

ROADMAP			
TITLE OF THE INITIATIVE	Communication on “Strengthening the Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries”		
LEAD DG – RESPONSIBLE UNIT	DG DEVCO C.4	DATE OF ROADMAP	09 / 2013
This indicative roadmap is provided for information purposes only and is subject to change. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content and structure.			

A. Context and problem definition
<p>(1) What is the political context of the initiative?</p> <p>(2) How does it relate to past and possible future initiatives, and to other EU policies?</p> <p>(3) What ex-post analysis of existing policy has been carried out? What results are relevant for this initiative?</p>
<p>The impact that private sector actors can have on development is now widely recognized, and donors around the world are seeking ways to effectively engage with the private sector for creating jobs, providing incomes, goods and services, advancing innovation, and generating public revenues essential for economic, social and environmental welfare. Moreover, as public resources for development assistance are scarce, the private sector is increasingly looked at as an important additional source of external finance and domestic resource mobilization.</p> <p>At the Busan High-Level Forum on Aid Effectiveness, participants committed to ensure a sound policy and regulatory environment for private sector growth, and to explore ways to advance both development and business outcomes so that they are mutually reinforcing. The private sector is also seen as playing a key role in the transformation to a green economy as envisioned at the Rio+20 UN Conference on Sustainable Development, as well as in the formulation and implementation of a post-2015 development agenda.</p> <p>These objectives have been reinforced by the EU in its 2011 Communication “Increasing the impact of EU Development Policy: An Agenda for Change,”<sup>1</sup> which outlines the future direction of EU development policy, and identifies support of inclusive and sustainable growth for human development as one of its two priority areas for action. As part of this, the EU recognises that economic growth needs an enabling business environment and a competitive local private sector that is equipped to harness the opportunities offered by globally integrated markets. It also states that the EU should develop new ways of engaging with the private sector to leverage private sector activity and resources for achieving development goals, and should explore grant funding and risk sharing mechanism to catalyse public–private partnerships and private investments. It further emphasises the role that the private sector can play in sectors like energy, infrastructure and agriculture.</p> <p>The EU has a strong private sector that has created vital links with developing countries through investment and trade. It has a fundamental role to play in harnessing these links to contribute to EU efforts at building competitive, prosperous and sustainable economies in partner countries.</p> <p>Amidst preparations for a post-2015 global agenda, and at the start of the EU’s multiannual financial framework for 2014 - 2020, it is considered timely for the EU to formulate in more operational terms its strategy for implementing the directions given in the ‘Agenda for Change’ on working for and with the private sector in development cooperation, and for meeting related commitments made by the EU in the Busan outcome document on aid effectiveness.</p>
What are the main problems which this initiative will address?
<p>Just as economic growth, innovation and job creation are key priorities of the Europe 2020 Strategy, they are also central to developing countries’ efforts to eradicate poverty and achieve inclusive and sustainable development.</p> <p>Ending poverty, the first of the MDGs, requires both stronger and more inclusive growth in developing countries. Recent growth experiences, especially in Africa, show that there is often a weak relationship between economic growth and decline in poverty. This implies, as recognized in the ‘Agenda for Change’ that growth patterns are as important as growth rates. It is of equal importance that economic growth is sustainable and achieved within planetary boundaries. Support to private sector development has therefore to be focussed on areas where the impact of growth on poverty reduction is highest, without creating further environmental pressures. This includes support to sustainable agricultural value chains strengthening of local agro-processing capacity and extending as necessary the support from EU counterparts, and targeted private sector engagement providing poor households with affordable access to basic services such as sustainable energy, clean water and sanitation,</p>

<sup>1</sup> COM(2011) 637 final.

health care and medicines, housing, communication technologies, financial services and other green and inclusive innovations that can help improve poor peoples' lives while preserving the natural environment on which the livelihood of most of them depends.

The private sector can also be a driving force in making growth inclusive by generating decent jobs and income earning opportunities for the poor. About 90 percent of jobs in developing countries are created by the private sector, but only about one-fourth of the working-age population in developing countries is engaged in productive and decent employment, while more than 900 million workers are living in households with incomes below the USD 2 a day poverty line. In particular, large cohorts of young people are without decent jobs. For generating more and more decent and productive employment outside the informal economy, developing countries need to have in place an enabling business and sound regulatory environment that is conducive to private investment, trade and job creation. A particular focus has to be on supporting SMEs and on rising productivity in the informal economy. This is particularly urgent in Africa that over the last decade has become one of the fastest growing regions in the world, but must now accelerate the creation of decent and productive employment to ensure that the benefits of this growth are being shared more evenly. The experience of Europe in developing its SME and that of EU SMEs themselves shall be crucial in this endeavor.

Moreover, the role of the local and international private sector needs to be strengthened in actively contributing to the "soft" drivers of economic development and institutional change through knowledge transfer and innovation, responsible business practices, and active participation in policy dialogue. Effective private-public collaboration is needed to engage the private sector in dialogue and advocacy around key policy reforms to improve the business environment and good economic governance with accountability, transparency and effective tax systems. The European private sector is expected to lead in this effort by example.

There is a growing recognition that the effectiveness of support to private sector development can be enhanced by working in closer partnership with both the international and local private sector actors. Such collaboration can take the form of private-public policy dialogue or the creation of alliances for the implementation and replication of inclusive business models. Moreover, innovative financial instruments, including facilities for blending grants and loans, have the potential to mobilise significant private resources for development.

Many EU Member States have set up programmes to build effective partnerships with the private sector for development, but efforts are still fragmented. Better coordination in the field, knowledge creation and sharing of experiences from successful models and approaches (including South-South), and enhanced coordination among existing private-public collaboration programmes at European level are necessary elements of a more coherent and integrated approach for engaging with the private sector as a means to enhance the EU's support to private sector growth in developing countries.

In developing our strategy for working both for and with the private sector, it is being acknowledged that the private sector comprises a diverse range of actors – local and international, small and large, informal and formal. A differentiated approach will therefore be applied to effectively support each type of private sector actors to realise their growth potential by taking into account their respective strengths and needs, as well as the different contexts in which they operate. In this regard, particular attention will have to be given to the needs of private sector actors operating in the informal economy, with a view to clarify, simplify and make more predictable the legal and regulatory environment for businesses, and to strengthen the institutions required to protect property rights and improve productivity and labour standards for informal firms.

Who will be affected by it?

The Communication aims to bring forward a strategy for effective private sector support and collaboration for development that translates into measurable, impactful and scalable development results for poor people in developing countries, who are the ultimate beneficiaries of the initiative. Policy recommendations will also affect governments in partner countries. EU Member States and other bilateral and multilateral development partners will be affected through their involvement in efforts at increasing the coordination among existing private-public collaboration programmes, and with regard to their participation in the EU's blending facilities. The European, international and local private sector is expected to be involved in the proposed actions as active partners.

Is EU action justified on grounds of subsidiarity? Why can Member States not achieve the objectives of the proposed action sufficiently by themselves? Can the EU achieve the objectives better?

Development policy is a joint responsibility of the European Commission and EU Member States. The European Commission not only implements about 20 percent of the collective EU external assistance, it also acts as coordinator, convener and policy-maker in the field of development policy and cooperation. Better coordination and knowledge exchange among bilateral programmes and initiatives can best be achieved through effective joint action guided by the Commission, based on principles of complementarity and mutual reliance among the EU and bilateral development and financing institutions. A sizable impact from stimulating a more active engagement of the European private sector for development can also only be expected from coordinated joint actions by all Member States.

## B. Objectives of the initiative

What are the main policy objectives?

The Communication seeks to strengthen the role of the private sector, both EU and local, in achieving inclusive and sustainable growth in developing countries at two levels:

*1. Support to private sector development:* Assisting partner countries build innovative, competitive economies by improving the business environment and developing the private sector to sustainably raise the living standards of the poor and to generate employment, specifically

- to strengthen the focus on employment creation in private sector development programmes, acknowledging that having a decent job is the best insurance against poverty, and that this requires a vibrant local private sector, and policies conducive to private sector growth. At the same time highlight the role that businesses can play in addressing global challenges such as youth unemployment, rising and volatile commodity prices, migration, destruction of natural capital and climate change;
- to focus on private actors operating in the informal economy by strengthening institutions that can help increase private sector participation in the formal economy through greater economic empowerment as a result of more secure property rights, a safer working environment, and easier access to markets, finance, infrastructure and social services;
- in response to the conclusions and recommendations from the thematic evaluation of private sector development support, implement mechanisms to enhance the operational effectiveness and impact of future private sector development programmes, among others by improving diagnostics and results measurement in the formulation and evaluation of our activities ;
- in synchronization with the programing exercise, to propose ways to better integrate private sector development (including through blending mechanisms) into support strategies of other sectors such as agriculture, energy, transport, health and environment (green growth), and to identify modalities for using the private sector as a delivery channel in these sectors;

*2. Engaging the European, international and local private sector for development through joint action and structured dialogue:* Partnering with companies to mobilise private sector activity and resources for achieving sustainable and inclusive growth in developing countries, including

- to foster implementation of the Busan commitments regarding private sector engagement for development, and elaborate on the role of the private sector in the transformation towards a green economy, and the design and implementation of a post-2015 global framework;
- based on recommendations from evaluations and an on-going study, to explore possibilities for harnessing private sector resources for development through the promotion private-public development partnerships, and the use the EU regional financing facilities to leverage private sector investments for development;
- to call on EU Member States to learn from each other and join forces in building development partnerships with the private sector as a means to increase the effectiveness and scope of private sector development support. In particular to consider support to the creation of an EU platform for dialogue with the private sector to exchange experiences with different partnership approaches, and share knowledge on how inclusive business models can be scaled up to enhance the contribution of businesses to development and poverty reduction;
- in support of the “soft” drivers of economic development, to call on the European and international private sector to increase efforts at integrating corporate social responsibility principles into their core business operations, including adherence to environmental, labour and human rights standards, and to increase transparency (in particular in the extractive industries) and tax compliance.

Do the objectives imply developing EU policy in new areas?

Efforts at engaging the private sector in development cooperation, and at mobilising private sector funding for development are relatively new areas of development policy that entail the need to further develop existing and new instruments and programmes, which will, however, be consistent in their scope and objectives with the priorities of current EU development policy as set out in the ‘Agenda for Change’, and coherent with internal policies on enterprise development and CSR.

## C. Options

- (1) What are the policy options (including exemptions/adapted regimes e.g. for SMEs) being considered?
- (2) What legislative or 'soft law' instruments could be considered?
- (3) How do the options respect the proportionality principle?

(1) The European Commission takes the initiative to produce a Communication to review and augment its existing approach to private sector development support and private-public collaboration (option 1). The alternative option would be not to have a new Communication on the role of the private sector. The last Communication on private sector development, which dates back to 2003,<sup>2</sup> would then continue to remain the main reference for the EU's support to private sector development (option 2).

(2) None of the options would entail legislative initiatives.

(3) The objectives of the initiative are in line with the proportionality principle. The Lisbon Treaty sets out the eradication of poverty as one of the overarching objectives of EU external action. Development policy thus supports the EU's interests for a stable and prosperous world, recognising at the same time that public funding alone will not be sufficient to achieve this goal. It also addresses a wide range of interlinked global challenges, and thereby contributes to achieving the objectives of the Europe 2020 Strategy.

## D. Initial assessment of impacts

What are the benefits and costs of each of the policy options?

*Option 1: Communication on the role of the private sector:*

The communication will review EU policies in the field of private sector development, will update them to reflect new priorities of EU development policy set out in the 'Agenda for Change', and adapt them to changes in the internal and external environment in which EU support to private sector development and collaboration is being designed and delivered.

The proposals and recommendations of the Communication aim at increasing the effectiveness and impact of EU development policy in the area of private sector support and engagement with private actors for development. They are in particular meant to foster the efficiency of financial instruments being introduced under the new Multiannual Financial Framework (2014-2020) and the European Development Fund, and to provide guiding principles for the collaboration with private actors and the mobilisation of private resources for development.

The Communication will also propose an approach for increased joint action, structured dialogue and cooperation at European level in the field of private-public collaboration for development, with the aim to enhance the effectiveness of collaboration programmes, and to provide better information to EU private sector about development policies.

The Communication will finally address the implementation of the Busan commitments on private sector and development in order to foster a joint EU approach.

*Option 2: No new Communication:*

This option would imply that important new developments in this field of private sector development and private-public collaboration for development, as well as new priorities formulated in the 'Agenda for Change', would continue to be addressed on an ad-hoc basis, and without a coherent strategic approach.

Could any or all of the options have significant impacts on (i) simplification, (ii) administrative burden and (iii) on relations with other countries, (iv) implementation arrangements? And (v) could any be difficult to transpose for certain Member States?

(iii): The Communication aims to have a positive impact on partner countries by supporting them in working more closely with the private sector to create and exploit new opportunities for growth and poverty reduction.

(iv): The recommendations of the Communication especially regarding mechanisms for facilitating private-public collaboration and options for setting up private sector windows in existing blending facilities can have a potential effect on the way these instruments are being implemented.

(i), (ii) and (v): No.

(1) Will an IA be carried out for this initiative and/or possible follow-up initiatives?

(2) When will the IA work start?

(3) When will you set up the IA Steering Group and how often will it meet?

(4) What DGs will be invited?

No formal Impact Assessment is foreseen.

(1) Is any option likely to have impacts on the EU budget above € 5m?

(2) If so, will this IA serve also as an ex-ante evaluation, as required by the Financial Regulation? If not, provide

<sup>2</sup> Ref.: COM(2003) 267 final.

information about the timing of the ex-ante evaluation.

No. The Communication will generally be based on the forthcoming Multiannual Financial Framework (2014-2020), and draws on the policy framework provided in the 'Agenda for Change'.

### **E. Evidence base, planning of further work and consultation**

- (1) What information and data are already available? Will existing IA and evaluation work be used?
- (2) What further information needs to be gathered, how will this be done (e.g. internally or by an external contractor), and by when?
- (3) What is the timing for the procurement process & the contract for any external contracts that you are planning (e.g. for analytical studies, information gathering, etc.)?
- (4) Is any particular communication or information activity foreseen? If so, what, and by when?

The following preparatory measures have been initiated that will feed into the further work on the Communication:

- A Reference Document on Trade and Private Sector Policy and Development Support programmes financed by EU external assistance has been published in November 2010.
- Initial consultations with stakeholders were held at the 2012 edition of the European Development Days under the thematic cluster on engaging the private sector for development.
- Consultations with representatives from Member States on the theme of the Communication have been started in the framework of the EU Expert Group on Private Sector Development in Third Countries.
- A thematic evaluation of the European Union's support to Private Sector Development in third countries<sup>3</sup> has been completed in April 2013, and another thematic evaluation of the European Union's support to Trade-related Assistance in Third Countries is expected to be finalised in May 2013.
- A study on "engaging the private sector for development and extending the blending activities of the EU"<sup>4</sup> has been launched and will provide relevant analyses and recommendations in the second half of 2013 (final report expected in early 2014).
- The on-going work of the EU Platform for Blending in External Cooperation, which has been established in December 2012 to provide recommendations and guidance on the use of blending in the external cooperation of the European Union, to unlock additional public and private resources and thereby increase the impact of EU external cooperation and development policy based on the principle of complementarity.
- Early deliverables that reflect the approach to private sector support and engagement proposed in the Communication have already been accommodated, such as the European Commission's membership and active participation in the Donor Committee for Enterprise Development (DCED), the partnership with the World Bank on the Competitive Industries and Innovation Program, the establishment of the EU Platform for Blending in External Cooperation, and related discussions on enlarging the scope of blending facilities to leverage more private sector funding for development.
- Close exchange with other DGs on relevant policy initiatives like the EU CSR Strategy and the new partnership to help SMEs seize international opportunities.

The Communication is planned for adoption in June 2014.

Which stakeholders & experts have been or will be consulted, how, and at what stage?

Beyond expert advice obtained through the study on engaging the private sector for development, and initial discussions with stakeholders of the theme of the Communication at the 2012 EDD, the following consultations are planned in the course of preparing and drafting the Communication:

- Continuation of consultations with Member States in the EU Expert Group on Private Sector Development;
- Intensive Dialogue with European and local business associations and private sector representatives
- Consultations with internal and external stakeholders, including other DGs (inter service group), NGOs, multilateral donors, think tanks and partners in developing countries.

<sup>3</sup> Ref.: EuropeAid/122888/C/SER/Multi.

<sup>4</sup> Ref.: EuropeAid/132566/C/SER/Multi.