POSITION PAPER

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BusinessEurope's position on the Post-Cotonou partnership between the EU and ACP countries

KEY MESSAGES

1 The Cotonou Agreement, which has governed EU-ACP relations since 2000, did not prove effective in terms of promoting economic development and increasing market shares for European businesses in ACP countries. The negotiation of a new partnership agreement is a unique opportunity to reshape relations between EU and each ACP region by creating a new dynamic global architecture relying on three substantially separate regional compacts conducive to growth and sustainable development. Particular attention should be paid to the African continent, where a major part of future growth will take place. Europe and Africa must enter a new phase of unprecedented cooperation. The Post-Cotonou partnership must therefore be ambitious and reinforce the special relationship between Europe and Africa through a new partnership based on mutual advantages, co-development and a "one-continent approach". The relation between the EU and its African counterpart, the African Union, will be key to build this long lasting and effective partnership.

2 For the new partnership to bring tangible benefits, a strong involvement of the European and ACP private sector before, during and after the negotiations is key. In the case of Africa, a flexible and adaptable platform involving the EU Institutions, the African Union and the European and African private sector should be created. Moreover, a platform at national level inspired by the Sustainable Business for Africa Platform could be useful to promote policy dialogue and improve the investment climate.

3 The new partnership needs to be underpinned with instruments to leverage private sector investment by reducing risk and improving the investment climate through dialogue on necessary reforms. To achieve this, the focus of EU funding instruments must shift from budget support to support for private sector development. The External Investment Plan is a promising initiative in this regard and should inspire discussions on the reform of the architecture of EU External Financing Instruments in general and especially the European Development Fund. While synergies between existing instruments must be increased, further instruments should be created to strengthen value chains and economic diversification.

4. The Agreement should include strong provisions to promote the finalisation and implementation of the Economic Partnership Agreements (EPAs). EPAs play a key role in supporting the regional integration processes of ACP countries, e.g. in terms of harmonization of regulation, taxation, customs procedures, free movement of goods, strengthening regional institutions etc. Moreover, they will improve economic relations and competitiveness of African and European economies, also vis a vis other global players.

1. Introduction

The African, Caribbean and Pacific (ACP) group of states consists of 79 countries – 49 from Sub-Saharan Africa, 16 from the Caribbean and 15 from the Pacific – accounting for a significant share of UN membership. Since its very beginning, the EU has had a special and close relationship with ACP countries. Following the Yaoundé I and II Conventions, the 1975 Lomé Convention granted ACP countries legal status and gave them privileged access to the European Common Market. Since 2000, EU-ACP relations have been governed by the Cotonou Agreement, with which EU-ACP relations entered a new phase of strengthened partnership. Based on three pillars – political, commercial and sustainable development – the agreement sought to eradicate poverty and help ACP countries to diversify their economies and gradually integrate in the world economy by creating an environment for entrepreneurship and investment. Regarding the political pillar, Articles 8 and 9 provide the framework for EU-ACP political dialogue and recognize the importance of involving civil society organisations and the private sector. The development cooperation pillar is supported by the European Development Fund. Concerning trade, the Cotonou agreement phased out the WTO incompatible Lomé-regime and foresaw the negotiation of six[1] regional Economic Partnership Agreements (EPAs), granting ACP countries duty-free, quota-free access to the EU market in exchange for giving the EU asymmetrically reciprocal access to their markets.

Although EPA negotiations were envisaged to be concluded by the end of 2007 – when the old EU-ACP trade regime was phased out– only the negotiations between the EU and the Caribbean Forum were finished by that time. Negotiations on the remaining EPAs could only be concluded in 2014 and only after the EU had decreased its ambition significantly – excluding issues such as trade in services, investment, public procurement, and competition from the agenda. Even now, only two full regions have signed an EPA – which is not yet ratified by all members – and only one regional EPA is in force.[2]

The Cotonou Agreement will come to an end in 2020, and its provisions foresee the opening of negotiations with the ACP states by August 2018 at latest, to agree on how to govern relations after. Therefore, the Commission published its recommendations for a negotiating mandate with ACP countries on 12 December 2017[3]. The proposal is currently discussed in the Council, which is expected to adopt a final version at the end of May. The development landscape has radically changed since 2000, and new priorities and actors have emerged. The update of the EU-ACP partnership provides an opportunity for adapting the relationship to 21st century realities and creating frameworks conducive to growth and sustainable development through the stronger involvement of businesses. To achieve this, the EU and ACP states must move beyond a state-centric

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[1] In 2007, the five countries of the East African Community broke away from the East and Southern Africa ACP region to sign a separate interim EPA with the EU, thus creating a seventh regional group.

[2] http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf.

[3] Recommendation for a Council Decision authorising the opening of negotiations on a Partnership Agreement between the European Union and countries of the African, Caribbean and Pacific Group of States, European Commission, 2017.

donor-recipient relationship and towards a policy dialogue involving multiple stakeholders for mutually beneficial cooperation.

This position paper seeks to contribute to the discussion on the post-Cotonou partnership between the EU and ACP countries by pointing out the issues that business considers central for making the new partnerships a success leading to jobs, growth and sustainable development in each ACP region.

2. Main features of the Commission proposal:

For the Commission, the future partnership with the ACP countries should build on the strengths of the long-standing cooperation, while relying on a more regionally tailored approach. Therefore, its draft mandate proposes to have one general agreement, applying to all members of the partnership and focussing on common principles and the overarching objectives of EU-ACP cooperation, and three regional compacts.

The general agreement first presents the general objectives and principles, reflecting widely accepted norms in EU external relations and international cooperation. These include multilateralism, multi-stakeholder approaches, complementarity and subsidiarity, mutual accountability, political dialogue and policy coherence for development. In a second part, it elaborates on six priority areas. These are:

- Human rights, fundamental freedoms, democracy, rule of law and good governance
- Peace, security and justice
- Migration and mobility
- Inclusive and sustainable economic development
- Environment and climate change
- Human development and dignity

While the first three areas build on the Cotonou Agreement, the latter three introduce some significant changes, reflecting the changed international environment and the adoption of the Agenda 2030. It is noteworthy that, here, emphasis is placed on foreign direct investment and private sector development. A third part affirms the Parties' commitment to a rules-based global order and seeks to increase the cooperation and coordination of action of the Parties in relevant international for a and initiatives. Moreover, the general agreement comprises provisions on the institutional framework, the means of cooperation – including financial commitments – and the final provisions.

The compacts – one for Africa, one for the Caribbean and one for the Pacific region – will guide the effective operationalisation of the new agreement with tailored priorities and specific governance mechanisms and become the centre of gravity for political dialogue and action.

EPAs will remain even after the expiry of Cotonou Agreement in 2020 and they will continue to play a central role as the trade pillar in the post-Cotonou partnership. While the annex to the recommendation for a negotiating mandate mentions the possibility of 'widening and deepening the [EPA] agreements where appropriate, in line with the *rendez-vous* clauses and upon agreement of the respective Parties', EPAs only play a marginal role in the proposal. BusinessEurope believes that a stronger reference to EPAs is necessary in the new partnership.

3. The role of the private sector in development

Businesses are key for achieving inclusive and sustainable development. Their activity can create jobs and entrepreneurial opportunities, build human capital and physical infrastructure, cultivate inter-firm linkages, enable technology transfer, generate public revenue for governments and provide a variety of products and services to consumers and other businesses, increasing the competitiveness of local economies. All this contributes to expanding economic opportunity and creating value for both business and society. On average, the private sector accounts for 60% of GDP, 80% of capital flows and 90% of jobs in developing countries and must thus be considered as key actor for achieving the SDGs[4].

However, ACP-EU relations have their roots in a highly state-centered and centralised approach to international cooperation. Although Article 6 of the Cotonou Agreement supports the involvement of non-state actors by acknowledging that they are essential players in the partnership, the overall impact of efforts in this regard has been sobering and cooperation has remained government-oriented. Yet, since 2000, there has been a shift away from a state-centred approach to development. Building on the 2030 Agenda, the 2017 European Consensus for Development acknowledges that a multi-stakeholder approach and the mobilisation of all relevant stakeholders are necessary for successful international cooperation in the 21st century. This new approach must be reflected in the new EU-ACP partnership and especially ACP countries need to open up their political process to involvement from the private sector.

BusinessEurope supports a multi-stakeholder approach to development. All players involved in the policy making process, both at European level and in ACP countries should cooperate in order to achieve more inclusive and sustainable development results. Local governments, companies, NGOs and other civil society representatives should increasingly work together in Public-Private Partnerships. This form of cooperation has proven to result in more growth and jobs for the local communities which, given that they actively participate in the decision-making process, take more ownership and responsibility over their projects.

Although EU Institutions increasingly acknowledge the role of business, they predominantly promote the participation of SMEs in development policy. While it is important to involve SMEs and provide adequate instruments to enable them to mitigate risk and enter new markets, the role that larger companies play in development should not be neglected. Large companies mobilise SMEs when they invest in developing countries. They not only bring along their existing network of SMEs, but they also use local suppliers – which are also SMEs. In this context, they support both the

[4] The Private Sector: The Missing Piece of the SDG Puzzle, OECD.

internationalisation of European SMEs and the formalisation of the local private sector and the development of supply chains.

Despite the benefits arising from a multi-stakeholder approach, the governments of many ACP countries are reluctant to engage in meaningful dialogue with civil society organisations and the private sector and some have recently introduced restrictive legislation to curtail the work of non-state actors. The 2016 CSO Sustainability Index[5] stresses that in many states in sub-Saharan Africa, civil society organisations are increasingly facing restrictions or threats of restrictions on their work. Yet, a survey of economic and social actors in ACP countries conducted by the Economic and Social Committee revealed that 82% supported the participation of non-state actors in parliamentary meetings, and 78% supported participation in intergovernmental meetings, where they should also be able to present reports and make recommendations. The EU should use this strong support of greater civil society involvement as a leverage to induce its ACP counterparts to engage in more inclusive policy-making.

4. A new approach to development finance

Meeting the SDGs at global level will require investments of USD 3.3 to 4.5 trillion per year, on average. Since the current public and private investment per year merely amounts to USD 1.4 trillion, the average funding shortfall is estimated at around USD 2.5 trillion per year globally over the period 2015 to 2030. The African continent alone will need between an incremental USD 200 billion and USD 1.2 trillion per year for the SDGs to be achieved[6]. To address this funding gap, a strong involvement of the private sector in development efforts is essential. Therefore, public funding institutions must evolve from a classic grant-centered approach to development funding towards a more extensive use of innovative financial instruments and blended finance to leverage additional private sector investments. It should, however, not be neglected that grants have a decisive role in a number of relevant fields, such as – for example – prefeasibility and/or feasibility studies.

Yet, no matter which funding opportunities are available, the private sector can only scale up investment in areas critical to sustainable development if the right policy environment is in place. Therefore, a close dialogue between the ACP and EU public and private sector at all levels is necessary to identify problems, find solutions and create an enabling and inclusive business and investment climate. The External Investment Plan with its three-pillar approach – the European Fund for Sustainable Development, Technical Assistance, and structured dialogue between public and private sector to promote investment climate reforms – is a step into the right direction and should serve as a benchmark in the discussions on the reform of the architecture of EU External Financing

[5] https://www.usaid.gov/africa-civil-society.
[6] Your Guide to the External Investment Plan, European Commission, 2017.

Instruments (EFIs), provided that the integration between the actions taken under the three pillars is ensured.

The effectiveness of development aid does not lie in the level of funds allocated but in the way they are used. Thus, even if the EU delivers on its commitment to provide 0,7% of its Gross National Income as Official Development Assistance within the timeframe of the 2030 Agenda, this does not guarantee the optimal allocation of resources. Numerous studies have shown that grants can have counterproductive consequences, such as increased corruption, aid dependence, market distortion and rent-seeking behavior. To maximise the impact and efficiency of the limited resources available, a greater share of the EU's financial means should be used to trigger private sector capital flows. Only a rebalancing from budget support to support for private sector development can leverage the resources necessary to reach the SDGs. That said, we acknowledge that budget support remains key for ensuring that large scale infrastructural projects (e.g. for energy and transportation) can be duly planned and executed. These structural interventions are in turn instrumental to create the conditions for businesses to operate in the region.

The main financing instrument for supporting development cooperation between the EU and ACP countries is the European Development Fund (EDF). Being an intergovernmental fund outside the EU budget, the EDF depends on EU Member State contributions although its resources are mainly managed by the Commission. For the 11th EDF (2014-2020), which amounts to €30,5 billion, the main contributors are Germany (21%), France (18%), the UK (15%) and Italy (12%). This means that, with the UK leaving the EU, the EDF budget might be reduced by 15% for the 12th EDF if the architecture of EU EFIs is not changed significantly. While creative solutions for possible future UK contributions could be imagined, they cannot be relied upon. Maybe it is also due to this uncertainty that the draft negotiating directives reveal little on how the new agreement will be financed. It is merely stated that 'the amount of resources available to finance EU external action will be decided upon in the context of the Multiannual Financial Framework (MFF) review'.

The Commission's Mid-term review report of the EFIs[7] reveals an awareness of the need to revisit the full architecture of EU EFIs to achieve an enhanced strategic focus, simplify them and increase their flexibility. Since the number of the EU financial instruments and rules applying to them is an obstacle to their efficient use, one possible scenario is the incorporation of existing EFIs with their respective geographic and thematic remits in a single financing instrument. From a business perspective, a simplification of the architecture of EFIs would be welcome. The current framework is confusing and not well communicated. This makes it difficult for businesses and especially SMEs to understand which funds they could access and under what conditions. If the Commission seeks to attract more private sector investment, application and selection procedures for both European and national funds need to be more standardized for different programmes and a single online platform for all available national & European funds needs to be

[7] Mid-term review report of the External Financing Instruments, European Commission, 2017.

established. This ‘one-stop shop’ should have a user-friendly interface and direct project developers and investors to the instruments most suitable for their needs.

5. Recommendations

BusinessEurope endorses the splitting of the EU-ACP partnership into three regional compacts. The three ACP regions are very different from one another and a new global and dynamic structure relying on three substantially separate agreements (“compacts”), based on subsidiarity and the involvement of non-state actors on all levels, will be key for achieving more tangible results than in the Cotonou Agreement. The European Commission must especially work towards an ambitious and renewed “one-continent” partnership with Africa. To make the new partnership a success and improve the enabling environment in ACP countries, BusinessEurope has the following recommendations:

Private Sector Involvement:

- BusinessEurope is pleased to note that the draft mandate, on many occasions, stresses the importance of private sector involvement in development efforts. Yet, the provisions remain vague. The new partnership agreement needs to spell out concretely how multi-actor partnerships at the level of political dialogue, cooperation and funding will be embraced on country level, in the regional compacts and on ACP-EU level.
- The private sector must play a greater role in the renewed partnership, going beyond mere consultation. The future partnership must include a formal mechanism to include the private sector from the EU and ACP countries in the design, implementation, monitoring and review as well as during the upcoming negotiation stage. Private sector participation should not be a mere box-ticking exercise, which is why the formalistic approach of the Cotonou agreement should make room for strategic partnerships with a clear purpose.
- On the one hand, a regular dialogue must take place between the Commission and the private sector. On the other hand, the new platforms for private sector involvement in each ACP region should be flexible and adaptable and provide quick results. Each platform should thus:
    - give the possibility to company representatives active in ACP countries to give feedback on the Agreement and make recommendations on how to improve it.
    - Give business a role in monitoring the implementation of the Agreement after 2020.
- The EU delegations in ACP countries should facilitate policy dialogue between European and local businesses and the respective government. While in Africa, the Sustainable Business for Africa Platform could be extended to cover not only consultations in the framework of the External Investment Plan but on the business environment more broadly, similar arrangements would need to be created for the Caribbean and the Pacific.

- Businesses active on the ground are best-suited to identify the areas that need to be reformed to improve the investment and business climate in a country. If they are given a voice, they can be a strong catalyst for reforms, due to their self-interest in good governance and a good business-enabling environment. Business organizations at sectoral, national and regional level play a crucial role in aggregating their concerns and feeding them into the policy process. However, they are generally weak in the ACP region. Therefore, the EU needs to scale up its efforts to build the capacity of these organisations in ACP countries and increase their representativeness. Yet, the existing tools for this have not proved effective. Thus, there needs to be a greater focus on facilitating partnerships between European and ACP business organisations.
- In many countries the paradox exists that there is high unemployment while the private sector lacks employees with the right education and training. Thus, increased ACP-EU public-private dialogue should also serve to intensify cooperation on technical and vocational training to ensure that the education offered provides the skills needed by the private sector. The EU should also make more funding available to support such initiatives.

Development Financing:

- The EU should use public aid as a catalyst for other types of capital flows to a much larger extent by focusing more on support for private sector development than budget support. This can be done by improving the framework conditions for doing business and by offering a portfolio of capital and risk mitigation instruments, which will allow private investors to engage in developing countries with high risk profiles. The External Investment Plan is a promising initiative in this regard and should inspire discussions on the reform of the architecture of EU EFIs in general and especially the EDF. But more instruments must be created to strengthen value chains and economic diversification.
- The scope of the types of projects funded should be expanded to contribute to the development of sectors outside the traditional ACP-EU cooperation framework and maximise impact. Major issues include (but are not limited to) digitalisation (including digitalisation of traditional sectors), industrialisation and entrepreneurship.
- In order to ensure inclusive growth, sustainable development and a level playing field for European companies, measurement of the impact of financed projects must become a key criterion in the allocation of European aid. The impact could be rated in terms of job creation in the country, the creation of a subsidiary in the country, the long-term presence in the country, the legal structure, the fiscal impact, the share of local content, the involvement of the population in the project, environmental criteria, delivering commitments indicated by countries in the Paris Agreement, etc.
- The periods between the application for funding and the actual disbursement of funds should be reduced. This would make EU EFIs more flexible and ensure that more companies can benefit from them.

Regional Integration and Value Chains:

- The new framework should stress the importance of trade and regional integration for development. It should include provisions to tackle structural problems which can hamper business activity and the emergence of regional value chains such as high transport costs, slow customs and inefficient financial systems, building upon initiatives and economic integration processes in the region, including the Continental Free Trade Area. It should also include provisions to improve the investment climate in ACP countries and facilitate market access in sectors not yet covered by EPAs.
- To improve the business environment and the potential for regional value chains in ACP countries, the EU should induce its ACP counterparts to create incentives for informal entrepreneurs to move to the formal sector, where working conditions are generally better than in the informal sector.
- The negotiations on a renewed partnership with ACP-countries should be used to give new momentum to the ratification and implementation of the EPAs and to discussions on the issues contained in the *rendez-vous* clauses of the less comprehensive EPAs (e.g. services, investment, competition, public procurement, intellectual property). In the long run, provisions on these issues will be key for European enterprises to access ACP markets, especially in the light of increased interest of actors like China and India in the region, who are trying to promote their own standards. With the current wording of the proposal, BusinessEurope fears that the opportunity that the post-Cotonou-negotiations present to giving new momentum to EPAs is not fully exploited.

Horizontal Issues:

- The Institutions must ensure that the initiatives taken under the EU's regional strategies, measures under the Post-Cotonou framework and measures for the implementation of the EPAs are complementary and mutually reinforcing. To this end, more coordination should be done at EU level (between DG TRADE, DG DEVCO, DG GROW, the EEAS and the EIB, for instance).
- The agreement should encourage stronger cooperation of EU and ACP countries in the UN, the WTO and other international fora and initiatives to strengthen multilateralism and international law.

ANNEX

How the Post-Cotonou Agreement can support EU investment and private sector development in ACP countries

Following the European Commission's recommendation for a Council Decision "authorising the opening of negotiations on a Partnership Agreement between the EU and countries of the African, Caribbean and Pacific Group of States" from 12 December 2017, DG DEVCO asked BusinessEurope to consult its members on what concrete provision they believe are required in the future Partnership Agreement with ACP countries to promote EU investment in these countries. Specifically, DG DEVCO asked business to:

1. Define key provisions to include in the renewed partnership geared at reinforcing the investment climate in ACP countries;
2. Define key provisions to include in the renewed partnership geared at strengthening the investment climate in Africa specifically in key EU economic sectors (i.e. agribusiness, renewable energy, digitalisation, etc.);
3. Define ways in which the EU can provide support at the individual company level to increase potential EU investment in Africa.

After consulting its members, BusinessEurope identified the following points:

1) Provisions to improve the investment climate in ACP countries

i) Risk Reduction:

- Risk reduction is essential to encourage EU companies to invest in ACP countries. Thus, the EU should use public aid as a catalyst for private capital flows to a much larger extent by offering a portfolio of capital (equity, loans, grants) and risk mitigation instruments[8], which will allow private investors to engage in developing countries with high risk profiles. Concrete initiatives may include, inter alia, a transparent market of quick-to-access first-loss guarantees, blended finance and other innovative financing modalities for European Development Finance Institutions to channel to early-growth companies investing in ACP countries. The External Investment Plan is a promising initiative in this regard and should inspire discussions on the reform of the European Development Fund.

[8] Financial support should include financial instruments like credit lines, mutual guarantees and insurance schemes, project loans, corporate loans, guarantees, bridge financing, mezzanine debt, equity, capital market issuances and local currency financing.

ii) *<u>Access to EU Funds:</u>*

- The access to EU funds should be further facilitated by simplifying and standardising application procedures for different financing instruments and ensuring a user-oriented interface, which should take into account businesses' modus operandi and especially that of SMEs. Currently, even large companies experience difficulties in accessing EU funding.
- An alignment of funding requirements and criteria among European Commission, European Investment Bank, and EDFIs more broadly would be useful to clearly define the scope of possible investments.
- A consistent definition of political and commercial risk applied across all EU funding instruments would help to bring clarity to businesses and allow them to better assess and access EU de-risking instruments.
- The periods between the application for funding and the actual disbursement of funds should be reduced. This would make EU EFIs more flexible and ensure that more companies can benefit from them. Moreover, the European Commission should rebalance its action towards less upstream control and more follow-up assistance to ensure the proper implementation and assessment of contracts.

iii) *<u>Closer Dialogue:</u>*

- Yet, no matter which funding opportunities are available, the private sector can only scale up investment in areas critical to sustainable development if the right policy environment is in place. Businesses active on the ground are best-suited to identify the areas that need to be reformed to improve the investment and business climate in a country. Therefore, a close structured dialogue between the ACP and EU public and private sectors at all levels is necessary to identify problems, find solutions and create an enabling and inclusive business and investment climate. The Sustainable Business for Africa Platform could serve as inspiration in this regard.
- At EU level, the ad-hoc consultation process should be upgraded to an institutionalised dialogue between the private sector and EU policy-making and implementing agencies in the development sector so as to identify common challenges, inform policy responses, recommend development-policy instruments and accompany the implementation of initiatives pursuing shared economic development objectives.
- Business organizations at national, regional and sectoral level act as mediators between individual companies and policy-makers and thus play a crucial role in aggregating business priorities and concerns and feeding them into the policy process. However, they are generally weak in the ACP region. Therefore, the EU needs to scale up its efforts to build the capacity of these organisations in ACP countries and increase their representativeness. Yet, the existing tools for this did not prove effective. Thus, there needs to be a greater focus on facilitating partnerships between European and ACP business organisations.

iv) *<u>Investment Framework:</u>*

- Extending bilateral investment treaties towards more harmonised investment and tax agreement frameworks across ACP states and EU Member States could contribute to creating an enabling regulatory environment conducive to FDI.

- The Agreement should include a reference to the equality of treatment between national and foreign business subjects both regarding the regulations that companies have to comply with and regarding their access to and treatment by civil and criminal courts in ACP countries. Moreover, it should encourage ACP governments to strengthen anticorruption agencies.
- ACP countries should be encouraged to increase transparency in government procurement.

v) *<u>Promotion of Economic Diversification:</u>*

- Africa is a continent with abundant raw materials but with limited capacity to transform them industrially and thus create value and employment at local level. The new Agreement is a unique opportunity to promote economic diversification in Africa, including through industrialisation. European businesses can play an important role in achieving this goal. Therefore, partnerships (such as joint ventures) should be stressed as a key tool to co-develop opportunities in the ACP states.
- Public-private partnerships should be promoted. They could have a fundamental role to play in the economic development of ACP countries, insofar as they make the private sector more dynamic and boost synergies between institutions and economic operators.

vi) *<u>Regional Integration:</u>*

- The Agreement should include provisions promoting the finalisation of EPAs. They play a key role in supporting the regional integration processes of ACP countries, e.g. in terms of harmonization of regulation, taxation, customs procedures, free movement of goods, strengthening regional institutions etc. EPAs should be compatible with other economic integration processes in the region to avoid fragmentation and promote regional supply chains.
- European funds should be applicable to supporting the regional integration of ACP states.

vii) *<u>Diaspora:</u>*

- Engagement with the diaspora from ACP states in Europe should be enhanced. Due to their knowledge of the local context in ACP countries, migrants can be key-players in the sustainable development of their countries of origin.

2) <u>Provisions to strengthen the investment climate in Africa in key EU economic sectors</u>

i) *<u>Agribusiness:</u>*

- More strategic capital, especially risk-tolerant or blended private equity, is required for agri-businesses in its early growth-stage in order to help bridge the gap between seed/venture capital and later stage EU scale-up initiatives like the Agriculture Financing Initiative (AgriFi).
- EU and ACP countries should collaborate to strengthen local institutions, including public extension services, increase public sector cooperation and support private sector actors, both institutionally and financially, in promoting innovation and increased productivity in the agricultural sector (e.g. through developing new varieties more resistant to climate risks).

- Risk for foreign investors should be reduced by encouraging ACP countries to pursue a predictable and coherent agricultural policy. In this regard, also the issue of counterfeited products for agricultural inputs should be addressed.
- The new Agreement should provide financing and technical assistance to promote the development of agricultural supply chains in Africa, including industrial transformation, storage, transport, access to essential inputs, etc. Priorities should include: developing financing structures that benefit smallholder farmers, including crop insurance schemes; increasing the capacity, productivity, scale and market access of industrial companies and cooperatives; and promoting sustainable practices to address the challenges of climate change and food security.
- Intra-African trade and trade with Europe is essential for agricultural value chains to develop in Africa, which is why trade of agricultural commodities should be facilitated.

ii) *<u>Energy:</u>*

- Scaling up electrification and modernization of electricity generation in ACP countries is currently hindered by a lack of bankable energy projects, which is partly due to the limited number of project developers in these markets. The Agreement should encourage and facilitate the entry of new energy project developers in ACP markets by, inter alia, reducing red tape, allowing for competitive bidding in the area of energy supply and providing early-stage risk capital earmarked for project development purposes.
- In addition to promoting renewable energy generation solutions and addressing the infrastructure gap in transmission and distribution grids, the Agreement should provide funds to improve long-term grid stability by increasing storage and spinning reserve capacity.
- The electrification of rural areas in Africa should be supported more. This requires both financial instruments that minimize country-specific risk and specific training programs for the on-site technical staff. Having a variety of positive effects, such measures are also crucial to develop cool chains and storage facilities for agricultural value chains.
- The Agreement should encourage its Parties to remove all unnecessary regulatory and administrative barriers to long term corporate Power Purchase Agreements.
- Capacity building is necessary to help ACP governments to define clear policies and regulatory frameworks for the promotion of a sustainable energy sector. Furthermore, support to the development of common standards for contracts and tenders, as well as technical standards for operations and maintenance, needs to be strengthened.

iii) *<u>Technologies and innovation:</u>*

- ACP countries should take measures to make the operating environment for economic players in the ICT sector more predictable to increase mobile network uptime. Concrete measures include i) favourable policy, ii) a predictable regulatory framework and increased competition in spectrum concession bidding processes, iii) and allowing awarded economic players to operate networks without discriminatory intervention from public sector entities.

iv) *Horizontal issues:*

- A joint African-European arbitral entity should be created to provide more legal certainty for contracts.
- ACP countries should be encouraged to create regional regulatory authorities in key sectors (e.g. energy, telecoms, transport, water, utilities, etc.). These regulatory authorities should intervene in case of problems with the interpretation of contracts between operators and clients.
- The scope of the types of projects funded by the EU External Financing Instruments should be expanded to contribute to the development of sectors outside the traditional ACP-EU cooperation framework and maximise impact. Major issues include digitalisation, industrialisation, economic diversification and entrepreneurship.
- Other key sectors for which the investment climate and funding possibilities should be strengthened include infrastructure, energy, mobility, green technologies, sustainable forestry, pharmaceutical industry, logistics and packaging.
- In order to ensure inclusive growth, sustainable development and a level playing field for European companies, measurement of the impact of financed projects must become a key criterion in the allocation of European aid. The impact could be rated in terms of job creation in the country, the creation of a subsidiary in the country, the long-term presence in the country, the legal structure, the fiscal impact, the share of local content, the involvement of the population in the project, environmental criteria, etc.

3) Ways in which the EU can provide support at the individual company level to increase investment in Africa

- The European Union should continue and strengthen the support from local EU Delegations to companies and institutions from EU Member States seeking to operate in ACP countries. This is especially important for companies from smaller EU Member States since, for them, limited local representation of their respective state may limit their capacity to invest in ACP countries.
- The Agreement should promote and support technical and vocational training programmes in ACP countries to provide people with the skills needed by business, foster entrepreneurship and spearhead the commercial development of companies.
- Export promotion instruments developed by European investment banks, e.g. export insurance schemes, which back companies in case of a commercial disaster outside their control, are key for giving more companies the confidence to invest in and develop trading links with Africa.
- Capacity and network building programs aimed at strengthening professional/managerial and technical skills of professionals in European companies in specific industrial sectors are key to enable EU companies to invest in ACP countries as it facilitates business relations between companies.
- Market and investment analyses as well as sector studies are essential tools to guide companies and especially SMEs in their activities. The EU should support initiatives aiming to provide detailed maps identifying focus sectors for investments in connection with the needs of each country. It should also provide funding for feasibility assessments for projects.