

ACP-EU COTONOU AGREEMENT

**AFRICAN, CARIBBEAN AND
PACIFIC GROUP OF STATES**

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Subject: Joint ACP-EU Cooperation Framework for Private Sector Development support in
ACP Countries

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1. ACP states and the EU share the conviction that a competitive private sector and an enabling business environment are key conditions for achieving smart, sustainable and inclusive growth, creation of decent jobs and poverty reduction. Both the Agenda for Change and the recent communication on "Strengthening the role of the private sector in achieving inclusive and sustainable growth in developing countries" highlight this priority and commit the EU to developing new ways of getting involved in favour of the private sector so as to attract additional resources.
2. On 5 June 2013 the ACP Council of Ministers mandated the ACP Committee of Ambassadors to develop a new Strategy for Private-Sector Development Support (PSD) in the ACP states. This mandate was reiterated by the ACP Council of Ministers in December 2013. The ACP Strategic Framework for ACP Private-Sector Development, which is an important component of the strategy, was adopted on 24 April 2014. It also underlines the importance of the private sector in developing ACP countries. It presents the general principles and orientations that will guide future actions for private-sector development in ACP countries and aims to improve the business climate, support the development of entrepreneurship and micro-enterprises, facilitate access to financing and improve competitiveness and ACP businesses' access to markets.
3. Following an EU-ACP technical workshop, held on 24th June 2013, it was decided to establish a Joint Working Group (JWG) to discuss the objectives and main elements of a PSD cooperation framework for the 11th EDF to be presented to the EU-ACP Committee of Ambassadors. These technical discussions led to a consensus between EU and ACP representatives on a comprehensive approach for the 11th EDF.
4. The EU and the ACP Group focused on complementarity and subsidiarity between actions falling under the National Indicative Programmes (NIPs) and Regional Indicative Programmes (RIPs) and agreed on the need to devote a significant proportion of the intra-ACP envelope to private-sector support. The EU and ACP states also discussed possible implementation modalities and recommend using programmes which would vary on the basis of the particular situations of the ACP countries and regions, to achieve the greatest possible degree of ownership.

In this context, the EU and the ACP Group also discussed the CDE and its current impact and added value for PSD. The ACP side took note of the EU's wish to proceed with the amending of Annex III of the Cotonou Agreement and the ordered closing of the CDE. This matter was discussed during the **ACP-EU Council of Ministers** in June 2014.

5. The EU and the ACP Group underlined the need to hold a regular EU/ACP policy dialogue within the existing joint institutions to ensure the implementation of this EU/ACP cooperation framework and the importance of systematic information-sharing and dissemination of good practices. To that end, a platform for EU/ACP dialogue was proposed.

A COMPREHENSIVE APPROACH FOR FUTURE PSD SUPPORT IN THE ACP COUNTRIES

6. Having a decent job is the best guarantee against poverty. In developing countries, the private sector and MSMEs in particular are responsible for 90% of job creation. Supporting private-sector development is therefore essential to any sustainable poverty-reduction strategy. This support will contribute in particular to the economic and social empowerment of the poorest and most vulnerable, including women, girls and youth. The comprehensive approach proposed in this document is to encourage the development of a more competitive and responsible business sector active in local, regional and international markets via (i) promoting a policy and regulatory framework that fosters the emergence of a competitive local private sector and that takes into account the informal sector, (ii) improving export prospects and access to markets and integrating ACP states into the world economy, (iii) strengthening production capacities and entrepreneurship in sectors that can contribute to achieving more inclusive and sustainable growth. This global approach is structured around the four following pillars:

First pillar: improving the business environment

7. To improve the business environment across ACP countries, three specific priorities have been identified at macro level:
- Supporting business-friendly national policies and regulatory frameworks, which includes: simplifying business registration and licensing procedures, improving tax policies and administration, strengthening the financial system, improving land titles and registers, improving labour laws and administration, better access to commercial courts and alternative dispute-resolution mechanisms, improving regulatory governance and broadening public-private dialogue. Special attention will be paid to fragile states, to put in place the right institutions to catalyse private-sector investment and pave the way for long-term and sustainable growth.
 - Improving regional policies and harmonising regulations, in order to foster regional trade and investment. This includes inter alia supporting regional organisations and their member states in designing and implementing reforms relating to the promotion of joint ventures, ICT development, the harmonisation of legislative frameworks including intellectual property rights, etc.
 - Improving access to infrastructures (transport, communications, energy and water).
8. In addition to improving access to infrastructures and supporting regional economic integration, there is a strong case for EU intervention to assist in improving the investment climate and to strengthen innovation and competitiveness policies. Business environment reform is complex and requires ownership, commitment and dialogue between all stakeholders. In order to prioritise essential policy reforms and enhance the quality and relevance of public policies, the EU and the ACP Group will encourage the strengthening of joint assessments, help improve the capacities of relevant public and private organisations (in particular, business associations, chambers of commerce, etc.) and will support public-private dialogue at country and regional level.

Second pillar: providing support to the private sector in areas relevant for development

9. The following priorities have been identified at meso and micro level:

- Supporting key intermediary organisations such as: chambers of commerce, training institutes, laboratories and producer associations, and assisting in the creation of research centres and laboratories, etc.
- Strengthening production capacity by providing technical assistance and business development services, support for innovation and entrepreneurship, enhancement of quality and competitiveness and access to markets to address market failures and boost local private sector developments.
- Building the export capacities of companies and improving the standardisation of their products in order to facilitate access to domestic, regional and international markets.
- Improving capacity at the micro level should also include the development of ACP-EU business mentorship programmes and/or ACP-EU business events bringing together private-sector stakeholders from both sides in order to facilitate transfers of technology and know-how.

10. Providing support to macro and meso level actors is within the "comfort zone" of donors and should remain the essential pillar of EU support under the 11th EDF. However, in particular for macro-level interventions, the impact is usually indirect and can take time to materialise. Therefore, the EU and ACP states should also address capacity constraints at micro level as such direct support to the private sector can help to overcome market failures currently preventing companies from making investments (capacity to set up business plans, ensure transparent accounting, obtain market intelligence, increase innovation, entrepreneurship and skills, improve quality and standards, promote vocational training, sustainable productivity-enhancing solutions, etc.).

Third pillar: enhancing microfinance support

- 11.** A particular area of support will be financial inclusion as a transformative tool that can help improve both household welfare and spur enterprise activity. Financial inclusion connects people and businesses in the informal sector to the formal economy, to markets and to better social welfare mechanisms. The support should take a comprehensive approach that will respond to the different needs of low-income populations: combining access to finance and technical assistance for business operators, through specialised financial institutions, with additional support to reduce constraints on the supply of financial services for all. This third pillar will address microfinance support for households and microenterprises, while specific access to financial support for intermediate-sized enterprises will be supported under the fourth pillar.
- 12.** Support for microfinance is essential to give low-income households and microenterprises access to basic financial and banking services to reduce their vulnerability, help them manage risk, and improve entrepreneurship and employment. It is especially relevant in ACP countries for underserved segments of the population, such as youth, women and smallholders. In microfinance there is great scope for encouraging innovative approaches such as developing financial services via mobile telephony. Support for financial inclusion will be provided by means of a holistic approach, addressing all relevant constraints: at macro level, enabling and protective policies, in particular consumer protection, and regulatory environment; at meso level, establishing suitable market infrastructure; and at micro level, supporting financial institutions and enterprises. Provision of financing to microenterprise is often suboptimal, so blending loans and grants can also make a difference in terms of access to finance for this target group. The EU will take into account the importance of developing local and regional capital markets in facilitating access to finance.

Fourth pillar: catalysing private investments and commercial finance for development via blending

- 13.** The priority is to improve access to finance for SME's and to encourage private investment through risk-sharing mechanisms and guarantee schemes for private investors. Provision of financing to SMEs in many developing markets is often less than optimal, reflecting underdeveloped financial markets. In that context, instruments and financial structures involving grants are important tools for encouraging loans and equity investments in small and medium-sized enterprises (SMEs). These instruments and financial structures can also play a significant role in addressing market failures and laying out the financial requirements for start-up funding and seed capital. Improving access to funding means exploring new financial tools.
- 14.** While access to finance is a key driver, it has become increasingly obvious that subsidised SME lending does not solve the problem in the long term. Access to finance is not only a function of price but also depends on (i) banks' risk analysis (ii) banks' abilities to meet SMEs' needs and (iii) SMEs' ability to formalise and structure their project proposals. In that regard, both at the SME and intermediary level, an integrated solution combining funding, risk sharing, expertise, strengthening of entrepreneurial capacities and business environment reform could lead to better results.
- 15.** The EU and the ACP countries agree on the need to assist ACP governments in setting up national strategies and the appropriate legislation to develop better financial inclusion policies, in order to improve access to financing for micro, small and medium-sized enterprises.

A COHERENT AND COMPLEMENTARY PROGRAMMING EXERCISE FOR THE 11TH EDF

16. In the 11th EDF programming exercise, the EU and ACP states must draw on the potential offered by its various instruments in order to "operationalise" this global approach – in a coherent, efficient and complementary manner at the national, regional and intra-ACP levels. The current programming process provides an opportunity to improve the interactions between each level, to focus resources and thereby increase the impact and visibility of the EU's development aid efforts.
17. **At national level**, PSD, or sectors directly linked to PSD (employment, economic governance, inclusive productive investment, etc.), have been proposed by National Authorising Officers (NAOs) as focal sectors in around ten countries. For the majority of ACP countries, PSD should be mainstreamed in specific sectors (such as agriculture, energy, infrastructure or environment) and in our policy dialogue on economic governance. PSD should, in particular, be a key element of EU support in agriculture, which has been identified as a focal sector in more than 30 African countries. In all these sectors, the EU will mainstream PSD in order to contribute to business-friendly and responsible national policies and will also support key intermediary organisations and provide micro-level support to the private sector (value-chain approaches, support for increased market access, etc.).
18. **At regional level**, the main EU objectives, already endorsed by the Regional Organisations in the programming process, will be to support larger and more harmonised markets, the free movement of goods, services, capital and people, in order to make economies of scale possible and to stimulate investment. This will involve improving regional policies, harmonising regulations, facilitating trade and financing infrastructure networks.

19. The intra-ACP level provides a unique opportunity to address common issues of the ACP Group of States at supra-regional level. The EU and the ACP states recommend allocating a substantial amount of the intra-ACP envelope for the 11th EDF (around EUR 600 million) to supplement interventions at national and regional levels for the development of the private sector. This envelope will be programmed jointly, and particular attention will be paid to coherence and complementarity with interventions at national and regional levels. The real amount of the intra-ACP envelope for private-sector support under the 11th EDF, and the various allocations of resources in the areas selected, will be more clearly defined during the joint programming.

At this point, ACP countries and the EU have identified the following priorities:

- To support business-friendly and national and regional policies
 - To strengthen production capacities by providing micro-level support to the private sector and supporting key intermediary organisations
 - To improve access to responsible and sustainable micro-finance services
 - To increase access to finance for SMEs and catalyse private investments through blending operations
- 20.** In addition to these priorities, the EU and the ACP Group underlined the need to establish a platform for lesson-sharing, dissemination of good practices and dialogue with the private sector across the ACP regions.
- 21.** Programmes should be monitored through a results framework so as to evaluate their impact in strengthening the role of the private sector and their impact on economic development in the ACP countries and regions concerned.

IDENTIFICATION OF THE MOST APPROPRIATE IMPLEMENTING MODALITIES FOR THE INTRA-ACP LEVEL

- 22.** In order to pursue these four priorities, the EU and the ACP Group agreed that the plural nature of the private sector demanded a holistic approach. They therefore recommend delivering PSD through programmes which would vary according to the situation of each ACP country and region, so as to ensure the greatest possible degree of ownership and to comply with the subsidiarity principle established in the Cotonou Agreement. Private-sector requirements can vary between the various ACP countries and regions. These programmes should be implemented in such a way as to ensure real impact and measurable results.
- 23.** EU-ACP programmes will therefore be established in the framework of the intra-ACP envelope on the basis on the needs formulated by ACP countries and regions, in order to strengthen the business environment, the production capacity and the competitiveness of SMEs in ACP countries, via grants, technical assistance and advisory services. Streamlining private-sector support instruments and programmes should also make it possible to implement the Joint ACP-EU Framework for Private Sector Development satisfactorily.
- 24.** Considering the need to ensure strong ownership at local level, activities implemented would need to take place mostly at national and regional level, in coherence and synergy with national and regional policies/action plans and indicative programmes.
- 25.** Interventions aimed at improving the business environment should be demand-driven and offer a complementary, systematic and integrated response to national reform agendas and should ensure synergies with other initiatives supported by the EU or other donors. They should be based on improved diagnostics and result-measurement mechanisms. They should also offer beneficiaries access to high-quality expertise, and be focused on "structural" transformations. The aim of this approach will be to enable ACP countries to increase their ownership of the development of their private sector, to define their priorities and to concentrate on developing their institutional capacities. The involvement of national and regional private-sector bodies, including development banks, in the intervention programmes is important in this regard.

- 26.** The EU and the ACP Group believe that supporting the development of the private sector will have a greater impact in terms of results if it is implemented as close as possible to the ground. In this context, more involvement of stakeholders at regional level through focal points is desirable, in order to facilitate relaying and better coordination between the different levels of intervention and ensure better implementation of private-sector support.
- 27.** The identification of the detailed content of these programmes will take place at a later stage, during the implementation of intra-ACP cooperation and in the framework of joint EU/ACP policy dialogue. One possibility could be to resort to the assistance of international organisations competent in the field of private-sector development. This would require the creation of strategic partnerships with those organisations. The EU and the ACP Group countries would, jointly, put forward partnership proposals to these organisations, outlining the specific objectives and identifying specific activities. This joint approach would seek to ensure greater ownership, accountability, relevance, visibility and impact of actions, and effective use of funds.
- 28.** The EU and the ACP Group states also intend to use the opportunities presented by EU loan/grant blending facilities such as the Caribbean Investment Facility (CIF), the EU-Africa Infrastructure Trust Fund (ITF) and the Investment Facility for the Pacific (IFP), to facilitate MSME access to financial services and to leverage private-sector investment in areas relevant for development¹.

¹ Under the 10th EDF, blending in Africa was done via the EU-Africa Infrastructure Trust Fund (AITF), with a particular focus on infrastructures. With this instrument, the EU has managed, with European public finance institutions and the AfDB, to leverage substantial investment for regional infrastructures in Africa. It represents the first showcase of what blending can achieve. Nevertheless, a number of issues that need to be addressed to fully exploit the potential of blending in Africa have been identified, such as the current limited scope of blending operations, which excludes support for the private sector and for projects at national level. The EU is currently addressing this issue with its Member States within the EU Platform for Blending in External Cooperation.

29. The EU and the ACP countries will also have to be assured that ACP stakeholders are truly involved in the implementation of the cooperation framework. In this regard, they envisage working closely with ACP Regional Economic Communities (RECs) and strengthening their capacities in this area. Certain RECs have already implemented strategies and have developed valuable experience in the field of private-sector development support.
30. The EU and the ACP Group will ensure that the private sector and ACP companies are closely involved in the implementation of the various actions, which is vital to the ownership, impact and sustainability of those actions.
31. The Joint ACP-EU Cooperation Framework could also be implemented with innovative modalities, instruments or mechanisms which could prove relevant at a national, regional and Intra-ACP level.
32. In the framework of the Cotonou agreement, the Centre for the Development of Enterprise (CDE) is mandated to support PSD and to promote competitiveness in ACP states. The areas of intervention of the CDE are outlined in Annex III (Institutional Support, CDE and CTA) of the Agreement. A number of evaluations and studies have, however, highlighted the weaknesses of the CDE, in particular limited results and added value, a serious cost-effectiveness problem and governance and accountability issues. Successive reforms over the past several years have not produced the expected results to date.
33. The ACP side has taken note of the EU's wish to proceed to the amendment of Annex III of the Cotonou Agreement and the orderly closure of the CDE. This matter was discussed during the EU-ACP Joint Council of Ministers Meeting in Nairobi, in June 2014.

AN EU-ACP PLATFORM FOR DIALOGUE ON SUPPORTING THE PRIVATE SECTOR AND STRENGTHENING THE ACP SECRETARIAT

- 34.** All the actions envisaged at national, regional and intra-ACP levels are strongly interlinked and constitute complementary avenues towards the strengthening of the private sector in ACP countries. Whilst the implementation of these activities at the national and regional levels will help to promote local ownership, the intra-ACP level must contribute to overseeing the implementation of the joint cooperation framework.
- 35.** To that end, the establishment of an EU-ACP platform for dialogue is proposed, to identify, define and oversee activities but also for lesson-sharing, dissemination of good practice and dialogue between the relevant ACP actors. This platform may also be used to facilitate dialogue with the private sector in the ACP regions, at the most appropriate level.
- 36.** The EU and the ACP countries concluded that a stronger ACP-EU dialogue should be developed and that the ACP Secretariat should be supported by expertise capable of providing coordination and follow-up for ACP-EU private sector support programmes and activities. To be able to deliver these goals, the ACP Secretariat should in fact be provided with the additional human resources to carry out its mission in the most effective way possible.
- 37.** This joint EU-ACP platform will:
- Proceed with the strategic identification and formulation of intra-ACP activities.
 - Oversee the overall implementation of the PSD cooperation framework.
 - Oversee complementarity and coherence between actions falling under the joint ACP-EU cooperation framework, in close collaboration with ACP beneficiaries and, in particular, with the regional economic communities, each of which would select one focal point to follow and participate in the platform.
 - Identify best practices, share lessons and promote peer-to-peer learning between ACP countries and regions (contact network, thematic workshops, studies, literature, annual conference, etc.).
 - Establish a dialogue with the ACP private sector and also financial institutions to build consensus on global ACP PSD issues.