Union's External Investment Plan

New Generation Instrument for Sustainable Development

Lunchtime conference External Cooperation Infopoint

12.30-13.45
10 November 2017
Why we act?

"Less than 10 per cent of Foreign Direct Investment in Africa goes to fragile regions – those that need it the most. We want our External Investment Plan to become a powerful engine of more inclusive and sustainable growth."

Federica Mogherini
High Representative of the Union for Foreign Affairs and Security Policy / Vice-President of the Commission

"Our External Investment Plan marks a new approach for eradicating poverty and achieving inclusive sustainable development. By leveraging in particular private finance, our contribution of €4.1 billion will leverage up to €44 billion of investments which otherwise would not happen."

Neven Mimica
Commissioner for International Cooperation and Development

"It is in Europe's own interest that we all work to ensure sustainable and balanced economic growth in our partner countries. Involving the private sector and securing the most conducive environment for it to thrive will support these efforts."

Johannes Hahn
Commissioner for European Neighbourhood Policy and Enlargement Negotiations
We implement policies

- **Addis Ababa Action Agenda** on Financing for Development
- The 2017 **European Consensus on Development**
- **Global Strategy** for the EU Foreign and Security Policy
- EU Communication "The **Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries**"
- EU Communication "**For a renewed impetus of the Africa-EU Partnership**"
What are the EIP goals?

- Contribute to Sustainable Development
- Encourage private Investments
- Focus on jobs and growth
- Improve Investment climate
- Tackle root causes of migration
Why we act?

**Estimated global investment gap in key SDG sectors, 2015-30**
Trillions of USD, annual average

- **Total annual Investment needs**: 3.9
- **Current Annual Investment**: 1.4
- **Total Investment gap**: 2.5

Estimates of Annual Incremental Investment Needs for Africa to Achieve the SDGs

$210 Billion per year

Source: UNCTAD (2014)
Where we act?
How we act? The Three Pillar Approach

**European Fund for Sustainable Development (EFSD)**
- New guarantee to reduce risk
- Blending loans and grants
  - Africa Investment Platform
  - EU Neighbourhood Investment Platform

**Technical Assistance**
- Support local authorities and companies preparing bankable projects
  - Improving the investment climate in close engagement with the Private Sector

**Investment Climate**
- Structured dialogue with business
- Market Intelligence & Analytics
- Policy and political dialogue
  - EU Cooperation

A one-stop-shop for public and private investors
What is new?

- Integrated 3-pillar approach
- EFSD Guarantee
- One-stop-shop for public and private investors
Moving beyond classical development assistance
Pillar 1: EFSD resources

NEW PARTNERSHIP FRAMEWORK – EXTERNAL INVESTMENT PLAN

European Fund for Sustainable Development (EFSD)

**New EFSD Guarantee**
- EU contribution
- EUR 0.75 billion *

**Blending facilities (AfIF, NIF)**
- EU contribution
- EUR 2.6 billion

**MS contributions**

**Other contributions**

**EFSD Guarantee**
- Value > €1.5 billion

**Blending**: Total budget funds > €2.6 billion

Total extra investment through the Africa and Neighbourhood Investment Platforms:
- at least €44 billion

* Plus a EUR 0.75 billion contingent liability.
Pillar 1: Governance

"shall ADVISE the Commission on the STRATEGIC orientations and priorities of the EFSD guarantee investments including indicative and thematic coverage for investment windows"... "shall also support overall COORDINATION, COMPLEMENTARITY and COHERENCE between the" regional investment platforms, the three pillars, the Union's efforts on migration and EIB's operations

"SUPPORTS the Commission in defining regional and sectorial INVESTMENT GOALS, regional, sectorial and thematic investment windows, formulates OPINION on the blending operation and discusses the use of the EFSD Guarantee in line with the investment windows to be defined"

STRATEGIC BOARD

European Commission, HRVP Representative, EU Member States, EIB
+ European Parliament, IFIs, partner countries as observers

OPERATIONAL BOARD

EU Commission, EEAS & EU Member States

AFRICA INVESTMENT PLATFORM

NEIGHBORHOOD INVESTMENT PLATFORM

SECRETARIAT

Web Portal (one-stop-shop)
External Expertise
Commission Services

Regional investment platforms for portfolios of investments in specific regions, countries or sectors
CLIMATE INVESTOR

Tier 1 (Donors) US$ 100 million
Tier 2 (Commercial Investors) US$ 200 million
Tier 3 (Institutional Investors) US$ 200 million

Development Fund US$ 30 million
Construction Equity Fund US$ 500 million
Refinancing Fund US$ 500 million

Development loans & TA
Equity
Senior debt

Fully financed and well-structured renewable energy projects
Boost Africa investment model

EC JUNIOR TRANCHE

Investment of senior tranche on a deal-by-deal basis

Seed funds
AND/OR
EIB, AFDB, DFI, Private LP
X% First Loss

BA funds
AND/OR
EIB, AFDB, DFI, Private LP
X% First Loss

VC funds
AND/OR
EIB, AFDB, DFI, Private LP
X% First Loss

Startups

SMEs
The EFSD Guarantee

A risk mitigation mechanism to stimulate investments in Africa and in the Neighbourhood.

A guarantee capacity for credit enhancement will ultimately benefit the final investments and allow risk sharing with other investors, notably private actors.

Will leverage additional financing, in particular from the private sector (crowding in), by reducing the risk associated with specific operations.

Will provide liquidity from its guarantee fund (liquidity cushion).
Pillar 1: EFSD Guarantee Eligibility criteria

Article 8 of the EFSD

- additionality
- complementarity with other initiatives, clearly distinct, in particular from the external lending mandate operations managed by the EIB
- alignment of interest by providing adequate risk sharing
- economically and financially viable
- maximise, where possible, the mobilisation of private sector capital
- respect the principles of development effectiveness

Market failures or sub-optimal investment situations

Focus on youth and women empowerment
First proposed investment windows

1. Sustainable Energy and Connectivity
2. Micro, Small and Medium Enterprises (MSMEs) Financing
3. Sustainable Agriculture, Rural Entrepreneurs and Agroindustry
4. Sustainable Cities
5. Digital for Development

Cross-cutting objective: local currency financing, focus on fragile states, not-distorting market competition
Pillar 2: Technical Assistance in support of Pillars 1 and 3

Support Pillar 1
- Investment pre-identification phase
- Investment preparation
- Investment phase

Support Pillar 3
- Market intelligence, Investment Climate Analysis, Dialogue
- Government Reforms
- Capacity building and value chains upgrading
Pillar 2: EU's Existing TA in Sub-Saharan Africa (estimated 2012-2017)
Pillar 3: What is "investment climate" and "business environment"
Pillar 3: Improving the investment climate – 10 key elements

1. Political (in)stability
2. Macroeconomic framework
3. Governance, rule of law, judicial security, public finance management
4. Business enabling environment – legal and regulatory system
5. Infrastructure and logistics
6. Human resources/skills
7. Financial markets & access to finance
8. Economic and trade prospects, Economic efficiency
9. Investment incentives
10. Climate-related risks
Pillar 3: How to promote a conducive investment climate

- **Structured dialogue with business**
  - Bring in private sector perspective on business constraints (SB4A)

- **Country analysis: sector and value chains**
  - Market intelligence, investment opportunities, in key sectors and value chains

- **Policy and political dialogue with partner countries; EU Cooperation**
  - Governance, reforms, value chain upgrading, TA, budget support

**Coherence and complementarity**

**Key role of EU Delegations**
Pillar 3: Structured dialogue with private sector
THE SUSTAINABLE BUSINESS FOR AFRICA PLATFORM (SB4A)

African and EU Business perspective on addressing constraints in investment climate

Launch at the EU-Africa Business Forum, Abidjan 27/11/2017
IMPLEMENTING THE SUSTAINABLE BUSINESS FOR AFRICA PLATFORM

Enabling and scale-up structured dialogue with the private sector in a comprehensive manner

Local level
(EU Delegations)

Sector Level
(agriculture, energy, digitalisation…)

Strategic Level
(HQ level)
Pillar 3: Support to value chains development and upgrading

Identification of value chains with high potential

Increase local value added

Development and upgrading

Thematic priorities: economic empowerment of women and youth; decent work and living wages; transparency and traceability in the value chain
The EIP – Find your way and influence!

✓ One-stop-shop
• Single entry point for investors and partners
• Enhancing accessibility

✓ Structured Dialogue
• Identifying key constraints to investment
• Country, sector and strategic levels - EU Delegations
The EIP – How can businesses access?

✓ For Funding – through International financial institutions

Micro Small Medium Enterprises/ Cooperatives
- Local Financial Institutions benefit form risk sharing
- Single entry point

Start-ups
- Investment funds
- Venture capital supported by EIP

Large Companies
- Development Financial Institutions
- Private banks
- Risk sharing Instruments
Summary

✓ Integrated three-pillar approach – Seizing Synergies

✓ Enhancing Transparency, Accessibility and Efficiency

✓ EFSD Guarantee – innovative instrument, providing more funds and more flexibility