

Europe's huge opportunity: mobilising the private sector for development

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“Team Europe” is a space that allows for strengthened cooperation across European development finance actors. For the European DFIs, strengthened cooperation with EU institutions will be key to enabling the European response to address the challenges of private sector development and private sector mobilisation to fill the investment gap.

In 2019, the UN Secretary-General estimated the shortfall in financing needed to achieve the Sustainable Development Goals (SDGs) in developing countries to be USD 2.5-3 trillion per year. However, in 2020 official development assistance (ODA) amounted to only USD 161 billion.

TEAM EUROPE

The “Team Europe” package was launched in April 2020 to support EU partner countries in the fight against the Covid-19 pandemic and its consequences. It includes the EU, Member State institutions, national development agencies, European DFIs, the EIB and the EBRD in an unprecedented coordinated effort.

It will not be possible to close this gap with public funds alone. In contributing to this effort, the EU will need to mobilise private capital, to “build back better” together and support partner countries in their common efforts towards more inclusive, green and digitalised economies. Partner countries’ private sectors, as well as European micro, small and medium-sized enterprises (MSMEs) play an important role, not least through innovation and investment, but also through the jobs they create.

The EU’s renewed strategy with Africa as endorsed at the summit with the African Union in February 2022 clearly highlights this message: sustained economic transformation and growth across the continent will happen with a dynamic private sector that draws on the creativity and entrepreneurship of all of Africa’s people – in particular its women, youth and vulnerable populations. Promoting partnerships helps to achieve these objectives. For the EU, this means working together with the private sector in partner countries and in Europe. It also means reinforcing coordination with EU Member States and European development financial institutions in a ‘Team Europe’ approach.

THE EU’S RESPONSE: ENABLING THE PRIVATE SECTOR TO FLOURISH

The EU supports private sector development and SMEs in its partner countries and seeks to strengthen the win-win nature of the links between local and European businesses wishing to operate overseas. As such, the EU supports partner countries in their efforts to promote industrial development, investment in infrastructure, digitalisation, and renewable energy, and to improve their competitiveness. It works with them to develop local and regional markets, facilitate trade, advance regional integration and make value chains more sustainable.

The African Continental Free Trade Area is one of the key accelerators for sustained economic transformation and growth in Africa. The EU supports it with the aim of creating a single continental market for goods and services, strengthening regional integration and making regional and global value chains more sustainable.

Additionally, the EU works with partner countries to create the right ecosystems and enabling environments, through strengthening policy and regulatory frameworks, developing skilled workforces, and improving investment climates. In 2020 alone, the EU’s backing for business environment reforms in sub-Saharan Africa amounted to almost EUR 500 million. It supports sustainable growth and decent jobs in partner countries by promoting decent work, as well as by supporting actions aimed at preventing child and forced labour.

Further, the EU promotes public-private dialogue and engagement of the private sector for development. To do this, it facilitates dialogue between the private sector and international financial institutions with the goal of improving the investment climate and leveraging private capital. The EU also combines technical assistance to both the private and public sectors with greater access to finance for businesses through instruments such as the European Fund for Sustainable Development Plus (EFSD+).

THE EU’S NEW FLAGSHIP INITIATIVE: GLOBAL GATEWAY

On 1 December 2021, the European Commission launched Global Gateway, the new European connectivity strategy, based on five policy priorities: digitalisation, climate and energy, transport,

health, and education and research.

Global Gateway aims to mobilise up to EUR 300 billion in investment by 2027 to support a sustainable, digital and green global recovery, taking into account both partners' needs and the EU's priorities.

It stands for sustainable connections that work for people and the planet, to tackle the most pressing global challenges, from climate change and protecting the environment to improving health security and boosting competitiveness and global supply chains.

The private sector will be a crucial partner in achieving this ambitious target: to scale up infrastructure investment and deliver benefits and protection to the EU's partners in tackling today's most pressing challenges.

Global Gateway provides an enabling environment by promoting attractive investment and business-friendly trading conditions, regulatory convergence, standardisation, and the integration of supply chains and financial services.

The Gateway's projects will be developed and delivered through Team Europe Initiatives. These initiatives will work with European businesses as well as with governments, civil society and the private sector in partner countries.

The Union's new external spending instrument - the Neighbourhood, Development and International Cooperation Instrument (NDICI), or "NDICI-Global Europe", is part of the EU's current long-term budget up to 2027, known as the Multiannual Financial Framework.

Within NDICI-Global Europe, the European Fund for Sustainable Development Plus (EFSD+) will offer up to EUR 53.4 billion in External Action Guarantee capacity. It will have global coverage, including the EU Neighbourhood, Africa, Latin America, the Caribbean, Asia and the Pacific.

EFSD+ is a continuation of the successful EFSD, which ran until 2020. The new instrument will multiply its resources by ten - and go global.

It provides financial guarantees, blended finance, and technical assistance; it will help to de-risk and mobilise private investment, improve the investment climate, advance economic integration that supports entrepreneurs, SMEs and start-ups, and in this way bring concrete benefits to local communities.

In order to benefit from the range of financial instruments, the private sector will have to engage with European and non-European development financial institutions, which will manage the investment programmes, backed by the guarantees.

Through close collaboration with the business community, financial institutions and policy-makers, the EU aims at mobilising additional finance to bridge the gap towards the SDGs in its partner countries and to build back better, leaving no one behind.