`EU Experience with the Private Sector – Lessons for ITTO

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I. GENERALITIES

The private sector has always played a crucial role in the development process by creating jobs, new opportunities, innovating products.

For the EU in particular, we have to distinguish Private Sector policy at internal and external level. The internal side touches more generally the EU industrial policy, and we believe that this is an argument going beyond our discussion today.

The external side, on the contrary, concerns inter alia, Private Sector policy in the framework of development, where the Private sector plays an important role and where the EU can boast of a large experience.

This is the subject that we are going to develop in our presentation.

II. THE EU GENERAL APPROACH.

The private sector covers about 90% of employments in developing countries, which makes it a vital tool in fighting poverty.

The EU has always aimed to encourage productive investments and business practices having a social, environmental and fiscal impact in developing countries. Working with the private sector towards the achievement of common development goals, has been then considered the way to enhance the effectiveness of the EU support.

We know the main task of the private sector is to produce goods and services and the main role of Governments is the creation of propitious environments for business, encouraging domestic and foreign investments in order to generate economic growth.

However, a global and harmonious expansion of the private sector will be possible only if obstacles such as absence of appropriate legislation, poor vertical mobility, lack of competitiveness, complex administrative procedures, high taxation, and limited access to financing, will be removed. I do not add anything that you don't know yet.

How to help the Private Sector, then? At EU level, how to involve the Institutions and in particular the European Commission?

In this context, since the mid '70s, in the framework of the Lomé Convention, the European Commission found that an instrument representing an appropriate interface destined at encouraging the dialogue between the Institution and the Private Sector, could have been the creation of “ad hoc platforms”. In this way, a specialised Centre devoted to the Development of industry, called CDE (Centre for Development of Enterprise – better known as Centre de Dévelopment Industriel or CDI) rose, financed by the European Development Fund with the involvement of the European Investment Bank (BEI).

Through this new instrument, the European Commission was addressing its action to private sector, destined to countries in development.

The CDE services were subdivided into facilities (4) in order to support the different stages related to industrial enterprises development: from the creation to rehabilitation and expansion. Financial resources were not allocated to projects, but focussed on seeking financing, in order to ensure technical assistance or subventions. Every project had to contribute to the development of the country involved and the EU Member States could be also associated individually or in joint-ventures. Values of interventions varied from about 200.000 and 10 Million of today Euro, according to the type of operation.

Under Lomé IV, the CDE received by the EDF (European Development Fund) about 60 million of today’s Euro covering the period 1990-1995 and later 70 Million for the period 1995-2000, a total of 130 million Euro in 10 years.

Loans were the preferred tool, but the problem to solve in several circumstances was the absence of enterprises entitled to fulfil the conditions for subscription. Interest rates represented also an important aspect to refine, varying from low rates and market rates applied more generally by the BEI.

In several occasions, CDE played also the role of intermediary between European and ACP enterprises in order to promote partnerships in ACP as well as the transfer of know-how and technologies.

At the end of the ‘90s the biggest share of assistance (about 83%) was targeted to private sector with a remaining 10% addressed to mixed partnership (public/private) and 7% to public enterprises.

Technical assistance was also targeted to joint-ventures, where the ACP enterprises might achieve the access to EU industrial expertise, but also to management as well as technical and financial ability. In exchange, the European counterpart could achieve a better knowledge of the local markets, the availability of local commodities and the access to existing enterprises with their labour.

Timber has been, of course, the subject of several interventions in the field of forest sustainable management (Gabon, Cameroun, Congo, Democratic Republic of Congo); the best timber practices after logging (Surinam and Guyana) and, more recently, a research carried out in PNG in the framework of FLEGT associated to wood monitoring.

In conclusion, through the CDE, the technical assistance to the private sector has been channelled in supporting three main pillars: 1) Access to finance 2) Access to markets 3) Improving competitiveness.

Sectors were selected on the basis of comparative advantages, innovation, potential socio-economic merit (value-added-employment- productivity, ecc.).

Following this positive result, but in the perspective of a continuous evolution, the European Commission is today thinking on a new model for Private Sector engagement in the post 2015 development agenda.

III. THE NEW APPROACH

This new approach has implied that the CDE is reputed not corresponding anymore to the real situation and the Centre will be closing by the end of 2016, with the commitment that Private Sector support will continue.

The real question today is no longer whether development actors should engage with the Private Sector, but how. So, the need of a new methodology is felt. Important lessons must be learned from the past experiences.

The future cooperation between the Public and Private Sector should aim to create an environment enabling to better ensuring knowledge transfer and fostering economic growth.

Examples show that in many circumstances the lack of understanding between public and private sectors with country governments had led to the failure of many public and private development initiatives. Therefore, the need to rethink a new way of action ensuring and enabling operating environment was necessary.

From the above lesson, it has been felt clear that development issues cannot be solved individually by actors. The public sector, civil society and the private sector need to work together. There is a need to go beyond corporate social responsibility in order to create “shared values” and transparent mechanisms for the allocation of resources. Otherwise, very little public money will be allocated to the private sector. This is a concept regarding also ITTO.

In the framework of this new approach, the Commission has updated its strategy with the adoption of a Communication last May, where the Private sector has been put on the centre of the action and called to play a major role in creating socio-economic growth. The Communication sets out policy guidance accompanied by an action plan consisting in several concrete actions (12) and pave the way on the role of the Private Sector in the post 2015 context. The process towards the progressive achievement of a green economy is contemporarily drawn up.

The title of the Communication is: “**A stronger role of the Private Sector in achieving inclusive and sustainable growth in developing countries**”.

A title together with a programme. Principles are set out for a stronger private sector role in EU development cooperation and for an effective engagement of EU and Member States with private sector actors in order to achieve a mutual support between development goals and commercial aims.

In the past decades the European Commission has worked closely with Governments in developing countries to help them to develop and implement policies in support of Private sector. It has provided substantive grant funding across a wide range of reforms, capacity-building and the provision of business development services, with a particular emphasis on strengthening local micro, small and medium sized enterprises. Financial support has averaged about 350 million Euro per year. This experience, combined with the experience and assistance provided by Member States, has served as platform for the new Communication.

As said a number of **actions** (12) are proposed in order to stimulate investments. Improvement of regulatory environment in enterprises, support to their development and better and easier access to credit and financing are amongst the most relevant.

The proposed action plan aims also to stimulate the Private sector participation in all those fields where it can complement the aid already ensured by the EU, and other important sectors as sustainable energy, agriculture and infrastructures.

Development of new employments continues to be a priority, of course, but the strategy foresees also the adoption of different approaches according to the kind of enterprise and the local context. In other words, adapt the intervention to the real situation of the country.

A basic condition of the new approach is that aid will not be channelled if enterprises will not conform themselves to environmental, social and fiscal disciplines. Human rights and indigenous people' respect, associated with good governance will become, in fact, the rule for every eligible aid action.

In conclusion, in summing up and trying to draw a scheme, we can say that the revised new approach will be based on three main sets of actions: the first promote Private Sector development (enabling business environment, empowering women, access to finance, for ex.); the second to Private Sector mainstreaming (sustainable energy, sustainable agriculture, green sectors); the third streamlining Private Sector engagement (role of business in global development agenda, promoting responsible business, facilitating alliances).

In this new approach, the Commission has placed emphasis on the integration of the private sector into strategies aimed at specific development outcomes such as agriculture, sustainable energy, infrastructure and social sectors. It will try to develop, ways to better integrate private sector development objectives in support strategies and it will identify modalities for using the private sector as an implementing and financing partner.

It must be stressed that the above Communication is not yet approved and debates are still going on at Council level. A new set of conclusions is planned for December 2014.

When approved, the Private Sector development support objectives and priorities will be integrated in the EU programmes for the period 2015-2020.

IV. LINKS WITH ITTO

We see, then, that what said above and the actions set out, perfectly fit into ITTO discipline and what is done at EU level strengthens, if possible, the future strategy of our Organisation.

Legal trade, support of bilateral agreements as EU-FLEGT initiative, accessible bureaucracy, direct financing, respect of human rights including women's rights, mechanisms suited for countries, social and economic development, are all policies and actions that ITTO through his trade advisory committee has always recommended and when possible, implemented.

Regarding logging the EU, due to the specific interest on the sector, has put a particular attention on industries where the environmental aspect joint to the risks of private investment for development are particularly high.

This is why initiatives as FLEGT action plan will be strongly supported at the same as the need of a full transparency on the forest sector by allowing effective use of information disclosed by companies regarding the exploitation of natural resources.

But if legal trade and transparency are important principles for the EU, the same principles are also pillars for ITTO' policy.

V. ASSESSMENT

One can ask what is the value added for the EU in this process regarding the Private sector.

This is difficult to quantify however, in addition to its important financial contribution, the EU puts actually the accent on poverty reduction. A recent evaluation highlights that the EU action has been particularly effective in countries being considered at "intermediate revenues" and where the transfer of good practices at institutional level has been introduced. However, despite the limited synergies and the insufficient complementarity recognised, the EU financial instruments had a non-negligible impact through the investment facilities, pledges and loans.

VI. ANALITICAL OVERVIEW

We can say that the EU approach on Private Sector has been based on the respect of some key principles as: implementation of appropriate legislation, vertical mobility, competitiveness improved, simplification of administrative procedures, lower taxes and better access to financing.

The implemented interface, long of more than 30 years, has showed that the ratio between the resources needed and those available has been and it is still insufficient. Today in particular, more transparency will be necessary in order to involve donors. The risk being that, otherwise, very few public money will be allocated for development, including the one to the Private Sector.

Financial resources are however more and more necessary to help and support Private Sector initiatives, despite the financial crisis that has tightened the world economy. The role of financial institutions becomes then crucial.

The landscape of development finance has changed substantially over the last decade, with aid budgets being squeezed by most donors. For the first time since 2007 the Official Development Assistance from EU Member States decreased of 0,2 % of the Gross National Income. On the contrary, private capital flows destined to developing countries have recovered significantly since the same year 2007 and signals show that they are steadily rising.

An argument often used by Development Financial Institutions and Aid Agencies to justify their investments in the private sector is that by cooperating with the private sector they can leverage significantly more resources into their projects than development institutions could never do alone.

The concept of leverage is clearly behind innovative financing mechanisms that are currently being pushed, including, by the European Commission; this is defined with the term "blending". It could be considered as a "potential big change" of development finance, since it effectively shifts development assistance from the public to the private sector. The proof is that "Blending" is considered as a fundamental tool for implementing actions in the above mentioned recent Communication, but already in 2011 the EC envisaged a higher use of Blending facilities to channel aid.

Although measuring development impact is difficult without a proper harmonisation, we can conclude that the EU cooperation and experience with the Private Sector has been long and fruitful for development.

We hope that in the process of discussion of the new Communication on the role of the Private Sector these mechanisms, including blending mechanisms, will be maintained. It is only in this way that development will continue to have sense and meaning for donors and for beneficiaries.

ITTO can be legitimately included among the latters; but in order to achieve a real benefit for all members and accomplish a concrete step forward, it will become essential that a more concrete synergy and interchange between Council and the Trade Advisory Group should occur, where proposals would be presented from the TAG to Council for action, but also where the Council decides to consult the TAG for advice on actions and strategies to be possibly implemented. This was the intention and the aim when the Agreement was negotiated.

Thank you