The European Commission (EC) proposed on the 14th September 2016 to create the European External Investment Plan (EIP) in Africa and European Neighbourhood. It includes 3 pillars 1) mobilising investments through the New Guarantee under the External Fund for Sustainable Development (EFSD); 2) Stepping up technical assistance; and 3) Improving the business environment and dialogue.

Pillars 2 and 3 are ongoing work pillars for the EC, therefore we will focus here rather on the innovative part of the EIP: its first pillar under the EFSD which requires a new legislative proposal. They will combine existing blending instruments and will operate as a one-stop-shop to receive proposals from financial institutions and other public and private investors. The EC believes that this fund will trigger additional public and private investment volumes, mobilising up to €44 bn (or even expecting it to go up to €88 bn if EU member states agree to contribute), based on an initial €3.35 bn contribution from the EU budget and the European Development Fund (EDF) until 2020.

The EC is keen to push this proposal through quickly and is urging the Council and European Parliament to start negotiations as soon as possible.

In this context it is key that the concerns and recommendations of CSOs are heard. It is vital to learn lessons from other investment initiatives at the multilateral and European level; both the positive examples of careful, evidence-led work and negative, long-term damaging examples of hastily established funds. Therefore please find below a number of key questions and recommendations for CSOs to raise when discussing the EIP with the EU institutions and MSs:

Q: Does the EU EIP have a flawed Theory of Change?

We are concerned about the underlying objectives and rationale of the EU EIP, and how these are linked to the EU’s migration control policy and trickle down development.

In this context, it is important to note that:

1. **The framing on migration is flawed - the root cause of migration is human nature** - The EC proposal states that the EIP will help tackle “root causes” of migration. Development as a short term “solution” to the “problem” of migration is a fundamentally flawed approach. Migration can contribute to development, as acknowledged in the 2030 Agenda for Sustainable Development, but it must be accompanied by adequate policies. Evidence suggests\(^1\) that increasing human development in less developed countries is generally associated in the short term with higher, rather than lower, levels of mobility – both emigration and immigration. Migration contributes to innovation, economic growth and personal development and should not be stifled. The EU EIP should acknowledge the positive correlation between migration and development and, together with other relevant EU policies, it should contribute to prevent and solve conflicts, tackle inequalities, improve governance, support citizens to hold their governments accountable, build an enabling environment for civil society, enhance rule of law,

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and tackle corruption. Only then can it create local opportunities for safe and decent work and livelihoods, so that people and their families can choose whether to migrate or not.

**Recommendation: De-link the EIP from European migration control policies and short-term foreign policy objectives.** Development cooperation must be based on the needs and the rights of recipients and not used as foreign policy leverage or be concentrated geographically on the basis of strategic interests.

2. **Underlying reasoning needs rethinking – growth does not automatically mean jobs:** The EC proposal focuses on job creation as its main expected result. This is based on the increasingly disputed assumption\(^2\) that growth *per se* generates jobs. Jobless growth is widespread—particularly in Europe, and in various developing countries, growth has been impressive over the past few years, but has also been accompanied with rising levels of poverty. The proposal does not specify what types of jobs, who will get the jobs (i.e. the most left behind or not), what type of projects to ensure sustainable green jobs. Research\(^3\) shows that there are still considerable concerns around the capacity of business, including Development Financial Institutions (DFI), to promote decent work in developing countries. While business is needed to foster economic growth, this alone cannot be sufficient to ensure sustainable development, based on rights and democratic governance.

**Recommendation: Adopt a multi-dimensional approach, as required by the SDGs: not just focusing on statistics about quantity of goods and services produced (i.e. GDP), but fully integrate the social, environmental and governance dimensions.**

*Ensure that financial and, more importantly, development additionality are demonstrable,* risks for people and the environment are effectively minimized, women’s rights, economic opportunities and decent work creation are effectively promoted, and the public sector is not undermined but rather strengthened.

**Q: Can the EIP be pro-poor and pro-women? Development aid is a tool to fight poverty and inequality, not to support European private sector entities**

3. **ODA diversion away from essential services:** By pooling public resources and using ODA to subsidise private companies most often owned and domiciled in OECD countries, blending diverts aid from public investments. Public investment, rather than blended finance of which the financial\(^4\), development and value additionality remains suspect, is often a better

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\(^2\) In Nigeria, e.g., GDP growth has been at 5% over the past 20 years. This is higher than the average African or global growth rates. Despite this, poverty has also increased from 54% in 2003 to just under 70% in 2012. This means that 112 million people out of a population of 170 million people are living in poverty. What is more, according to the 2012 National Youth Survey report, 45% of young people between 15 and 35 are unemployed, and four out of every five graduates have no job. In Nigeria, the richest 10% earn more than twice as much as the poorest 40%. Nigeria’s growth did not reduce poverty and inequality. Zambia’s economy grew at an average annual rate of 7% between 2010 and 2014 (it slowed down in 2015). The benefits of gross domestic product (GDP) growth have accrued mainly to the richer segments of the population in urban areas. Zambia has a very unequal income distribution: 60% of the population lives below the poverty line and 42% are considered to be in extreme poverty. This growth has not improved living conditions for the poor, it has not generated dignified and decent jobs improving their life.

\(^3\) See “The development effectiveness of supporting the private sector with ODA funds”, TUDCN/ITUC and CPDE, April 2016 and “Business Accountability FOR Development: Mapping business liability mechanisms and donor engagement with private sector in development”, TUDCN/ITUC, CPDE and Eurodad, April 2015.

\(^4\) The European Court of Auditors Special Report 16 (2014) on the use of blending found “for 15 of the 30 projects examined by the Court, there was no convincing analysis to show that a grant was necessary in order for the loan to be contracted (...). Depending on the case concerned, there were indications that the investments would also have been made without the grant”. See: [http://www.eca.europa.eu/Lists/ECADocuments/SR14_16/SR14_16_EN.pdf](http://www.eca.europa.eu/Lists/ECADocuments/SR14_16/SR14_16_EN.pdf)
way of supporting private sector development in developing countries. ODA can help reduce the barriers to private sector investment, through investing in essential services, such as health, education and agriculture.

**Recommendation:** Ensure that a majority of aid is still directed to support the public sector, which in turn is crucial to private sector investment. For example, a healthy, educated workforce and well-functioning governance systems are key factors as to where responsible firms choose to invest.

**Q: What evidence is there that the EIP will deliver any development impact?**

4. **Learn the lessons from previous investment initiatives:** The Investment Plan for Europe bears significant similarities with the EIP, especially since both are based on 3 pillars, including one which is the setting-up of a fund to guarantee riskier operations by financial institutions. But more than one year after its launch, there are serious concerns about the genuine additionality of the Investment Plan for Europe. Think tanks and NGOs have criticised it for enabling to a large extent business as usual by the European Investment Bank (EIB; the main implementer of the investment fund) and raising doubts about the innovative nature of the fund. In addition, the EU institutions should not take for granted that guarantees to financial institutions constitute a silver bullet to make them invest in projects with higher development impact. For instance, the EIB has already been operating for decades under its External Lending Mandate thanks to EU guarantees, and despite this fact it is still mainly operating in middle-income countries rather than LDCs.

**Recommendation:** Take stock of the evaluation conducted on the EU blending facilities as a first step; this evaluation should be a basis to start negotiations and ensure lessons learnt are incorporated.

5. **No sufficient social, environmental, labour or human rights safeguards are yet in place to ensure that private finance in development reaches its stated goals:** It is crucial to ensure the financial institutions and private entities involved in the EU EIP respect human rights and the environment. Commercial goals should not supersede developmental goals, and it is illusory to assume that these goals automatically converge. Despite the potential of having a larger role for the private sector in development, there are huge risks associated with mixing private finance with public development funding. A major concern with the draft EFSD is the absence of the recognition for human rights due diligence and need to comply with Article 21 of the EU treaties and the Charter of Fundamental Rights in investment projects, particularly on the responsibility of the private sector. As expressly recognised in June 2016 Council Conclusions, corporate respect for human rights is indispensable to achieve the SDGs. Promoting and financially supporting a greater corporate presence in developing countries in the absence of an

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adequate legal framework that guarantees corporate accountability and transparency, and ensures justice for victims of corporate malpractice risks incentivising exploitation and human and labour rights violations, rather than promote a dignified life with more decent jobs. More than half of companies listed on the FTSE100 (UK), CAC40 (France) and DAX30 (Germany) indexes have been linked to human rights abuses. Academic, legal experts and international organisations have long highlighted significant gaps in the current legal framework, which contribute to corporations being able to act with impunity. Companies’ ability to evade responsibility is greater in developing countries where the legal system is frail or corrupt, and victims have little chance to demand justice. It is therefore crucial to adopt robust European and national policies to make business accountable for its human rights and environmental impacts.

Recommendation: Incorporate stronger language within the regulation to ensure full visibility, transparency and accountability of the EIP, and ensure sufficient social, labour, environmental and human rights safeguards and legal framework are in place prior to the implementation of the initiative.

Make the eligibility criteria for the EFSD more stringent, so that the commitment to SDGs, Busan development effectiveness principles framework and compliance with Article 21 of the EU treaties and the Charter of Fundamental Rights are operationalised in project selection. If these commitments are not complied with, EU funds should not be used. This includes ensuring companies are paying their fair share of taxes so that private sector development will provide an important source of revenue for the public sector in developing countries.

Establish an EU centralised Grievance Mechanism for all EIP and other blended supported projects to ensure recipients and stakeholders and local communities are aware and have access to this mechanism.

Q: How to ensure transparency and accountability?

6. Private finance tends to be much less transparent and accountable than public concessional funding: as shown by the experience from EU’s blending facilities. This threatens the quality of aid. The EC needs to not only respect and implement their own commitments but ensure that the financial institutions and private entities that they give funding to, sign up to and respect the Busan development effectiveness principles, particularly on ownership, alignment and transparency. The European Parliament was clear on this in their 2016 report on the role of the private sector in development, which states “all blending operations must be fully consistent with development effectiveness principles, such as ownership, accountability and transparency”. There is poor evidence on impacts of the type of investments using blending, including data on financial, development and value additionality. Furthermore, there is poor monitoring and evaluation for current blending facilities.

Recommendation: Scale up evaluations and monitoring to ensure the ‘do no harm’ principle is respected and that this instrument can ‘maximise positive benefits’: people in poverty are better off as a result.

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11 Ibid. 8
13 Development Initiative forthcoming report 16/11/2016
Ensure all procurement under the EIP follows open **clean global contracting principles** ([http://www.open-contracting.org/2013/06/20/introducing_the_open_contracting_principles/](http://www.open-contracting.org/2013/06/20/introducing_the_open_contracting_principles/)).

Establish **regular monitoring and evaluation systems to demonstrate the development additionality of the EIP is not only financial**, as well as for other EC blending facilities involving public ODA.

**Ensure a common standard of reporting is established for all providers using blended finance instruments.** This common standard should ensure data is timely, comparable, accessible and disaggregated enough to use for tracking blended finance to the destination country and receiving entity, and reporting its impact. It is also important to agree on a way of reporting information on investee companies (such as their jurisdiction and size) - this is essential to understand whether or not ODA used in blending is complying with established standards of 'untied aid', or whether it is causing any distortions to local markets. It is also necessary to enhance accountability of blended investments to beneficiary communities on the ground.

**The new EFSD should be reported to the International Aid Transparency Initiative (IATI) to ensure full transparency whether it is using some or all ODA.** The IATI standard represents a robust basis for improved reporting, since many actors in blending are already using it to report on their development spending. However, the quality of data reported to IATI needs to improve, and open dialogue needs to be had between providers and their stakeholders, to establish how to improve qualitative aspects of reporting, especially qualitative and quantitative reporting on results. This is critical to ensure that donors and their partner countries can better understand the impacts of blending on poverty.

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7. **Civic space is often reduced in developing countries, and even more so in fragile and conflict-affected areas:** As stressed by the UN Special Rapporteur on Freedom of Assembly, the enabling environment for businesses is typically much better than it is for associations.\(^{14}\) The EU and partner countries must share responsibility and accountability for their joint efforts in partnership, and development cooperation should as much as possible align with national strategies that have been planned, formulated, and discussed by developing country governments, parliamentarians and – importantly – together with citizens and civil society including trade unions. This requires empowering the citizens of partner countries to work together with their governments to develop common priorities to fight poverty, social injustice, climate change and inequality. The role of civil society and civic space needs to be fully integrated into the EIP.

**Recommendation: Ensure the EIP empowers the citizens of partner countries to work together with their governments** to develop common priorities to fight poverty, social injustice, climate change and inequality, and to reduce conflict. Put in place measures to ensure local civil society organisations enjoy the space and resources needed to play their role. Without civic space and participation, there can be no responsible investment – hence the importance of incorporating the governance dimension in the EIP.

**Promote an enabling environment not only for (local) private sector to flourish but also for CSOs and trade unions to operate freely** and make a contribution to the sustainable development of countries where the EIP will be deployed.

Include civil society within the governance structure of the EIP’s projects so they are involved throughout the project cycle from design to implementation and evaluation phases – and not just assigned to a watchdog role after the fact.

Q: What private sector entities and people should the EIP invest in?

8. Concern about generating decent jobs with local SMEs: The track record of global value chains to generate decent jobs is mixed at best: developing countries are often consigned to low-value added and low-profit activities\(^\text{15}\) – this has serious consequences for workers’ rights and for women workers in particular. It also creates a situation where developing countries compete among themselves to offer very similar products or assembly services at lower and lower prices, which put intense downward pressure on wages.

Recommendation: The EIP should be used exclusively to support local companies in developing countries, with a focus on micro, small and medium size companies. The EIP should not be a disguised promoter of tied aid and not crowd out SMEs in favour of large international companies. When involving the private sector in development, within the EU EIP or other instruments, the EC should actively promote alternative business models which are structured to keep more value with local workers and producers\(^\text{16}\) and represent a more ‘humane economy’.\(^\text{17}\)

Ensure that employment opportunities generated by the EIP are decent and sustainable, respecting labour rights and freedom of association, fostering social protection for workers and their families, and promoting social dialogue as the standard framework for negotiation between private sector (employers) and workers’ organisations. Social dialogue leads to more stable and resilient societies, improving the conditions for investment and growth.

9. Concern of scale, sector and location: The current proposal is that the EIP will promote a few projects that could potentially be supporting local SMEs, however the large majority of the projects are likely to be for large infrastructure projects. This is because it is inherent for investors to ensure large returns, and because the EC, with limited resources, will be unable to monitor many small projects. Blending is not likely to be suitable for poorer countries; in effect it incentivises aid to middle-income countries with attractive investment climates and risks to reduce funding available for LDCs. Finally, there is concern that the projects will pull much needed resources away from supporting public sector services or push to invest in projects that privatise public services such as health or education. Specifically the suggestion for a minimum 20% threshold for funds to be climate relevant is too low, already required under the MFF and unambitious. For example, some IFIs, like the EIB already commit to 40% of funds being climate relevant. .

Recommendation: All projects financed under the EIP should be climate proof in line with the objectives of the Paris Agreement. A more ambitious target should be reached for climate change projects including stringent eligibility criteria so that fossil fuels and large hydropower projects are no-go-zones.

\(^{15}\) UNCTAD, Trade and development report, 2014, pages 104-105.

\(^{16}\) See examples on page 24 in Oxfam’s 3-year update of the Behind the Brands work. See also Action Aid report What a way to make a living, Using industrial policy to create more and better jobs, March 2016.

Put in place robust policies addressing gender discrimination in labour markets to accompany any efforts to diversify economies, including the redistribution of women’s unpaid care burden, ensuring their access to decent work, and upholding their right to collectively organise.18 Through the third pillar, the EIP should include a strong commitment to promote such policies. Under pillar two, expressed reference to technical assistance on gender related issues should be included – c.f. to conducting gender impact assessments of EIP projects systematically; and working with women’s organisations, unions and wider civil society to develop women-led strategies for redressing gender segregation of labour markets and the discrimination that underpins it.

This paper has been compiled to help CSOs messaging for the EIP and other blending instruments by Oxfam, ActionAid, Eurodad, Counter Balance, Bank Watch, ITUC-TUDCN, UKAN, CARE, Transparency International EU, ACT Alliance EU, Plan International, SOLIDAR and supported by CONCORD.

18 https://www.actionaid.org.uk/sites/default/files/publications/actionaiduk_briefing_traded_up_crowded_out.pdf