POSITION PAPER

BUSINESSEUROPE

2 October 2020

BusinessEurope's recommendations for the EU's External Financing Instruments

KEY MESSAGES

1 The EU and its Member States remain the world's largest donor of development assistance. Yet, despite an increased focus on private sector development in EU development policy, many companies are unaware of the opportunities that EU-financed projects could present to them. The EU needs to increase the visibility and communication of its external financing instruments in order that more companies are aware of the opportunities they offer. Amongst other things, an online tool that helps companies find relevant funding instruments for investments in developing countries should be created.

2 Tackling infrastructure gaps is of the upmost importance for promoting economic growth and a thriving private sector in developing countries. However, EU development funding for infrastructure has decreased in the past decade and the EU is falling behind other major economies in this area. To counter this trend, the EU's financing instruments should put more emphasis on sustainable infrastructure, which is key to achieving the Sustainable Development Goals and the green transition, increases the visibility of EU funding, creates decent jobs in partner countries and provides opportunities for European companies.

3 In order to make it easier for businesses to get involved in the External Investment Plan, the Commission should co-develop, in cooperation with the pillar assessed International Financing Institutions as well as private sector representatives, a catalogue of guidelines and best practices for its implementing partners on how to engage with the private sector. These guidelines could include e.g. simplified application procedures, maximum periods for answering to applicants, procedures for cooperating with selected companies during the implementation of projects or best practices on communication and outreach activities.

4 European companies lead in providing sustainable long-term solutions, but they face increasing pressure from companies from emerging countries, which often benefit from foreign subsidies, tied-aid and bilateral government-to-government deals. To counter this trend and increase the attractiveness of EU companies for partner countries the EU should adopt a much stronger 'Team Europe approach' to its entire development policy. This should include more coordination between the Commission's different Directorates General and European development finance institutions, as well as the creation of a strong development financing institution at EU level that is capable of combining development and export finance and thus matching the performance of Asian and US institutions. Moreover, EU-funded programmes should not be open to entities from countries that do not grant reciprocal access to their external financing instruments to EU operators.

POSITION PAPER

Introduction – leveraging private investment for sustainable development

Meeting the Sustainable Development Goals (SDGs) at global level by 2030 will require additional investments of USD 2.5 trillion per year on average[1]. Policymakers have come to realise that, to address this funding gap in light of limited public resources, a strong involvement of the private sector in development efforts is essential: On average, the private sector accounts for 60% of GDP, 80% of capital flows and 90% of jobs in developing countries[2]. Business activity does not only create jobs and entrepreneurial opportunities, but also builds human capital and physical infrastructure, enables knowledge spillovers, generates public revenue for governments and provides a variety of products, services and concrete solutions to consumers and other businesses. All this contributes to achieving the SDGs, expanding economic opportunity, and creating value for both business and society.

To tap this potential, interest in blended finance has increased among governments and International Financing Institutions (IFIs) in recent years and many of them have come up with a portfolio of innovative financing instruments that aim to leverage private investments through risk mitigation. In the period between 2012 and 2018, official development finance interventions mobilised USD 205.2 billion from the private sector. While the amounts of private investment leveraged increased over the whole period, their growth accelerated significantly between 2017 and 2018, with an increase of 28%[3]. It was around this time when also the EU stepped up its use of development financing instruments as means to leverage additional public and private investment. Its flagship project in this regard, the External Investment Plan (EIP), was launched in September 2016. The instrument takes a three-pillar approach to mobilising additional investment in priority areas[4] in the European neighbourhood and Africa: Pillar one is the European Fund for Sustainable Development, the financial arm of the plan worth €6.7 billion.[5] This money is largely used to mitigate the risk of investments to leverage more than ten times the initial amount of additional public and private funding. Under pillar two, technical assistance is provided to help beneficiaries build their capacity and develop financially attractive and mature projects. Finally, the third pillar is about improving the investment climate and business environment in partner countries through structured dialogue, including with the private sector.

The EIP is only a first step and the lessons drawn from its implementation will be used to design the more ambitious European Fund for Sustainable Development+ (EFSD+) in the EU's next Multiannual Financial Framework (MFF) (2021-2027). The EFSD+, the financing arm of a reinforced EIP, will be part of a broader overall instrument, the so-

---

[1] Investing in the SDGs: An action plan, UNCTAD, 2014.
[2] The Private Sector: The Missing Piece of the SDG Puzzle, OECD.
[3] Amounts mobilised from the private sector through official development finance interventions in 2017-18 – Highlights, OECD, 2020.
[4] Sustainable energy and connectivity; financing for micro, small and medium enterprises; sustainable agriculture; sustainable cities; digitalisation
[5] In reaction to the COVID-19 pandemic, the European Commission proposed to add an additional €1 billion for provisioning, increasing the total volume of funds available under the EFSD from €4.64 billion to €6.7 billion.

called Neighbourhood, Development and International Cooperation Instrument (NDICI), which will bring all existing EU external financing instruments under a common umbrella.

The COVID-19 pandemic has led to profound and unprecedented disruptions worldwide, in reaction to which the Commission adjusted its MFF proposal and tabled an amended NDICI proposal in June 2020. This has also led to a delay in the discussions on the NDICI in the European Parliament (EP) and the Council. Therefore, the programming phase for the EU's external financing instruments for the new MFF is expected to start in October 2020 and will run in parallel to these discussions. During the programming phase, the Commission and the EEAS, in consultation with the EP and external stakeholders, will decide on the instruments' key strategic objectives and the focal areas of activity for different countries and regions for the period from 2021-2027. The final regional and country programmes are expected to be adopted in the second half of 2021. The upcoming months will thus be decisive for the design and the priorities of the EU's external financing instruments.

The rationalisation of EU external financing instruments under the NDICI promises to make it easier for companies to keep an overview of instruments relevant for them. However, if these instruments are to be relevant for companies of all sizes and leverage the quantities of private investment necessary to meet the SDGs, they need to be designed in a way that reflects the way the private sector operates. This paper aims to contribute to the discussions on the programming of the NDICI by suggesting a number of principles that need to be taken into account for EU external financing instruments to help businesses step up their contribution to the 2030 agenda.

Recommendations to maximise the impact of EU financing instruments

Communication, transparency and availability of information

There is a multitude of EU financing instruments on offer that are relevant for the private sector. However, information about them is dispersed and not adapted to the way companies work. This results in a lack of awareness amongst businesses regarding the opportunities available and how they can benefit from them. In a recent report following up on the recommendations of the group of wise persons on the EU's financial architecture[6], the Commission states that it envisages to take measures to increase the visibility of and the communication efforts around its development financing mechanisms. BusinessEurope welcomes this intention as well as the increased outreach activities that the Commission has undertaken in the EU and in partner countries and has the following suggestions:

- Amongst other things, the Commission considers developing dedicated web tools for specific target groups, including EU fund beneficiaries[7]. BusinessEurope believes that, in this regard, an online tool that helps companies find relevant

[6] Report from the Commission to the Council on the recommendations of the high-level group of wise persons on the European financial architecture for development, European Commission, 2020.
[7] Ibid.

funding instruments for investments in developing countries would be valuable, especially for small and medium-sized enterprises (SMEs), which find it particularly hard to navigate the EU funding jungle. This tool should gather information on relevant instruments offered both by the EU, Member States and European IFIs and should be regularly updated. It should give companies the possibility to search for relevant instruments and projects by sector (e.g. energy, sewage, mode of transport, etc.) and country where they would like to invest. Each search result should include project details, application criteria, contact details, relevant weblinks, etc. Best practices from other EU databases, such as the Market Access Database, could be applied to create an easily usable tool.

- Webinars on EU funding instruments available for investing in third countries and on the steps that companies need to take to apply would help businesses to take advantage of these.
- The Commission should create a brochure for European companies, providing an overview of relevant financing instruments for extra-EU investments. This guide should give clear indications of the concrete steps that companies need to take to benefit from each instrument, including relevant weblinks and contact details. This brochure should be made widely available, including with the help of business organisations.
- Market and investment analyses as well as sector studies are essential tools to guide companies and especially SMEs in their activities. The EU should support initiatives aiming to provide detailed maps that identify focus sectors for investment in different developing countries, considering the needs and priorities of each country. To avoid double work, the EU should build on relevant initiatives taken in Member States and work with the stakeholders involved to make this information available on a European level.
- The EU aims to leverage particularly investment from SMEs in developing countries. While European SMEs are often world leaders in their respective market segment, they do not have the market information or business contacts in partner countries necessary to invest there. The high costs of acquiring this information, along with the uncertainty on whether these will ultimately pay off, present a significant hurdle to EU SME investment in developing countries and particularly in Africa. Therefore, EU financing instruments should provide funding for feasibility studies for projects funded.
- In Europe there is a large pool of private service providers that could contribute to the technical assistance pillar of the EIP. However, there is limited transparency on the related tenders, and procurement processes vary depending on the IFI responsible. The EU should ensure transparency of information, harmonized procurement procedures, streamlined sustainability standards and fair and transparent procurement processes to enable more European firms to bid in technical assistance projects. This would both maximise the value for money and create opportunities for European companies. Not only the

experience gained by companies in other technical assistance operations but also in EU-funded innovation programmes should be considered in the selection process.

Scope and priorities of EU external financing instruments

The world is changing rapidly, and new opportunities and challenges arise every day. In 2020, the COVID-19 pandemic has led to profound and unprecedented disruptions worldwide, the magnitude of which few could have imagined just a year ago. In such an environment, the scope of EU's external financing instruments needs to remain flexible enough to deal with changes and adapt to new situations while the SDGs should provide the general framework. To achieve this, BusinessEurope has the following recommendations:

- Within the framework of the priority areas identified for the EFSD+[8], its scope should not be too restrictive. It applies to countries all over the world, each of which has different needs, priorities and opportunities for financing. Moreover, the economies of developing and developed countries are transforming rapidly and in the next eight years opportunities may arise in areas that are not considered key now.

- EU development policy must continue to give particular priority to the eradication of poverty in the countries most in need, with appropriate instruments made available. At the same time, for instruments aiming to leverage EU private investment, it must be kept in mind that a strong leverage effect is difficult to attain in environments with high political uncertainty and strong market failures. In the 2017-2018 period, only 5.3% of the investments mobilised from the private sector through development finance were leveraged in least developed countries (LDCs) and other low-income countries while by far the greatest amounts were leveraged in lower and upper middle-income countries[9]. Therefore, middle-income countries, where a large proportion of future growth will take place - with positive spill over effects upon neighbouring LDCs - must not be neglected in the EU's blending operations.

- The EU and its Member States are collectively the world's largest donor of development aid but they fall far behind other major economies on infrastructure financing in developing countries. Current OECD Statistics show that the transport, water and energy (other than renewables) sectors accounted for only around 10% of the collective official development assistance of the EU and Member States in 2017. This is just a fraction of the funding provided by Asian

[8] Proposal for a Regulation establishing the Neighbourhood, Development and International Cooperation Instrument, Annex V, European Commission, 2018
[9] Amounts mobilised from the private sector through official development finance interventions in 2017-18 – Highlights, OECD, 2020.

donors in these sectors[10]. The EU's financing instruments should put more emphasis again on sustainable infrastructure, including transport and energy infrastructure, which are critical to the continental integration process, and digital infrastructure key to greening emerging economies and increasing their resilience. This would contribute to achieving the SDGs, increase the visibility of EU funding, create decent jobs in partner countries and provide opportunities to European companies.

Making EU external financing instruments work for the private sector

BusinessEurope welcomes the increased focus of EU development policy on private sector involvement and its ambitious goals regarding the amounts of private investment it aims to leverage in the coming years. Nonetheless, we would like to highlight that private investment is no panacea for development in all regions and sectors. For instance, projects in the socioeconomic sector and the related infrastructure are typically funded by the public sector. Hence, to maximise the impact of the EU's financing instruments and meet its objectives, the instruments' modalities need to reflect the specificities of each sector as well as the way European businesses work, the opportunities they have and the challenges they face. This includes the following points:

- In order to make it easier for European businesses to get involved in the future EIP, the Commission should co-develop – in cooperation with the pillar assessed IFIs, European Export Credit Agencies as well as private sector representatives – a catalogue of guidelines and best practices for its implementing partners on how to engage with the private sector. These guidelines could include simplified application procedures (especially for SMEs), maximum periods for answering to applicants, procedures for cooperating with selected companies during the implementation of projects or best practices on communication and outreach activities.

- European business players should become eligible to apply directly for EU guarantees (e.g. under the EIP) if they can give the same assurances as the pillar assessed financing institutions to meet the sustainability criteria on a project. However, involvement of a pillar assessed financing institutions should be mandatory.

- The time that passes between the moment when a company applies for EU funding and the actual disbursement of funds needs be minimised. This would make EU financing instruments more flexible and ensure that more companies and particularly SMEs can benefit from them.

[10] Own calculations, based on Development Aid at a Glance: Statistics by Region, OECD, 2019.

- EU development policy projects aiming to involve the private sector need to allow companies to develop projects that contribute to sustainable development while being economically and financially viable. Only such projects will have a positive long-term impact on employment, growth, skills, and the attainment of the SDGs.

- In the early stages of implementing new business or unsolicited project ideas, the risk of failure is high. Thus, the EU created programmes that provide grants for prototyping and piloting innovative business ideas in the Single Market, e.g. the European Innovation Council Accelerator. There is also a need for funding the early stages of innovative business projects contributing to the SDGs in developing countries. This would enable innovative European SMEs to invest in new markets, bring sustainable solutions to developing countries, create jobs and contribute to sustainable growth.

Taking a Team Europe approach to EU development Policy

European companies lead in providing sustainable long-term solutions, but they face increasing pressure from state-owned companies from emerging countries, which benefit from tied-aid, foreign subsidies, and bilateral government-to-government deals. This is particularly the case in the field of public and private infrastructure and sustainable connectivity. To counter this trend and increase the attractiveness of EU companies for partner countries the EU should adopt a much stronger 'Team Europe approach'[11] to its entire development policy. This approach should not only involve European Development Finance Institutions (DFIs) but also the European private sector. It should include the following measures:

- The EU external financing instruments should be deployed in coordinated action with European DFIs, as proposed in the Communication 'Towards a comprehensive Strategy with Africa'[12]. Moreover, the EU should create a more streamlined and versatile development financing institution on EU level, capable of combining development and export finance, facilitated through European Export Credit Agencies (ECAs), and thus of matching the performance of Asian and US institutions. This institution could work alongside European DFIs and ECAs, in coordination with European and local commercial banks, and aggregate existing financial capacity and technical expertise. This would also help foster investment of European SMEs in developing countries. In this regard, BusinessEurope would be supportive of a stronger role of the European Investment Bank in the administration of the EFSD+ and the implementation of operations under the External Action Guarantee, as proposed by the Council[13].

- The EU should take an active role – together with Member States – to reform the OECD Arrangement on Officially Supported Export Credits to regain a global level playing field but also to make it more attractive for non-OECD countries to

[11] Communication on the Global EU response to COVID-19, European Commission, 2020
[12] Towards a comprehensive Strategy with Africa, European Commission, 2020
[13] 2028/0243(COD), 26 September 2019

join the arrangement. Simultaneously, discussions in the International Working Group on Export Credits should be intensified to reach a truly multilateral agreement in this area.

- NDICI-funded programmes should not be open to companies and entities from countries that do not grant reciprocal access to their external financing instruments to EU operators.

- The EU should leverage its own capacities more in its blending operations. Under the current NDICI proposal, the eligibility criteria of IFIs co-financing EU actions, or helping implement them, also apply[14]. Thus, when blending operations are managed by non-European entities, their procurement rules can win priority over the Commission's own procurement rules and EU funds can end up in the pockets of non-European state-owned enterprises. To avoid such outcomes in the future, IFIs (co)managing EU funds should apply EU compliant procurement rules. Moreover, they should also limit their programmes to entities from countries that grant reciprocal access to their external financing instruments and they should have measures in place to exclude abnormally low bids.

- To confront the aggressive financing terms of emerging county actors and to truly foster the sustainable economic, social and environmental development of partner countries[15], the selection criteria for EU-funded projects need to focus more on a project's life-cycle costs instead of its immediate costs. Moreover, a number of additional non-financial indicators should be added to the selection criteria of EU-funded projects. These may include a project's environmental performance, the fulfilment of international standards, the creation of local employment, the promotion of local vocational education and training, social targets, etc. Such factors would ensure a contribution towards the SDGs and give EU companies an edge over their competitors.

Complementarity of external financing instruments and other EU policies

No matter which funding opportunities are available, the private sector can only scale up investment in areas critical to sustainable development if a favourable investment climate and business environment is in place. Moreover, Economic operators should compete for EU financial support on an equal footing across the different EU instruments, no matter who implements them. EU funding should not contribute to favour companies that have received distorting foreign subsidies vis-à-vis other companies. It is therefore important that the EU better coordinate the work of different Directorates General (DGs) in this regard and that it use its dialogues with third countries strategically. On this, BusinessEurope has the following suggestions:

---

[14] Proposal for a Regulation establishing the Neighbourhood, Development and International Cooperation Instrument, Article 24(5), European Commission, 2018
[15] as set out in Article 21(2)(d) of the Treaty on European Union

- BusinessEurope welcomes the proposals made in the White Paper on Foreign Subsidies regarding IFIs that implement projects supported by the EU budget (e.g. World Bank, African Development Bank, European Bank for Reconstruction and Development, EIB, etc.).[16] In cases where implementing partners benefit from EU financial support, they should be called to enhance their procurement policies in order to deal with abnormally low bids that may result from foreign subsidies and to regularly report to the European Commission on how they address such cases. The Commission should enter into dialogue with the relevant IFIs to this effect.

- EU delegations in third countries should leverage their resources and networks more effectively to support business projects that would benefit companies from several EU countries. On the one hand, EU delegations should regularly consult European companies on challenges and opportunities relating to the local business environment. On the other hand, EU delegations could provide political support to European companies abroad if there are no objections raised by any EU Member State. Furthermore, it is essential that the EU and its Member States enhance the coordination of their support to businesses in developing countries to avoid duplication.

- The EU should support European companies in third countries by placing relevant investment and trade-related issues high on the agenda during all relevant official visits, high-level meetings and missions to the countries concerned. This should be done in coordination with EU Member States and the EU business community.

- The EU Institutions must ensure that the initiatives taken by different DGs towards developing countries are complementary and mutually reinforcing. With regards to Africa, for example, the objective to mobilise European private investment on the continent is largely treated separately from the objective to promote trade between the EU and Africa, for instance in the EU delegations' events in African countries. However, the two issues are strongly interlinked: investment in value-adding sectors requires access to sufficiently large markets to sell the products and services produced. Otherwise, the economies of scale key to competitiveness are hard to reach. Moreover, the deeper disciplines included in modern trade agreements (e.g. provisions on trade in services, investment, intellectual property, competition) facilitate the two-way flows of businesspersons, capital and ideas, in addition to goods, and give assurances to investors that they will be treated fairly. Thereby, they create favourable conditions for the participation in international value chains and contribute to an investment climate conducive to attracting foreign direct investment. Hence, the EU needs emphasise the complementarity between the EIP, the implementation and broadening of its Economic Partnership Agreements and Association Agreements, and its support of African continental integration in its dialogues with African counterparts and its Africa-related events. This requires strong

[16] White Paper on levelling the playing field as regards foreign subsidies, European Commission, 2020.

coordination and coherence at European level, for instance between DG Trade, DG DEVCO, DG NEAR, DG GROW, the EEAS, the EIB and EDFI. A regular structured dialogue between the representatives of the European private sector, Commission and European IFIs should be put in place.