












Procedure file

Basic information		
INI - Own-initiative procedure	2014/2205(INI)	Procedure completed
Private sector and development		
Subject 6.30.02 Financial and technical cooperation and assistance		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 Development		07/10/2014
		 DEVA Nirj	
		Shadow rapporteur	
		 JIMÉNEZ-BECERRIL	
		BARRIO Teresa	
		 LIETZ Arne	
		 BECERRA	
		BASTERRECHEA Beatriz	
		 HAUTALA Heidi	
		 CORRAO Ignazio	
	Committee for opinion	Rapporteur for opinion	Appointed
	 Foreign Affairs		
	 International Trade		
European Commission	Commission DG International Cooperation and Development	Commissioner MIMICA Neven	

Key events			
13/05/2014	Non-legislative basic document published	COM(2014)0263	Summary
12/12/2014	Resolution/conclusions adopted by Council		
17/12/2014	Committee referral announced in Parliament		
17/02/2016	Vote in committee		

26/02/2016	Committee report tabled for plenary	A8-0043/2016	Summary
14/04/2016	Results of vote in Parliament		
14/04/2016	Debate in Parliament		
14/04/2016	Decision by Parliament	T8-0137/2016	Summary
14/04/2016	End of procedure in Parliament		

Technical information

Procedure reference	2014/2205(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	DEVE/8/01922

Documentation gateway

Non-legislative basic document		COM(2014)0263	13/05/2014	EC	Summary
Committee draft report		PE541.481	22/04/2015	EP	
Amendments tabled in committee		PE557.261	27/05/2015	EP	
Committee opinion	INTA	PE551.937	01/06/2015	EP	
Committee opinion	AFET	PE552.030	24/06/2015	EP	
Committee report tabled for plenary, single reading		A8-0043/2016	26/02/2016	EP	Summary
Text adopted by Parliament, single reading		T8-0137/2016	14/04/2016	EP	Summary
Commission response to text adopted in plenary		SP(2016)484	20/09/2016	EC	

Private sector and development

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 sectors 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 EUs 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.

Private sector and development

The Committee on Development adopted the own-initiative report by Nirj DEVA (ECR, UK) on the private sector and development.

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.

The committee made the following recommendations:

Long-term strategy for working with the private sector: the report acknowledged that private sector investment in developing countries can 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.

Support for the local private sector in developing countries: Members noted that micro, small and medium-sized enterprises (SMMEs) in developing countries can face much heavier regulatory burdens than those within the EU, and that they lack legal protection and property rights and operate in the volatile informal economy. They emphasised, in this regard the importance of land registration systems.

The report 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: the report 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, including working 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.

Well-designed and efficiently implemented public-private partnerships (PPPs) have the capacity to mobilise long-term private and public finance, generate innovation in technologies and business models, and incorporate built-in mechanisms to ensure that such partnerships are held accountable to development results.

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: the report 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/SMLs can be enhanced not only through financing instruments, but also through technology transfers, capacity building, sustainable supplier development and business linkages.
- Education: 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.

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 is 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.

Private sector and development

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.