ECIC/FEACO Non-Paper

to the Issue Paper for consultations on the proposed Commission Communication "Strengthening the Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries"

Tuesday, April 15th, 2014

This paper is a contribution to Issue 3: Stepping up EU support to (M)SMEs and more specifically to: Q10, Q13 and Q14.

---

1. Foreword: a new role for the Private Sector (PS)

FEACO appreciates and recognizes the vision of the EC on boosting the new role of the Private Sector (PS) in the developing countries to gain an **inclusive** and **sustainable growth**. The Communication attributes to the PS in the developing countries two "new" responsibilities: **contribute to jobs creation (inclusive) – rather than only to look at the financial return - by respecting the environment (sustainable).** In FEACO understanding this is the innovative value of this Communication.

This approach is even more important when it is compared to the previous EC programmes of PS development (ECIP, AL invest, CDE, etc.) launched in the 90's which were focused mainly on providing non-financial services to EU SMEs and businesses: dissemination of economic and regulatory information, contact with institutions in third countries, assistance in the search for partners.

Against this scenario, the "hidden" background of the Communication is to develop a synergy among three sources – with different weights - involved in the financing the developing countries:

- **EU funds (ODA).** The value of this source is shrinking, as mentioned by the US Secretary of State, Hillary Clinton, at the Busan conference: *"ODA now represents only 13% of the flow of funds to developing countries, once it was 70%";*
- **MS funds and international financing institutions** via the blending mechanisms;
- The role of **EU and local Private Sector (PS)** in developing countries. WB studies shows that FDI is a global force: in 2009 outbound FDI flows from the 24 Development Assistance Committee (DAC) countries were six times larger than ODA.

Therefore, given the heavy reduction of ODA funds three issues related to the EC issues papers are on the table:

1) Is the blending mechanism transparent and accessible to the stakeholders in the different geographical areas ?
2) Is the European Private sector ready to be a *development partner* to contribute to local private sector development or it needs accompanying measures?
3) Does foreign private capital provide sustainable benefits to its recipients? in some cases extractive-industry FDI has actually exacerbated inequality, as is the case currently in

Angola as well as the Niger Delta, where it has created severe social and environmental challenges to the receiving economy.[1]

2. Lessons learnt from previous EC Programmes in promoting PS

Previous EU programs have proved generally effective in promoting private sector development through the creation of direct and sustainable linkages between companies in Europe and partner countries such as the **European Community Investment Partners (ECIP),** The **Euro Info Centre (EIC) Network** and its **Correspondence Centers (EICCs)**, The **Centre for the Development of Enterprise (CDE)**. Other matchmaking platforms were supported by regional programs such as **Asia-Invest**, **Invest in Med**, **AL-Invest** with equally positive outcomes.

However according to the 2013 PSD evaluation, past EC programmes were constrained by a number of factors:

- **The EU achieved results at macro- and meso-levels (institutional and regulatory frameworks, access to finance, and some elements of support to enterprise competitiveness) rather than at the micro-level (support to microenterprises and non-financial support to SMEs).** In middle income countries the EU made valuable contributions to the development of the private sector, notably through policy dialogue, alignment and the clarity of the EU's role in PSD, focused on integration into the world economy. Although the EU has developed a set of instruments for its PSD support, there were however some weaknesses in terms of complementarities and synergies between different mechanisms;

- **EU PS needs to be supported even if to a moderate extent with incentives rather than with subsidies.** Without incentives, why the EU Private Sector should take the risk to invest in partner countries? To this respect, the conclusions of the Commission 2003 PSD are relevant: "The Commission's 2003 PSD Communication stress the importance of increased FDI, alongside domestic resource mobilization, in terms of increased knowledge transfer and development of management skills. Specifically, the Communication describes increased FDI as one of the reasons motivating investment promotion activities in third countries";

- **Access and understanding of the Blending mechanism is unclear exception made for the German and French financing institutions.** This implies that for stakeholders from other EU MS (e.g Italy), access to blending remains uneasy. The PSD evaluation 2013 (ADE) confirms this approach: "Conclusion 4. Aid Architecture (on Blending). There was however very little active coordination of EU support mechanisms and an absence of clear communication regarding the EU's overall support architecture created some stakeholder confusion";

- **Poor Interconnections between EU companies and PS of the developing countries.** These programs have demonstrated a strong EU value added by contributing to broader policy objectives and facilitating interconnections between European companies. Interconnections between EU companies and PS of the developing countries was poorly developed.

---

1 Summarized from: WB blog.org FDI is a global force, but is it a force for good? Presented by Kusi Hornberger 2011-03-24.

3. Replies to Q10, 13 and 14

Q10 What best practices in SME support are available in the EU that could be relevant in development cooperation? How can EU SME internationalization policies contribute to the achievement of development goals?

Reply
The following list presents a selection of the best practices in SME support promoted by the EC and then adopted by the MS. The 2013 PSD Evaluation underlines that*: "A number of opportunities were furthermore missed, notably in terms of ensuring that the PSD expertise existing in different EU internal market DGs was made available for PSD support in third countries".*

The Small Business Act (SBA)
Adopted in June 2008, the Small Business Act for Europe reflects the Commission's political will to recognize the central role of SMEs in the EU economy and for the first time puts into place a comprehensive SME policy framework for the EU and its Member States. It aims to improve the overall approach to entrepreneurship, permanently anchor the 'Think Small First' principle in policy making from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development. The Small Business Act for Europe applies to all independent companies which have fewer than 250 employees: 99% of all European businesses.

Simplification of start-up procedures
One significant barrier to more entrepreneurs has been the time taken and the costs involved in the administrative procedures to start up and run a small enterprise. In 2006, the Council set a number of ambitious and concrete targets to facilitate start-ups throughout Europe before 2008. In 2008 these commitments were taken up and renewed by the SBA and the December 2008 Competitiveness Council with a set of wider and more ambitious targets.

Guarantee funds to support SMEs
The majority of SMEs are confronted with difficulties in access to credits lines. This is due to weak and non-evidence based business plan and lack of real collaterals. Several experiences have been developed both in EU and developing countries thank to UNIDO support. Experiences with Structural Funds are inspiring to this respect. For example in Italy, selected local authorities launched Guarantee Funds to be used as collateral for SMEs going to commercial loans. UNIDO has already promoted similar experiences in west Africa with M and SMEs.

Guarantee funds for SMEs exports
One of the constraints to generate local business and employment opportunities is to boost foreign trade between developing countries and versus EU countries. Therefore, there is need to guarantees international confirming banks, shouldering the political and commercial payment risk of transactions undertaken by issuing banks in the countries where the Bank operates. This baking component should be integral part of the sectoral programms by strengthening the ability of local banks to provide trade financing and through these banks gives entrepreneurs throughout our countries of operations the support they need to increase their access to their import and export trade;

Models to reduce the disproportionate regulatory burden on SMEs
A group of national experts designated by participating countries collected information on the various models that have been used successfully by Member States to reduce the burden of public regulation, in particular the burden on SMEs. Such models include e.g. total, partial or

temporal exemptions of small businesses from regulation, simplified rules, special information and assistance, electronic services and a privileged treatment of small businesses by public administrations.

Q13 How can EU sectoral support programmes be designed to generate local business and employments opportunities for the local private sector

Reply
According to the PSD evaluation, too much focus has been given to the macro- and meso-levels (institutional and regulatory frameworks, access to finance, and some elements of support to enterprise competitiveness) rather than at the micro-level (support to microenterprises and non-financial support to SMEs).

The overall focus of this issue paper is on the role of the **PS as job creation**. In order to have this vision translated into policies it is necessary that the concept of “job creation” be applied in operational terms in the same way as issues as Women in Development (WID) or Environmental Impact Assessment (EIA) are now integral part in the programming phase and in programme and projects appraisal.

To the best of our knowledge, the priority “Job creation” is not yet on the top of the development agenda in terms of programming. FEACO deems that exiting and future programmes such as budget support, blending instruments that have been designed in favor of the PSD must include a “Job Creation” impact.

Q.14 Do you consider that there would be a value added to put in place in partner countries an EU "forum/platform" to facilitate/enhance in particular local and EU SME and business contacts and investments?”

Reply

Background
When investors think about entering new locations their biggest need—and biggest challenge—is often how to access the information they need to help them make decisions. Reliable information—especially in emerging markets—helps to reduce investor perceptions of risk in an unknown location and reduces the transaction costs of establishing in a new market. Internet expansion in the world economy has induced a quantitative and qualitative leap in global knowledge flows. Web-based applications are transforming productivity potential of traditional activities. The digitalization of services is accelerated by unprecedented capabilities, created by interdependent innovations such as: Social media, Cloud computing, Mobile, Big data.

The role of an EU electronic platform
The facilitation of business contacts and investments can be up scaled by an EU electronic platform provide that:

- Act as an **electronic linkage service**: (matchmaking function) allow direct business contacts between the EU and partner countries;
- **Consolidate the investment dialogue** between prospective buyers and suppliers to promote new opportunities, address investment gaps and identify market needs;

- Act as **an online information network**: provide information on local markets and the business environment (country intelligence, regulatory framework etc.).
- Complement exiting and does not overlap with national initiatives.

This electronic platform could also propose information on local regulation in partner countries (licensing, registration and taxation) to simplify investment decisions. It can be complemented by additional online services: contract templates, standard conditions for payment, guarantee funds to formalize co-operation agreements.

Available to international stakeholders such as investment promotion agencies or EU Delegations, this “one stop shop” can reduce operating costs of information activities and avoid the dispersion of resources. It will furthermore overcome operational weaknesses identified in previous program implementation, and especially for demand-led actions. It will notably ensure:

- A sustainable and uninterrupted business-to-business cooperation;
- The flexibility of matchmaking activities, thereby increasing the participation of LDCs.

Digital and online solutions can play a catalytic role in growth and development strategies going beyond existing investment paths. Integrating local and EU firms to international trade and investment through a **direct knowledge transfer service** would play a key role in the creation of dynamic industrial bases in developing countries.