

Private sector and development

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PURPOSE: to propose a framework for action to give a stronger role to the private sector in developing countries.

BACKGROUND: the private sector provides some 90% of jobs in developing countries. It is thus an essential partner in the fight against poverty.

It is also needed as an investor in sustainable agricultural production if the world is to meet the challenge of feeding 9 billion people by 2050.

Given the private sector's potential for generating inclusive and sustainable growth in developing countries, private stakeholders including businesses, financial intermediaries, associations and workers and employers organisations are emerging as ever more active in the development field, both as a source of finance and as partners for governments, non-governmental organisations (NGOs) and donors.

A recent evaluation of EU support for private sector development between 2004 and 2010 confirmed **the important contribution made by the Commission to private sector development in partner countries**, and identified ways of improving future programmes and strategies, which include putting more emphasis on decent job creation, mainstreaming private sector engagement across the EU's support portfolio.

Building on these results, this Communication proposes a strategic framework for strengthening the role of the private sector in achieving inclusive and sustainable growth.

CONTENT: the Communication offers a general framework linking actions by its Member States, development financing institutions and other development partners.

It provides principles, priorities and action targets as well as an intervention framework for modalities of finance and dialogue.

Principles: EU support to the development of the private sector and its engagement in relation to the local and international private sector will be guided by the following principles:

- putting more emphasis on decent job creation, inclusiveness and **poverty reduction**;
- taking into account the diversity of the private sector in developing countries (individual entrepreneurs, large enterprises, multinational financial institutions, cooperatives, etc);
- market-based solutions making the most of the **potential of local enterprises**;
- the adoption of clear criteria to give direct support to private sector actors, **while avoiding market distortions**;
- taking into account different local contexts and fragile situations in order to ensure the greatest impact and best value for money of EU support;
- putting strong emphasis on results;
- observing **policy coherence** in areas affecting the private sector in partner countries in close coordination between relevant Commission services and Member States;
- at all levels of intervention and investment, **the promotion of Corporate Social Responsibility (CSR)** criteria in developing countries.

Priorities for action and action targets: the Communication proposes a series of key actions through which the private sector in developing countries could be strengthened:

- **creating a business environment conducive to private sector initiative** by providing support for improving the business and investment climate, especially for micro, small and medium-sized enterprises (SME);
- supporting micro, small and medium-sized enterprises in job creation and raising working conditions in the informal economy;
- empowering women as entrepreneurs;
- increasing access to finance both for households and micro, small and medium-sized enterprises, to promote inclusive credit, savings, insurance and **inclusive** payment services, and **microfinance**;
- for all of the actions taken, **facilitating public-private partnerships (PPPs)** and multi-stakeholder alliances (such as Non-Governmental Organisations (NGOs)).

As regards the action targets, the Commission envisages the following main areas:

- agriculture and agri-food,
- sustainable energy,
- infrastructures and the social sector,
- environment and climate change,
- migration and risk management,
- raw materials and natural resources,
- health care and pharmaceutical products,
- sustainable tourism,
- food.

The Commission will, in line with partner governments' policies, develop ways to better integrate private sector development objectives in support strategies, and will identify modalities for using the private sector as an implementing and financing partner in these areas.

Funding and financial resources: the Commission will use a combination of interventions under its national, regional and thematic programmes to implement and mainstream its approach to private sector development in its cooperation and development objectives. Implementing the approach and priorities outlined above will mean adapting existing approaches and tools, and adding new ones to the portfolio of instruments of EU development cooperation.

In its Communication, the Commission recognises **blending**, which combines EU grants with loans or equity from other public and private financiers, as an important vehicle for leveraging additional resources for development and increasing the impact of EU aid. It is working together with finance institutions on increasing the catalytic effect of blending in crowding in more private financing through greater use of financial instruments (principally, guarantees, equity and other risk-sharing instruments for infrastructure investments). In this context, the Commission is also exploring options to expand the scope of blending in new areas such as sustainable agriculture and social sectors.

Lastly, the Commission will continue to seek **synergies between budget support and direct interventions** for achieving private sector development objectives. Budget support, and the associated policy dialogue, can usefully underpin business environment reforms in partner countries by promoting

the stability of macroeconomic frameworks, sound public financial management, transparency and oversight of the budget.