

# The role of the private sector in EU development policy

Seminar "Private Sector Development in EU External Action Programmes"

Antti Karhunen, Head of Unit "Private framework development, trade and regional integration", European Commission

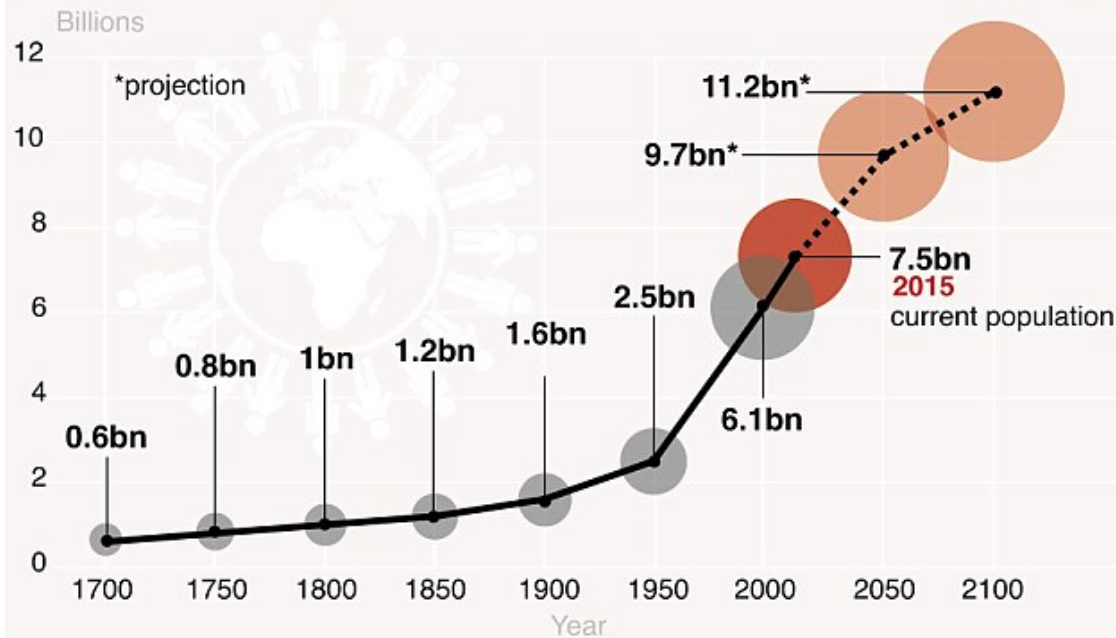
Brussels, 10 March 2016



# How to help create 400 million new jobs in Africa?

## World population 'to hit 9.7bn by 2050'

PA



### Rate of growth over centuries

19th 60%

20th 281%

21st 84%\*



Source: United Nations

### Top three largest countries

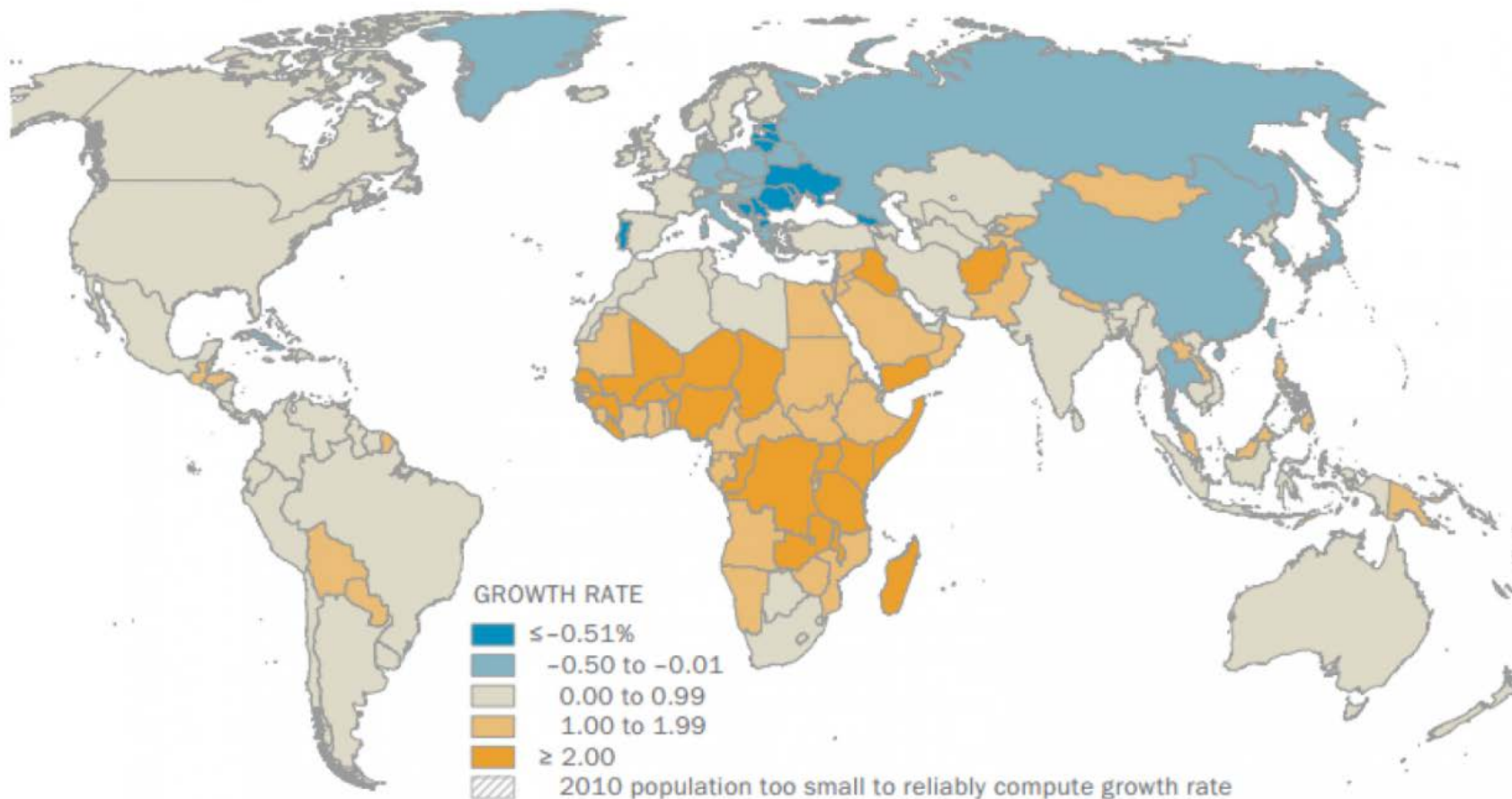
2015



2050\*

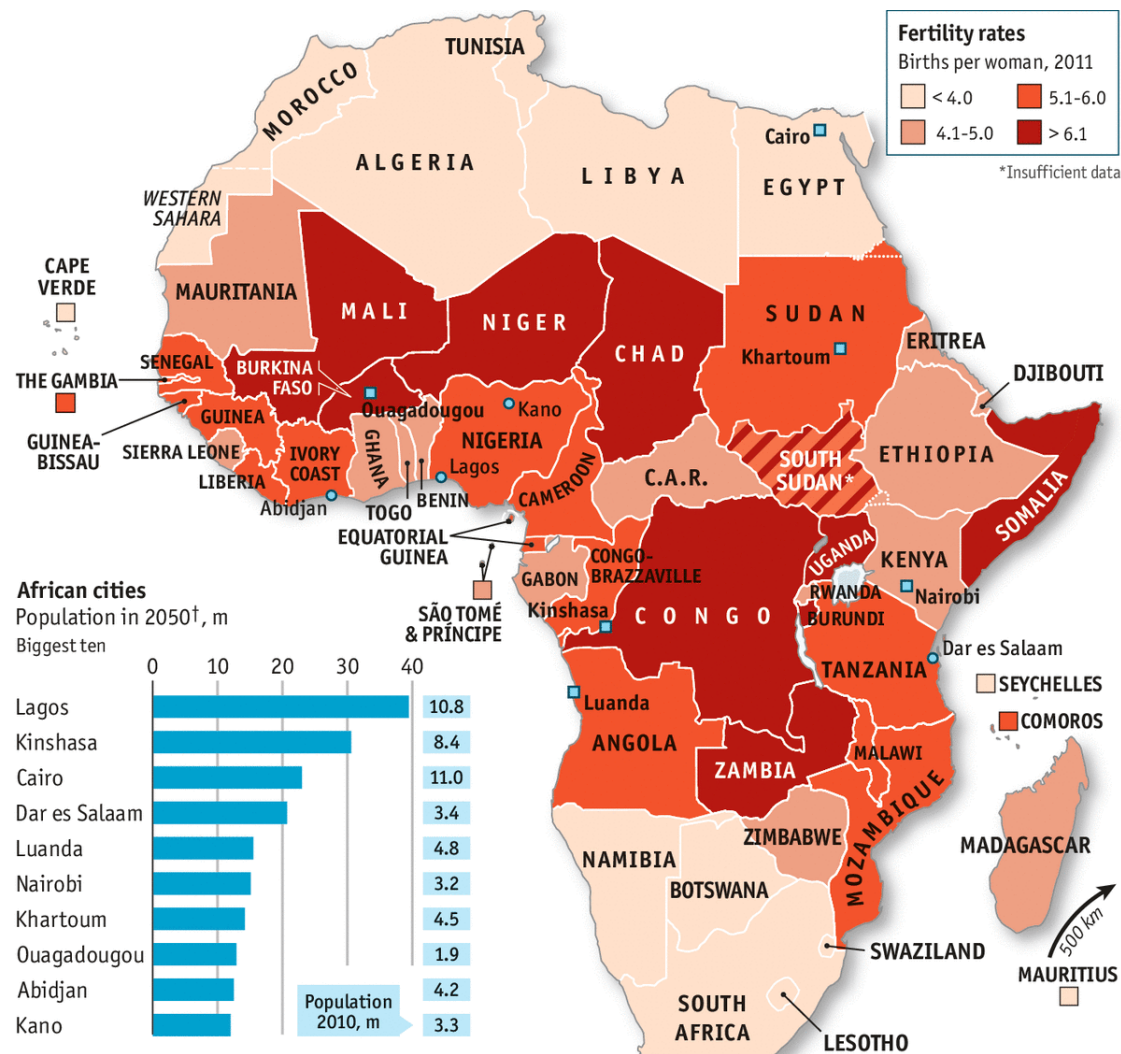


## Projected Annual Growth Rate of Country Populations, 2010-2050



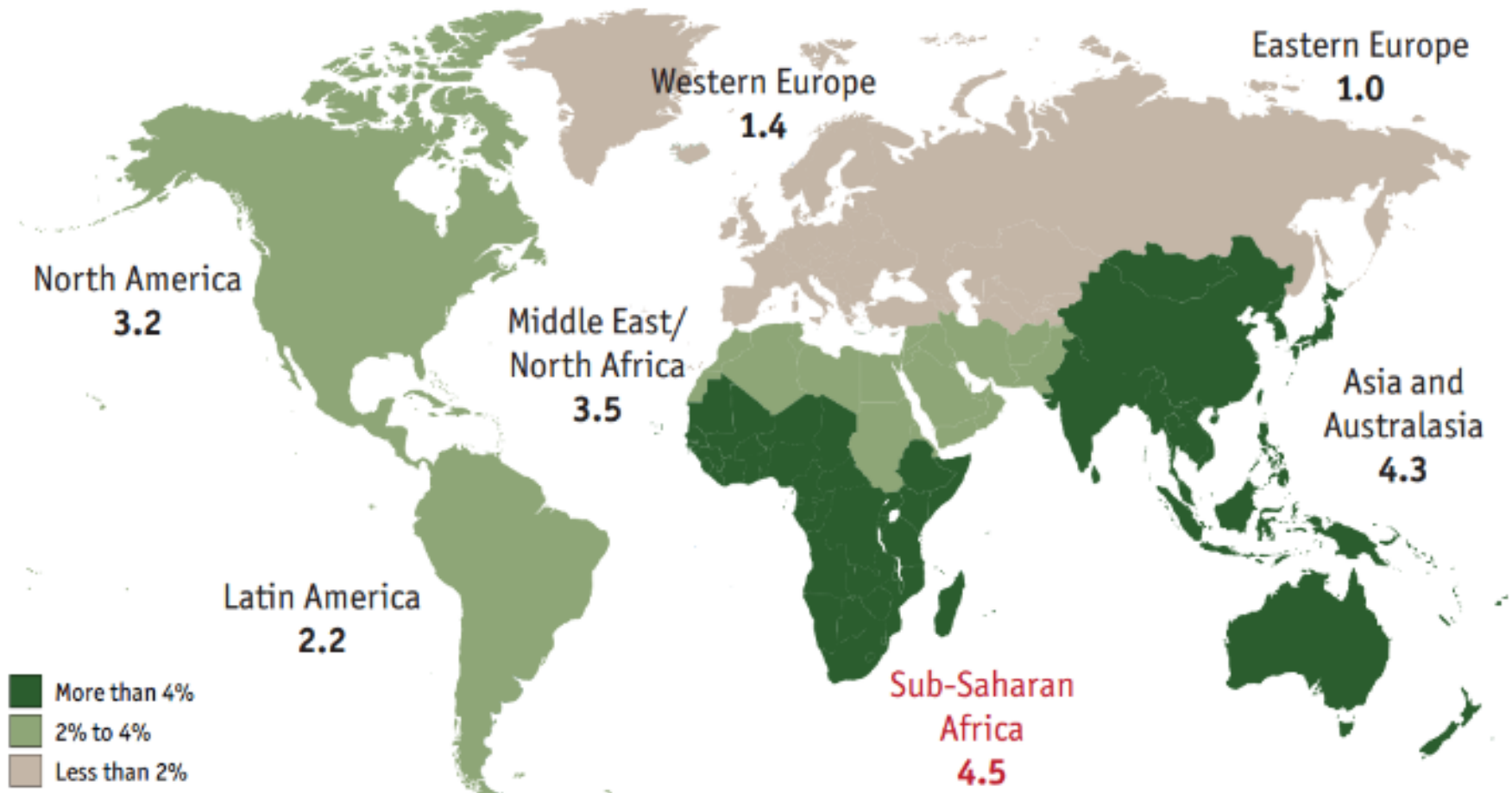
Source: The Future of World Religions: Population Growth Projections, 2010-2050

PEW RESEARCH CENTER



## World economic growth, 2015

(GDP real % change, year on year)

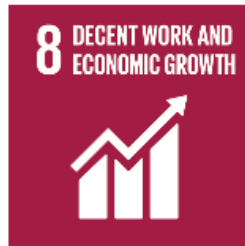








# SUSTAINABLE DEVELOPMENT GOALS





## GOAL 8

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



## GOAL 9

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation



## GOAL 12

Ensure sustainable consumption and production patterns



## GOAL 17

Strengthen the means of implementation and revitalize the global partnership for sustainable development





- Participation of partner countries in globalized markets
- Increasing the value added of their production
- Social, economic, environmental sustainability
- Responsible business conduct





# Sources of financing: overall picture

## Public Domestic Finance Total: 4.4tn

**Tax revenue:** 4.3 tn

*Potential of removing harmful fossil fuel subsidies: 523bn*

**Public External Borrowing:** 85 bn

**Memo items**

*Total Reserves, incl. gold: 5.4 tn*

*Illicit financial outflows: 0.9 tn*

## Public International Finance Total: 0.2tn

**ODA Grants:** 144bn

**Concessional Loans:** 31bn

**Other official finance:** 30bn

**UN-sanctioned international security operations:** 7bn

## Private Finance (domestic & international) Total: 4.8tn

**Domestic Private Investment:** 3.5tn

**International Investments:** 824bn

**Private External Borrowing:** 92bn

**Remittances:** 370bn

*Potential from reducing the transfer costs to 5%: 16bn per year.*

**Private Charity:** 56bn

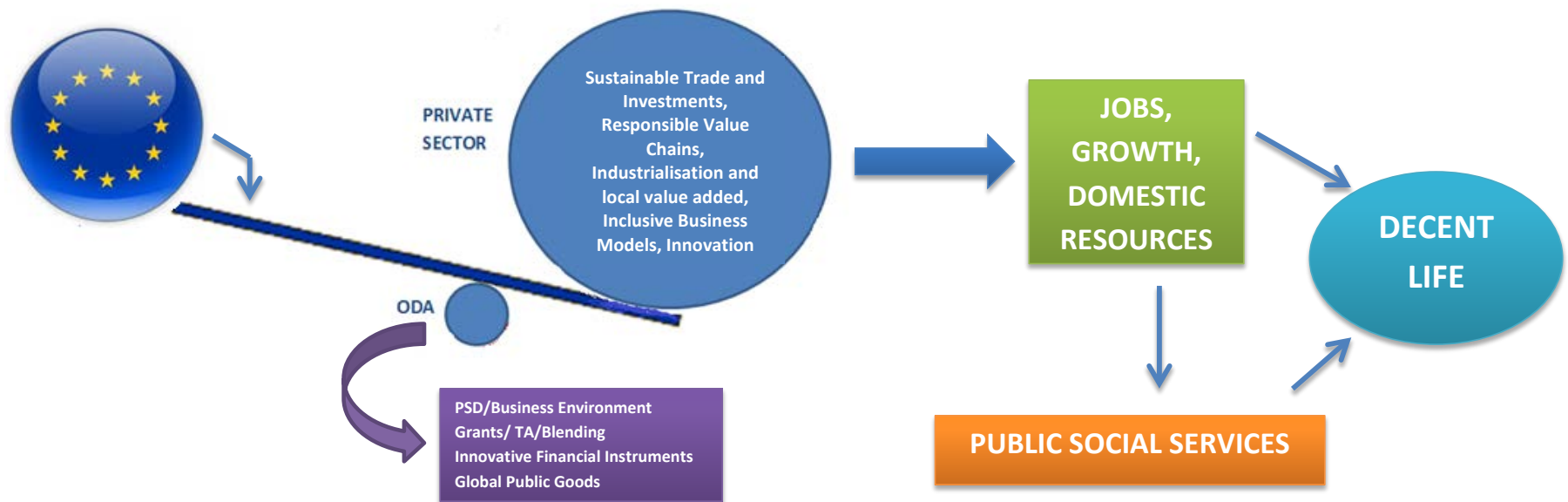
## International Trade\*

**Total volume of developing countries' exports: 5.8tn**

*\* Trade is not a financing source, but an instrument that facilitates private and public finance mobilisation. The impact of trade on growth and poverty reduction depends on the national context and the measures taken.*



# Leveraging Private Sector Role for Development





# Why strengthen the role of private sector in EU's Development Policy?

## Addressing challenges

- Business and investment environment
- Access to finance mainly for SMEs
- Skills gap
- Information gap
- Digital divide
- Risk mitigation





## 2014 EU Private Sector Policy

- EU strategy for **private sector development** in developing countries (business environment, access to finance, improving enterprise productivity & competitiveness...). Endorsed by EU Member States.
- **Engaging and partnering** with the private sector to achieve development impact.



- Focus on sectors such as **energy, agriculture and infrastructure**, as announced in the Agenda for Change, including through blending.
- **Dialogue** and joint action with business and civil society.
- **Principles and criteria** guiding the EU's engagement with the private sector in development cooperation.





## 2014 Private Sector Communication - Principles

*Focus on employment creation, inclusiveness and poverty reduction*

*A differentiated approach to the private sector*

*Create opportunities through market-based solutions*

*Account for different local contexts and fragile situations*

*Follow clear criteria in the provision of direct support to private sector actors*

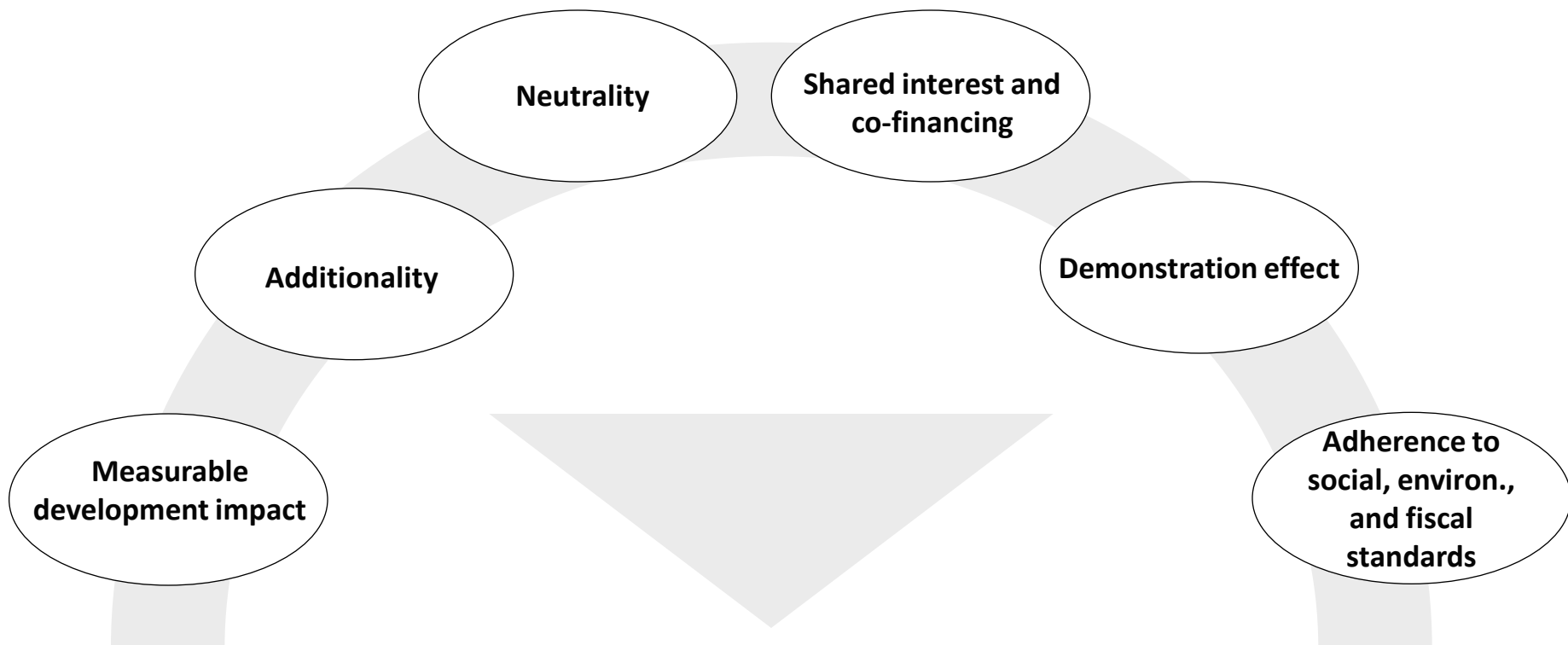
*Put strong emphasis on results*

*Observe policy coherence in areas affecting the private sector in partner countries*



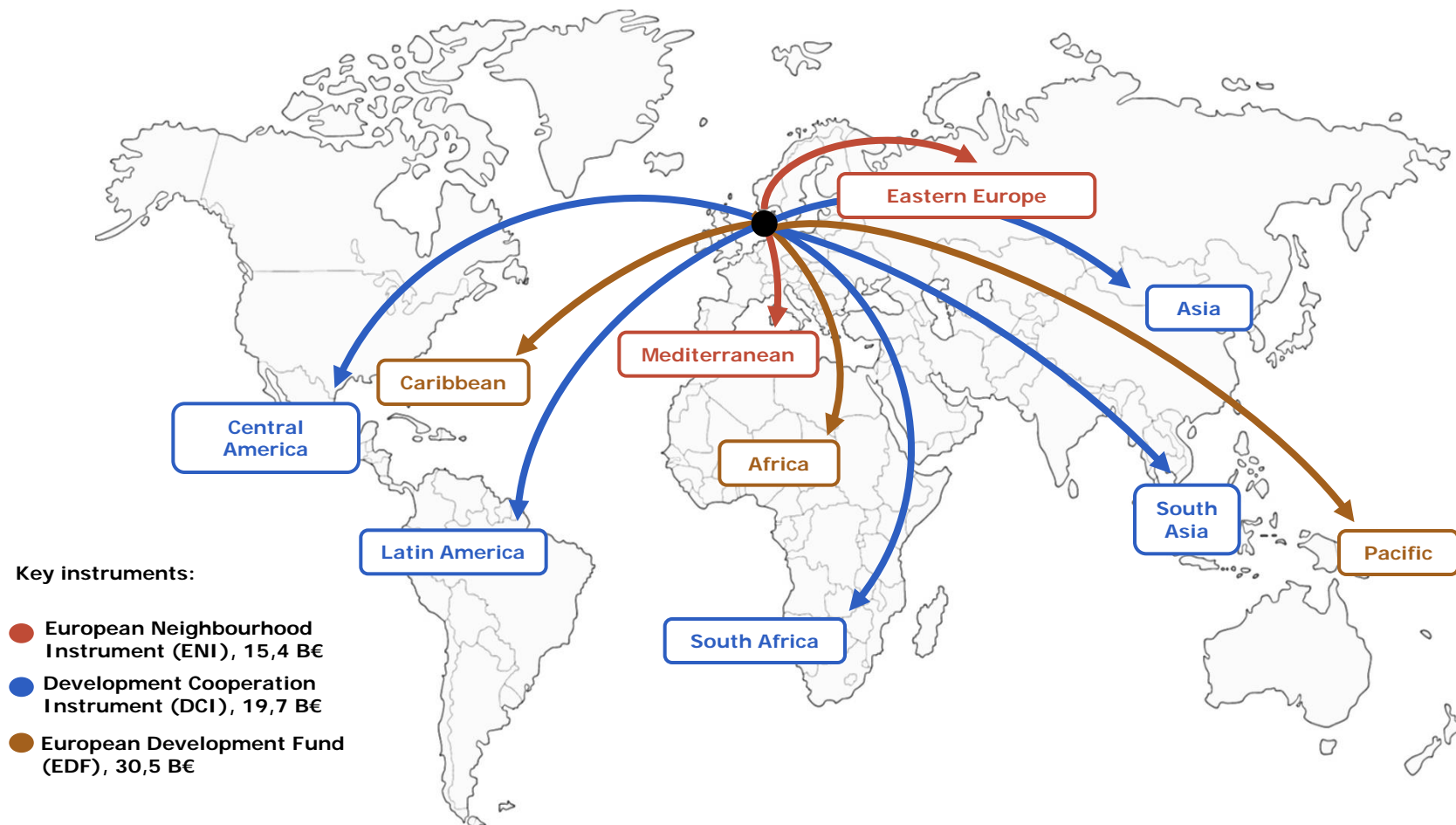
*"Support to speed up development or to overcome market failures and sub-optimal investment situations"*

## 2014 Private Sector Communication - Criteria



**Criteria for supporting private sector – to  
guarantee development impact and  
sustainability and to avoid market distortions**

## Key instruments 2014-2020





<b>Funds reserved to private sector development in EU aid instruments – DG DEVCO indicative core allocations for 2014-2020</b>			<b>≈ M€</b>
Country level (bilateral) (DCI, EDF)	National Indicative Programmes	21 countries	650
Regional level (DCI, EDF)	Regional Indicative Programmes	Africa, Asia, Caribbean, Latin America, Pacific	600
ACP level (EDF)	Intra-ACP Programme	Africa, Caribbean, Pacific	600
Thematic (DCI)	Global Public Goods and Challenges ...	Addressing innovative global initiatives	150

≈ 2000

+ PSD in neighbourhood countries of around 650 million euros for 2014-2017



Support through EU thematic  
development programmes:

**INTRA ACP  
and  
GPGC**

## **Global Public Goods and Challenges (GPGC)**

Innovative and inclusive business models  
Trade Facilitation  
Knowledge, data, statistics  
New technologies: digital, mobile



## **INTRA ACP (Private Sector)**

Business friendly environment  
Strengthen productive capacities and value chains  
Financial Inclusion  
Access to finance for SMEs and blending

## **Cross- cutting**

Gender

Climate  
change

RBA

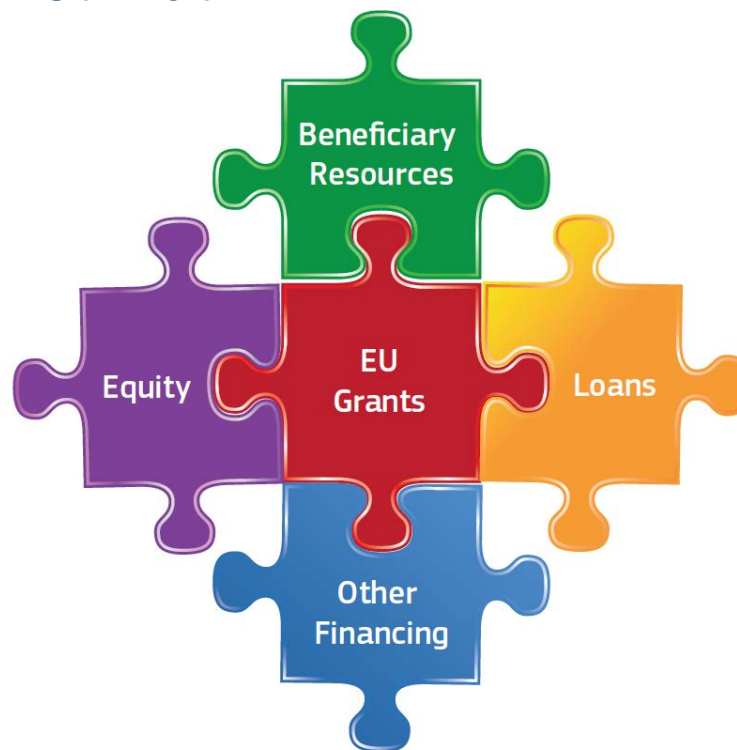
# What is blending?

**Blending is the combination of EU grants with loans or equity from public and private financiers.**

Instrument for achieving EU external policy objectives. Complementary to other aid modalities. Following relevant regional, national and overarching policy priorities.

EU grant can take different forms:

- **Investment grant & interest rate subsidy**
- **Technical assistance**
- **Risk capital**
- **Guarantees**





# ElectriFI



- *intensive mobilisation of private sector investments in increasing and/or improving access to sustainable electricity and energy services,*
- *encourage actions with emphasis on decentralised sustainable energy solutions for populations living principally in rural areas or underserved areas / unreliable supply areas, and*
- *attract additional financing\**

*\*EC finance with €75mio*



# AgriFI

- AgriFI is a new initiative for achieving inclusive and sustainable agricultural growth on value chains. Commission Decision took place in 2015, the initiative will be implemented in 2016.
- AgriFI will mobilise additional public and private investment, in particular through the provision of risk capital, guarantees or other risk-sharing mechanisms.
- AgriFI responds to the lack of financing mechanisms adapted to farmers and agri-entrepreneurs, particularly for smallholders and agribusiness MSMEs.
- AgriFI will be funded from various instruments and sources including blending operations





# Partnering and Engaging with Private Sector – HOW?

Participation in EU Tenders and Call for Proposals

Financial Instruments and Blending (Investment Fund for Africa; Agrifi; Electrifi)

Structured dialogue (African Business Forum; Regional B2B and Business networks projects – ELAN, AL-Invest, local business fora, etc...)

Multistakeholder Approaches (Garment Initiative, PFD,...)

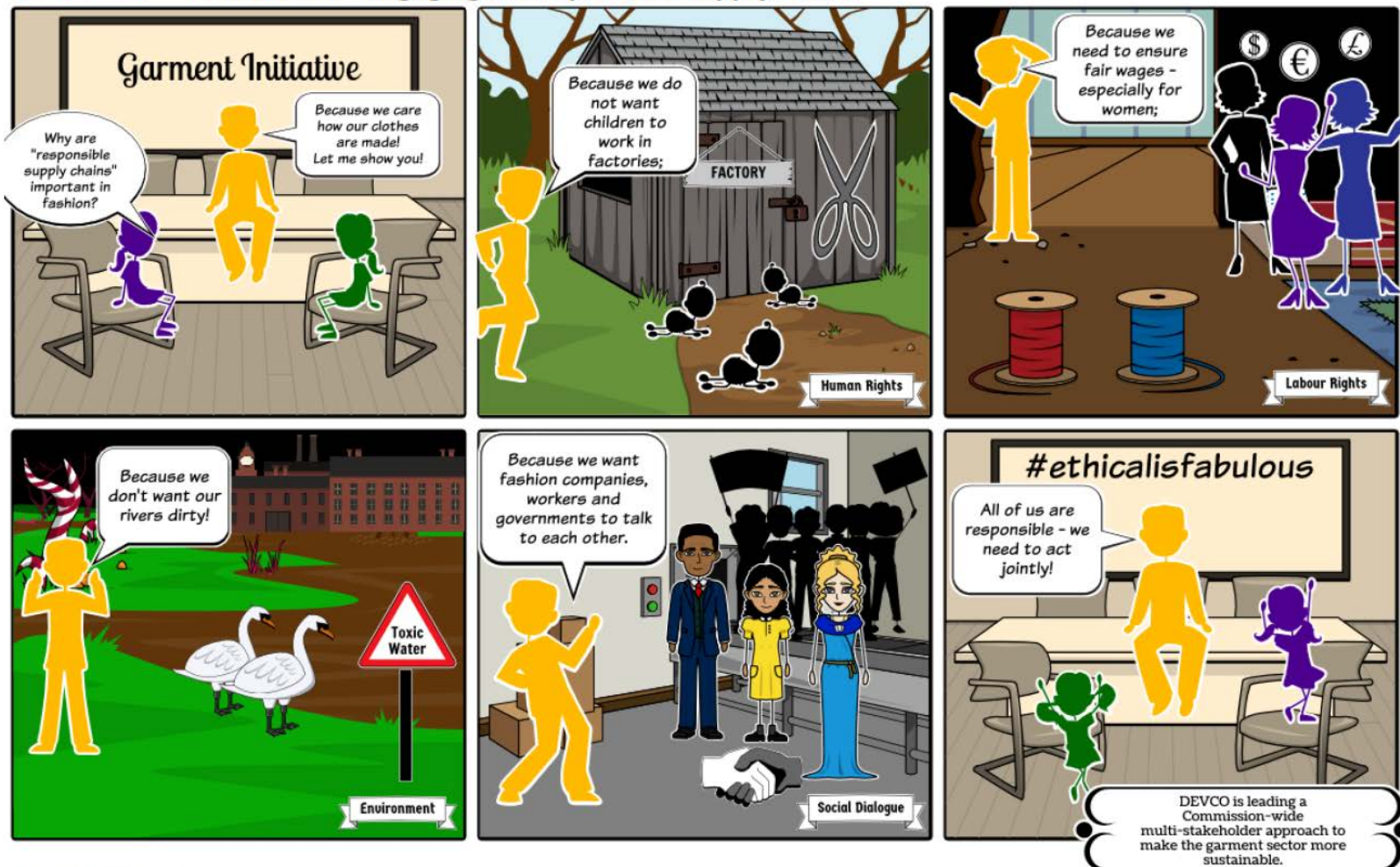
Practical Partnership Arrangements with Individual Companies





our world  
our dignity  
our future

## DEVCO. C.4 – Engaging on responsible supply chains



**NEW**

## Practical Partnership Arrangement

**Commission is developing a practical framework arrangement to incentivize businesses to partner for development objectives**

- Identify mutually interesting goals
- Seek added-value
- Roles, inputs and roadmap
- Development impacts

We build on valuable experience of other actors!





## European dimension: added value

- **Development policy** instruments and funding translate into concrete projects and opportunities for business
- **International agreements** (EPAs, FTAs, etc.): Access to markets, and accompanying "Aid for Trade" helps integrate developing countries into global value chains
- **Political leverage:** Policy dialogue to improve framework conditions for doing business
- **Financial leverage:** Increased use of financial instruments, such as blending: making transformative and enabling investments possible
- **Global presence:** EU Delegations key actors on the ground: projects, policy dialogue, dialogue with business





# Conclusion

- Private Sector plays a key role in implementing SDGs.
- EU has the policy and the instruments that can deliver real results.
- A win-win opportunity for all stakeholders.

**We are ready to  
listen and do more!**



# Thank you!