EU Consultation

REF. RCEU 02/2014 – 002

Contribution to the preparation of the EC Communication on «Strengthening the Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries».

February 2014

Development

Recommendations of the Red Cross EU Office on behalf of its members: National Red Cross Societies of the Member States of the European Union and the International Federation of Red Cross and Red Crescent Societies (IFRC)[1]

The Red Cross EU Office welcomes the commitment of the European Commission's department for Development & Cooperation (EuropeAid) to work on the topic of strengthening the role of the private sector in achieving inclusive and sustainable growth in Developing Countries (EU Issue Paper) and would like to share its positions as follows:

General remarks

1. The European Union National Societies of the Red Cross (EUNS) and the International Federation of the Red Cross and Red Crescent Nationals Societies (IFRC) recognise the need to engage the private sector in achieving inclusive and sustainable growth in Developing Countries.

2. The main goal and responsibility of the private sector is, and should continue to be, to obtain profit through competitive business. Public authorities have the responsibility to set and implement the necessary policies for inclusive and sustainable growth in Developing Countries and support the Civil Society Organizations (CSO) to share that mandate. The private sector supports inclusive and sustainable growth in Developing Countries by contributing through their taxes and through collaboration with public authorities and CSOs when the main goal of profit through competitive business makes it possible to do so.

The European Union's most efficient tool to engage the private sector in achieving inclusive and sustainable growth in Developing Countries is its trade policy.

3. The European Union's most efficient tool to engage the private sector in achieving inclusive and sustainable growth in Developing Countries is its trade policy. Goods and services can be produced in ways that favour Sustainable Development Goals and transformation toward a green economy. Promoting trade in green goods and services, whilst deterring trade in those that do not meet such standards, is the most effective way of engaging the private sector to achieve those goals.

Danville Palmer runs a shop for assorted drinks, which was set up with the support of Jamaican Red Cross under the Micro Economic Initiative (MEI) Hannahtown, Kingston, Jamaica, 2010.

© Nigel Dickinson/ICRC

4. The private sector is varied and the various types of private sector organizations play different roles in achieving inclusive and sustainable growth in Developing Countries. International corporations can have a key role in know-how transfer and financial resourcing. On the other hand, small local enterprises, especially cooperatives, can be key in creating jobs with good social conditions at community level. These different types of private sector organizations have various motivations, interest and goals. They also have different capacities to participate and influence in policy decision-making. For all these reasons, strengthening the role of the private sector to achieve inclusive and sustainable growth in Developing Countries requires different policies for each type of private sector organization.

1. Including the Norwegian Red Cross as members of the Red Cross EU Office.

An updated strategy for EU Private Sector Development (PSD) support

Business Environment

The EU should promote the representation of small local enterprises, especially cooperatives, in national discussions on business environment reforms.

Issue 1: Better targeted business environment reforms

The EU should not target the regulatory constraints imposed on particular industries and sectors in partner countries. Instead it should focus on improving the general investment climate (e.g. improving public administration, fighting corruption), and promoting the representation of small local enterprises, especially cooperatives, in national discussions on business environment reforms.

In any case the EU should not use its political weight in policy dialogue, trade agreement negotiations or budget support to secure particular business environment reforms in partner countries, as such reforms should be the product of free discussions and decision-making within that country.

Issue 2: Increasing the employment impact and poverty focus of PSD support

The primary goal of the private sector is to obtain profit through competitive business. As a consequence, a particular enterprise will generate employment, contribute to better labour standards and worker rights, or promote cross-cutting issues, if they are compatible with the profit motive or if there is a legal obligation to do so.

For this reason, the development of trade policies that promote trade within the EU of goods and services produced under certain conditions (gender balance, youth employment, salary or working conditions, etc.) is the most efficient instrument the EU has to achieve its EU PSD goals.

Quality of Employement

The EU should include labour rights, safety at work, and enforcement of labour legislation and business taxation in the dialogue with partner countries and private sector representatives.

Companies can also contribute to better labour standards and worker rights if these have a positive impact on their markets. This requires their main markets to be local ones. Governments can encourage this by properly taxing the carbon footprint of transportation.

The private sector cannot contribute to improving the conditions of firms and workers in the informal economy. This can only be achieved by public authorities and CSOs (mainly trade unions) and EU PSD should support them in that effort.

In addition, the EU should integrate questions related to labour rights, safety at work, and enforcement of labour legislation and business taxation within the dialogue on private sector development with partner countries and private sector representatives

Finally, the private sector is part of the community affected by disasters. It should therefore contribute to and benefit from disaster risk management measures in proportion to the capacities and needs of the sector. PSD activities should include awareness on these facts and facilitate the inclusion of private sector in disaster risk management.

Issue 3: Stepping up EU support to (M)SMEs

EU SMEs are best placed to contribute to the development goals aimed at reducing poverty and social inequality in the EU. In this regard, EU SMEs could provide a more robust contribution to local development goals. The globalization of EU SMEs could have a positive impact on development goals if it is linked to the development of cooperatives and SMEs in Developing Countries, for instance, by participating in the commercialization of their goods and services in the EU.

Domestic firms and industries in Developing Countries can be better integrated into global value

chains if they have access to these chains. Public policies can support this process by facilitating access to global markets of domestic firms and industries.

Vocational Education Training (VET)

VET should be part of a public education system and be universal to avoid excluding low income population. Private sector engagement in VET is essential to increase its adequacy to market needs.

In order to promote innovation, technology development and transfer, and to ensure learning opportunities and adoption of new technologies (including clean and low-carbon ones) in developing countries, the EU could continue using grants, soft loans and facilitating events, but it could also use trade policies linked to the production conditions of goods and services for this purpose.

EU sectoral support programmes can generate local business and employment by supporting the development of cooperatives and small local enterprises where local communities are directly involved, as well as by backing measures taken by public authorities to protect local business.

Better linked and coordinated SME support services by EU Member States in partner countries under a common national EU SME support platform or forum would add value to the support of (M)SME

Issue 4: Vocational Training and Capacity Development

In order to improve the definition and implementation of vocational education and training (VET) the EU should encourage SMEs to have a stronger representation in any dialogue on the definition and implementation of reforms and VET programmes, so as to give a stronger voice to their specific needs vis-à-vis larger enterprises.

With regard to the provision of capacity development services, VET should be part of a public education system which is supported by the private sector to increase quality and adequacy to market needs, with private sector support to cover the costs of the system being articulated through the payment of taxes. Access to VET should be universal to avoid excluding low income population.

'A woman prepares food for sale at a relocation site in Antipolo, Rizal, where the Red Cross is constructing homes for 1,100 families with the support of the EU. As well as receiving accomodation, she obtained a livelihoods grant with which she started her small business.

© Cheryl Ravelo/IFRC

Issue 5: Access to Finance

Ideally financial institutions should operate without public intervention, and assume the related risks. EU support using public funds to reduce private risks of financial institutions should be linked to quantifiable objectives. Participating financial institutions should be responsible for the achievement of those objectives and be subject to regular evaluation of their performance.

EU engagement with the private sector for development

Issue 6: Working in closer partnership with the private sector

One of the risks for donors like the EU of engaging directly with the private sector is the potential conflict of interest between the goals of the enterprise and the values and objectives of the EU.

The minimum criteria to be applied for managing these risks should be that the corporate partner must in no way be knowingly or willingly engaged in activities that run counter to the EU's objectives and fundamental principles, to the principles of international humanitarian law, and to internationally recognized standards as embodied in the Universal Declaration of Human Rights of 1948, the Declaration on Fundamental Principles and Rights at Work of 1998, the Convention on the Elimination of all Forms of Racial Discrimination of 1965 and the Convention on the Elimination of Discrimination against Women of 1979.

Additionally, it is not obvious that EU blending mechanisms should be made them more relevant and attractive to private sector investors. Blending mechanism should not upset the market by becoming an alternative to the private financial system and they should be strictly linked to the same conditionality and controls as any other financial instrument used by the EU to support CSO projects. Private sector use of blending mechanisms should not be based on the wish to reduce private risk, but the result of engagement by the enterprise with the objectives of the particular blending mechanism.

Public Services Delivery

Promoting grass root cooperatives at community level and supporting MSME is a proven way to use the private sector as the "delivery channel" for development. The EU should promote private sector engagement in the delivery of public services on a case by case basis and following evidence-based criteria not ideological principles.

Issue 7: Using the private sector as "delivery channel" for development

In our Red Cross experience, the engagement of private sector (especially international corporations) in the provision of public services is dependent on there being a profit for the provider. This, very often, contributes to the transformation of a right into a service. The profit is normally obtained by investing in training and equipment, and reducing costs in human resources by reducing the number of employees and their working or salary conditions.

In our Red Cross experience, promoting grass root cooperatives at community level and supporting MSME is a proven way to use the private sector as the "delivery channel" for development. Privatizing public services is not. In consequence, the EU should promote private sector engagement in the delivery of public services on a case by case basis and following evidence-based criteria not ideological principles.

Private-Public Partnerships (PPP) can be an effective tool for delivering infrastructure services and public goods under the following conditions:

1. The need for the infrastructure service or public good should respond to the needs of the community; therefore the participation of the community in the decision-making process must be guaranteed.

2. The need for the infrastructure service or public good should be imminent and essential, and no other alternative method of finance should be available.

3. PPP will always involve an extra cost in order to provide the private sector with the profit they need and such profit should be limited and reasonable.

4. The PPP should include a cancellation option for the public authorities at no cost to the public budget.

'Providing emergency, life-saving interventions while focussing on long-term community resilience is at the basis of the "twin-track" approach promoted by the Red Cross.

© Yoshi Shimizu / IFRC

Issue 8: Private sector contributions to inclusive growth:

The EU should actively engage with companies to encourage innovation and facilitate private sector investment in low-income markets. The emergence of the inclusive business concept is an important qualitative improvement. There are however important barriers that mean these 'inclusive' initiatives are small and isolated.

Some of the challenges are too systemic to be addressed solely through business innovation by the private sector. Collaboration with other actors (what in the relevant literature various authors call "engaging the ecosystem") is necessary.

Innovation

The EU should actively engage with companies to encourage innovation and facilitate private sector investment in low-income markets.

An inclusive business model needs the support of four different actors to succeed:

a) Policymaking institutions must create incentives for companies to use inclusive business models.

b) Research institutions are needed to provide empirical studies showing how best to address an issue, while advocacy institutions makes the case for engagement and mobilize public awareness and support (advocacy initiatives can also be effective hubs for knowledge and for contacts to other businesses or partners in other sectors).

c) Finance institutions can help to fund initiatives.

d) Finally, institutions with complementary capabilities can help to implement the initiatives by adding expertise and operational capacities.

Business actors that enlist the help of these four types of institution can most effectively contribute to meeting sustainable development through the use of inclusive business models. In turn, the supporting actors that fall into these four institutional types—including government policymakers, research and advocacy initiatives, foundations and social investors, non-governmental organizations (NGOs) and public-sector agencies—can work with business to reach their own objectives more effectively and efficiently. For one thing, business can offer expertise, resources, operational capacities and management know-how (abilities that often are complementary)."

Various structures are possible for an inclusive business ecosystem:

1. Private initiatives are the default approach, although only bigger companies can afford them, while major problems of incentivisation in many developing countries often make private initiatives not the most suitable approach.

2. Project based alliances, where two or more players commit to carry out inclusive business (eg. one party undertakes capacity building and the other sources from those trained).

3. Platform alliances, which are formal networks in which a potentially large number of stakeholders participate, endorsing certain principles and conditions (eg. payment of fees).

Green Economy

The most efficient way to promote private sector investment in green industries is through trade policies that promote the commercialisation of goods and services based on green technology.

Inclusive business terminology can be applied to four situations:

1. Commercial businesses selling mobile phones, banking services, health services or other products that are needed by the poor and have high development impact. These businesses inherently combine high commercial and social value

2. Large companies that have a considerable footprint on poverty in the normal course of their business, and take deliberate action to expand development impacts through supply and distribution chains, or research and development.

3. Small and medium domestic enterprises that are fully commercial businesses but have local economic development as an explicit driver, because they are embedded in the local economy.

4. Social enterprises whose core product is of high social value, and have chosen to replace the traditional non-profit model of delivery with market mechanisms and a commercial model of delivery."

All the above situations are examples of how different private sector actors can adapt their core business, not only to avoid damage ("do no harm" principle), but to contribute to greater development impacts, while still being driven by commercial principles. Inclusive business is the next frontier and the way forward for sustainable businesses looking to take traditional Corporate Social Responsibility to the next level.

There is a growing number of new case studies that can provide important insights into the motivation and drivers behind various business models, the role of partnerships, financing and scalability. The evidence, however, is still too broad and anecdotal to draw conclusions on the developmental significance or distributional impact of this approach on the poor.

A household in Morocco equiped with a solar panel.

© BP Solar.

The role of the private sector in international development processes

Issue 9: The role of the private sector in the transformation towards a green economy:

The most efficient way to promote private sector investment in green industries and innovation in developing countries is through trade policies that promote trade in goods and services based on green technology, whilst deterring trade in those that do not meet such standards. These trade policies should not only apply to goods and services from third countries but also to those produced in the EU.

This could be complemented with policies to promote green economy investment and know-how transfer to third counties.

Issue 10: The role and responsibility of the private sector in a post-2015 framework:

The EU should promote post-2015 goals and targets that focus on the reduction of unequal distribution of income, power and resources. These issues are becoming more prominent, especially as they have been identified as one of the main development challenges and key shortcomings of the MDGs. Inequalities make growth less effective in reducing poverty and lead to economic instability and social unrest, which many emerging countries are expressing as their main concern. Here, the private sector is simply too large and closely integrated into most developing economies to be ignored, so a better alignment of social investment and productive capability is needed.

The international and local private sector should be given a responsibility to meet post-2015 goals in areas such as sustainable consumption and production, decent job creation, greenhouse gas emissions, resource efficiency, food security, or energy.

contact

Red Cross EU Office
Rue de Trèves 59-61 Trierstraat
1040 Bruxelles
Belgium
Tel: +32 (0)2 235 06 80
Fax: +32 (0)2 230 54 64
Mail : infoboard@redcross-eu.net
www.facebook.com/RedCrossEU
www.twitter.com/RedCrossEU

About the Red Cross EU Office

The Red Cross EU Office represents Red Cross National Societies in the European Union, as well as Norway, and the International Federation of Red Cross and Red Crescent Societies (IFRC), before the institutions of the European Union. It works to increase the influence of the Red Cross on European Union policies that have an impact on the interests of vulnerable people. The Red Cross EU Office provides support to its members by sharing information, building partnerships and facilitating access to EU funding.

For more information, please visit www.redcross.eu. You can also connect with us on Facebook and Twitter.