



# **Handbook on improving the Investment Climate through EU action**

**Implementation of Pillar 3  
in the integrated approach of  
the External Investment Plan**

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#### LEGAL NOTICE

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# Executive Summary

## About the External Investment Plan

A conducive investment climate is essential within a country's path towards inclusive and sustainable growth. It plays a key role in attracting and retaining domestic and foreign investments. This, in turn, ushers in an economic transformation by boosting the development and competitiveness of the private sector, creating jobs and deepening trade integration, in support of the Addis Ababa Agenda and the Sustainable Development Goals.

This is the driving force behind the creation of the European Union's (EU) External Investment Plan (EIP), which has established an integrated approach, based on 3 Pillars. A systematic interplay between those three pillars is the core innovation of the EIP:

- investment mobilisation, through the European Fund for Sustainable Development (EFSD) (Pillar 1),
- technical assistance (Pillar 2),
- and investment climate improvements at country level (Pillar 3).

## Building a common narrative on investment climate

This document aims to provide an overview of Pillar 3 of the EIP, highlighting key drivers and challenges of a conducive investment climate. It describes how the EU can build on its current efforts and create momentum for implementing the EIP jointly with Member States and other key partners. It will support implementation of the priorities of the Africa-Europe Alliance Communication.

The key drivers of investment climate include:

- those at macro level, including stability and governance,
- business environment drivers,
- as well as human-centred drivers such as human development and innovation.

Addressing environmental, climate change and migration challenges is essential.

Investors' decision to invest, whether international or local, in a country, often depend on their perceptions whether a combination of these factors and the policy-mix to improve investment climate support their confidence.

## Pillar 3 of the External Investment Plan

Pillar 3 of the EIP is based on key building blocks that are closely interlinked. These include:

- deepening the investment climate analysis (including through technical assistance facilities such as the Structural Reform Facility for the Eastern Partnership),
- engaging in structured public-private dialogue (such as Sustainable Business for Africa – SB4A – Platform), in synergy with other tools such as EU trade and investment policies and EU Economic Diplomacy to identify obstacles and reforms needed.
- Finally, prioritised interventions to support adequate reforms, capacity building of public and private sector, value addition and entrepreneurship, can address investors' perceived risks.

The EU can contribute to investment climate improvements through a wide range of tools at its disposal. The focus must be on coherence across the 3 pillars of the EIP, as well as coherence across all initiatives and tools deployed by the Commission in favour of reforming the investment climate in partner countries.

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## Introduction

Sustainable private sector investments play an essential role in achieving the Sustainable Development Goals (SDGs) and in supporting jobs and growth creation in EU partner countries. The 2030 Agenda and the Addis Ababa Action Agenda provide a framework in which responsible investment can contribute to sustainable development in all its dimensions. A broad range of means – from stimulating private investment to fostering enabling policies need to be mobilised.

In the European Consensus on Development<sup>1</sup>, the EU and its Member States committed to take action to boost investment. A key channel for such actions is the **External Investment Plan (EIP)**.

The EIP is an EU initiative launched in 2017<sup>2</sup>. Through its 3 pillars approach, the EIP is designed to support investments into Africa and countries near the EU ('EU Neighbourhood'), by using public money to attract private investment, to foster sustainable and inclusive economic and social development, also with the aim of addressing specific socioeconomic root causes of migration, with a particular focus on job creation. It is a key tool for supporting EU partner countries in their efforts to meet the 17 SDGs.

### Objectives of the Handbook

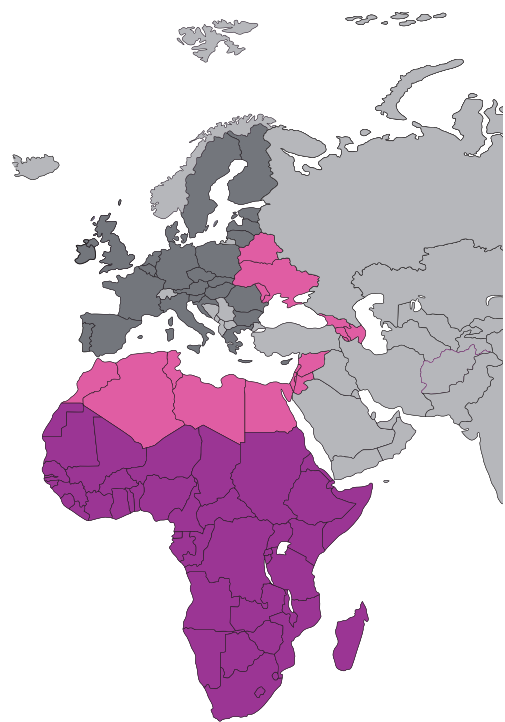
This document provides an overview of Pillar 3 of the External Investment Plan, focused on improving investment climate. It should be seen as the enabler for mobilising investments supported under EIP's first pillar, consisting in the European Fund for Sustainable Development (EFSD) and blended finance operations.

The EIP supports the ambitious goals set out in the new Communication on '**Africa-Europe Alliance for Sustainable Investment and Jobs**'<sup>3</sup>, proposing a new partnership to promote a substantial increase of private investment in

Africa. The Alliance builds on the country analysis and priorities identified in the Jobs and Growth Compacts<sup>4</sup> that provide a basis for operational action at country level.

In the EU Neighbourhood, these policy priorities are well established under the **revised European Neighbourhood Policy** and reflected in the Association Agreements and Partnership Priorities signed with the partner countries, as well as in the policy dialogue frameworks established, such as the Eastern Partnership<sup>5</sup>.

This document is intended to create a momentum for **implementing the EIP in an integrated manner** in partner countries, jointly with Member States and other key partners.



- EU neighbourhood countries
- Sub-Saharan Africa

## Overview of investments in Africa and the Neighbourhood

Strong economic progress over the last two decades and the inherent potential for the future mean that there are considerable opportunities to be seized in the African continent. However investments in Africa show an uneven picture, reflecting global uncertainty, with Foreign Direct Investment (FDI) flows to Africa fluctuating.

While countries including Egypt, Kenya, Morocco, Nigeria and South Africa attract collectively 58% of total FDI in 2016 (and Egypt around 60% of total FDIs in North Africa), less advanced and more fragile countries face systemic challenges to attract sustainable private investment. Since 2009, Africa has accounted for **less than 5% of total FDI inflows worldwide**. The situation is even worse in fragile countries which receive only 6% of foreign direct investment flowing into developing countries.

The EU is Africa's biggest investor, with EU Member States holding approximately 40% of FDI stock worth EUR 291 billion in 2016.

## Key challenges

**Africa's economic development** has made headway and is attracting an increasing number of investors. Despite many successes, Africa is still host to more than half of the world's fragile and conflict-affected States. Challenges facing entrepreneurs and investors in these countries vary according to the specific situations and include economic, political, social, environmental and demographic constraints. Sustainable investments in fragile contexts can generate opportunities for jobs and economic growth in medium and long-term.

The **Neighbourhood region** also faces similar challenges, varying according to the specific situation. The Southern Neighbourhood region in particular has a young and expanding population, in addition to millions of displaced people, largely due to the conflict in Syria. The need to create job opportunities and economic growth is a key factor for building a better future for citizens.

In the Eastern Neighbourhood, competitiveness, productivity and inclusiveness issues persist, and generating attractive job prospects for youth remains a key challenge. In both regions, economies struggle to adapt their education and skill-learning models to the evolving needs of the labour market, brought about by rapid technological change.





## Pillar 3 of the EIP: a quick overview

The Commission has been providing support to investment via blending in Africa, the Neighbourhood, Asia and Latin America already since 2007. It has also supported investment climate reforms in various ways, as part of the overall assistance. However, with the **External Investment Plan** (EIP), the EU, for the first time, has an integrated plan.

The EIP is linking:

- the mobilisation of financial resources of the European Fund for Sustainable Development (Pillar 1)
- with technical assistance (Pillar 2)
- and investment climate improvement (Pillar 3).

The latter focuses on removing constraints to sustainable private investment in partner countries and supporting priority reforms, through a strengthened dialogue with the private sector. The objective under Pillar 3 of the EIP is to help build a more conducive and sustainable investment climate<sup>6</sup> in partner countries through a **strategic and comprehensive approach**.



### 1.1. Where do we stand?

The Commission has a long experience working with local governments on private sector development<sup>7</sup>. As set out in the Communication on the new Africa-Europe Alliance, EU support to investment climate reforms should reach EUR 300-350 million on average per year in Africa for 2018-2020, and should further increase for the post 2020 Multi-Annual Financial Framework.

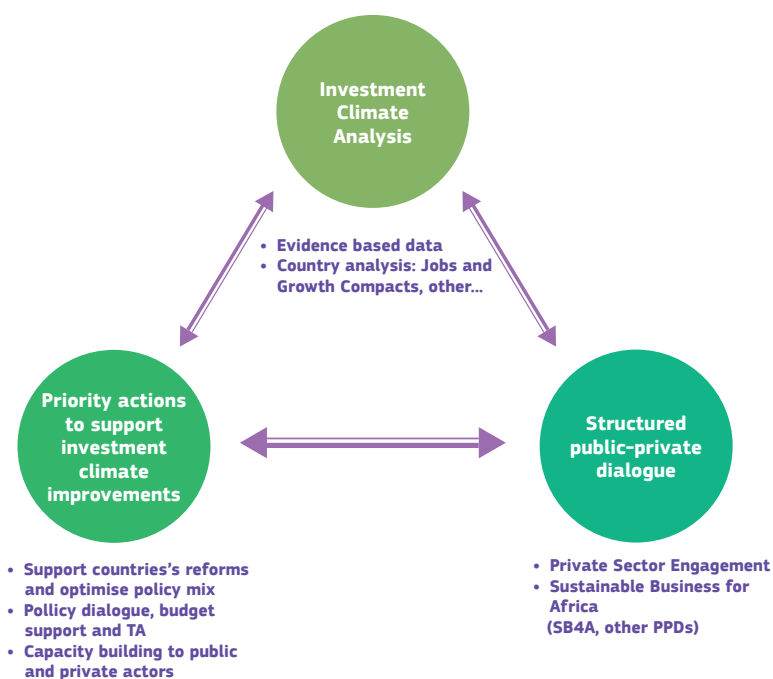
In **Sub-Saharan Africa, Jobs and Growth Compacts** have been prepared by EU Delegations, presenting an analysis at country level of investment climate opportunities and constraints. Among others, they aim to identify value chains with the highest potential for value addition and job creation. The work on the Jobs and Growth Compacts will provide a basis for a systematic agenda of attracting investments and these documents are under discussion with African partners.

In the **Neighbourhood region**, the EU's efforts to improve the business environment in partner countries have been largely led by strong policy dialogue at different levels, further supported by financial cooperation modalities and international donor coordination mechanisms. Reforms of the investment climate are also promoted by enhancing the dialogue in the framework of budget support operations, but also providing technical assistance (also in the form of investment climate assessments) and capacity development, by means of traditional specific bilateral, regional projects, and using instruments building on EU Member States' expertise such as Twinning and TAIEX.

The Commission aims at **mainstreaming investment climate** priorities within the development cooperation rationale to better achieve the sustainable development agenda. It is also key to build a joined-up approach on EIP Pillar 3 with EU Member States, supported by joint programming, as well as international organisations, partner countries, private sector, IFIs, CSOs and other key partners.

A significant effort has been put in place to promote the **mobilisation of Commission and European External Action Service (EEAS) Headquarters and Delegations staff**, to further develop the common understanding of investment climate challenges, build knowledge and capacity on investment matters, including through training and targeted technical assistance. In addition, an extensive work has been done to map Commission's tools and resources to achieve the ambitious objectives of the EIP. Technical Assistance facilities for Pillar 1 and Pillar 3 have been created to take into account the investment needs and the different challenges of EU partners to achieve the SDGs.

#### The building blocks of Pillar 3



## 1.2. The building blocks of Pillar 3 of the EIP

With the EIP, the Commission aims to enhance the crowding-in of sustainable investments. Pillar 3 focuses on addressing perceived country risks by supporting the necessary investment climate reforms and boosting jobs and growth opportunities in the country. EU Delegations have a fundamental role in implementing Pillar 3, with the support of devoted national and regional programmes and initiatives, supported by thematic actions.

Removing constraints to private investment in partner countries and supporting priority reforms

will improve the framework conditions for doing business. Building on a thorough country analysis, such as the Jobs and Growth Compacts, a systematic public-private dialogue process will provide a business perspective and help identify the most important barriers that may impede economic activity. The Sustainable Business for Africa (SB4A) Platform is conceived to enable and scale up structured public-private dialogue facilitated by the EU in partner countries and on a sector basis. This can feed policy dialogue with partner governments and assist in prioritising and implementing the investment climate reform agenda. In many countries, the Commission can build on a long experience working with both the private and the public sector in improving investment climate conditions, for example in the context of the implementation of trade agreements.

The implementation of the integrated three-pillar approach is fundamental for the success of the EIP. It is necessary to ensure that investment prospects under the blending projects and the EFSD Guarantee are supported by technical assistance and investment climate improvement actions.

### THE EU'S ACTIVITIES ON INVESTMENT CLIMATE CAN BE GROUPED INTO THREE MAIN AREAS THAT ARE CLOSELY INTERLINKED:

- **Investment climate analysis:**  
Evidence based data and country analysis (Jobs and Growth Compacts and other analysis)
- **Structured public-private dialogue:**  
Identify obstacles to investments and help prioritise reforms needed (SB4A and other processes, private sector engagement)
- **Priority actions to support necessary investment climate improvements:**  
Supporting governments to implement a conducive policy mix and reforms (through policy dialogue, budget support and technical assistance, Eastern Partnership platforms and panels), building capacity of both public and private actors, and boosting value addition, skills and entrepreneurship.

## 1.3. Linking investment prospects to investment climate improvements

Over the last decade, significant investments have taken place through EU innovative financial instruments and budget support operations. Among the important lessons learnt is that weaknesses and gaps in investment climate are systematically detrimental to the flow of foreign and domestic investment in partners' economies.

Catalysing and leveraging foreign and domestic investments under Pillar 1 sends a clear signal of confidence to the economy and encourages continuity in investment climate reform efforts. Measurable improvements in investment climate through an effective public-private dialogue under Pillar 3 can influence investment mobilisation under Pillar 1.

**Technical assistance resources** in support of investment climate reforms are mostly mobilised through national and regional indicative programmes; a significant part of it in the form of budget support. The goal is to improve the capacity of participants and beneficiaries. Technical assistance resources in support of local financial institutions and private sector, including MSMEs, are mobilised in the framework of blended finance operations and guarantee instruments as an integral part of the respective funding agreements.

The **linkages across the EIP pillars** between the policy investment climate reform agenda and EU funded EFSD guarantee and blending projects, mainly financed under regional envelopes, will be facilitated through EU programming mechanisms. Policy dialogue with national and regional authorities, based on the principles of the 2030 Agenda, national and international investors, EU Member States and key local actors plays an important role in determining the priorities in the identification of blending projects.

In this regard, **EU Delegations have a key role to play**, through structured dialogue mechanisms with the private sector, and in close cooperation with European and International Financial Institutions (IFIs), particularly those present in the country.

With the Jobs and Growth Compacts, EU Delegations are analysing which sectors and value chains are most likely to be an engine of inclusive growth and employment creation, as well as the main constraints on which the government can act upon to improve investment climate. The result of the analysis should allow to structure the discussions with the private sector and other stakeholders, in cooperation with other partners (for example through G20 Compacts<sup>9</sup>). These tools will help support joint programming and joint implementation with EU Member States.

EU Delegations will play an important role in identifying bankable and sustainable investments that IFIs could include in their pipelines of projects to be proposed for financing under the windows of the EFSD Guarantee. In doing so, Delegations assume the roles of 'broker', implementation agent, and watchdog.

### EUR 30 MILLION FOR INVESTMENT CLIMATE IMPROVEMENTS IN SENEGAL

In the framework of a budget support programme between the EU and Senegal signed in 2018, an important part (EUR 30 million) is devoted to support the efforts of Senegal in investment climate improvements, for examples through reforms related to the simplification and dematerialization of administrative procedures concerning the private sector (such as tax declaration and tele-payment, and reduction of delays for the registration of employment contracts with the Ministry of Employment) and reforms to improve commercial justice mechanisms.

### LINKING THE THREE PILLARS OF THE EIP IN ANGOLA

In Angola, the Commission is working to operationalize the EIP approach with a new action for a total amount of EUR 12 million. The EU has designed new blending operations (Pillar 1) linked to the priority sectors selected in the Jobs and Growth Compact. Technical Assistance (Pillar 2) will be provided to both staff of local commercial banks and to their clients in order to address the main obstacles affecting access to finance in the country, including the identification of business proposals and the support to infant private sector. In addition, targeted support for investment climate reforms (Pillar 3) will be given to the Government of Angola to integrate the informal economy sectors in the mainstream economic activity, particularly in those value chains prioritised in the country.



# What are the key drivers and challenges of investment climate reform?



Investors' and entrepreneurs' decisions to invest in Africa and Neighbourhood are influenced by a **wide range of drivers**.

With view to improving the investment climate under the EIP, key focus should be on these drivers, encompassing macroeconomic and political stability, governance, business environment and human-centred drivers like innovation. This chapter presents what these drivers are.

## 2.1. The macro level: stability and governance drivers of investment climate

### Macroeconomic stability

**Stable macroeconomic policies** are a crucial part of the investment climate, since they anchor the expectations of economic actors and contribute to lowering the risk of doing business by providing a more secure and predictable environment for private sector in making investment decisions.

This includes:

- the level of public budget balance,
- domestic revenue mobilization,
- public debt, monetary and price stability,
- external accounts,
- country credit ratings,
- tax evasion,
- tax fraud, and
- illicit financial flows.

Strengthening **debt management capacities** is needed to ensure public debt sustainability over the medium term, given that the public debt/Growth Domestic Product (GDP) ratio has risen significantly in many countries over the past decade.

Strengthening of **public finance management** can address critical issues which directly affect investment. This covers the selection and maintenance of public investments, as well as asset monitoring. A competitive transparent and accountable public procurement system is also crucial to ensure quality and value for money of public investment, and it has important potential for the development of local private enterprises.

**Transparent budget execution** with public access to essential budget documents and reports effective internal control and external audit systems are needed to combat corruption and to create confidence of private investors.



### ENHANCING BUDGET ACCOUNTABILITY AND TRANSPARENCY IN ZAMBIA

Zambia scored 39/100 on the 2015 Open Budget Index, which qualifies the oversight by the legislature and supreme audit institution of budget preparation as limited. Under the Support to Effectiveness and Transparency in Management of Public Resources (EFFECT) programme (EUR 17 million), the EU is supporting enhanced parliamentary budgetary oversight in Zambia through capacity building to Parliamentary Committees, increased public awareness of parliamentary activities through support to CSOs for budget tracking, as well as improved oversight of public spending by the National Audit Office, through staff capacity development and training.

Strengthening **domestic revenue mobilisation** is at the core of securing public resources required for a well-functioning state and the provision of essential public services such as education, health, infrastructure, which are key to improve a country's investment climate.

This also includes:

- fighting tax evasion,
- tax avoidance (e.g. by tax base erosion and profit shifting), and
- illicit financial flows<sup>9</sup>.

Tax certainty and ease of paying taxes are essential for businesses, while governments must ensure obtaining appropriate revenue from economic activities in their jurisdiction.

International cooperation to prevent tax-base erosion, profit shifting, and on increasing the transparency of financial flows are essential in this context. The EU is encouraging this process through its External Strategy for Effective Taxation, which contains measures to promote tax good governance globally and to engage with third countries to counteract abusive tax practices.



## ENHANCING TAX REFORMS IN GEORGIA

Following its 2003 'Rose Revolution', Georgia's new government embarked on an aggressive agenda of legal, regulatory, and institutional reforms designed to stamp out public sector corruption, increase tax collection and create an attractive environment for public and private investment, largely supported by EU assistance. Since then, Georgia's tax revenues have increased more than four-fold thanks to the combined effect of the changes in the tax regulation and administration. Total tax receipts soared from only 12% of GDP to 25%. This generated fiscal space to increase public health investment (by 2010 it had risen by 80%, equal to 2.3% of GDP) and public education investment (46% in real terms, nearing 3% of GDP). Assistance by the EU and other development partners was essential to helping Georgia to design and implement the tax reforms.



## Political stability

A **stable and transparent political environment** provides a sound foundation for economic development that makes it less risky to invest and reduces the cost of establishing and running a business. Risks related to unstable political environments, caused by armed conflict, health crises, natural disasters or other events that pose threats to security could discourage investors. The likelihood of political instability and/or politically-motivated violence, including terrorism are strong deterrents for investments.

If investors fear expropriation of assets, revocation of incentives, labour unrest, civil dissention, or inability to deal with natural calamities, they will be disinclined to invest. Investors have to be confident that investments are safe.

## Governance and rule of law, justice, anti-corruption

**Good governance** is a crucial element for attractive investment conditions. Respect for the **rule of law** is a prerequisite for upholding rights and obligations of people and business and for establishing trust in the legal system of a country. The existence of an **independent, impartial and efficient national justice system** is the essence of the rule of law. Well-functioning national justice systems are beneficial for the economy<sup>10</sup>. Where judicial systems guarantee the enforcement of rights, creditors are more likely to lend, firms can rely on their contracts, businesses are dissuaded from opportunistic behavior, transaction costs are reduced, corruption risks are lessened and innovative businesses are more likely to invest.

**Corruption** has a negative impact on business productivity, investment, profitability and growth, by increasing transaction costs and discouraging domestic and foreign investments. The effective investigation, prosecution and adjudication of codes of conduct, play an important role in curbing corruption in public administration.



## SUPPORTING FIGHT AGAINST CORRUPTION IN MOZAMBIQUE

In a study, the CIP (Centro de Integridade Publica) estimates that the cost of corruption in Mozambique from 2002 to 2014 in current prices was equivalent to 30% of the GDP in 2014. With the programme «Support to fight corruption in Mozambique» (currently in preparation for an amount of EUR 10 million), the EU aims to strengthen national mechanisms to systematically and efficiently prevent, fight and monitor corruption. The programme will include strengthening the capacities of judicial institutions to prevent and fight corruption and bring corruption cases to justice, and supporting justice professional associations, civil society and media involvement in anti-corruption initiatives.

- Business simplification,
- Business tax policy and administration,
- Investment policy,
- Land and property rights,
- Trade regulation and policy,
- Financial markets,
- Commercial justice and dispute resolution,
- Labour law and employment policy,
- Infrastructure policy and regulation,
- Energy policy and regulation.

### Business simplification



It is a major component of an enabling business environment. This includes all procedures required to start up and formally operate an industrial or commercial business, which is an area where private sector often faces major difficulties. It also includes the time and cost to complete these procedures and government incentives to move towards formal economy. Informal economy is the main source of employment in Africa, representing around 85.8 % of the occupation.

## 2.2. The business environment drivers of investment climate

The **business environment** comprises the legal, regulatory, policy and institutional frameworks that govern directly business activity. This can be grouped into various functional areas:



## IMPROVING THE COMPETITIVENESS OF THE PRIVATE SECTOR IN CAMEROON

Cameroon has always been a considered an example of political stability and economic growth in a region particularly witnessed by conflicts. To remove the economic barriers and facilitating the country's economic transformation, the EU supports the "dispositif d'appui à la compétitivité du Cameroun" (DACC, mechanism to enhance Cameroon's competitiveness) with view to reduce and streamline government formalities and administrative burden for local and international private sector operating in the country. The project will improve the competitiveness of the market, supporting the ability of businesses to respond quickly to new market opportunities through structured public-private dialogue. Particular attention is given to support the government in identifying bottlenecks and reducing costs for business in the energy sector.

In the Neighbourhood Region, the EU promotes enterprise policies and industrial strategies designed to boost competitiveness. These seek to expedite structural adjustment, foster an environment conducive to business creation and to domestic and inward foreign investment; promote small and medium-sized businesses (SMEs), and promote entrepreneurship and encourage innovation. With the principles of the Small Business Act (SBA)<sup>11</sup>, the EU support regional projects in the Neighbourhood region to assess SME policies, implemented by the OECD in partnership with the European Training Foundation and the European Bank for Reconstruction and Development (EBRD).

Moreover, a technical assistance regional programme has been launched in the Southern Neighbourhood to support more specifically the implementation of selected dimensions of the SBA (e.g. internationalisation of SMEs; access to finance/financial inclusion policies). The programme will enhance institutional and regulatory frameworks for increased SME policy impact on job and company creations.

### Business tax policy and administration



are key elements for the business environment. Tax certainty, transparency and clear tax payment procedures are important to business.

### REFORMING BUSINESS ADMINISTRATION POLICY IN JORDAN

In Jordan, an ongoing (EUR 55 million) budget support operation helps to upgrade Jordan's legislative framework. The Government of Jordan has presented to the Parliament new and amended laws and bylaws such as for bankruptcy and insolvency, upholding of shareholders agreements, the movable assets law, the companies law and removal of the goodwill tax. The relevant implementing agencies are also beginning to perform better as the needed organisational changes, staff increases and associated capability building programmes have been implemented. This is giving an impetus, leadership and a new sense of ownership to the reform process, which should yield more robust performance in coming years.

### Investment Policy



Effective investment policies<sup>12</sup> in EU partner countries, ranging from:

- investment promotion (i.e. activities that promote a location as an investment destination),
- investment facilitation (i.e. simplification of the investment approval process, streamline of sectoral regulations),
- to the non-discrimination and protection of foreign investments,

are important to attract and retain investments and to re-orient them towards more sustainable technologies and businesses, respect for human rights and high labour and environmental standards. This includes encouraging responsible business practices.

### EU-OECD PROGRAMME ON PROMOTING INVESTMENT IN THE MEDITERRANEAN

The programme funded with EUR 3 million aims at boosting the quality and quantity of investment to and within the Mediterranean region. Working in partnership with governments and institutions, it engages in regional and national actions to create more robust and coherent investment policies such as: modernising investment policies, promoting inclusive investment strategies, increasing the region's investment promotion capacities, building institutional capacity through peer learning, promoting networking between European and Mediterranean investment promotion agencies, enhancing public-private dialogue for more inclusive policy making. The Programme actions build on well-established international tools and standards such as the OECD's Policy Framework for Investment and the OECD Guidelines for Multinational Enterprises.

## Land and property rights

Investors look for a non-discriminatory, transparent and clear regulatory investment framework that secures property rights and is supportive of research and development and innovation.

Secure and stable regulatory frameworks for expropriation and **secure land tenure** have a major impact to encourage new investments and retain those that have already established, in particular in fragile and conflict affected states. Investors need to be confident with the country system and to be recognized together with their land rights. Reforms to improve land administration, including the land registration system and the surveying and mapping system are also key.

## Trade regulation and policy

This domain is about regulation and agreements on import and exports, trade promotion and trade facilitation. International trade remains a driving force of economic activities. Predictable, transparent trade policy, including preferential trade agreements, is especially relevant for foreign direct investment, notably where investors are concerned about the ability and ease of importing intermediaries and exporting final products. In addition to market access through preferential trade, investors are particularly interested in related policy fields (often covered in trade agreements) such as competition policy, intellectual property rights protection, public procurement and dispute settlement.

African and Neighbourhood countries have negotiated a range of **trade and investment agreements** with the EU, such as:

- Free Trade Agreements (North Africa),
- Deep and Comprehensive Free Trade Areas (DCFTA) in Georgia, Moldova, Ukraine, and
- Economic Partnership Agreements (5 agreements implemented in Sub-Saharan Africa).

## SUPPORTING TRADE FACILITATION AT REGIONAL LEVEL IN EASTERN AND SOUTHERN AFRICA

Under the 11th EDF Regional Indicative programme, a Common Market for Eastern and Southern Africa (COMESA) Trade Facilitation programme has been signed in November 2018 (EUR 53 million), which will contribute to deepen regional integration and enhance trade at regional level. In the field of Non-Tariff Barriers (NTBs), it will assist to upgrade the existing online monitoring, reporting and resolution system and will offer technical support to member states for the implementation of the COMESA NTB Regulations. In addition, at five selected border posts along trade corridors, the programme will support creation of One Stop Border Posts and trade simplification. It will also address implementation of harmonised Sanitary and Phyto-Sanitary measures and technical barriers to trade, including through regional networks of laboratories and enhancing regional quality infrastructure.

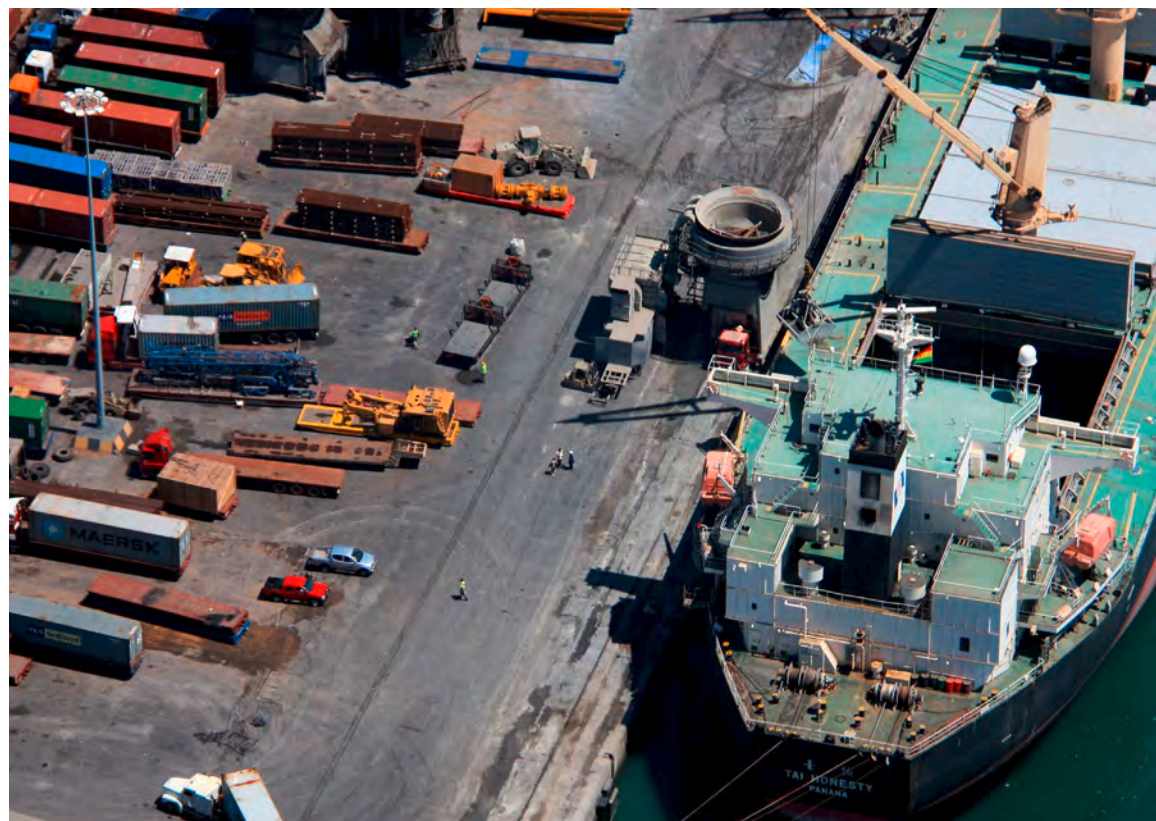


These agreements grant partners preferential market access in the EU (full duty-free and quota-free in the case of EPAs) and support partners in improving their investment climate, as well as aligning trade and investment-related legislation with the EU where desired.

Negotiations for a DCFTA have also started in Morocco and Tunisia, with technical assistance provided in the framework of a bilateral programme (Support Programme to Competitiveness and Trade). For developing countries without an agreement with the EU, the EU's Generalised Scheme of Preferences (GSP) grants unilateral preferential market access, while least developed countries benefit from duty-free, quota-free access under Everything But Arms (EBA).

**Trade facilitation**, as part of trade regulation and policies, aims to introduce simplified customs procedures to reduce the time and cost it takes to import and export goods across borders, in partnership with national government and veterinary, phyto-sanitary, immigration or port management authorities.

EU partner countries often face internal constraints that prevent them from accessing the economic benefits of expanded trade. To ensure that SMEs are able to seize the opportunities of the Deep and Comprehensive Free Trade Areas (DCFTAs), the EU, together with financial institutions, EBRD, EIB and KfW, has set up the DCFTA Facility with Georgia, Moldova and Ukraine, with the aim to increase SME competitiveness, ease their access to finance, help them to take trade opportunities and comply with food safety, technical and quality standards.





## Financial Markets

Domestic financial markets in many African and Neighbourhood countries are not sufficiently developed to ensure the efficient allocation of savings to productive investments. It is key to understand the needs and impediments of the local financial sector.

**Access to finance** is one of the greatest constraints and MSMEs often lack access to capital and to risk management tools such as savings, insurance and credit. Reform needs in this area focus on financial sector regulation, fostering competition of financial service providers, and insolvency frameworks. Integrating the EIP's first and third pillar work in this area is particularly important, as financial market development opens potential opportunities for innovative financing, particularly in the non-banking financial sector.

## EUROMED TRADE HELPDESK

As part of the Euromed Trade and Investment Facilitation Mechanism, the EU in partnership with the ITC, funded the EuroMed Trade Helpdesk. The main rationale of the Helpdesk is to provide a quick and free-of-charge response to market access and regulatory requirements queries to companies who wish to engage in trade in one of nine participating countries, i.e. Algeria, Egypt, Morocco, Tunisia, Israel, Palestine, Jordan, Lebanon and Turkey. The tool provides information on tariffs and duties, import and export procedures, and market requirements. In addition, a network of national focal points in each participating Mediterranean country will respond to enquiries on intra-regional trade issues and ensure information is kept up to date. The EuroMed Helpdesk is modelled on EU Export Helpdesk.

## EU INITIATIVE FOR FINANCIAL INCLUSION IN THE SOUTHERN MEDITERRANEAN

Access to finance for the 6 million of micro, small and medium-sized enterprises (MSMEs) in the Neighbourhood South is limited. The financing committed by local banks to SMEs in Egypt represents no more than 5% of total lending, in Palestine 6%, in Jordan 10%, in Tunisia 15%, in Lebanon 16% and 24% in Morocco. The 'EU Initiative for Financial Inclusion' has been prepared by the EU in 2015 in partnership with European Finance Institutions such as EIB, EBRD, KfW, AFD, to extend financing to MSMEs including to innovative start-ups. This initiative has the potential to reach up to 200,000 MSMEs in the region via:

- microfinance through local financial institutions and capacity building, risk/venture capital to support business start-ups and microfinance,
  - advisory services to SMEs,
  - SME Credit lines,
  - and guarantee funds to incentivise local banks to lend new funds to SMEs.
- More than EUR 1.2 billion in new financing for micro and SMEs is expected to be mobilised by the EU collectively during the period 2016-2020. performance in coming years.

## Commercial justice and dispute resolution



Difficulties in enforcing contracts and **obtaining commercial justice**, the cost, or insufficient number of judges and staff are constraints linked to formal justice systems. A legal framework and judicial system that provide effective access to commercial courts is crucial for both local actors and foreign investors. Alternative commercial dispute resolution mechanisms, in particular mediation, can substantially reduce caseload burdens, improve clearance rates, and raise efficiency in the administration of justice.

## Labour law and employment policy



This business driver contains rules governing arrangements for individual contracts, mechanisms for collective action, and technical, vocational education and training (VET) policies. The **challenges for governments** are:

- to balance labour flexibility with worker protection,
- to develop effective skills policies, feeding into education, training and labour market policy,
- to tackle skill imbalances and mismatches, based on reliable information on market demand,
- and to support decent jobs creation.

## SUPPORTING COMMERCIAL DISPUTE RESOLUTION MECHANISMS IN CONGO BRAZZAVILLE



In the Republic of Congo, enforcing contracts remains a critical issue for both domestic and international investors. The Commission is working, through a partnership with the Point Noire Chamber of Commerce (Project of Commercial and Entrepreneurial Capacities Strengthening), to reinforce the business and commercial capacities by creating a centre of mediation and arbitration on dispute resolutions. This initiative aims to further support commercial practices and to guarantee an easy and fair access to justice that respects the rule of law in case of commercial conflicts.





## SUPPORTING REFORMS OF EMPLOYMENT SERVICES IN BENIN

Under the SOCIEUX+ Expert Facility, the Commission is providing technical assistance to support the efforts of partner countries to better design and manage sustainable strategies and policies on employment, labour market and social protection.

One example is the activity 'Reform of employment services and programs for the establishment of a one-stop-shop for employment promotion' in Benin, which supported the Ministry of Labour, Public Administration and Social Affairs through capacity strengthening to implement strategic reforms under the National Plan for the Promotion of Employment 2017-2025. This project led to the development of a technical monitoring tool for evaluation of policies implemented, of tools for the operational management of action plans, and of a Strategic Plan for the implementation of integrated services to promote employment.



## Infrastructure policy and regulation



Conducive infrastructure policies (comprising transport, urban development, water and sanitation, energy, and information and communication technology) is an important driver of the business environment which complements other support to sustainable infrastructure development and finance.

**Governance of infrastructure** needs improvements through developing legal and regulatory frameworks and building institutional capacities, such as for public-private partnerships (PPPs). Governments also have a key role to play in strengthening the enabling environment for low-carbon, climate-resilient energy infrastructure investments.





## IMPROVING PUBLIC PROCUREMENT REGULATION IN NIGERIA ENERGY SECTOR

As part of the efforts by the EU, Germany and the US to support growing clean energy sector, the Energy Platform of Nigeria (bringing together National Government, EU Delegation, private sector and development partners) identified the need to have a more transparent procurement process to improve national and international investments in the country. Technical Assistance (via the Nigeria Energy Support Programme) was provided jointly by EU and GIZ to support the government to apply a new regulation on public procurement in the energy sector. This contributed to unlocking the licensing of 14 solar projects, resulting in improved supply of renewable energy in the Northern region of the country.

### Energy Policy and regulation



National energy policies and regulations facilitating investments in renewable energy and enabling energy efficiency are essential, and need to be transparent and fully integrated across other sectors, incorporating infrastructure needs or synergies with energy efficiency, energy security and also addressing challenges such as the continued subsidies for fossil fuels.

Measures should focus not only on electricity generation, but also on industry and productive uses, buildings, heating and cooling and transport sectors.

### 2.3. The human-centred drivers of investment climate

Adopting a human-centred approach towards investment climate is aligned with the 2030 Agenda and its SDGs and aims to go beyond the focus

on factors directly related to investment. The EIP has as ultimate purpose the sustainable development - with a change in paradigm in production and consumption, and with new business models. Investors and entrepreneurs looking for opportunities in Africa and in the Neighborhood will consider these additional elements that can improve a country's economic conditions. An effective human-centred government strategy has to ensure linkages between, for example, level of education, decent standard of living, social norms, innovation and labour productivity.



### Human development

In this regard, human development aspects have to be included in the analysis, i.e. as an undertaking of enlarging people's choices via building human capabilities, so that people can influence the processes that shape and improve their life. Investors looking for opportunities will consider these elements.

The basic dimensions of human development are:

- long and healthy life,
- education and knowledge,
- and decent standard for living.

As highlighted in the EU-Africa Alliance Communication, the **quality of human capital** is a key factor in improving productivity of labour force which can be considered as a decisive factor for inclusive growth. All people need to grow up in healthy, safe environments and be stimulated to develop their basic knowledge and skills, essential personal and social competencies and fundamental values, including social cohesion and equitable schooling.

The essential role of governments and the public sector to provide basic services, to regulate and

## RESTORING ACCESS TO BASIC SERVICES IN MALI

In Mali, several projects were launched in 2017 to improve security, governance, job creation and the resilience of affected citizens. In very unstable central regions of the country, the security-development nexus was fully in play with two complementary programmes under the EU Trust Fund for Africa: first – PARSEC of EUR 29 million – aimed to reinforce the security of Mopti and Gao regions as well as border management and the second – PROJES of EUR 30 million aimed at enhancing resilience of the population, to restore access to basic services and foster economic development. This action was complemented by projects at the national level such as a program supporting access to basic education (EUR 40 million) and a third State Building Contract (EUR 130 million) to support achievement of structural reforms that will lead to peace, stability and development.

outsource social services or parts thereof effectively in order to provide equitable and universal access to key social services, is to be underlined.

### Innovation

Innovation and innovation policy help to enhance productivity and competitiveness and to drive economic progress. Innovation is also a human-centered driver, related to creativity, to the invention of new ideas, products, technologies, social and business processes.

Innovation requires **complementary actions or policies** to achieve high potential returns and to further incentivize investments. Governments should strengthen public administration, government agencies and public research institutions to build managerial and organisational capabilities and eliminate physical, human and knowledge capital barriers to support innovation.

Conducive innovation policies and regulatory and institutional framework can incentivize:

- adoption of new technologies,
- creation of industrial and innovation clusters,
- and improve the quality of research.

Fundamental is also the existence of a proper legislation and enforcing system regulating the **Intellectual Property Rights** to promote and defend innovation inside the country.

**Climate change adaptation**, boosting green economy and protecting country's biodiversity requires innovative solutions and cost effective and sustainable patterns of production. This is particularly important in countries most reliant to natural resources and where populations live in exposed areas in precarious conditions and ill-equipped to adapt financially or institutionally. Innovation can help incorporating sustainability throughout business operations, including fostering low-carbon climate resilient investments, and transform environmental challenges into market opportunities including via digital tools.

## SUPPORTING SOUTH AFRICA'S NATIONAL SYSTEM OF INNOVATION

South Africa has identified the setting up of a coherent National System of Innovation (NSI) as a priority to support competitiveness. However, the NSI has not been able to achieve its potential, as it revolves around traditional players in the research and academic sectors, with limited involvement of the private sector and weak partnerships. Through a budget support sector reform contract of EUR 15M, the EU is supporting strengthened innovation policy and learning. The programme aims at developing policy and programme interventions through dialogue and consultations with non-conventional partners that will stimulate investment in research, development and innovation for service delivery in particular for vulnerable groups.



Supporting **entrepreneurship** and capacity development of private sector, including through development of business development services and business skills, is also a key element of an improved investment climate. Promoting social entrepreneurship is an important element of this process.

The rapid spread and scale up of **digital technologies and services** has global implications and creates opportunities for domestic and foreign investments. Unlocking digital opportunities in Africa and the Neighbourhood requires the deployment of digital infrastructure projects, linking especially remote regions or land-locked countries.

To support the development of a regulatory environment conducive to public and private investments in digital connectivity, governments should prioritise actions for the harmonisation of policy, legal and regulatory frameworks on Information and Communication Technologies across the African continent; this is key for the implementation of the Digital for Development (D4D) Agenda<sup>13</sup> in Africa.

In the Neighbourhood, far-reaching initiatives put in place by the EU, such as the EU4Digital Initiative in the Eastern Partnership, aim at deeper regional integration through the elimi-

nation of roaming tariffs, investment in broadband connexions, and regulatory convergence in the areas of e-Trust, e-Commerce, e-Security, e-Health, e-Skills and e-Innovation.

## 2.4. Addressing environment, climate change and migration

It is crucial that **environment and climate change** challenges be integrated into investment climate interventions. Measures to minimise and address climate and other environmental risks, by promoting climate resilient infrastructure, reducing dependency on imported natural resources, are being regarded as essential to a conducive investment climate.

Affordable and scalable options and measures are now available in EU partner countries. These also represent opportunities for businesses and investors to take advantage of more efficient production practices, and real benefits in terms of new jobs, economic savings, market opportunities, and improved well-being for people. In the Neighbourhood, the EU is supporting the implementation of the Paris Agreement on Climate Change and it is developing, in collaboration with the partner countries and other internatio-

### REFORMS BENEFITING SUSTAINABLE INVESTMENTS IN MAURITIUS

In Mauritius, the government collaborates with the Partnership for Action on Green Economy (PAGE) - which the EU supports - to design and implement evidence-based sector and thematic economic reforms. This has led to the development (together with the Stock Exchange of Mauritius) of a green bond market, to strengthen both national and international resource mobilization for sustainable investments. The programme has also supported fiscal policy reforms, towards integrating clear considerations of environmental impacts, with a view to creating additional fiscal space for green investments.



## SWITCHMED IN THE NEIGHBOURHOOD SOUTH

The introduction of the green and circular economy model allows the creation of a new economic dynamism together with a sustainable use of natural resources. The EU funded SwitchMed is part of a wide effort that supports Sustainable Consumption and production in the Southern Neighbourhood.

It is estimated that during the life time of the first part of the programme (2014–2018), the demonstration activities allowed saving of natural resources (water, energy and raw material) for an annual amount of more than EUR 41 million in 125 businesses and impacting 30 000 jobs. The second phase (2020–2022) will further support and scale up the transition towards Sustainable Consumption and Production (SCP) practices. For that purpose, it will 1) support directly the private sector (industry and start-ups), 2) improve the regional national policy frameworks and 3) facilitate access to finance by creating an access to Finance Guide, developing “Switchers Meet Investors” Events and developing the Switcher fund.

nal actors, concrete actions tackling both climate change adaptation and mitigation at regional, national and local level by implementing for example the circular economy model.

It is also important that investment climate interventions favour investments that address the root causes for **migration, including irregular migration**, and thus decrease drivers for involuntary migration. They should also promote the re-integration of returning migrants.

A conducive investment climate should support the integration of migrant communities, refugees and internally displaced persons into the economy, for instance by making sure that the concerned entrepreneurs dispose over residence permits or equivalent.

National legislation should have incentives to migrants and diaspora organizations in the EU to pool resources to foster investments for innovation and entrepreneurship in their region of origin and that it encourages national financial institutions to offer more affordable and individual tailored financial services, including remittances reception with no additional taxes, multi sectoral insurance scheme linked to remittances and new credits linked to diaspora investments.

## SUPPORTING INVESTMENTS FROM DIASPORA IN MALI

In Mali, a project (EUR 6 million) under the EU Emergency Trust Fund for Africa will involve International Fund for Agricultural Development (IFAD) as co-implementing partner with AFD (French Development Agency) to support investments from diaspora in the regions of origin. The programme aims to strengthen employment and entrepreneurship for the Youth in the regions of origin of migration and was adapted to allow for the IFAD to expand their crowd funding platform in the province of Kayes. This will allow the expansion of existing innovative tools implemented by Babyloan-France aiming at collecting from diaspora members and redirecting ‘remittances’ to productive rural investments.



# How to strengthen EU action on investment climate?



Building on current efforts, the EU should strengthen its action on investment climate with focus on the key drivers described and based on country knowledge and priorities.

EU actions will **particularly support**:

- deepening strategic market analysis (such as under Jobs and Growth Compact in Sub-Saharan Africa),
- enhancing structured public-private dialogue mechanisms (such as SB4A, the Sustainable Business for Africa Platform)
- and supporting sustained policy reforms.

These EU tools must be synchronised to support investment prospects under the EFSD and blending.

### 3.1. Market analysis to prioritise action

Bridging the gap between expertise on local investment conditions and market investors' knowledge of them, is crucial. Better share of information between key stakeholders as well as **tailor-made analysis** focusing on the market situation and on investment specific needs is a key element of the EIP Pillar 3.

**Thorough investment climate analysis** is an important means for the EU and other key actors to understand the challenges of a country's investment climate. Identifying the constraints and bottlenecks for sustainable investments is needed to prioritise the topics on which public-private dialogue should focus and to consider what legislative and regulatory reforms are needed.

To offer an increased level of information, EU Delegations have prepared **Jobs and Growth Compacts** in Sub-Saharan African countries. These are being discussed with governments and local partners. The objective is to present an in-depth analysis of the investment climate components of the partner country.

In Sub-Saharan African countries that implement an Economic Partnership Agreement (EPA) with the EU, EU Delegations have also been involved in preparing **National EPA Implementation Plans** together with partner countries, which identify all priority areas to be addressed, including investment climate reforms, in order for the country to fully benefit from the EPA.

Investment climate diagnostics of various international actors provide a rich basis for market analysis. This includes tools such as:

- the Doing Business reports and the Country Private Sector Diagnostics (CPSD) of the World Bank Group,
- the monitoring reports under the G20 Compact with Africa,
- and many other investment climate indexes at country or regional level.

### 3.2. Enhance further structured public-private dialogue with key stakeholders at country level

In view of improving the investment climate, public interventions and policy reforms have to take into account market needs. Therefore it is important that policies are prioritized in collaboration with the private sector. Structured public-private dialogue processes are a key means to achieve the above.

#### STRUCTURAL REFORM FACILITY IN EASTERN NEIGHBOURHOOD<sup>14</sup>

As part of this facility, together with the European Bank for Reconstruction and Development (EBRD), a major investor in the region, a specific Investment Climate Action Plan (ICAP) is being prepared for each of the 6 Eastern Partnership countries. The ICAP identifies (following a diagnostic phase) a priority list of key reforms to improve the business environment, and then provides technical assistance for the implementation of a number of those reforms. With the World Bank, the EU is conducting a similar exercise targeted at deepening the non-banking financial sector and increasing the alternatives for SMEs to access finance outside of the normal banking sector (i.e: insurance, factoring, leasing, capital markets, etc).





### 3.2.1. Ensure active participation of local and European private sector in structured dialogue mechanisms

A key building block of the Pillar 3 of the EIP is to establish a **structured and sustained public-private dialogue**, bringing in the local, international and European private sector present in partner countries, from export companies to micro enterprises. This is vital to fully understand and identify the most important barriers to private investment faced by businesses, and to prioritise the investment climate reform agenda, based on real needs and guided by the principles of the 2030 Agenda.

**Public-private dialogue is a long-term process** that requires time, measurement, determination and needs to be conducted according to local contexts and adapted to institutional arrangements. Such a dialogue should be built around the needs for reforms and focus on issues that can have positive results in the short term. Certain pre-conditions should be satisfied to elaborate an effective structured dialogue, such as:

- the will of government to reform,
- the capacity of national private sector to contribute to the reform process
- and the ability of both public and private sectors to agree on the definition of their respective roles.

**EU Delegations** have a key role to play in bringing together the key players at country level. They are supported through technical assistance designed to reinforce and develop public-private dialogue and their knowledge on the private sector and investment climate.

As regards Africa, the **Sustainable Business for Africa (SB4A) Platform**, launched in November 2017, has been created to facilitate and boost structured public-private dialogue. The purpose is to ensure that private sector perspective is taken into account in efforts to reduce investment risk and in addressing obstacles for sustainable investment and in prioritising investment climate reform agendas. The SB4A will foster ownership and private sector engagement in the EIP implementation.<sup>15</sup>

The involvement of financial actors (both local and international finance institutions) is crucial, particularly in order to use SB4A as a process to deliver on the EFSD guarantees, and to identify potential blending projects.

#### ESTABLISHMENT OF STRUCTURED DIALOGUE MECHANISMS IN ETHIOPIA

The European Union Business Forum to Ethiopia (EUBFE) was launched in 2012 with the aim of making it easier for existing EU companies to do business in Ethiopia, through: (i) improving the exchange of information on the Ethiopian business and regulatory environment; (ii) developing a platform for networking and forging business linkages between EU companies; and (iii) being an effective channel for dialogue with the various Ethiopian authorities. The aim was to focus on early-win reforms of the business environment while gradually build up the new organisation and its standing. The Forum has a well-established dialogue with the Ethiopian administration. It has put in place with the help of the EU Delegation a platform with the Ethiopian Investment Commission to tackle business climate related issues specific to EU companies. The Forum has also established relationships with the other foreign chambers, to leverage the dialogue with the Ethiopian Government.

Although the geographic scope of the Sustainable Business for Africa Platform relates to Africa, a similar approach can be adapted in Eastern Neighbourhood countries, with possible adjustments to the policy framework.

The **EU Economic Diplomacy (EED)**<sup>16</sup> initiative focuses on mobilising European private sector on grounds of common interest, thus complementing and reinforcing EU development policy objec-

tives, and in view of reinforcing the promotion of strategic European economic interests and the involvement and internationalization of EU companies (including SMEs) in these regions.

Through the EU Economic Diplomacy, the EU seeks to act on a political level to address key bottlenecks and to emphasize that progress in broader areas of political and economic governance, or through better co-ordination of line ministries, may be a prerequisite for more focused reforms to succeed and for investor confidence to be boosted.



In a number of African middle-income countries, as well as in Neighbourhood countries, the EU Delegations have created **Market Access Teams**, composed of Member State Trade Attaches and EU Business representatives, to address any barriers to trade and investment the companies are facing.

The EU Delegations consequently engage the partner government on the main irritants and try to jointly find solutions that improve the business climate. EU Delegations have also set up multi-party dialogues, involving the local private sector as well as partner governments. European Chambers of Commerce and Industry, as well as bilateral business associations from EU Member States, can also be key partners for dialogue and exchange.

### 3.2.2. Strengthen dialogues in agriculture, energy, digital and transport sectors

As underlined in the Communication on the new Africa-Europe Alliance, the EU is bringing together African and European public, private and financial operators and academia on a sectoral basis to examine and support strategic development in specific sectors, by setting up **High Level sectoral Task Forces**.

Such Task Forces will cover agriculture, energy, digital solutions and transport. These structures aim at focusing on strategic interests and challenges in these sectors, in view of boosting investments and knowledge sharing, and promoting policy and regulatory reforms:

The **Task Force for Rural Africa** aims to enhance the role of the EU in African job-creating economic development in agriculture, and to give strategic advice on improving knowledge sharing and identifying strategies to promote and prioritise agricultural policy and regulatory reform in African with a special focus on youth.

The **Task Force on Energy** will build on the High-level platform for Sustainable Energy Investments in Africa launched in November 2018. It will provide recommendations on actions to accelerate impact, boost sustainable energy investments, and best share knowledge and know-how. The three Energy Platforms of the Union for the Mediterranean will also be associated to the work of the Energy Task Force on topics of specific relevance and interest for Northern African countries.

The **Digital Economy Task Force** is organised as a special group of the European Commission to provide recommendations on policies and measures to support pan-African digital integration. It aims to identify ways to boost public and private investments in African digital economy, based on coordination with existing initiatives, and to facilitate responsible private investments.

The **Taskforce on Transport** will provide recommendations on policies and measures that can support pan-African transport connectivity and regional integration. It will be created jointly with European and African private sectors and it will

identify interventions on aviation, connectivity and road safety.

Strategic level dialogue is foreseen to complement the Africa-EU sectoral Task Forces as part of the SB4A process. It should build on sector-based reflections and focus on interregional economic integration along key value chains and on investment climate reforms, with considerations on medium-term cooperation between Europe and Africa. This will ensure that the recommendations of the sectoral task forces are owned by wider constituencies and further elaborated.

In the **Neighbourhood, sector-specific dialogues** are ensured at several levels. Under the Association Agreements signed with partner countries, regular sectoral sub-committees have been established to monitor progress in the sectoral implementation of the association agendas.

**Regional initiatives** such as the Union for the Mediterranean (UfM) and the Eastern Partnership framework of platforms and panels also provide a key level of engagement with governments on sectoral and horizontal policy priorities.

Under the UfM umbrella, there are policy dialogue platforms in the fields of transport, sustainable urban development, energy, water and industrial cooperation, which encourage a harmonised regulatory framework conducive to investments and identify and promote investments projects at an early stage.

### 3.3. Engage with partner governments to implement a conducive policy mix and regulatory reforms

A key factor for a successful implementation of the Pillar 3 of the EIP is a strong policy dialogue with governments in partner countries. Such dialogue can significantly support the implementation of conducive policies and strategies, and of the necessary reforms to improve the investment climate.

#### 3.3.1. Policy dialogue and Budget Support to accelerate reforms and institutional strengthening

The Commission is conducting **political and policy dialogue** with partner countries on policies and their financing, objectives and results, in line with the principles of ownership, transparency and accountability, and based on SDGs. As part of the analytical work undertaken by EU Delegations through the Jobs and Growth Compacts, country strategies have been taken as a starting point.

Policy dialogue is conducted in a wide range of frameworks. Existing structures in charge of monitoring the implementation of free-trade agreements (including Economic Partnership Agreements in African regions, Deep and Comprehensive Free Trade Agreements), association agreements or other bilateral agreements are good examples.

In the Neighbourhood region, the Association agreements foresee several mechanisms of dialogue: the general **Association Council, and sector committee meetings** going through the different areas of cooperation, such as economy, trade, industry, rule of law, justice, human rights, where the discussion among the national authorities and the EU address the main outstanding issues at sectoral level, reforms at stake, and actions to be taken<sup>17</sup>.





Following the signature of Economic Partnership Agreements (EPAs) with Sub-Saharan African regions and countries, partner countries have prepared **national EPA implementation plans**, covering investment climate components, jointly with EU Delegations. These plans constitute a basis for dialogue and boosting the necessary reforms.

the budget, and the credibility and relevance of the public policies concerned. In addition to the general conditions, indicators linked to variable tranches can more specifically address market failures and market risks that affect the investment climate.

### STRENGTHENING POLICY DIALOGUE IN EGYPT

In Egypt, the EU-Egypt Dialogue on Economic and Financial Affairs, led by DG ECFIN on the EU side, is a high-level forum for exchange on the ongoing economic reform programme. Sub-committees on Industry, Trade, Service, and Investment, Customs Cooperation, Agriculture and Fisheries, Transport, Environment and Energy allow for more extensive discussion of specific issues affecting the different sectors in order to identify challenges and possible solutions and are led by the relevant line DGs. The EU Delegation also participates actively in the dialogue on the Policy Matrix under the Compact with Africa where reforms and corresponding measures being undertaken by International Organizations are discussed with the Ministry of Finance, covering macroeconomic stability, domestic revenue mobilisation, public investment management, business environment and regulation, and domestic debt market development.

**Budget support**<sup>19</sup> is a key instrument for policy dialogue and can play an important role in the improvement of the investment climate.

The overall general conditions of budget support contribute to increase the stability of the macroeconomic and budget framework, the strengthening of the public finance management, the strengthening of credible and transparent institutions and effective justice and anti-corruption mechanisms, the oversight and transparency of





## EU BUDGET SUPPORT OPERATIONS IN WEST AFRICA: A STRONGER AND SYSTEMATIC FOCUS ON INVESTMENT CLIMATE

Since 2017, the EU budget support contracts in Western Africa have increasingly promoted several reform processes dedicated to more conducive investment climate through a range of specific performance indicators and a targeted policy dialogue. In particular, key reforms in the investment climate and business environment area tackled through our budget support contracts relate to: (a) simplified and more friendly tax environment including tax digitalization process, (b) facilitation of customs clearances, (c) increased transparency of public procurement systems, (d) reform and improvement of TVET and Labour Market Information systems, (e) strengthening of commercial law and contracts enforcement frameworks, and (f) improved governance in the energy and land register sectors. Countries in which such budget support contracts take and/or will take place include Benin, Burkina Faso, Cabo Verde, Ghana, Guinea, Ivory Coast, Liberia, Mali, Niger Senegal, Sierra Leone, and Togo.

The EU Budget Support modalities are usually accompanied by targeted technical assistance programmes to effectively support the operationalisation of the new regulations in place. Within ongoing EU budget support contracts, numerous indicators for the variable tranches in African and Neighbourhood countries are focused on business environment and investment climate.

### *3.3.2. Public and institutional capacity building*

The EU is providing public and institutional capacity building to public authorities in partner countries on a wide range of issues. Targeted capacity building can support policy improvements and regulatory reforms to the investment climate, including public administration reforms, for example through trainings, expertise and knowledge transfers.

As part of the integrated approach of Pillar 3 of the EIP, the EU aims at further **strengthening the capacities of public authorities** to improve the investment climate.

Within the range of tools at the EU's disposal, strategic use could be made through Twinning and TAIEX instruments, recently been expanded from the Neighbourhood countries where they are used extensively, to the sub-Saharan Africa. **Twinning<sup>19</sup> and TAIEX<sup>20</sup>** can provide peer-to-peer capacity building between public sector officials through practical policy-oriented workshops and study visits, reviews on the enforcement of existing legislation through expert missions, and policy-driven knowledge transfer. This will further strengthen partner country administration's capacity to analyse economic developments, formulate and effectively implement policies, which will improve the investment climate.

## SUPPORTING THE DEVELOPMENT OF INCUBATORS FOR SMALL AND MEDIUM ENTERPRISES IN DJIBOUTI

Although Djibouti is considered as a relatively stable country in a region subject to conflicts and protracted crisis, major challenges still affect its socio-economic development particularly because of the high level of unemployment. The Commission is working with the government of Djibouti to support start-ups and SMEs to increase the pool of high-potential entrepreneurs and local businesses. The project will support the capacities of the local entrepreneurs, in particular women and youth, through improving their access to skills and business development training. It will also support the start-up financial structure through grant/cash transfer, which will be channeled through the project, and improve the entrepreneurship ecosystem through the activation of a Centre of Excellence and Leadership in the country.

Through Twinning and TAIEX for example, targeted interventions under bilateral cooperation can strengthen the partner countries' administrative and judicial capacities and develop independent, impartial and effective justice institutions to ensure effective and fair access to remedies for business and individuals. Capacity building can also be provided to reinforce oversight mechanisms and to strengthen the capacities of relevant actors to prevent and fight against corruption.

The EU is also providing capacity building to **Civil Society Organisations** and the media to strengthen their role in fostering the rule of law and sound public financial management, notably in scrutinising budget transparency, public procurement processes and by contributing to the fight against corruption, cronyism and illicit financial flows.

### 3.4. Boost further value addition and growth creation through private sector

As part of EIP Pillar 3, the EU also seeks to strengthen the capacities of private sector and value chains actors in view of boosting value-addition, entrepreneurship and growth creation as part of improving the investment climate.





### 3.4.1. Strengthen capacity of micro, small and medium-sized enterprises (MSMEs) and improve offer of business development services providers

MSMEs are **key to strengthening productivity** and more inclusive sustainable economic growth, adapting to economic trends, climate change and the changing nature of the society. They are central actors to ensure that the benefits from increased globalisation and technological progress are shared throughout the society. As part of implementing the EIP Pillar 3, enabling MSMEs to seize growth opportunities over time is a priority to improve productivity, inclusivity, and to address income gaps.

In this regard, the EU is working with international partners to offer a **wide range of business development services** with the aim to enhance business performance. Targeted actions may considerably affect the market, especially in its early stage evolution, by focusing on those services crucial to enhance business performance, such as:

- market information,
- product development and access of technology, procurement,
- capacity building,
- facilitation and/or access to finance,
- policy advocacy and industry representation.

### 3.4.2. Promote value chains upgrading, including value addition and sustainability

Industrialisation and diversification of many developing countries' economies remain limited. Strong dependency on low-end primary production where share of value added is low and highly vulnerable to climate change is a major challenge, calling for support to countries' integration into regional and global value chains, with view to fostering jobs and growth creation.

The EU has a systematic focus on **value chain development and upgrading** under Pillar 3 of the EIP. The Jobs and Growth Compacts in Sub-Saharan Africa support the identification of the most promising value chains at country level, with potential for job creation and value addition as well as for low-carbon resilient development.



### SUPPORTING VALUE CHAINS UPGRADING IN EAST AFRICA— THE CASE OF UGANDA

The MARKUP programme (EUR 35M) supports East African Community (EAC) efforts to address both supply side and market access constraints in some key export-oriented sectors, namely agro-industrial crops (coffee, tea and cacao) and horticulture, supporting participation in regional and global value chains, including exports to EU. Interventions in selected value chains will focus mainly from post-harvest to export, and cover quality assurance and certification, value addition, trade facilitation and business promotion. Interventions will focus on one or more areas among reduction of trade barriers and quality assurance, enhancement of SME export competitiveness and business promotion. For Uganda, the focus will be on two commodities (coffee and cocoa) with high export potential.

The objective is not only to support efforts in increasing exports through linkages to markets, trade facilitation including supporting quality standards and infrastructure, but also in creating value addition at local and regional level. Means to achieve this include promoting climate-smart processing, manufacturing and innovation, and in attracting investments in those value chains.

In Sub-Saharan Africa, value chain development efforts can build on the Economic Partnership Agreements which include a range of tools to promote diversification of African exports to the EU away from raw materials. These are for example flexible rules of origin, a wide array of cumulation of origin possibilities and duty-free, quota-free market access for all products. Local value addition is also facilitated by access to competitively priced inputs.

Particular attention is given to the sustainability risk and challenges in view of promoting investments. The EU seeks to enhance **sustainability aspects in value chains**, including decent work and environmental issues. Governments can be supported in improving the policy and regulatory framework through reforms for effective enforce-



ment of international social, environmental and labour standards as well as respect for human rights as part of supporting an improved investment climate. Responsible business conduct is a cornerstone of the EU's approach to promoting trade and investment, in line with internationally recognized guidelines and principles<sup>21</sup>.

### THE TRADE AND COMPETITIVENESS PROGRAMMES IN MOROCCO, TUNISIA, EGYPT AND JORDAN

Through the NIP, the EU supports two programmes on Trade and Competitiveness with EIB and EBRD (EUR 50 million each) to assist SMEs in improving their trade and competitiveness regionally and with the EU. The programmes aim at building stronger and sustainable value chains by providing eligible companies with access to loans, investment grants and advisory services in a range of sectors, including agribusiness, manufacturing and services, logistics and distribution, as well as information and communication technologies.

#### 3.4.3. Skills development

Technological change, globalisation, and demographic changes have contributed to skill imbalances across many countries developed and developing alike. Many employers report difficulties finding workers with the skills they require; at the same time high youth unemployment is characterising labour markets.

The EU contributes to individual and societal prosperity by ensuring that young people have the capabilities they need to empower them to achieve their potential. **Greater investment in basic education and skills** is critical to secure the foundation that is essential for all further learning, including through vocational training, higher education and lifelong learning, including through the Erasmus+ Programme.

Both youth unemployment and underemployment negatively affect youth and adults. The EU has a track record of contributing to **Vocational Education and Training (VET)** reforms in deve-

## SUPPORTING VOCATIONAL TRAINING IN IVORY COAST THROUGH STRUCTURED DIALOGUE WITH THE PRIVATE SECTOR

The EU Funded PROFORME Project (2012-2018) in Ivory Coast, implemented by UNIDO, is a dialogue structure between local authorities and private sector to work together and upgrade vocational training in view of creating jobs for youth. PROFORME brings local authorities and the private sector to work together and upgrade vocational training. The project makes sure to adapt training courses to the needs expressed by the private sector. It does so by creating regular dialogue opportunities between local businesses and the vocational training centers. Workshops gathering local businesses, chambers of commerce and vocational training experts from the public sector take place regularly.

veloping countries by using a holistic approach integrating social cohesion, labour demand, and inclusion of vulnerable group into the labour market.

Actions to foster a better matching between supply and demand span over a range of policies and domains including education, lifelong learning, and labour market policies, which are key within the EIP framework<sup>22</sup>. This is of particular importance in Africa, where vulnerabilities persist (e.g. economic, social, food, energy, financial, and climate insecurities), while a young and rapidly growing workforce creates, on the one hand, a window of opportunity for higher economic growth. On the other hand, it could also be a source of discontent and social unrest, and lead to involuntary migration, where employment expectations of trained young people cannot be met.

The EU will further support VET as a key element of the investment climate under the EIP Pillar 3. Bridging skills gaps through adaptation of VET systems and labour market institutions is particular important in the context of the global green economy transition, which involves new jobs and new skills requirements.

### 3.4.4. Empower women and youth as entrepreneurs and workers

Investing in young people's and women's economic empowerment is a key priority of the 2030 Agenda and the European Consensus and contributes to economic growth. Therefore, it is important under the EIP to **boost the role of young people and women** in an inclusive investment climate and promote their entrepreneurship as a key driver of innovation, growth and job creation. Social entrepreneurship could play an important role in this process.

To promote gender equality and women empowerment, it is key to go beyond microcredit and enterprise development and support comprehensive strategies that improve labour standards and working conditions, and that support **women's equal access to the full range of credit, banking and financial services** essential for business development. This allows countries not only





to strengthen the realisation of gender equality and women's rights, but also to reap the economic benefits of women's human capital.

The elimination of legal and institutional barriers to women's equal access to markets in all sectors, private sector development services, financial services, entrepreneurship and Information Communication Technologies will unlock enormous economic potential.

### 3.5. Assess risks and monitor investment climate improvements

As part of implementing the EIP Pillar 3, the EU will ensure appropriate mechanisms for risk assessment and monitoring of investment climate improvements.

The EU uses a **multiplicity of risk assessment processes** to monitor the risk that could occur and adversely impact the achievement of its objectives. These processes reflect different policy perspectives: humanitarian, conflict, environmental and economic, even though it is not always possible to capture in full the possible impacts on EU political, security and economic interests.

The Risk Management Framework has been developed for helping to assess the environment in which budget support programmes operate at country level. It facilitates the management and mitigation of the risks identified and provides valuable information for dialogue and technical assistance. Since the framework is under revision, it will be adapted to better cover risks related to the investment climate and oriented more towards the private sector. In this way, it will become an essential analytical and management tool for both budget support and EIP operations.



The EU is also seeking to ensure inclusion of **investment climate within the EU monitoring and reporting mechanisms**. The EU Results Framework covers investment climate through various components, and in relation to implementation of several SDGs; for instance, it is measuring the number of countries supported in improving the investment climate. The Commission has also developed guidance on indicators on investment climate, as reference for EU staff when designing intervention, as part of the logical framework also used for monitoring and evaluation of projects. Moreover, the Commission is improving its methodology to keep track of its investment climate interventions.

# Conclusion



*Through implementing Pillar 3 of the External Investment Plan, the EU will play a key role in addressing challenges faced by businesses and investors.*

This implies **deepening market analysis** through key instruments such as the Jobs and Growth Compacts, but also providing **continuous support to partner governments** for the identification and the implementation of conducive policies and of the reform agenda. This can be done by using policy dialogue and development cooperation tools such as budget support and capacity building.

These efforts should build on strengthened **public-private dialogue mechanisms (SB4A)**, with local and European private sector, which will help to identify the opportunities to be seized and constraints to be tackled, and the necessary reforms.

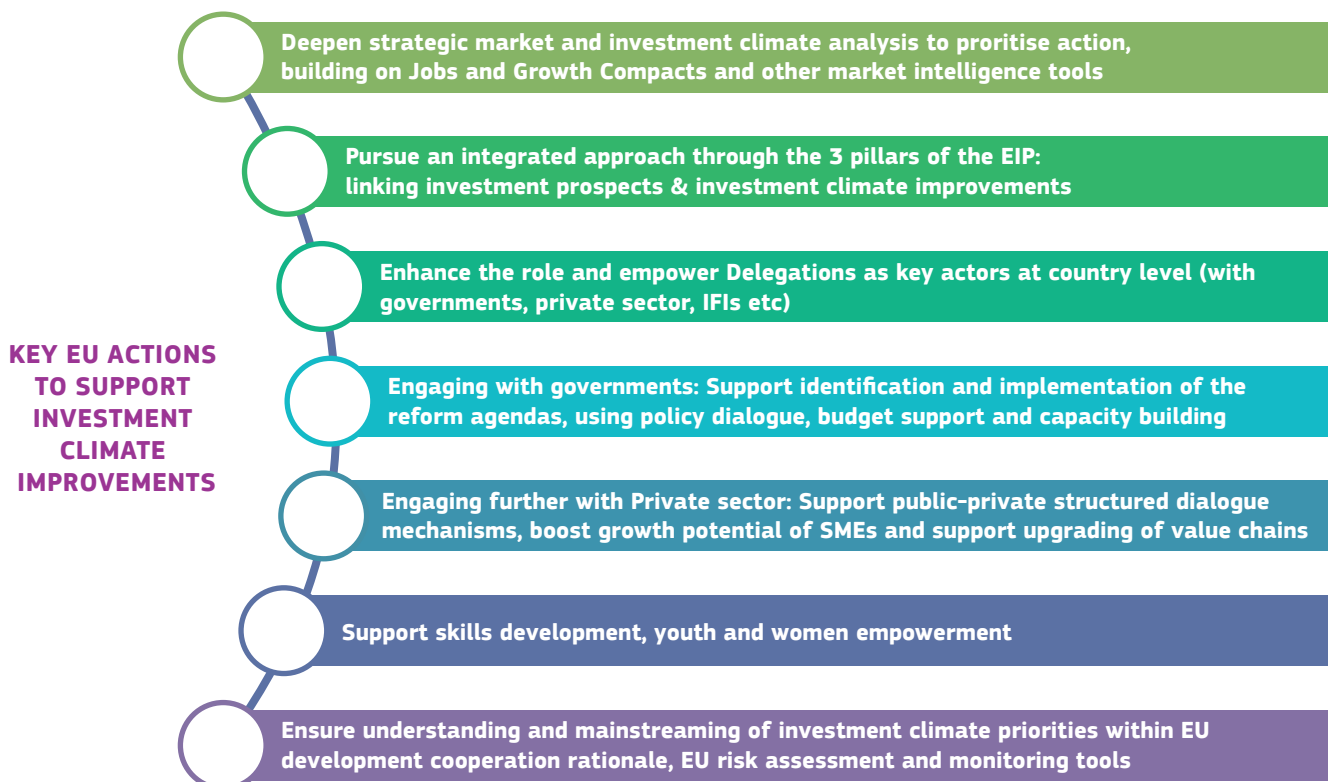
**Efforts to improve investment climate** require enhanced support to strengthen capacities of MSMEs, value chain upgrading and skills

development. Education and vocational training, boosting value addition, entrepreneurship, focus on women and youth are key EIP Pillar 3 areas of action.

Systematic linking of investment prospects under EFSD Guarantee and blending projects, with technical assistance and support to investment climate improvements is vital.

EU Delegations are central actors in ensuring an integrated approach at country level.

Focus must be on **coherence across the 3 pillars of the EIP**. This requires strong engagement with the partner country government, close interaction with the private sector and good cooperation with European and International Financial Institutions.





## Endnotes

<sup>1</sup> [https://ec.europa.eu/europeaid/policies/european-development-policy/european-consensus-development\\_en](https://ec.europa.eu/europeaid/policies/european-development-policy/european-consensus-development_en)

<sup>2</sup> It is based on Regulation (EU) 2017/1601 of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

<sup>3</sup> COM(2018)643

<sup>4</sup> In North African countries Jobs and Growth compacts do not exist yet, but for Morocco, Tunisia and Egypt an economic compact assessment has been performed by the OECD in the framework of the Deauville Partnership (a G7 initiative addressing the Arab Countries in Transition) in 2017-2018

<sup>5</sup> [https://eeas.europa.eu/diplomatic-network/eastern-partnership\\_en](https://eeas.europa.eu/diplomatic-network/eastern-partnership_en)

<sup>6</sup> Various definitions of investment climate can be found for instance by the World Bank (“the set of location-specific factors shaping the opportunities and incentives for companies to invest productively, create jobs and expand”, World Development Report 2005, A Better Investment Climate for Everyone) or by the OECD (“A good investment climate helps to mobilise capital, skills, technology and intermediate inputs to allow firms to expand. (...) It should allow enterprises to invest productively and profitably, but it is not just about reducing the cost of doing business and raising corporate profitability. It should also ensure that investment brings about the highest possible economic and social impact” - OECD (2015), Policy Framework for Investment 2015 Edition).

<sup>7</sup> Between 2004 and 2014, the Commission has supported Private Sector Development with a contribution on average of EUR 350 million per year at global level, as underlined in Communication COM(2014)263 on ‘A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries’.

<sup>8</sup> The G20 Compact with Africa was initiated under the German G20 Presidency to increase attractiveness of private investment through substantial improvements of the macro, business and financing frameworks. It brings together reform-minded African countries, international organizations and bilateral partners from G20 and beyond to coordinate country-specific reform agendas, support respective policy measures and advertise investment opportunities to private investors. So far, 12 African countries have joined the initiative: Benin, Burkina Faso, Côte d’Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo and Tunisia.

<sup>9</sup> At international level, the EU supports initiatives such as OECD Base Erosion and Profit Shifting (BEPS) Inclusive Framework, or the Global Forum on Transparency and Exchange of Information for Tax Purposes that increase transparency and contribute to the fight against tax evasion, tax avoidance and illicit financial flows.

<sup>10</sup> See 2018 Justice Scoreboard; IMF, the World Economic Forum «the Global competitiveness report 2013-2014»; World Bank «Doing Business 2014»; «Fostering growth in Europe now» (18 June 2012); OECD Economic Department Policy Notes n° 18 of June 2013 «What makes the civil justice effective?» and OECD Economics Department Working Papers n. 1060 and «the Economics of Civil Justice: new cross-country data and empirics».

<sup>11</sup> In the EU, SME policy features policy recommendations and joint policy review mechanisms that are outlined by the Small Business Act (SBA).

<sup>12</sup> The EU external investment policy aims to secure and promote a level playing field so that EU investors abroad are not discriminated or mistreated while preserving the right of home and host countries to regulate their economies in the public interest. The EU is negotiating or implementing investment rules in trade agreements (such as in the DCFTA with Morocco and Tunisia) or in self-standing investment agreements. Those investment rules cover: (i) allowing and facilitating the setting up of enterprises by making sure investors can access the market and do not face discrimination between EU and non-EU investors; (ii) creating a favorable regulatory framework, both when the investor enters the market and when the investor does economic activities in the country by improving the transparency and predictability of the regulatory framework; (iii) protecting established investments/investors through commitments to fair treatment for investors or guarantees of compensation in case of expropriation.

<sup>13</sup> Staff Working Document 'Digital4Development: mainstreaming digital technologies and services into EU Development Policy', SWD(2017)157

<sup>14</sup> Other Technical Assistance facilities are also available such as the Trade and Private Sector Development Facility providing technical support through short term missions and development of knowledge tools to EU Delegations and Headquarters. In future, additional demand-driven facilities will be designed to support Pillar 3 implementation.

<sup>15</sup> The level of advancement of the SB4A that covers the local and European private sector varies across countries and the mobilisation effort continues. Generally, where active local partners are ready to commit, the advancement is faster.

<sup>16</sup> The EU is pursuing a pro-active and strategic view of EU economic interests, through its Economic Diplomacy, thus increasing the coherence of external policies and tools. The objective is to optimise all levers at EU's disposal to better advance these interests and to contribute to jobs and growth.

<sup>17</sup> In addition, various mechanisms exist to enhance the policy dialogue around reforms in the Neighbourhood. These include the High Level dialogue with the IFIs (around state capture, domestic revenue mobilisation, energy, investment climate, etc.), different coordination mechanisms such the Luxembourg group meeting, gathering the main international and European financial institutions, the Deauville Partnership with the same members, plus the Arab banks and OECD. The Eastern Partnership Initiative includes regular Ministerial and sectoral Senior Officials Meetings, discussion platforms and technical panels to engage in deep and structured policy dialogue.

<sup>18</sup> Budget support involves the transfer of financial resources to the National Treasury of a partner country, following the fulfilment by the latter of the agreed conditions for payment set out in the contract. It is a combination of financing, of policy dialogue to agree on the reforms or development results, and of capacity building through technical support.

<sup>19</sup> Twinning is the EU instrument for institutional cooperation between the public administrations of EU Member States and of beneficiary or partner countries.

<sup>20</sup> Technical Assistance and Information Exchange, in other words, peer-to-peer technical assistance and policy-support from EU Member States to beneficiary or partner countries.

<sup>21</sup> Including, among others: the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the Committee on World Food Security principles for responsible investment in agriculture and food systems.

<sup>22</sup> For instance, the Commission has launched in 2018 a facility called 'VET Toolbox', aimed at strengthening VET systems in partner countries. The VET Toolbox supports labour market analysis and offers expertise and practical advice on strengthening the links between VET and the private sector, enhancing labour market intelligence, and making VET more effective and inclusive, including for vulnerable groups and informal market activities.

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