

**EU Results Framework Indicator Methodology Note**

1. Name of indicator
<b>Number of countries supported by the EU to strengthen investment climate</b>
2. Associated EU Results Framework statement and primary SDG
SDG 8 – Decent Work and Economic Growth  EU RF statement - Improved economic governance, business environments, contribute to scaling-up private and public investments, including addressing the MSME financing gap
3. Technical Definition
<p>Investment climate here is defined as the main constraints directly affecting the performance of private businesses in both the formal and informal sector that can be addressed through domestic or regional reforms. Also known as Business Environment Reforms, this is the <b>set of policy, legal and regulatory and institutional reforms to be undertaken by the Government</b> to reduce business costs, risks and create a more conducive environment for competitiveness, sustainable and inclusive growth, and decent job creation.</p> <p><b>Business environment reforms</b> are usually grouped into the following functional areas:</p> <ol style="list-style-type: none"> <li>1. <u>Business simplification</u>- this relates to all aspects of business entry, from the initial formation of a legal entity, obtaining of all required business licenses to competition policy. Many of the constraints on MSMEs (and disincentives to formalisation) include the sector specific business licensing regimes that come after business registration.</li> <li>2. <u>Business tax policies and administration</u>- these are a key element of the business environment and critical to economic growth, formalisation and public finance. For example, interventions that aim to increase tax certainty and clear tax payment procedures</li> <li>3. <u>Investment policy</u> - attracting and regulating foreign direct investment is a broad area which ranges from investment promotion policy, simplification of the investment approval process to sectoral regulation.</li> <li>4. <u>Trade regulation and policies</u> - facilitating trade across borders working in areas such as improving trade policies, harmonising trade laws and regulations, reducing the time and cost of exporting and importing and increasing the transparency of customs administration, etc.</li> <li>5. <u>Financial Markets</u> (regulation, access to finance) - access to finance services, e.g. to capital and to risk management tools such as savings, insurance and credit. Reforms in this area also address financial sector regulation and/or MSMEs more broadly, including bank regulation, collateral registries, credit bureaus, insolvency and company law.</li> <li>6. <u>Improving labour law and policy / technical, vocational education and training policy</u> - support to improve regulation of labour markets, both for the efficient allocation of resources and to protect vulnerable groups. Finding the appropriate balance between under- and over-regulation of labour for a specific country context is major challenge and politically sensitive. Technical assistance on policies and regulations relating to technical,</li> </ol>

vocational education and training is likewise an important part of the overall investment climate in view to better matching skills to market needs.

7. Land and property rights - this includes support to improve how land markets function, including land titles registers and administration, as well as subnational regulation of construction permits. Land and property rights are emerging through recent policy research as a key area of business environment reform in fragile states in sub-Saharan Africa in particular.
8. Commercial dispute resolution - this includes improving access to commercial courts and alternative dispute resolution (ADR) mechanisms for both local actors and foreign investors. Other areas could include support for efficient contract enforcement.
9. Infrastructure policy and regulation - Interventions in this area may include infrastructure policy and institutional reform technical assistance, e.g. identifying enabling environment bottlenecks in capital markets, revising regulatory frameworks, and developing legal and regulatory frameworks for public-private partnerships (PPPs).
10. Energy policy and regulation - areas may include national policies, laws and regulations that regulate energy access and facilitate investment in sustainable energy, including renewable energy sources.

Countries can be supported on business environment reforms at national or sub-national (including at municipal) government level. The direct beneficiaries of these interventions are partner country state institutions (national or local level).

#### 4. Rationale (including policy priorities and links to this indicator)

The EU aims to tap the huge potential of the private sector to invest in developing countries, to create jobs and as a implementing and financing partner in the delivery of the Sustainable Development Goals.

To encourage such investments, financial de-risking is a key and necessary input to attracting investors in to developing country markets, but it's insufficient. Financial de-risking needs to be combined with non-financial de-risking, through investment climate reforms. In partner countries, EU support aim to improve investment climate that includes the use of structured dialogue with the private sector and encourage increased trade and investments as outlined communications such as the [New European Consensus on Development](https://ec.europa.eu/europeaid/new-european-consensus-development-our-world-our-dignity-our-future_en)<sup>1</sup>, [A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries](https://ec.europa.eu/europeaid/european-commission-communication-com2014263-stronger-role-private-sector-achieving-inclusive-and_en)<sup>2</sup> and the [2017 Aid for Trade Communication](https://ec.europa.eu/europeaid/aid-trade-communication-achieving-prosperity-through-trade-and-investment_en)<sup>3</sup>. The recently launched [External Investment Plan](https://ec.europa.eu/commission/eu-external-investment-plan_en)<sup>4</sup> provides a comprehensive and integrated approach, linking investment mobilisation (including the innovative use of guarantees for the first time), with technical assistance and support to improve investment climate.

<sup>1</sup> [https://ec.europa.eu/europeaid/new-european-consensus-development-our-world-our-dignity-our-future\\_en](https://ec.europa.eu/europeaid/new-european-consensus-development-our-world-our-dignity-our-future_en)

<sup>2</sup> [https://ec.europa.eu/europeaid/european-commission-communication-com2014263-stronger-role-private-sector-achieving-inclusive-and\\_en](https://ec.europa.eu/europeaid/european-commission-communication-com2014263-stronger-role-private-sector-achieving-inclusive-and_en)

<sup>3</sup> [https://ec.europa.eu/europeaid/aid-trade-communication-achieving-prosperity-through-trade-and-investment\\_en](https://ec.europa.eu/europeaid/aid-trade-communication-achieving-prosperity-through-trade-and-investment_en)

<sup>4</sup> [https://ec.europa.eu/commission/eu-external-investment-plan\\_en](https://ec.europa.eu/commission/eu-external-investment-plan_en)

5. Level of disaggregation and other reporting requirements
Functional area of support should be provided as part of the results reporting
6. Data Sources (including any issues on (i) different definitions by source, and (ii) level of availability of the data)
EU intervention monitoring and reporting systems, including annual and final reports from implementing organisations (e.g. governments, international organisations, etc), ROM reviews and evaluations.
7. Data calculation (including any assumptions made)
<p>The EU can support a country to address multiple business environment reform areas (as mentioned above). In addition, the EU can support a country to address business environment reform areas at the national and at the sub-national levels. However, to avoid double counting, a single country can only be counted once in these instances, even if the support were from different interventions.</p> <p>If an intervention is supported via a multi-country region on a business environment reform area (e.g. in facilitating trade across borders) then the separate countries supported should be counted for this indicator taking care of the double counting issues above.</p>
8. Worked examples
<p>In country A, the EU is supporting the establishment of a well-functioning national credit bureau to support access to finance. In addition, country A is also supported to increase trade across border via multi-country regional intervention through a multi-donor trust fund.</p> <p>In country B, the EU is supporting the government to simplified business processes, in particular, making it easier to register and license a business.</p> <p>The total number of countries supported to strengthen investment climate by the EU in this case is 2. Functional areas reported for country A would include 4 (Trade regulation and policies) and 5 (financial markets), and country B would include function area 1 (Business simplification).</p>
9. Is it used by another organisation or in the framework of international initiatives, conventions, etc? If so, which?
<b>African Development Bank Group:</b> countries with improved competitive environment
10. Other issues
Other dimensions of investment climate, e.g. governance, rule of law, political stability, etc are not captured under this indicator.