

Cotton by-products in the broader EU support strategy for cotton: prioritizing value addition and the value chain approach

1. Context
2. Overall strategic approach (*presented by DG DEVCO June 2018*)
3. Tools
 - I. Geographic and thematic blending
 - II. European Investment Fund
 - III. Value Chain Analysis for Development

1. Context

- Key challenge in **2030 Agenda**: « *eradicate poverty in all its forms and dimensions* »
- The **new European Consensus on Development** recognises sustainable agriculture as a driving power to achieve growth and poverty reduction:
 - ⇒ 90% of the population in many developing countries depends on agriculture and farming
 - ⇒ provides income, employment and food, as well as raw materials for industry and exports
 - ⇒ Identified centrality of cotton for certain countries (income, employment, - but also social impacts, territorial cohesion)

- For the period 2014-2020 sustainable agriculture and food nutrition security are the main sectors of EU's assistance (**~€ 9 billion**).
- Public investment and traditional development assistance are important, but are not enough.

- **Addis Ababa Action agenda on Financing for Development** => private sector and investment are needed to achieve sustainable development.
- The private sector provides some 90% of jobs in developing countries => essential partner in the fight against poverty.
- It is also needed as an investor in sustainable agricultural production. [EU's Communication **“A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries”** (2014)]

- This has contributed to a greater emphasis on value chains in an effort to stimulate private investment.
- EC puts emphasis on the inclusiveness and sustainability of investment/value chains => smallholder are at the centre of our policy concern.
- **Jobs & Growth Compacts:** EU Delegations have been pushed to identify value chains that represent opportunities for job creation and growth, but also to discuss investment needs with partner governments
- **Strong push to scale up the use of innovative financing mechanisms, such as blending, to leverage private funding.**

EU support for cotton

The European Commission has been one of the largest providers of support to African cotton:

- Stabex (1990 - 2007)
- EU /ACP (2010-2018)
- Budget support in a number of countries
- Targetted projects such as the Ethical Fashion Initiative with ITC

⇒ Support for cotton has been and continues to be a priority for the Commission but new tools to do so are needed.

2. Strategic approach

1. Support to national strategies and reforms
2. Support for investment into factors of production
3. Horizontal: Capitalisation, exchange of best practices, networking, technical assistance and institutional support

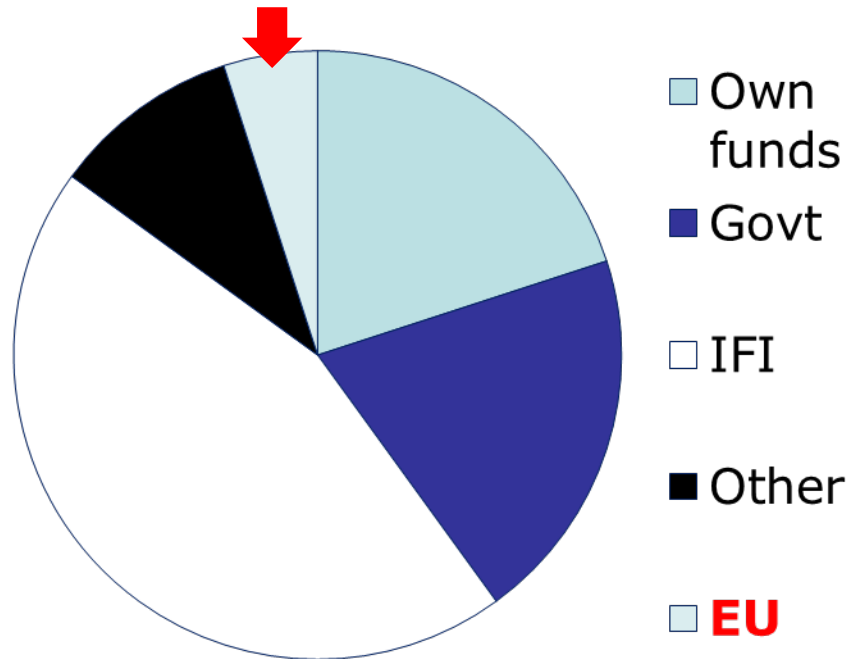
3. Tools

I. Geographical and thematic Blending

Blending = the strategic use of a limited amount of grants to mobilise financing from partner FIs and the private sector to enhance the development impact of investment projects



The grant is part of a financing package



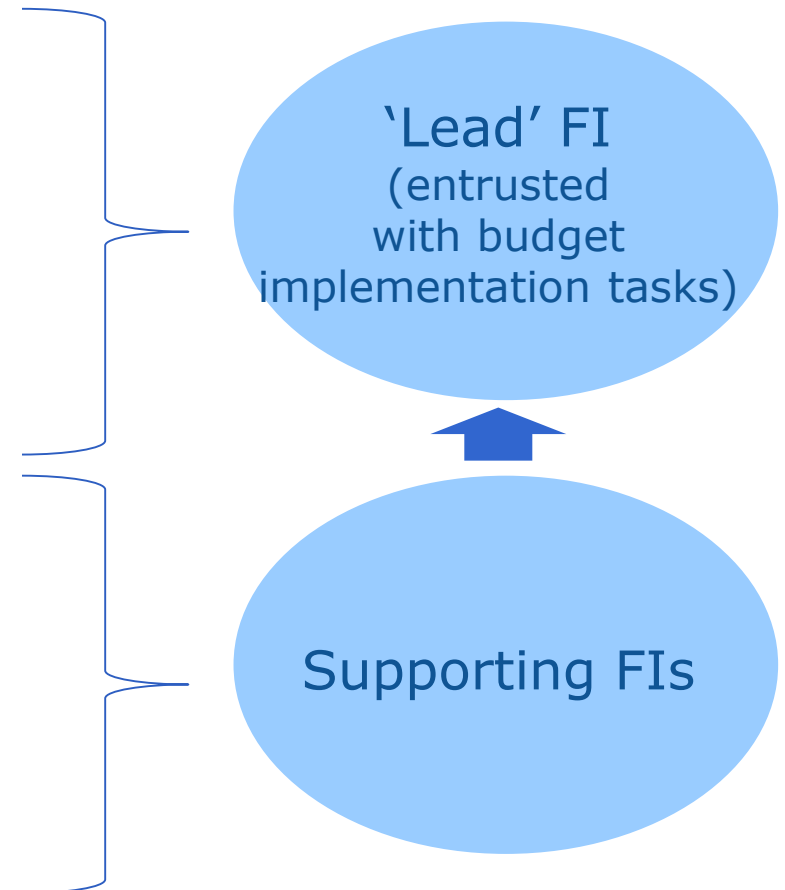
**Average EU
grant size €5-10
million**

So far, blending takes one of 5 forms

BLENDING GRANT TYPE	...WHICH CAN ELIMINATE A KEY PROBLEM
Direct Investment Grant	Reduce cost to end users or beneficiary country by partly financing the total investment cost
Interest Rate Subsidy Grant	Reduce cost to end users or beneficiary country by reducing interest cost and/or avoiding IMF debt-ceilings
Technical Assistance Grant	To boost management, speed, project design, feasibility/preparation and quality i.e. address risks
Risk Capital	To address perceived high risk by providing funding which absorbs some of this risk and thereby lowers investors' risk perception (often with the objective of mobilising private capital)
Guarantee	To address perceived high risk by partly guaranteeing certain types of investments (often with the objective of mobilising private capital)

3 'types' of partners, always a *LEAD* FI

- a) **Multilateral** European Finance Institutions (e.g. EIB, EBRD, ...).
- b) European **National** development finance institutions from Member States (e.g. AFD, KfW, AECID, CDP, ...)
- c) **Regional** and other multilateral banks: can act as lead (e.g. **AfDB** in AfIF; IADB, CDB in CIF), as co-financiers in others.



SOURCES OF FUNDING

4 blending frameworks & 8 facilities

EDF blending framework

Facility
for
Pacific

Africa
Facility

Caribbean
Facility

DCI blending framework

Asian
Facility

Central
Asian
Facility

Latin
America
Facility

Thematic
(ElectriF –
AgriFI...)

ENI blending framework

Neighbourhood
Investment
Facility

IPA blending framework

Western
Balkans
Investment
Framework

THEMATIC BLENDING - AGRIFI

- The AgriFI initiative promotes blended finance to increase investment in smallholder agriculture and micro, small and medium enterprises (MSMEs).
- Financed under the DCI (GPGC)
- Two programmes are already being financed:
 - ✓ EDFI-AgriFi (FMO) – 39 M EUR
 - ✓ AATIF (KfW) – 30,6 M EUR
- Two other programmes will be financed soon:
 - ✓ HURUMA Fund (COFIDES) – 18.8 M EUR
 - ✓ Agri-Business Capital Fund (IFAD) – 45 M EUR

WHAT DO WE LOOK AT WHEN WE ASSESS A PROPOSAL?

6 eligibility criteria:

- **Additionality**
- Neutrality
- Demonstration effect
- Shared interest and co-financing
- **Sustainability**
- **Measurable development impact**

III. The EIP: the Three Pillar Approach



European Fund for Sustainable Development (EFSD)

- New guarantee to reduce risk
- Blending loans and grants
 - Africa Investment Platform
 - EU Neighbourhood Investment Platform



Technical Assistance

- Support local authorities and companies preparing bankable projects
- Improving the investment climate in close engagement with the Private Sector



Investment Climate

- Structured dialogue with business
- Market Intelligence & Analytics
- Policy and political dialogue
 - EU Cooperation

A one-stop-shop for public and private investors

Pillar 1: EFSD

Composed of:

- Two regional investment platforms: Africa and the Neighbourhood (~2.6 billion EUR)
- The new EFSD guarantee with 5 thematic investment windows (~1.5 billion EUR)

They potentially can leverage 44 billions based on what we saw in Energy, but it will be less in Agriculture considering the risks

EFSD Guarantee

The Guarantee might mitigate different risks

- Commercial risks: losses due to a borrower or counterparty failing to meet its obligations
- Political and country risk (e.g. expropriation, coup d'état, civil war, legal and regulatory risk) ;
- Currency risks (fluctuations, convertibility, transferability and exchange rates)
- Climate change and environmental risks (e.g. droughts, flooding, extreme weather events, temperature rises, etc).

Guarantee - First investment windows proposed :

1. Sustainable Energy and Sustainable Connectivity
2. Micro, Small and Medium Enterprises (MSMEs) Financing
- 3. Sustainable Agriculture, Rural Entrepreneurs and Agroindustry**
4. Sustainable Cities
5. Digitalisation for Sustainable Development

For each investment window, amounts are indicatively earmarked for selected policy priorities under which one or more eligible counterparts implement one or more proposed investment programmes (PIPs).

12 PIPs have been already approved for Energy, MSMEs and digitalisation (total= 800 M EUR => 700 M EUR left)

Dedicated web portal

- Will be the first point of entry for requests to access the EFSD and technical assistance
- Will also provide information on ongoing actions under EFSD in Africa and the Neighbourhood

The EIP Secretariat will match the received proposals with IFIs existing projects or with interested IFIs and the relevant Delegations.

! Not operational for the moment

Pillar 2: TA

A bridge between policy dialogue and investment (two ways):

- Pillar 1: to help beneficiaries (local authorities and companies) to develop financially attractive and mature projects
 - Pillar 3:
 - to improve regulatory and policy environment, i.e. support partner countries in developing more effective institutions, legal frameworks, and policies to promote economic stability and inclusive growth
 - to enhance the capacities of private sector representatives, including chambers of commerce and social partners
 - to support public-private dialogue, business fora, etc
- => Important role played by EU Delegations

Pillar 3: Investment climate

Improve the investment climate and business environment in our partner countries capitalizing on the key role played by actors on the ground, EU Delegations, MSs, IOs and IFIs:

- Promote/enhance policy and political dialogues with partner governments
- Support regulatory and governance reforms
- Promote structured dialogues with business at country
- Ensuring coherence with other EU policies and MS's initiatives

Sustainable Business Platform for Africa (SB4A)

- Provides an overarching framework for structured sector-specific dialogue (such as digital, energy and agribusiness)
- Purpose: help identify and prioritise investment climate reform needs + the most important barriers to private investment and ways of addressing them.
- Will enable more effective political dialogue with governments and the design of a tailored (best-fit) package of TA, programmes, budget support and financial instruments.
- Structure is not yet clear but the idea is to have a multi-stakeholder approach

A place to start a dialogue with the EU: Analysis of the value chain: VCA4D

- Provides a detailed assessment of a VC from an economic, social and environmental point of view
- Comprises an overall understanding of the VC dynamics (a functional analysis) and an economic, social, environmental
- Responds to 4 framing questions:
 - ✓ What is the contribution of the VC to sustainable economic growth?
 - ✓ Is this economic growth inclusive? – distribution of the added-value
 - ✓ Is the VC socially sustainable?
 - ✓ Is the VC environmentally sustainable?

Study n°	Country	Value Chain	Timing	Comments
1	Mali	Rice	Oct 2015 - Feb 2016	Completed
2	Burkina Faso	Mango	Feb 2016 - Nov 2016	Completed
3	Cote d'Ivoire	Cassava	Mar 2016 - Nov 2016	Completed
4	Kenya	Green beans	Mar 2016 - Nov 2016	Completed
5	Zambia	Egg	April 2017 - April 2018	Completed
6	Honduras	Coffee	April 2017 - April 2018	Completed
7	Zambia	Aquaculture	April 2017 - May 2018	Completed
8	Zimbabwe	Beef	September 2017 -	Ongoing
9	Cambodia	Aquaculture	December 2016 - October 2018	Completed
10	Guinea-Bissau	Mango & lime	June 2017 -	Ongoing
11	Sierra Leone	Palm Oil	March 2017 - October 2018	Completed
12	Tanzania	Coffee	October 2017 - October 2018	Completed

A first VCA4D analysis launched on cotton: Cameroon 2018

Some useful links:

- VCA4D: <https://europa.eu/capacity4dev/value-chain-analysis-for-development-vca4d->
- All information on the EIP: https://ec.europa.eu/commission/eu-external-investment-plan_en
- EDFI-AGRIFI project: www.agrifi.eu