

Private sector and development

2014/2205(INI) - 14/04/2016 - Text adopted by Parliament, single reading

The European Parliament adopted by 266 votes to 56 with 39 abstentions, a resolution on the private sector and development.

Members recalled that the private sector generates 90 % of jobs and income in developing countries and is the engine of wealth creation and economic growth in all market economies. According to the United Nations, the private sector accounts for **84% of GDP in developing countries** and has the capacity to provide a sustainable base for domestic resource mobilisation, leading to less aid dependency, as long as it is properly regulated.

Parliament made the following recommendations:

Long-term strategy for working with the private sector: the report acknowledged that private sector investment in developing countries could contribute to achieving the UN Sustainable Development Goals if properly regulated. To this effect, the **private sector should commit** to ensuring good governance, poverty reduction and wealth creation through sustainable investment, as well as to reducing inequalities, promoting human rights and environmental standards and empowering local economies.

All partnerships and alliances with the private sector must:

- focus on shared value priorities that align business goals with the EU's development objectives and observe international standards on development effectiveness;
- be co-designed and co-managed with the partner countries in question to ensure that risks, responsibilities and profits are shared, be cost-effective;
- have precise development targets, regular milestones, clear accountability and transparency.

The future partnerships within the 2030 sustainable development agenda must focus more extensively on tackling poverty and inequality.

Nevertheless, Parliament recalled that **official development aid (ODA)** must remain a key means of eradicating all forms of poverty and of meeting basic social needs in developing countries, and cannot be replaced by private funding. It called for **more public investment in public services** accessible for all, especially in the transport sector, access to drinking water, health and education.

Support for the local private sector in developing countries: 60 % of the developing world's jobs are in the informal sector **in micro, small and medium-sized enterprises (MSMEs)** and 70 % of MSMEs receive no financing from financial institutions. Furthermore, 2,5 billion people, a majority of them women and young people, remain excluded from business communities, the formal financial sector and property and land ownership opportunities.

Parliament stressed the need for the EU to:

- promote the local private sector in developing countries, e.g. through **access to finance** and by promoting entrepreneurship;

- promote nationally-owned development strategies shaping private sector contributions to development by engaging with the private sector in a development framework that focuses on domestic cooperatives and SMEs and micro enterprises, in particular smallholder farmers;
- increase support towards partnering with developing countries to **modernise their regulatory frameworks** by creating a friendly environment for private initiatives, providing support mechanisms for businesses, while at the same time finding the right balance between creating a climate conducive to investment and protecting public interests and the environment through regulation;
- facilitate the establishment of reliable **banking systems and tax administrations** in developing countries and strengthen the capacity of developing countries to mobilise domestic revenue in order to combat tax evasion, corruption and illicit financial flows.

Engaging the European and international enterprise sector for achieving sustainable development:

Parliament called for European development efforts to play a significant role in the implementation of agreed international standards, such as the UN Guiding Principles on Business and Human Rights and the International Labour Organisation standards. Europe should work with enterprises and investors to ensure compliance with the Guiding Principles and the OECD Guidelines on Multinational Enterprise in their business activities and in their supply chains in developing countries. Members called on the Commission to champion the proposal from investors and other stakeholders to **support binding rules** on social, environmental and human rights reporting by business.

Public-private partnerships (PPP): Parliament recognised that PPPs in developing countries are so far mostly concentrated in energy, infrastructure and telecommunications, while the potential in sectors such as agriculture, water and sanitation, education, green technologies, research and innovation, healthcare and property rights remains largely untapped.

- **Agriculture:** Members highlighted the vast potential for PPPs in agriculture, under a clearly defined and strong legislative framework for property rights and land tenure security, to prevent land grabbing and ensure increased and effective agricultural production. The Commission is urged to couple any PPPs in the agricultural sector involving EU money with comprehensive measures to protect smallholder farmers, pastoralists and other vulnerable land users against the potential loss of access to land or water.
- **Green energy:** Parliament recommended that the EU should continue to support renewable and green energy projects in developing countries, in particular in remote rural areas, in a sustainable manner. Members welcomed the fact that one of the priorities of the EIB's IFE is investment in energy, widely recognised as a key element in unlocking economic growth in Africa.
- **Healthcare:** the EU should become a facilitator in opening avenues for cooperation beyond access to medicines towards reforming dysfunctional healthcare systems in developing countries. Support for local SMEs/SMIs can be enhanced not only through financing instruments, but also through technology transfers, capacity building, sustainable supplier development and business linkages.
- **Education:** in order to close the gap between the education system and the existing job market in developing countries;

The Commission is called upon to facilitate programmes and support PPPs that involve all the stakeholders concerned, from schools, universities, training centres and private sector actors in order to offer opportunities for training and education that are relevant to the marketplace.

Principles of engagement with the private sector: Parliament highlighted the fact that engagement with the enterprise sector requires a flexible approach, and recommended a differentiated approach with regard to least developed countries and fragile states. It called on the Commission and the Member States to ensure that enterprises involved in development partnerships are aligned with the SDGs and abide by and respect the principles of corporate social responsibility (CSR). It also stressed the need for EU trade and development policy to observe the political and economic policy space of developing countries, in particular in least developed countries, to maintain key import tariffs where needed.

Steps to be taken: in order to make the private sector a sustainable partner in development policy, Members call for:

- the establishment of a **clear, structured, transparent and accountable framework** governing partnerships and alliances with the private sector in developing countries;
- the setting-up at EU level of **sectoral, multi-stakeholder platforms**, bringing together the private sector, CSOs, NGOs, think tanks, partner governments, donors, cooperative organisations, social enterprises and other stakeholders, in order to overcome the reservations and the lack of trust among partners and resolve the challenges that inadvertently arise from collaborative development interventions;
- the **expansion of the current EIB external lending mandate**, in order to increase its role in achieving sustainable development and, in particular, to take a more active part in the new private sector strategy, through blending, co-financing of projects and local private sector development;
- the guarantee that all **EU delegations** should have trained and qualified staff actively prepared to facilitate and implement partnerships with private sector actors.

Lastly, the Commission was called upon for a stronger commitment on the part of the Commission, when it comes to **leveraging its political weight and pursuing avenues of dialogue** with partner governments and local authorities, to facilitate a greater and more positive interaction with the private sector.