

European Union support for the private sector

European Union technical assistance is implemented at micro-, meso- and macroeconomic level to encourage growth and benefit different sectors of the population, including the poorest. Programmes aim to incorporate developing countries in the international trade loop by involving numerous economic stakeholders and taking social considerations into account. An in-depth look at one of the development drivers implemented by the European Union.

Jan ten Bloemendal, Alessandra Lustrati et Sonia Pagliaro

European Commission

The technical assistance funded by the European Union (EU) to strengthen the private sector in developing countries takes place in the inter-related fields of Trade and Private Sector Development (TPSD). These are 'two sides of the same coin' and may also form part of the support framework for regional integration. TPSD programmes consist mainly of technical assistance in specific areas, such as enhancing the business-enabling environment, and improving business development services and access to finance. Such technical assistance is delivered at different levels of intervention (macro, meso, micro), with national or regional dimensions. The European Commission seeks to deliver sustainable technical assistance by promoting the development of local exper-

tise and institutions. It also explores technical assistance for innovative models of inclusive business¹ and stronger synergies with development financial institutions.

THE 'QUALITY' OF ECONOMIC GROWTH AND AID FOR TRADE

Effective, long-term poverty reduction requires economic growth models that allow people to generate wealth and benefit from it in their own country. Both the quantity and the pattern (or 'quality') of economic growth determine whether the poor can benefit sustainably from this process. Promoting pro-poor, inclusive growth is a key objective of EU interventions in TPSD.

The European Commission recognises the correlation between trade openness, private sector performance, economic growth and poverty reduction. Reducing a country's trade barriers can benefit enterprises and consumers, while trade and investment links with other countries introduce new technologies and more efficient production processes. However, changes in trade can impact local communities differently, depending on changes in prices of goods and services, enterprise profits and wages, taxes and other transfers. Trade-based growth should, therefore, be inclusive and pro-poor, at both national and regional levels. Corroborated by the global Aid for Trade (AfT) initiative, launched in 2005 by the international donor community² and by the EU AfT strategy, the connection between trade-related assistance and private sector development is the point of departure for designing the TPSD technical assistance programmes of the Euro-

JAN TEN BLOEMENDAL, ALESSANDRA LUSTRATI ET SONIA PAGLIARO

Jan ten Bloemendal works for the European Commission. From March 2005 to June 2011, he was head of the 'Business, Trade and Regional Integration' unit of EuropeAid, in charge of thematic support to development programmes financed by the European Union (EU) in third countries.

Alessandra Lustrati is a Trade and Private Sector Development (TPSD) specialist with 16 years of field experience with international agencies in Sub-Saharan Africa and the Middle East. From 2008 to 2011, she worked with the European Commission in the 'Business, Trade and Regional Integration' unit of EuropeAid, where she was in charge of thematic support to EU-financed development programmes in South and Central Asia.

Sonia Pagliaro is a TPSD specialist with 20 years of experience working for several donors and international agencies in North Africa and Asia. From 2008 to 2011, she has also worked with EuropeAid in the 'Business, Trade and Regional Integration' unit, where she was in charge of thematic support to EU-financed development programmes in West Africa.

¹ An inclusive business is a sustainable business that benefits low-income communities, by involving the poor not just as consumers, but also as producers and distributors in value chains with pro-poor growth potential.

² The 2005 World Trade Organisation (WTO) Ministerial Meeting in Hong Kong put the spotlight on the Aid for Trade (AfT) initiative, a complementary though separate initiative to the international trade negotiations' Doha Development Agenda.

pean Commission. This corresponds to the 'wider' AfT agenda as an overall approach to integrating developing countries into the international trade system.

The EU addresses TPSD issues in developing countries mainly by providing long-term technical assistance aimed at building the capacities of key economic and institutional players at national and regional levels. Tools such as twinning and financial instruments (e.g. investment facilities), among others, are used.

Figure 1 illustrates how the different forms of trade-related and supply-side support converge to strengthen the local private sector's role in achieving inclusive economic growth and reducing poverty. Local enterprises are at the centre of TPSD interventions: they are designed to enhance firms' capacities (micro level) and their access to adequate services (meso level) and to the wider environment in which they operate (macro level). This holistic approach delivers needs-based assistance at appropriate levels and encourages systemic change rather than benefiting only individual firms.

INTERVENING AT THE APPROPRIATE LEVEL AND IN THE KEY AREAS OF TPSD

Given the complexity of TPSD, it is important to strategically focus the relevant technical assistance. The framework in Table 1 identifies the possible level(s) and types of intervention, based on local context and stakeholders' needs and priorities. Macro-, meso- and micro-level interventions can take place in parallel, as an integrated strategy. Alternatively, emphasis may be placed on just one or two levels. Although an enabling environment is a prerequisite for sustainable growth, focusing technical assistance only at the macro level is insufficient to stimulate economic development.

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Most EU assistance is designed to develop the capacity of partner countries' economic and institutional actors at the macro- and meso-level. This contributes towards the enhancement of *competitiveness* as a function of *productivity, diversification and quality* levels. While support of firms may be useful, direct technical assistance to key enterprises (or groups thereof) ▶▶▶

TABLE 1: EU TECHNICAL ASSISTANCE IN TPSD: LEVELS AND AREAS OF INTERVENTION

Macro level	<ul style="list-style-type: none"> • Improving the business enabling environment, and investment climate through review and reform of policy, legal and regulatory frameworks (for example, business registration, licensing and taxation), and through developing the capacity of relevant public institutions and agencies.
Meso level	<ul style="list-style-type: none"> • Improving the financial services environment for MSMEs, for example, by revising financial sector policies, banking regulations and supervisory systems. • Improving the trade-related environment through assistance on: trade policy (policy formulation and trade negotiations); trade facilitation (customs legislation, system harmonisation and capacity building of customs authorities); quality systems (developing legislation on SPS/TBT and capacity building of competent authorities). • Enhancing the access of local enterprises (especially MSMEs) to advocacy functions and business development services (BDS) (managerial or technical training, product design, organization of production, marketing) by, for example: building the capacity of business intermediary organisations and local BDS providers; introducing incentives for MSMEs to use BDS services; supporting relevant networks/platforms. • Improving MSMEs' access to finance by, for example: strengthening the capacity of local financial institutions; developing appropriate financial products/services; building the financial infrastructure (credit bureaus, collateral registers, service providers). • Promoting investment in the local economy through, for example: providing assistance to develop Investment Promotion Agencies; preparing investor guides/online resources; facilitating investment projects involving local firms and international enterprises (through brokering and matchmaking). • Enhancing private sector capability to meet trade-related requirements (quality, customs, etc.), for example by providing technical assistance to trade associations on dissemination and capacity building on these subjects, and by assisting compliance bodies, businesses and consumer associations with quality-control systems.
Micro level	<ul style="list-style-type: none"> • Increasing capacities of value chain actors concerning productivity, innovation and market access, through technical assistance at the firm/cluster level. • Facilitating MSMEs' access to finance, for example by disseminating information among MSMEs, helping firms prepare bankable business plans, and conducting pre-investment feasibility studies and due diligence assessments.

Nota bene: MSMEs means micro-, small- and medium-scale enterprises; SPS: sanitary and phyto-sanitary measures; TBT: technical barriers to trade
Source: European Union

Technical assistance, a development tool serving the private sector

▶▶▶ should be limited to where the market mechanism is ineffective: for example, to unlock the potential of a cluster, address a value chain bottleneck, or stimulate processes with positive spill-over and/or multiplier effects.³ While assistance delivered through a TPSD programme directly to individual enterprises might be needed in the short term, it could also involve local organisations 'learning on the job', with the aim to develop a local and sustainable business development services (BDS) market.

Apart from factors affecting access to markets, developing countries tend to face internal supply-side constraints that inhibit economic growth due to the limited competitiveness of their economies.

Different approaches to enhancing competitiveness can be adopted: for example, sector-based approaches, *value chain development*, *cluster development* and *industrial upgrading*, can all contribute to strengthening the productivity of local firms. These methods can be adopted in various combinations.

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Addressing cross-cutting issues is also within the ambit of EU-funded TPSD technical assistance programmes: it includes the promotion of gender equality and decent work, the fight against HIV/AIDS, the protection of human rights and environmental concerns. For example, assistance is provided to national authorities and intermediary organisations to enhance their capacities to help the private sector employ environmentally-conscious methods of production.

IMPROVING THE CAPACITY OF A WIDE RANGE OF TPSD STAKEHOLDERS

The recipients of technical assistance for TPSD include policy-making institutions, government ministries and regulatory authorities, as well as chambers of commerce, business associations and BDS providers. Such industry bodies connect public sector and business, as they undertake advocacy and lobbying activities, and provide advice and information to small and medium-scale enterprises (SMEs). Trade unions, civil society organisations, universities and research institutions can also benefit from technical assistance, for example by improving their capacity to assess industry needs and to interact with the enterprise sector. The financial sector also plays a key role: finance and investment are vital for productivity increases and for innovation.⁴ Regulatory bodies, credit bureaus, banking training institutes and individual finan-

cial institutions can benefit from technical assistance to better understand the needs of specific industry segments, and to enhance their contributions to a financial sector conducive to TPSD.

EFFECTIVE IMPLEMENTATION OF TPSD

TECHNICAL ASSISTANCE

The EU support to TPSD is mostly delivered through national programmes, and less frequently via more articulated regional programmes. The European Commission seeks to develop synergies between national and regional programmes providing technical assistance in the areas of trade facilitation, quality infrastructure and harmonisation of the business environment. These areas are key to regional integration between countries with markets of a very small size and limited capacities.

EU-funded technical assistance is delivered through a variety of implementing bodies, depending on needs, opportunities and comparative advantage, such as experience in a specific area, long-term presence in a partner country, and support of complementary activities.

The Commission's technical assistance activities aim at consistent quality, effectiveness and sustainability (of the assistance and of its outcomes). Besides reforming 'technical cooperation' (focused on capacity development and on country-owned implementation arrangements), the Commission has an internal quality management process designed to verify and develop the technical, methodological and procedural soundness of each project. This involves scrutiny by thematic, geographic coordination, finance and contract units, and by the EU delegations submitting project proposals. Since 2008, the Commission has offered a fully revised internal training programme to enhance the skills of EU staff involved in TPSD programmes. As a tool for thematic support to colleagues in headquarters and country offices, the Commission also developed the 'Reference Document on Trade and Private Sector Policy and Development', which deals with TPSD in an integrated manner.⁵

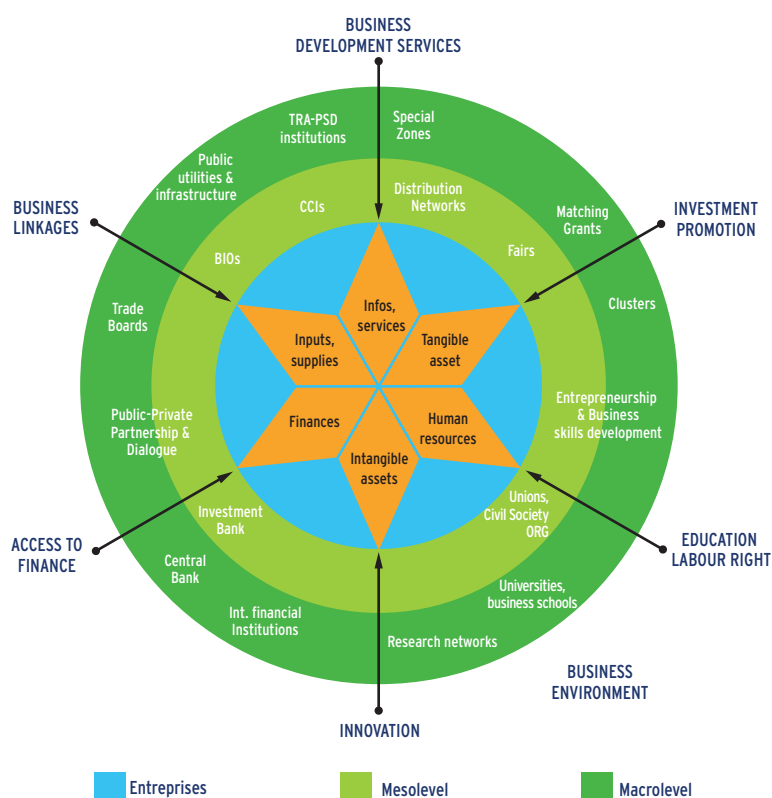
"Most EU assistance is designed to develop the capacity of partner countries' economic and institutional actors at the macro- and meso-level."

³ This might entail working directly with a 'lead firm' in a significant segment of a local value chain: The enhanced performance resulting from technical assistance brings about benefits in terms of income and employment generated, both to the firm and other local actors through its backward and forward linkages.

⁴ Financial partners may also provide advice on business strategies and plans.

⁵ This document will be available as from mid-2011.

FIGURE 1: CONVERGENCE OF DIFFERENT FORMS OF TRADE-RELATED AND SUPPLY-SIDE SUPPORT, STRENGTHENING THE ROLE OF THE LOCAL PRIVATE SECTOR



*Nota bene: CCI means chambers of commerce and industry;
BIOs: business intermediary organisations; TRA: trade-related assistance; PSD: private sector development
Source: European Union*

TECHNICAL ASSISTANCE CAN HELP THE PRIVATE SECTOR ENGAGE IN DEVELOPMENT

While the European Commission supports TPSD in various manners, it also explores ways of enhancing the private sector's engagement as a driver of development. This may include testing and developing 'inclusive business models' in order to promote pro-poor PSD and sustainable growth. For example through financial or technical support to local or international companies to assess project feasibility, develop appropriate partnerships or broker investments. It may also entail broadening access to finance for local SMEs, for example by building the technical, managerial and financial capacity of the local financial sector to increase its outreach to larger segments of local business (including agribusiness) and by utilising grant resources to reduce risk (in both equity and debt financing) through blending mechanisms.

Finally, EU support seeks opportunities to leverage the private sector's role and investment in the delivery of public goods, for

example, by exploring support for forms of PPPs in areas like energy, infrastructure, water, health, education and vocational training, or by supporting the blending of loans and equity with grants for essential infrastructure investment projects.

Making use of such additional opportunities would complement and strengthen the types of TPSD technical assistance addressed in this article, which remain a key to building the productive and trading capacities of developing countries. In this regard, there will be great interest for the outcomes of the two global evaluations initiated at the beginning of 2011 by the European Commission on its trade-related assistance and private sector development interventions. •