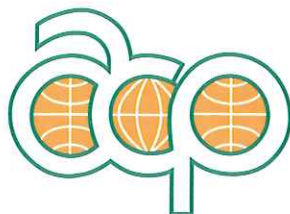


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**Programming the Intra-ACP Envelope of Resources under the
11th EDF: Private Sector Development**

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Introduction

The ACP Group Member States include some of the poorest countries in the world. Accounting for 11% of the global population, the Group represents close to 2% of the global gross domestic product and just over 3% of global trade. Of the 48 Least Developed Countries (LDCs) in the world, 41 are ACP countries, the majority of which are on the African continent.

The informal nature of the private sector and the labour market, low competitiveness, persistent unemployment and worsening income inequalities are all major challenges facing ACP countries. The labour market suffers from significant gender disparities, illustrated by an over-representation of women in low-income jobs.

A large number of ACP countries are dependent on commodity exports (livestock, including animal health, agricultural, fisheries and mineral products) to traditional trading partners, despite the considerable efforts to reduce this dependency. Agriculture is undoubtedly the economic base for the majority of the population in ACP countries, but food insecurity and malnutrition are widespread in rural settings, notably in Sub-Saharan Africa, owing to low productivity and a strong dependence on rain-fed agriculture. Furthermore, most ACP countries lack indigenous sources of fossil fuel energy and spend a large portion of their export revenue on energy imports.

Micro, small and medium enterprises (MSMEs) are faced with a wide range of obstacles, including notably, the complexity of business registration and taxation procedures, infrastructure shortages, an inadequate electricity supply, limited access to financing and a lack of a skilled workforce. In addition to this business development service markets are still underdeveloped.

Moreover, sustainable domestic growth is still constrained by a strong dependence on foreign investments and very limited access to financing, which does not favour financial inclusion, particularly with regard to low-income populations. Reducing this constraint will enable private sector stakeholders to become competitive, move away from being informal and ultimately to contribute more effectively to creating decent working environments.

The “*Strategy Paper and Indicative Programme*” under the 11th EDF, which was signed in November 2015, underscores the need to safeguard macroeconomic and financial stability in order to create a domestic environment that favours sustainable development and the mobilisation of resources, but also the existence of a competitive private sector and a satisfactory business climate, as one of the conditions crucial to establishing intelligent, sustainable and inclusive growth, creating decent work and reducing poverty. In section 2.3 of the strategy paper on private sector development, the programmes described below were proposed with a view to accomplishing the declared objectives.

Moreover, in conformity with the intra-ACP strategy under the 11th EDF, and given that ACP countries find themselves faced with structural challenges and that many of them are landlocked or small-island states, suffer from high transportation costs and have small undiversified economies and that their vulnerability is exacerbated by natural disasters and climate change, it is essential that the specific needs of small landlocked and small-island developing States are duly taken into account when actions are identified and implemented.

1. Intra-ACP Programme to improve the business environment and the development regional value chains

In several countries, private sector policies and regulatory frameworks are still too under-developed to take full advantage of the progress made. The companies likely to contribute to export development are few in number and sometimes lack competitiveness. In addition to a high level of informality, there is a missing link in the size of companies and very little possibility of upward mobility. Micro and small enterprises have difficulties to grow sustainably and to make the transition to medium-sized or even large enterprises.

One must take into account the vulnerability of ACP economies, particularly, their economies’ dependence on commodities, the lack of access to financing and energy services, as well as the need to adhere to market access rules based on the applicable environmental legislation and basic internationally recognised labour rights standards.

The first pillar of this programme will be articulated *around improving the business climate for private sector development*. One priority could be given to strengthening regional integration through harmonising business law in ACP countries and building the capacity of structures like the Organisation for the Harmonisation of Business Law (OHADA), that can develop Caribbean and Pacific activities.

To meet the energy constraints in the ACP countries, support for better regulatory governance in the field of energy in general and renewable energy in particular, should be favored.

Another aspect of this pillar could involve the creation of 6 Regional Investment Observatories (RIO), or one observatory for each of the 6 ACP regions housed within the Regional Associations of Investment Promotion Agencies (IPA). These observatories could function based on recognised methodologies, like those developed by UNIDO and UNCTAD.

Various tools, methodologies and approaches will be used to carry out this programme's activities, by focusing on access to financing. These activities will include i) Grouping companies together into networks (*clusters*), ii) Updating/Industrial Modernisation, iii) Competitiveness, including mastering quality standards such as sanitary and phytosanitary standards, iv) the adapting the MSMEs to the challenge of "Climate Change" through the use of "clean" technologies and energy v) trade facilitation, vi) branding and labelling for regional products vii) Integrated Economic Zones (IEZ), viii) financing research to create businesses, including microfinance and participatory financing for micro-enterprises (*crowdfunding*), the ACP Investment Facility managed by the EIB and the use of impact investment funds and the loan/grant (*blending*) mechanism, and ix) Business Fora (B2B) and developing partnerships for trade or business, and investment (*joint-ventures*) or technology transfers. Investment promotion will also take place in the broader ACP-EU or South-South (Intra-ACP) or even triangular (EU-ACP-BRICS) partnership framework.

The main activity of RIOs will be to conduct or update regional investment studies which help to obtain an overarching view of the following: investment flows in the ACP regions, foreign direct investment (FDI) trends analysis, high-potential investment sectors, the composition of the fabric of the productive sector in the ACP regions, and the obstacles to be overcome to create a more conducive environment for investment in these regions. RIOs should have an investment promotion website, monitoring structures and Statistics. The regional investment studies of the RIO should also facilitate the development of Common Industrial Policies (CIP) in the ACP Regions which do not yet have them. They should also favour the selection of the most promising regional value chains.

The second pillar involves the *launch of 12 (or 2 per region) regional value chains* in ACP regions and priority sectors of intervention, which will be identified following consultations with the respective Regional Economic Communities (RECs). This will be carried out taking into account the priority needs and sectors of the PSD strategy in ACP countries. The agri-foods industry, which should be responsible for food security has already been temporarily identified as a priority sector in all ACP regions. The fisheries value chains development must also be considered. This programme will be a key element for regional integration in ACP regions. Indeed, regional value chains foster the diversification and specialisation of national markets. Consequently, they increase trade, investment and job creation.

Programme title	Intra-ACP Programme to improve the business environment and the development of regional value chains
Objective	Support inclusive national and regional policies conducive to business and building productive capacities and value chains
Expected outcomes	<ul style="list-style-type: none"> • Adoption and implementation of national policies and inclusive, responsible, legal and business-oriented frameworks; • Building productive capacities (increasing productivity and competitiveness), processing, promotion and marketing.
Indicative Budget	€ 130,000,000

State of Play:

The Intra-ACP Programme to improve the business environment and the development regional value chains is at the project identification stage. The Secretariat is working in close collaboration with the EC to learn from the previous programme, the ACP Facility to improve the business environment (“BizClim”) and finalise the relevant document before December 2016.

2. Intra-ACP Programme to increase financial inclusion

Financial inclusion is a priority area, considered a powerful transformative tool that can help to improve household welfare and spur business activity. The intra-ACP programme to increase financial inclusion based on two pillars, namely, financial inclusion to connect the people and businesses from the informal sector to the formal economy and to markets and social protection mechanisms; and support for microfinance in order to provide basic financial and banking services for low-income households to reduce their vulnerability, help them to manage risks and improve entrepreneurship and employment.

Insurance market development activities, such as micro-insurance, shall be pursued to achieve the triple objectives of enhanced insurance market penetration rate, risk management for small agribusiness sectors players, agribusiness sector modernization, and insurance market development in ACP countries. The Index insurance is an innovative approach to insure provision is to be developed. Its responds to the ACP context: this insurance pays out benefits on the basis of a pre-determined index (e.g. rainfall level, seismic activity, livestock mortality rates) for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events, without requiring the traditional services of insurance claims assessors.

Enhance insurance penetration is necessary to implement an Access to Finance agenda for both income segments and MSMEs (from both supply and demand sides). A focus on the insurance sector also offers opportunities to build a new sector/industry which can represent a large potential for private sector investments.

This programme is particularly relevant in ACP countries with regard to the most underprivileged populations, such as the youth, women and smallholders.

It will take into account the lessons learned from the previous intra-ACP microfinance programme, and finalise the relevant document before December 2016.

Programme title	Title of programme	Intra-ACP Programme to increase financial inclusion
Objective	Objective	Improve financial inclusion
Expected outcomes	Expected outcome	<ul style="list-style-type: none"> • Improve access to responsible and sustainable microfinance services for low-income households and entrepreneurs, notably women (micro-credit, financial services for households) ; • Increased transition from an informal economy to a formal economy, with particular support for young entrepreneurs.
Indicative Budget	Indicative Budget	€ 50,000,000

State of play:

The Intra-ACP Programme to increase financial inclusion is at the project identification stage. The Secretariat is working in close collaboration with the EC to learn from the previous intra-ACP microfinance programme and finalise the relevant document before December 2016.

3. Intra-ACP Programme to strengthen access to financing for MSMEs

In many developing markets, the allocation of financing for SMEs is often insufficient due to underdeveloped financial markets. Sustainable access to financing for SMEs and facilitating private investments through risk-sharing mechanisms and guarantees for investors, is a crucial engine for the development of businesses in ACP countries.

The Intra-ACP Programme for strengthening access to financing for MSMEs aims to, among other things, set in place national strategies and adequate legislation in order to develop better financial inclusion in order to favour access to financing for micro, small and medium enterprises.

The projects identified must focus on the financial mechanisms that use grants to encourage the allocation of loans and participation in small and medium enterprises (SMEs), in order to address market failures and contribute to meeting needs in terms of start-up funding and seed capital. Innovative financial engineering projects will also be encouraged.

A financial facility so that incubator business projects can be put in place.

The programme will promote the use of blending to reduce the cost of funds to SMES and to expand the number of financial instruments targeting MSMEs, including the use of seed and early stage financing, venture capital, leasing, factoring, social impact financing, loan guarantees, local currency lending and risk sharing. In addition, promote the use of value chains as a mechanism for reducing the risk associated with financing MSMEs.

Programme title	Intra-ACP Programme to strengthen access to financing MSMEs
Objective	Increase access to financing for companies, especially micro, small and medium enterprises (MSMEs)
Expected outcomes	<ul style="list-style-type: none"> • Increased access to financing for micro, small and medium enterprises (MSMEs), particularly those that respect the environment; • Generalisation of solutions and innovative investment mechanisms that favour the creation of sustainable jobs for the poorer populations that are victims of exclusion, notably, women and the youth.
Indicative Budget	€400,000,000

State of play:

The Intra-ACP Programme for strengthening access to financing for MSMEs is at the project identification and action fiche stage. The Secretariat is working in close collaboration with the EC. The drafting process for the action fiche is presently underway, in order for it to be partially validated in June 2016 with a view to an EDF Committee decision on financing before November 2016.

4. Intra-ACP Programme for ACP Private Sector Development Knowledge Management

The Intra-ACP Programme for ACP private sector development knowledge management will contribute primarily to *establishing an EU-ACP-PSD platform for dialogue* in order to identify, draft and monitor actions but also create networks of relevant ACP actors, share lessons and disseminate good private sector development practices.

This programme may comprise two pillars: the first pillar is strengthening dialogue among stakeholders, a dialogue with private sector stakeholders in ACP regions, at the most appropriate level; as well as strengthened dialogue between the EU and ACP States, especially on matters that ACP countries consider extremely important, such as private sector development in the context of a commodities-based economy, the challenges tied to the informal sector and the obstacles that hamper ACP businesses from entering the formal economy. An exchange of PSD best practices DSP may also be considered between ACP countries.

The second pillar is to ensure the *institutional capacity-building* of the parties to the “Light Structure”. There will be a need to rapidly implement special support for the ACP Secretariat, through proper expertise and additional resources to ensure the coordination and monitoring of ACP-EU private sector support programmes. This support in Brussels could help to develop capacity-building programmes for staff in ACP Embassies and Missions in Brussels, who handle economics, trade and investment matters. This institutional capacity building programme should also include a training course in i) Economic/ Business Diplomacy and ii) conducting and evaluating pre-investment studies, iii) the promotion of investment and partnerships, iv) trends that guide change in global manufacturing production and the methods by which the ACP regions can be integrated into global value chains, v) innovation and technological changes and their impact on the industrial sector in ACP regions and vi) the concept of “*Inclusive and Sustainable Industrial Development*” (ISID) as a basis for industrialisation in ACP countries.

Moreover, PSD stakeholders on the ground should be able to benefit from capacity-building: it involves in particular, the PSD Focal Points of the Regional Economic Communities (RECs), the Regional Associations of Investment Promotion Agencies (IPA), Regional Associations of Chambers of Commerce and Industry (CCI), Regional professional associations and regional associations of Microfinance.

Programme title	Intra-ACP Programme for ACP private sector development knowledge management
Objective	Promote better knowledge management with regard to private sector development in an ACP-EU framework
Expected outcomes	<ul style="list-style-type: none"> • Identifying good practices and sharing lessons learned; • Encouraging and promoting knowledge sharing among peers between ACP countries and regions; • Support for the implementation of the joint ACP-EU framework for cooperation for private sector development in ACP countries.
Indicative Budget	€20,000,000

State of Play:

The Intra-ACP Programme for ACP private sector development knowledge management is at the project identification and action fiche stage. The Secretariat is working closely with the EC to ensure that the Coordinating Committee for the platform is operational by June 2016, and that the Light Structure is also partially operational by June 2016 and fully operational by November 2016. The drafting process for the Terms of Reference for the service contract for the recruitment of the Team of Technical Experts is being finalised for June 2016.