EUROPEAN
COMMISSION

Brussels, 13.5.2014
COM(2014) 263 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries

1. INTRODUCTION

1.1. The role of the private sector in fostering development

Having a decent job is widely recognised as the best way out of poverty. The private sector provides some 90 per cent of jobs in developing countries, and 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. And through innovation and investment in low-carbon and resource-efficient solutions, it will have a major role to play in the transformation towards an inclusive green economy. 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.

1.2. European Union support for private sector development: achievements and lessons

The European Commission works closely with governments in developing countries to help them develop and implement policies in support of private sector development. It provides substantial grant funding across a wide range of activities, including regulatory reforms, capacity-building and the provision of business development services, with a particular focus on strengthening local micro, small and medium-sized enterprises. Over the last decade, support by the Commission for private sector development has averaged EUR 350 million per year. This, combined with development assistance and private investment from Member States, makes the EU a key player in supporting local private sector development in partner countries. With the creation of regional blending facilities, the Commission has also started developing new tools for implementing private sector development objectives. The strategic use of grants allows the Commission to leverage additional development finance for infrastructure investments and to facilitate access to finance for micro, small and medium-sized enterprises. The EU is also starting to use innovative financial instruments such as guarantees to boost SME lending by commercial banks, and risk capital to invest in funds that lend on or invest in SME energy efficiency projects. Scaling up of blending in cooperation with development finance institutions also facilitates the involvement of the private sector as a source of finance. Successful examples of past EU support to private sector development that may inspire future actions are illustrated throughout the Communication.

A recent evaluation of EU support for private sector development between 2004 and 2010[1] 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: (i) putting more emphasis on decent job creation; (ii) mainstreaming private sector engagement across the EU’s support portfolio; (iii) promoting more effectively cross-cutting issues such as the Decent Work Agenda, women and youth employment, and human rights, and (iv) enhancing the operational effectiveness and impact of private sector development support by improving diagnostics and results measurement.

[1] See http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/2013/1317_docs_en.htm.

2. STRATEGIC FRAMEWORK FOR STRENGTHENING THE ROLE OF THE PRIVATE SECTOR WITH A VIEW TO ACHIEVING INCLUSIVE AND SUSTAINABLE GROWTH

Building on past achievements and lessons, and taking account of feedback received from consultations with stakeholders[2] this Communication proposes a strategic framework for strengthening the role of the private sector in achieving inclusive and sustainable growth. It consists of two levels at which the EU believes it can add value and effectively complement actions by its Member States, development financing institutions and other development partners.

In terms of private sector development support, the Commission wants to remain an important partner of governments and business intermediary organisations in developing countries for supporting the creation of an enabling business environment and the development of local enterprises that are equipped to create decent jobs, generate public revenues, and harness the opportunities offered by globally integrated markets.[3] In so doing, the Commission will look for new ways of harnessing the potential of the private sector as a financing partner, implementing agent, advisor or intermediary to achieve more effective and efficient delivery of EU support, not only in the field of local private sector development, but also in other areas of EU development cooperation such as sustainable energy, sustainable agriculture and agribusiness, digital and physical infrastructure, and the green and social sectors.

Looking beyond the private sector as a partner in development cooperation, the proposed strategic framework will also include actions and tools to help the private sector achieve positive development results as part of its core business strategies. This means that the Commission intends to play a stronger role as facilitator of companies' own engagement for development, for instance by encouraging responsible investment in developing countries, or sustainable supply chains and production patterns.

This strategic framework is being reflected in the programming of EU development assistance from 2014 to 2020 with regard to national and regional private sector development strategies such as the joint ACP-EU work on a new cooperation framework for private sector development in ACP countries, at the level of thematic programmes that address private sector engagement as a cross-cutting issue, and in sectoral interventions designed to mainstream engagement with the private sector in agriculture, sustainable energy, and infrastructure, or in green and social sectors.

2.1. Principles for strengthening the role of the private sector in EU development cooperation

The EU's support for private sector development and its engagement with both the local and international private sector will be guided by clear principles that complement aid effectiveness principles and are intended also to inspire efforts by EU Member States, financing institutions, and other development partners of the EU.

---

[2] Consultations on the issues relevant for this Communication were carried out between November 2013 and February 2014 with EU Member States, partner governments, local authorities, European and local private sector representatives, social partners and NGOs.

[3] These interventions are closely related to, and complemented by, activities in the field of trade and development that are outlined in the 2012 Trade, Growth and Development Communication [COM(2012) 22 final].

- ***Focus on employment creation, inclusiveness and poverty reduction.*** Programmes and partnerships have to be designed in ways that contribute to poverty reduction, for instance through decent job creation, better labour conditions, a progressive transition from the informal to the formal economy, or the economic empowerment of women and girls, youth, and vulnerable groups.

- ***A differentiated approach to the private sector.*** Private sector activity can take many forms and will impact on economic development in various ways. The private sector is highly diverse, ranging from enterprising individuals to large multinational corporations and financial institutions; from enterprises creating shareholder value to people-centred social businesses, cooperatives and workers and employers organisations. They may operate at a local, national, regional or international level, in rural or urban areas, in the formal or informal sector and in very different country contexts. Each of these private sector actors requires different conditions and incentives to contribute to development, entailing differentiated approaches to their support and engagement for development.

- ***Create opportunities through market-based solutions.*** While donor interventions should not distort markets, more emphasis has to be put on harnessing the potential of development assistance to catalyse market development in partner countries. There is an as yet untapped potential to create business opportunities for local entrepreneurs through programmes that adopt market-based approaches to the delivery of their support, for instance by working with local enterprises as implementing partners or suppliers of works and services, or in social programmes by opting for cash transfers rather than support in kind, as the former have the additional benefit of stimulating purchasing power and hence demand among low-income populations.

- ***Follow clear criteria in the provision of direct support to private sector actors.*** While official development assistance is clearly justified for intervention at macro and meso levels, it can also be effective at micro level to speed up local enterprise development or to overcome market failures and sub-optimal investment situations. However, to guarantee development impact and sustainability, avoid market distortions, and mitigate reputational and fiduciary risks, clear criteria have to be applied in decisions on support to enterprises or financial intermediaries through direct grants or subsidised business development services, or in the form of guarantees, insurance or concessional finance. The European Commission has developed a set of criteria to guide such decisions. They complement the rules laid down in the Commission's financial regulations[4] and are broadly aligned with standards applied by other development partners (see Box 1).

- ***Account for different local contexts and fragile situations.*** Differentiating between country contexts in the design of private sector development support and setting priorities according to the needs and stage of development and degree of vulnerability of partner countries is essential to ensure the greatest impact and best value for money of EU support. Specific approaches are required particularly for fragile and conflict-affected countries that are urgently in need of jobs and economic opportunities to restore social cohesion, peace and political stability.

[4] Regulation No 966/2012 of the European Parliament and of the Council, and Commission Delegated Regulation No 1268/2012 on the rules of application of that regulation.

- ***Put strong emphasis on results.*** Support for private sector development and partnerships must be accompanied at all levels by efforts to strengthen results measurement and assessment of the development impact of interventions.
- ***Observe policy coherence in areas affecting the private sector in partner countries.*** Besides ensuring that EU policy action does not adversely affect the development prospects of partner countries, close coordination between relevant Commission services, as well as with EU Member States, will remain a priority to ensure a comprehensive EU approach and make development and other relevant EU policies coherent and mutually reinforcing. The 2012 Commission Communication on Trade, Growth and Investment[5] articulates approaches that illustrate how this is being implemented in relation to trade and investment policies.

Box 1: *Criteria for supporting private sector actors*

(1) **Measurable development impact**: Support given to a private enterprise or financial intermediary has to contribute in a cost-effective way to the achievement of development goals such as job creation, green and inclusive growth or broader poverty reduction. This requires transparency as regards objectives and results, along with appropriate monitoring, evaluation and results measurement arrangements.

(2) **Additionality**: Without public support the private enterprise would not undertake the action or investment, or would not do so on the same scale, at the same time, in the same location or to the same standard. The supported action should not crowd out the private sector or replace other private financing.

(3) **Neutrality**: The support given should not distort the market and should be awarded through an open, transparent and fair system. It should be temporary in nature with a clearly defined exit strategy. Support justified by market failures and consequent risks should not have the effect of discouraging regulatory reform efforts addressing the causes of market failure.

(4) **Shared interest and co-financing**: Partnerships with the private sector have to be based on cost-effectiveness, shared interest and mutual accountability for results. The risks, costs and rewards of a joint project have to be shared fairly.

(5) **Demonstration effect**: A supported action should aim to have a clear demonstration effect that catalyses market development by crowding in other private sector actors for the replication and scaling-up of development results.

(6) **Adherence to social, environmental and fiscal standards**: Private enterprises receiving support have to demonstrate that their operations are compliant with environmental, social and fiscal standards, including respect for human and indigenous rights, decent work, good corporate governance and sector-specific norms.

[5] COM(2012)22 final.

2.2. Private sector development support in future EU development cooperation

2.2.1. Creating a business environment conducive to private sector initiative

Provision of support for improving the business and investment climate, especially for micro, small and medium-sized enterprises, and strengthening of business intermediary and support organisations, will remain essential pillars of EU private sector development assistance. This approach can be made more effective by improving the quality of country and sector diagnostics for prioritisation of reforms, and through engagement of the private sector in action-oriented public-private dialogue at the level of policy formulation. The Commission also aims at contributing to the improvement of available policymaking tools for measuring and comparing the quality of the business environment across countries.

With a view to effectively combining business environment reforms with support for other aspects of the investment climate like financial market development, trade facilitation, management of migration, and the strengthening of legal and juridical institutions, the Commission will seek synergies between its private sector development support, the aid for trade agenda, budget support and the associated political dialogue with partner countries. The Commission recognises that building the domestic institutions and legal frameworks that allow markets to become more efficient and fairer requires good governance and ownership by partner governments. It stands ready to provide support where there is political will for reform, combined with efforts to implement internationally agreed norms and guidelines such as the United Nations Convention against Corruption. It will also make better use of political economy analysis in the design of private sector development programmes.

> In Paraguay, an EU-funded **Economic Integration Programme** supported the creation of a Single Window for Exports, which reduced the total time for administrative procedures needed to export meat from 40 days to 50 minutes and boosted the number of enterprises in Paraguay oriented to exports by 500% since 2004, resulting in a significant increase in exports.
>
> In Tunisia the microfinance industry was underdeveloped, with only two Financial Services Providers serving around 300 000 clients. Thanks to **policy dialogue** with the EU, and in the framework of **joint donor budget support** operations launched before the revolution, the government in 2011 reformed the legal and regulatory framework for the national microfinance industry in line with best international practice to allow new operators to serve the unmet demand (estimated at 700 000 clients) for microfinance from vulnerable groups.

Constraints on private sector growth may stem not only from the overall business environment, but also from industry- or sector-specific gaps in the support infrastructure. Not every sector or industry in an economy has the same potential for productivity increase and decent job creation. Support to partner governments should not merely trickle down from a political demand but should also respond to proper analysis of a country's latent comparative advantage. Priority should be given to removing constraints in those sectors that have the highest potential to contribute to private sector-led growth and decent job creation in a given country.

Industrial clusters can be a promising way to build strategic alliances for the provision of sector-specific support services and access to global value chains. Appropriate and predictable industry-specific regulatory frameworks are also needed to enable effective and sustainable market-based solutions to be found for rural electrification, sustainable urban energy, or access to finance and infrastructure services such as mobile telecommunications, water, transport, energy and housing.

Action 1:	Finance advisory services and state-of-the-art diagnostic tools for policy formulation to help governments and business intermediary organisations improve domestic business regulations and their enforcement to increase legal certainty, improve the business climate and reduce the cost of doing business.

2.2.2. Stepping up support to micro, small and medium-sized enterprises in the formal and informal sector

Macro-level and sectoral interventions to strengthen the business environment require complementary provision of support services at the meso and micro levels to increase productivity and accelerate investment and decent job creation. Emphasis will be put on supporting micro, small and medium-sized enterprises, which play a particularly vital role in job creation, and in raising productivity and working conditions in the informal economy. In providing enterprise development support, the Commission will work as much as possible through existing business intermediaries and service providers, thereby taking into account the lessons learned from creating own support structures that have a high administrative cost. It will promote market-based approaches requiring private sector beneficiaries to share in the cost of the service received.

The Commission's experience in supporting European SMEs can provide useful lessons also for developing countries. For instance, public support provided by the Enterprise Europe Network can serve as a model also for encouraging SME cooperation across developing countries. European companies can contribute to enterprise development in partner countries by integrating local micro, small and medium-sized enterprises into their supply chains, especially in the agriculture and agro-food sectors, as well as through transfer of technology including eco-innovations or renewable energy solutions. The Commission is also working with public finance institutions on programmes such as the EBRD Small Business Initiative in which EU funds are used for advisory services, tailor-made for specific sectors and countries. It is necessary also to encourage stronger North-South collaboration among companies, for instance in the form of twinning arrangements on coaching and training on the job. Moreover, the Commission will use its development cooperation with partner countries to strengthen national vocational education and training systems in line with labour market demands and skill needs of formal and informal enterprises.

The **Enterprise Growth Programme** and Business Advisory Services (EGP-BAS) provides consultancy services to SMEs from Eastern Partnership countries, helping them to develop and improve their businesses. To date, more than 600 SMEs have benefited from this support, with the outstanding result that 90% of them increased their turnover by an average of 43% after one year.

In Tanzania, the **Trade and Agriculture Support Programme** contributed to improve quality standards and increase productivity in the tea and coffee value chains by 50%. Besides increased access to international markets, net income of smallholder farmers was increased by at least 20%

with a direct impact on household assets, women's empowerment, better children's education and improved food security.

An estimated 60 to 80 per cent of enterprises in developing economies are informal firms. They represent a huge potential for growth and job creation, and the fact that they are operating outside formal law must not exclude them from support through development assistance. A combination of measures is needed, on the one hand, to increase incentives for formalisation driven by effective institutions, legal systems, and secure property rights, especially for land, that can be used as collateral for loans. On the other hand, measures need to be taken to improve productivity and working conditions in the informal sector through a safer working environment and easier access to markets, finance, infrastructure and social services. One useful way to deliver support is through training and capacity strengthening of informal support organisations, such as producer associations and member-owned self-help organisations. Cooperatives, social enterprises and other forms of people-centred business are often leading the way in providing decent jobs, sustainable livelihoods and inclusive solutions to social problems.

Action 2: Co-finance market-based schemes for micro, small and medium-sized enterprises to access business support services from local providers including business intermediary organisations, incubators, informal self-help organisations and cooperatives to increase management skills, technological know-how and market linkages for micro, small and medium-sized enterprises in the formal and informal sector.

Action 3: Support alliances between companies and relevant training providers to develop and implement demand-driven technical and vocational education and training programmes.

2.2.3. Empowering women as entrepreneurs and workers

As part of its support to micro, small and medium-sized enterprises and the creation of an enabling environment for their development, the Commission will give particular attention to female entrepreneurship and employment. Typically, women are under-represented in business communities in developing countries. This is often a result of legal differences in how men and women are treated that hamper women's opportunities for starting businesses, owning property and land, or accessing credit, and are thus a major obstacle to gender equality. The Commission will push for gender-sensitive business regulation, and will address the specific training and support needs of women as entrepreneurs and workers to ensure that recent improvements in girls' education are translated into real economic opportunities for women.

2.2.4. Increasing access to finance and deepening financial inclusion

Lack of access to capital and appropriate financial services is a major constraint in particular on the development of micro, small and medium-sized enterprises. The Commission supports wider access to a diversified set of financial services both for households and micro, small and medium-sized enterprises, with interventions ranging from capacity strengthening of financial intermediaries to the provision of capital to local banks for the financing of micro, small and medium-sized enterprises. Future programmes will in addition focus on the use of information and communication technologies (ICTs) as a tool for achieving financial inclusion of the poor, especially in Africa where they are already dramatically changing the financial landscape. Particular emphasis will also be put on customer-centric models to promote inclusive credit, savings, insurance and payment services, as well as on making the transfer of remittances cheaper, faster and more secure while facilitating their productive investment. These activities will be complemented by support for the creation of an appropriate financial infrastructure and regulatory framework for the financial sector to ensure customer protection, responsible finance and the long-term stability of the financial system.

In South Africa, the **Risk Capital Facility** established by the Government with EU funding to promote the participation of disadvantaged people in the economy, with a specific focus on women, has provided equity or quasi-equity to 60 enterprises and led to the creation of 7 000 new jobs. MX Metal Shoppe, for example, received a EUR 200 000 subordinated loan that allowed the company to leverage additional funding for the purchase of new equipment, and to cover working capital requirements and initial set-up costs. After 18 months of operation, 52 unskilled people have been employed and the business is profitable and growing fast.

Through the **ACP-EU Microfinance programme**, the EU funded a project providing capacity building to 12 microfinance institutions in remote areas in 12 Sub Saharan African countries and Haiti. It also supported the creation of 14 new financial products such as water tank and school fees credits, term deposits and transfer services. More than 750 staff of microfinance institutions received from training, while 120 000 new clients in rural areas benefited from better access to innovative financial services.

Blending EU grants with other sources of development finance has already proved to be a successful way to increase access to finance, for example through guarantee facilities and microfinance funds. More attention will be given to the financing of female entrepreneurs, to impact financing for social businesses and high-impact investments[6], as well as to improving access to loan and equity financing for SMEs referred to as the ‘missing middle’, as their financing needs typically are not met by either microfinance institutions or traditional banks.

Action 4: Make strategic use of EU grants, including through blending mechanisms, to improve access to loans, equity finance, guarantees and patient capital for micro, small and medium-sized enterprises also in high-risk countries and through impact financing of social enterprises.

Action 5: Increase support for inclusive finance, with a particular focus on the financial inclusion of women, youth and rural populations.

2.3. Mainstreaming private sector development and engagement in EU development cooperation

Opportunities for strengthening the role of the private sector with a view to achieving inclusive and sustainable growth exist in most areas of EU support. The private sector plays a

[6] For example, the EIB’s Impact Financing Envelope for the ACP region, set up as a new special window of EUR 500 million under the existing ACP Investment Facility, aims to generate high developmental impact with the overarching objective of poverty reduction by addressing the social and environmental challenges ACP countries are confronted with, including decent job creation, sustainability of small and rural enterprises, climate change mitigation, food security, access to basic resources such as water and energy, as well as economic and social integration of women and young people.

strong role in agriculture and agribusiness, sustainable energy, infrastructure and social sectors, and is also prominent in the areas of environment, climate change, migration, risk management[7], raw materials[8], natural resources, healthcare and pharmaceuticals, sustainable tourism, and nutrition. 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.

In this context, a larger share of the EU blending facilities could be allocated to financial instruments such as loans, guarantees, risk-sharing instruments, and equity or quasi-equity instruments. A key objective of these instruments is to catalyse private investment that has proved to be financially viable but does not give rise to sufficient funding from market sources. Access to finance and risk-sharing instruments in developing countries is also an important prerequisite for EU investors seeking to venture into these markets. This is particularly true for areas such as construction, including transport, utilities and buildings, characterised by high up-front investments, high risk exposure and often unfair international competition that require action to ensure a level playing field.

2.3.1. Engaging the private sector in sustainable energy

Action 6:	Increase the provision of risk capital through private investment for energy efficiency and renewable energy and rural electrification projects in developing countries, following the successful example of the Global Energy Efficiency and Renewable Energy Fund (GEEREF). Set up a risk-sharing mechanism with European Development Financing Institutions to increase private investment in energy-related projects.

2.3.2. Engaging the private sector in sustainable agriculture and agribusiness

Action 7:	Link farmers to markets through market-driven models such as the initiatives developed within the framework of the Comprehensive African Agriculture Development Programme. Build capacity of agri-business SMEs and smallholder farmers and enhance their access to finance, market information and technologies. Accelerate sustainable local and global trade in agricultural commodities by supporting coalitions of companies, NGOs, producers, governments and other stakeholders. Develop and finance risk management instruments such as price, weather and disaster insurance. Support inclusive PPPs and business models with due recognition of processes such as the voluntary guidelines on responsible governance on tenure of land, fisheries and forests, responsible agriculture investment and the African Land Policy Initiative.

[7] The Green paper on the insurance for natural and man-made disasters [COM(2013) 0213 final] highlights the role of insurance in helping developing countries vulnerable to disasters to establish effective contingency mechanisms.
[8] In line with the 2008 Raw Materials Initiative [COM(2008) 699].

2.3.3. *Engaging the private sector in infrastructure sectors*

Action 8:	Leverage private sector capital and expertise for infrastructure investments in developing countries through EU regional blending facilities such as the EU-Africa Infrastructure Trust Fund. Aim at introducing design, build and operate contracts, as well as concepts of sustainability and life-cycle costs into EU procurement procedures. Promote cooperation on the development and use of space technology for sustainable development through research programmes, technology transfer, capacity building, and joint business initiatives, including the development of satellite navigation infrastructure and Earth Observation services.

2.3.4. *Engaging the private sector in green sectors*

Action 9:	Promote eco-entrepreneurships and green job creation through the SWITCH TO GREEN flagship that builds on the positive experience of the SWITCH-Asia programme and combines policy dialogue on enabling conditions for green business development with co-funding of innovative projects that support sustainable consumption and production patterns and practices in partner countries. Support the management of protected and other sensitive biodiversity areas among others through the 'Biodiversity for Life' thematic flagship that engages the private sector in design and implementation of Payments for Ecosystem Services schemes, community-based management of natural resources, and public-private partnerships.

2.4. Catalysing private sector engagement for development

2.4.1. *Promoting responsible business practices through EU development policy*

Private investment in low- and middle-income countries, both domestic and international, more than tripled over the last decade, and now accounts for over half of the financial resources available to developing countries, by far exceeding official development assistance.[9] Even a small shift in private investment strategies can significantly change the impact of these investments on developing countries.

The EU Corporate Social Responsibility (CSR) strategy[10] provides a good basis for the responsible engagement of European companies in developing countries. The Commission encourages companies to adhere to internationally recognised guidelines and principles, including the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the International Labour Organisation (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the ISO 26000 Guidance Standard on Social Responsibility and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. The Commission is moving towards a rights-based approach encompassing all human rights in EU development cooperation,

---

[9] Commission Communication 'Beyond 2015 — towards a comprehensive and integrated approach to financing poverty eradication and sustainable development' [COM(2013) 531].
[10] A renewed EU strategy 2011-14 for Corporate Social Responsibility [COM(2011) 681 final].

including private sector development support. It also expects all companies to respect human rights. Companies investing or operating in developing countries should ensure that they have policies in place to prevent bribery and tax evasion, and systems to assess risks and mitigate potential reverse impacts related to human rights, labour, environmental protection and disaster-related aspects of their operations and value chains, including through meaningful engagement with governments, social dialogue partners and NGOs. Adherence to social, environmental and fiscal standards is also considered a precondition for any EU engagement with, or public support to, the private sector. Responsible business practices by companies will be reinforced through the promotion of consumer awareness concerning sustainable consumption and production patterns and practices, and the promotion of fair and ethical trade.

Voluntary efforts by companies to adopt more responsible and sustainable business practices should be coupled with enhanced business transparency and the fight against corruption, as well as efforts at promoting the ratification and effective implementation of international labour and environmental conventions in the EU's political dialogue with partner countries and through EU trade policy. Provisions on sustainable development issues are also included in recent EU trade and investment agreements[11], and some EU autonomous trade preference schemes[12] involve respect for international human and labour rights, as well as environmental and good governance conventions. Particular attention will have to be given to ensuring fair and transparent practices in the employment and treatment of migrant workers.

Responsible business practices deserve specific attention and action in certain industries such as mining and logging where opportunities and risks of private investment for development are particularly high. Building on ongoing support to initiatives such as the Extractive Industry Transparency Initiative (EITI), the Kimberley Process, and the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, the Commission will step up efforts to improve transparency in the extractive industries (oil, gas and mining) and the forest sector by allowing effective use of information generated by the EITI and disclosed by companies on their payments to governments from the exploitation of natural resources as part of the new EU legislative requirements on country-by-country reporting. Moreover, a Joint Communication on responsible sourcing of minerals from conflict and high-risk areas, and the proposal for a related Regulation, were adopted recently.[13]

Action 10:	Promote international CSR guidelines and principles through policy dialogue and development cooperation with partner countries, and enhance market reward for CSR in public procurement and through promotion of sustainable consumption and production.

2.4.2. *Scaling up inclusive business and market-based solutions for development*

For growth to be inclusive, it has to deliver economic opportunities conducive to sustainable livelihoods, especially for the poor. The private sector can directly contribute to inclusive growth by engaging in economic activities that have an immediate impact on the poor by enhancing their economic opportunities as clients and customers on the demand side, and as

[11] For instance the Framework Agreement with the Republic of Korea signed on 10.5.2010.
[12] For instance the GSP+ that requires least-developed countries benefiting from the scheme to ratify and respect 27 international conventions, and thus to embed minimum standards on labour, the environment and anti-corruption in their legislation, which businesses have to respect.
[13] JOIN (2014) 8, 28.2.2014 and COM(2014) 111, 5.3.2014.

producers, distributors or workers on the supply side. Many EU Member States are already working with companies through various partnership programmes on the piloting of such inclusive business models.[14] The Commission can play a complementary role by helping to build an ecosystem of local support institutions for inclusive businesses through its private sector development programmes. It will, moreover, support the replication and scaling-up of successful inclusive business models by strengthening networks and platforms that facilitate private sector dialogue and knowledge sharing, provide transparency about existing support services and funding opportunities, and facilitate partnerships between companies, financing institutions, workers and employers organisations, NGOs, donors and/or governments.

Action 11:	Support the replication and scaling-up of successful inclusive business models and innovative, market-based solutions to development problems by strengthening action-oriented private sector platforms and networks that facilitate knowledge sharing, partnerships and match-making between businesses and other actors.

2.4.3. Facilitating public-private partnerships (PPPs) and multi-stakeholder alliances

Partnerships between the public and private sectors for the purpose of delivering a project or a service traditionally provided by the public sector can be an effective means of making the supply of public goods and services to poor people more reliable and affordable, while complementing government resources with private sector investment. The construction sector and the low-carbon and resource-efficient economy are examples where European expertise, through PPPs, can provide innovative solutions in areas such as renewable energy, green buildings, or other infrastructure services such as water and sanitation, waste management and transport.

In this area, the Commission will continue to provide technical assistance to public institutions to reinforce their administrative capacities, and set up legal and regulatory frameworks and guidelines for PPPs, promote public-private dialogue mechanisms to explore opportunities for PPPs and advocate reforms in the legal and regulatory framework, and use financial instruments to leverage private funding for infrastructure projects by reinforcing the private sector lending and equity operations of eligible financing institutions through EU blending facilities. These activities will have to be complemented by efforts aiming at improving expertise, transparency and governance in the public sector to ensure that the profit incentives of private actors coincide with public interests.

Looking beyond classical PPPs in the infrastructure sectors, the Commission will support new forms of partnerships and multi-stakeholder alliances between national or local authorities, enterprises and NGOs for skills development and the provision of basic services, such as access to sustainable and affordable energy, water, health care, and education, as well as in the areas of agriculture and nutrition especially in rural areas, to women and other excluded groups.

[14] For instance, the German develoPPP programme, the Austrian economic partnerships programme, SIDA's Business for Development Programme, or challenge funds set up, among others, by DFID, and the Dutch Ministry of Foreign Affairs.

2.4.4. *Defining the role and responsibility of the private sector on the global development agenda*

The Commission Communication 'A Decent Life for All'[15] considers promoting the drivers of inclusive and sustainable growth, including the provision of essential human development services and decent job creation, as one of five priority areas on which a post-2015 global agenda should be built. This agenda will respond properly to the challenge of achieving inclusive and sustainable growth only if the private sector has a say in formulating it. The Commission, in close coordination with Member States, will engage fully in defining a clear and active role of the private sector in any post-2015 development framework. It also agrees with the recognition in the Rio+20 outcome document that active participation of the private sector can contribute to the achievement of sustainable development and the transformation towards an inclusive green economy. At the same time, the Commission will step up its efforts to fulfil the commitments it made at the Busan High-Level Forum on Aid Effectiveness regarding effective public-private collaboration for development.

Action 12:	Endorse the Joint Declaration on public-private cooperation and take an active role in the Partnership for Prosperity that emerged from the Busan Private Sector Building Block.

3. THE WAY FORWARD: TOOLS AND MODALITIES FOR MAKING THE PRIVATE SECTOR A PARTNER IN DEVELOPMENT COOPERATION

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, and to harness the potential of the private sector as a partner in development cooperation. 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.

3.1. A framework for structured dialogue and joint action with the private sector

Understanding the needs and constraints of a local private sector, and harnessing the potential of the European private sector to engage for development and with businesses in developing countries, requires spaces for private-public interaction and collaboration. At local level, the Commission, through EU Delegations, will encourage inclusive public-private policy dialogue by supporting the functioning of existing or new dialogue mechanisms such as national employment, labour or export councils, and by targeted capacity building of private sector representatives, including chambers of commerce, social partners, and organisations representing micro, small and medium-sized enterprises, female entrepreneurs, and firms and workers in the informal sector, to improve their contribution to such dialogue mechanisms. The Commission will, moreover, use its political dialogue with partner countries to try to increase willingness among governments and local authorities to engage in open discussions with private sector representatives.

At European and global level, the Commission will contribute to the development of a framework for dialogue and effective joint action with the private sector, preferably by

[15] COM(2013) 92 final.

reinforcing existing initiatives, including the recently established Policy Forum on Development (PFD)[16], and with a view to enhancing coordination among individual European platforms and programmes. More direct interaction with companies and their sectoral associations will also be sought through sector-level dialogue mechanisms to encourage more private sector engagement and market-based solutions in sustainable agriculture and agribusiness, sustainable energy, infrastructure and social sectors.

3.2. Mobilising private resources for development through blending

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. Through the EU Platform for Blending in External Cooperation, the Commission 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 such as 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, and to facilitate more projects with a strong impact on local private sector development like SME access to finance through the creation of dedicated private sector windows in regional blending facilities.

3.3. Harnessing the EU's political weight in support of inclusive and sustainable growth

A common view expressed during consultations with stakeholders in the preparation of this Communication is that the EU's political weight represents a comparative advantage that it should harness more fully in support of private sector development objectives. To this end, the Commission will seek to further increase the positive interaction and private sector development impact of EU policies and instruments regarding trade, enterprises, employment and other relevant fields.

Through policy dialogue with partner countries and in multilateral fora, the Commission, in consultation with the European External Action Service, will continue to aim at securing commitments to internationally agreed principles and guidelines regarding responsible business practices in the fields of human and labour rights, environmental standards, as well as anti-corruption and tax-related conduct. It will also explore how best, in the context of its political dialogue, to address issues such as business environment reforms that are crucial for investment, innovation and private sector development, including the rule of law, anti-corruption, public financial management, fiscal reform and the effectiveness and capacity of public institutions.

Finally, 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. Furthermore, specific reform contracts and results indicators focusing on private sector development can help achieve business environment reforms.

[16] The PFD has been established by the Commission as a multi-stakeholder dialogue space where local authorities, CSOs and private sector representatives contribute to EU development policies and programmes.

The political weight of the EU depends on the ability of the Commission and Member States to mobilise their various strengths and capacities and work together with a common strategic vision. Through better donor coordination and joint programming, the EU will speak with one voice, and can better capitalise on the fact that in most partner countries it is one of the largest donors providing support for inclusive and sustainable economic development.

By increasing its investment in developing countries and playing a more active part in development cooperation, the private sector is sending a powerful signal about the important role it can play in contributing to inclusive and sustainable growth in developing countries. The strategy set out in this Communication will enable the Commission to facilitate and speed up the engagement of both local and European businesses for tangible and positive development outcomes on the ground.