid/news-and-events/eu-external-investment-plan-5-priority-areas-identified-first-meeting-efsd-strategic_en

¹⁶ See the website of DG DEVCO: https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

¹⁷ See EFSF regulation, Article 9(4) "Eligibility criteria": while the provision refers specifically to the Africa Investment Platform, it has been agreed that operations supported by the new Guarantee in the European neighbourhood should also address fragile contexts and those affected by high political risk.

¹⁸ EFSF regulation, Article 11.

¹⁹ For more detail on pillar assessments, see: https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/audit-and-control/pillar-assessments_en

²⁰ Extracts from Article 9 of the Regulation.

²¹ https://ec.europa.eu/europeaid/news-and-events/eu-external-investment-plan-5-priority-areas-identified-first-meeting-efsd-strategic_en

²² European Commission, *A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries*, May 2014: https://ec.europa.eu/europeaid/european-commission-communication-com2014263-stronger-role-private-sector-achieving-inclusive-and_en

²³ IFC Jobs Study, *Assessing private sector contributions to job creation and poverty reduction*, January 2013: https://www.ifc.org/wps/wcm/connect/0fe6e2804e2c0a8f8d3bad7a9dd66321/IFC_FULL+JOB+STUDY+REPORT_JAN2013_FINAL.pdf?MOD=AJPERES

²⁴ The term "innovation" covers all possible sectors and not exclusively technology and IT (e.g. social innovation, creative industries, innovative circular economy models, etc).

²⁵ Communication for a renewed impetus of the Africa-EU Partnership https://eeas.europa.eu/sites/eeas/files/http_eur-lex.europa.pdf

²⁶ See the website of EU4Business: <http://eu4business.eu/>



Contact details

**Secretariat of the External Investment Plan
European Commission
41, rue de la Loi/Wetstraat, 1040 Bruxelles/Brussels, Belgium**

Get updates or submit proposals:

Email: EC-EIP-EFSD-SECRETARIAT@ec.europa.eu

For more information, please also check:

https://ec.europa.eu/commission/external-investment-plan_en