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Engaging the European private sector in EU development cooperation and finance

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Donors have made private sector engagement in development a strategic priority, recognising the role it can play in development, and acknowledging that governments' budget and capabilities will not be sufficient to achieve the SDGs. At the EU level, the private sector is expected to help deliver on the objectives of the Global Gateway strategy, based on a Team Europe approach.

This paper aims to shed light on the place of the European private sector in EU development cooperation and development finance, notwithstanding the fact that supporting the European private sector is not an end, but a means to foster more sustainable and impactful development in partner countries. It provides concrete recommendations for EU policymakers on how the European private sector engagement could be best articulated in the Global Gateway strategy to achieve development (economic and geostrategic) impacts.

Moving forward, the EU should prioritise four areas to engage the European private sector, which include:
1. ensuring that the principle of untied aid remains a key principle of EU development cooperation;
2. coordinating better the public support for development objectives and for European economic and commercial interests while respecting a clear separation of mandates;
3. ensuring the inclusiveness of the European private sector engagement in development by strategically involving small and medium-sized enterprises and smaller EU member states' private sector; and
4. providing pragmatic mechanisms and clear strategic entry points for the European private sector to engage in development activities.

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Acronyms

ACP	Africa, Caribbean and Pacific
AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
BAG	Business Advisory Group
CEO	Chief Executive Officer
CODEV-PI	Council Working Party on Development Cooperation and International Partnerships
COHAFA	Council working party on Humanitarian Aid and Food Aid
D4D	Digital for Development
DAC	Development Assistance Committee
DFI	Development finance institution
EABF	EU-Africa business forum
EBCAM	European Business Council for Africa and the Mediterranean
EBOWWN	European Business Organisations Worldwide Network
EBRD	European Bank for Reconstruction and Development
ECA	Export credit agency
ECDPM	European Centre for Development Policy Management
EDFIs	European Development Finance Institutions
EEN	Enterprise Europe Network
EFSD+	European fund for sustainable development plus
EIB	European Investment Bank
EPRM	European partnership for responsible minerals
ESG	Environmental, social, governance

EU	European Union
GBER	General block exemption regulation
INTPA	International Partnership
ITC	International Trade Centre
JEFIC	Joint European Financiers for International Cooperation (comprising AECID, AFD, CDP, KfW)
MARKUP	Market Access Upgrade Programme
MAV+	Manufacturing and Access to Vaccines, Medicines and Health Technologies
M&E	Monitoring and evaluation
MFF	Multi-annual financing framework
MSME	Micro, small and medium-sized enterprise
NDICI-GE	Neighbourhood development and international cooperation instrument – Global Europe
NEAR	Neighbourhood and Enlargement Negotiations
NPB	National promotional bank
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PDB	Public development bank
PSE	Private sector engagement
PSI	Private sector instrument
R&D	Research and development
SDG	Sustainable development goal
SME	Small and medium-sized enterprise
SRPC	Sector Reform Performance Contract
TAIEX	Technical Assistance and Information Exchange
TEI	Team Europe Initiative
TEPP	Team Europe Partnerships Portal
TFEU	Treaty on the Functioning of the European Union
TVET	Technical and vocational education and training
UNIDO	United Nations Industrial Development Organization

Executive Summary

Geared towards addressing sustainable development challenges, the private sector capacities, skills, and financial resources can make a decisive contribution to achieving the Sustainable Development Goals (SDGs). Recognising such potential, and the fact that governments' budget and capabilities will not be sufficient to achieve the SDGs, donors have made private sector engagement (PSE) in development a strategic priority. At the EU level, the private sector is notably expected to help deliver on the objectives of the Global Gateway, based on a Team Europe approach.

In this context, one of the recurrent questions refers to the place of the European private sector in EU development cooperation and development finance, notwithstanding the fact that supporting the European private sector is not an end, but a means to foster more sustainable and impactful development in partner countries. This is the question this report aims to shed light on and analyse, with a view to providing concrete recommendations on how the European private sector engagement could be best articulated in the new EU policy framework in order to achieve development (and geostrategic) impacts.

Overall, this report put forward four main areas that should be prioritised moving forward in engaging the European private sector, including to realise the ambitions of the Global Gateway and to achieve the EU geostrategic objectives.

- Ensuring that the principle of untied aid remains a key principle of EU development cooperation;
- Better coordinating the public support for development objectives and the public support for European economic and commercial interests while respecting a clear separation of mandates;
- Ensuring the inclusiveness of the European private sector engagement in development by strategically involving SMEs and smaller EU member states' private sector; and
- Providing pragmatic mechanisms and clear strategic entry points for the European private sector to engage in development activities.

The report concludes by highlighting a set of recommendations, outlined below.

Key recommendations

I. Strengthening a Team Europe approach and coordination

Recommendation 1: Build and map European private sector engagement expertise and knowledge

Recommendation 2: Identifying traction for private sector engagement at EU level

Recommendation 3: Set up a one-stop-shop for the European private sector

Recommendation 4: Make the Business Advisory Group a strategic tool

Recommendation 5: Encourage DFIs to also work with the European private sustainable investors entailing a strong development added value (including e.g., impact and ESG investors)

II. Bridging the gap between public support for development cooperation and economic interests

Recommendation 6: Build synergies between public support to development cooperation and economic interests, and further develop non-development tools, while respective separate mandates and task division

Recommendation 7: Explore synergies between ECAs, NPBs and DFIs/PDBs activities as part of a Team Europe approach, in particular in the Global Gateway and specific TEIs

Recommendation 8: Distinguish between public support to development cooperation from economic interests

III. Ensure inclusiveness of the European private sector engagement and explore further opportunities to involve EU SMEs in development

Recommendation 9: Mainstream European SMEs considerations in any existing and/or new instruments

Recommendation 10: Tailor the public procurement opportunities to European SMEs needs and constraints

Recommendation 11: Consider the opportunity of giving priority to engaging with the European private sector over engaging with companies from geostrategic and systemic rivals

IV. Explore the need to adapt the regulation framework on state aid rules and de minimis

Recommendation 12: Explore the need to adjust and update EU regulations by adapting the scope of the General Block Exemption Regulation or following other (more pragmatic) alternatives and approaches

V. Monitoring and reporting systems, geared towards development impact

Recommendation 13: Strengthen M&E process around PSE instruments to foster continuous learning

1. Introduction

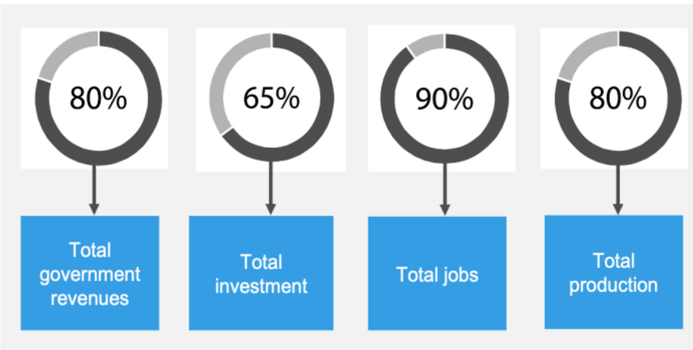
What is the place and what are the roles of the European private sector actors in the development cooperation and development finance endeavours of the European Union (EU)? How can the European private sector best contribute to the development objectives of the EU and take advantage of the EU development cooperation instruments? As the EU seeks to strengthen the European financial architecture for development to better unleash the full potential of development finance, including through the European Fund for Sustainable Development plus (EFSD+) and its guarantees mechanisms open to accredited development finance institutions (DFIs) and public development banks (PDBs), how can European companies and financiers best be included? And is the EU only engaging with European big business and financial institutions, or are smaller private actors, and private actors from smaller EU member states, also able to contribute to the EU's sustainable development endeavours?

These are some of the questions the European institutions and the European private sector are confronted with. Given the multiple global crises of our times and the diverging resilience and recovery path between advanced economies such as the EU and developing countries, harnessing and leveraging the European private sector expertise, innovation and finance towards sustainable and inclusive development objectives and efforts of the EU is more pertinent than ever.

1.1. Private sector engagement matters

The private sector is a key engine for economic growth and transformation, given its capacity to create jobs, support productivity, and innovate, as illustrated in Figure 1 (DCED 2019). In doing so, it contributes to poverty reduction and inclusive socio-economic development. Geared towards addressing sustainable development challenges, the private sector capacities, skills, and financial resources can make a decisive contribution to achieving the Sustainable Development Goals (SDGs) (CDKN 2016).

Figure 1: Private sector contribution to socio-economic development in Africa (share in %)



Source: Adapted from AU (2021) and UNECA (2021)

Public policies and instruments should therefore seek to harness and unleash private sector potential to effectively contribute to the SDGs. This means drawing on private sector know-how, expertise and experience, when relevant, encouraging and facilitating private sector innovation, and mobilising and leveraging sustainable private finance. In doing so, it is important to distinguish the different types of private sector actors (e.g., large and small companies, social enterprises, commercial banks, institutional investors, impact investors, etc.).

The engagement and resources of the private sector are even more important in this era of shocks (IMF 2022), where progress towards achieving the SDGs is threatened, if not reversed, by compounded crises, including the COVID-19 pandemic, Russia's war in Ukraine, rising inflation driven by food and energy prices, growing public debt and climate emergency. Only by engaging the private sector in development will governments be able to address some of the SDGs annual financing gap, which increased from USD 2.5 trillion to USD 4.2 trillion (OECD 2020a). The private sector is also recognised as a potentially key development actor in fragile and conflict-affected countries (Ahairwe et al. 2022), which can be one of the drivers for sustainable development. This is recognised, for instance, in the context of the reconstruction and economic recovery of Ukraine, which will require significant domestic and foreign private investment in key economic sectors, including infrastructure, some of which is expected to be facilitated by financial institutions for development (World Bank 2022, see also the European Investment Bank (EIB) EU-Ukraine Gateway Trust Fund).

Recognising such potential, and the fact that governments' budget and capabilities will not be sufficient to achieve the SDGs, donors have made private sector engagement (PSE) in development cooperation and finance a strategic priority. The OECD defines PSE as "*an activity that aims to engage the private sector for development results, and involves the active participation of the private sector*" (OECD 2016). These activities do not aim to support the private sector per se but are rather geared towards leveraging the private sector to achieve development cooperation objectives, including contributing *inter alia* to development impact, quality employment creation, poverty reduction, green growth, gender equality and more broadly international standards and principles.

Following these trends, an increasing amount of Official Development Assistance (ODA) has been channelled through private sector instruments (PSIs), defined in Box 1, from USD 2.9 billion in 2018 to USD 4.1 billion in 2021, according to Organisation for Economic Co-operation and Development (OECD)'s preliminary results (OECD 2021a; OECD 2022). However, ODA channelled through PSI is likely to be significantly higher following gaps and ambiguities relating to the OECD Development Assistance Committee (DAC) reporting arrangements (EBA 2020). In addition, the amount of private finance mobilised by the use of ODA grew from USD 27.7 billion in 2015 to USD 50.7 billion in 2018 before slightly declining by 9% in 2019 (46.4 billion) (OECD 2021b). These numbers tend to show the increasing role that the private sector plays in development.

Box 1: Definition of PSI according to the OECD

Private Sector Instruments are financial support offered by donors to private sector actors operating in the global South. This support includes specifically:

- **Sovereign loans** will be reported on a grant-equivalent basis, using the parameters agreed at the 2014 DAC High-Level Meeting (discount rates of 9%/7%/6% and thresholds of 45%/15%/10%);
- Under the **institutional approach**, contributions to Development Finance Institutions (DFIs) and other PSI vehicles may be counted at the face value. If necessary, i.e., if the institution is active also in countries and/or activity areas non-eligible to Official Development Assistance (ODA), the share of ODA-eligible activities in the institution's total portfolio will be estimated, to establish a coefficient for ODA reporting;
- Under the **instrument approach**, loans and equities made directly to private sector entities shall be counted on a cash-flow basis.

All the above will be summed up and counted in the ODA headline figures.

Source: OECD 2018

Donors' PSE policies and instruments often focus on engaging the local private sector (directly or indirectly through investment funds or commercial banks) to leverage additional private finance for sustainable development (Byiers and Rosengren 2012). However, donors and their implementing agencies also engage their national private sector in development by:

1. organising regular **dialogues** to improve the relevance, effectiveness and development impact of PSE policies and instruments;
2. facilitating the integration of enterprises in developing countries in **sustainable global value chains** and supporting the adoption of responsible business practices by the domestic private sector to foster sustainable investment in developing countries;
3. **mobilising international (including European) and local private finance** for sustainable development in developing countries;
4. improving the local **investment climate including the business environment** to facilitate the development of local and European private sector activities;
5. mobilising the private sector expertise and capacity through **public procurement** opportunities.

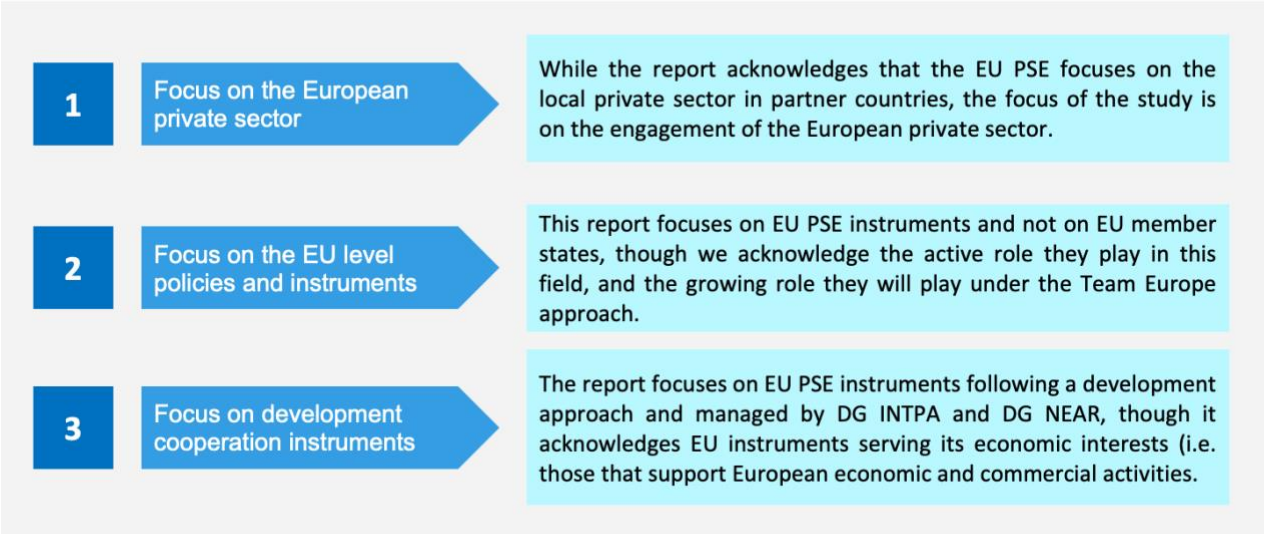
In the context of the European Union, one of the recurrent questions refers to the place of the European private sector in the EU development cooperation and development finance endeavours and architecture. Engaging and supporting the European private sector is not an end of the EU development policy but a means to foster sustainable development in partner countries.

This report looks at the five aforementioned channels in which the European private sector can contribute to development impact and the objectives of EU development cooperation and finance at the EU level only (and not development instruments by EU member states). In doing so, it provides lessons learnt and recommendations on what the EU could do to strengthen its engagement with the European private sector with a view to maximising development outcomes in partner countries. Section 2 provides an overview of how the EU institutions engage with the European private sector, highlighting the different policy processes and trends likely to influence its development and importance in the short and medium-term. Section 3 shifts the focus from policy to practice by mapping the EU PSE instruments and their relevance for European companies and financiers, including some concrete ways in which they have been implemented. Section 4 highlights other approaches to support the European private sector internationalisation, which are different but can complement development cooperation and finance tools. Section 5 presents some of the key challenges and concerns to be addressed moving forward and draws lessons and recommendations to EU policy-makers on how to further engage the European private sector with a view to contributing to sustainable and inclusive development.

1.2. Methodology

The approach and methodology of this report were tailored to the (limited) data available in the public domain on the private sector engagement by the EU development cooperation, with a specific focus on the opportunities for the European private companies and financiers and their subsidiaries in partner countries**.** It hence builds on the EU level and, to a lesser extent, national knowledge, information and data available at the time of the writing. In addition, primary data were collected through semi-structured interviews with relevant stakeholders from the public and private sectors, at the EU and at national levels. In addition, the report was enriched with the feedback and comments received during three meetings organised in collaboration with the Czech Presidency of the Council of the EU, where the preliminary results of the study were discussed. The methodology adopted in this report has its own limitations, as presented in Figure 2.

Figure 2: Methodological limitations of the study



This report is not an assessment of EU PSE and its instruments but rather aims to provide policy and practical insights on the EU's engagement with the European private sector in its development cooperation and finance, with a view to providing some initial evidence-based policy recommendations. In that sense, this study should be seen as a first milestone, on which additional analysis can be built in order to complement and provide further in-depth insights on specific issues highlighted in this report.

2. EU private sector engagement policy processes

Engaging the private sector (European and local) in development is one of the objectives of the European Commission and has been an explicit integral part of the development agenda since 2011 and the Agenda for Change. Over a decade ago, the EU expressed its interest in developing "*new ways of engaging with the private sector, notably with a view to leveraging private sector activity and resources for delivering public goods*" (European Commission 2011). Importantly, engaging the private sector in development is not an end in itself but rather a means to achieve sustainable development and economic transformation in partner countries.

Whilst distinction is not necessarily made in the policies between European and local private sector, most support is geared towards supporting directly local private sector development. The focus on engaging the local, in comparison to the European, private sector in development and providing the latter with indirect rather than direct support is explained by the rules around tied aid. Tying aid means limiting procurement to companies in donor countries (or a small group of countries) in the context of official development assistance provided in the form of grants and loans, for instance (OECD 2020b). This practice is not in line with aid effectiveness principles, as it i) generates transaction costs and reduces value for money; ii) limits partner countries' ownership over the resources used to address development challenges; and iii) prevents the ability of development partners to align their aid programmes with the objectives and financial management systems of recipient countries (European Commission 2020). Recognising such an issue, the European Commission has made efforts to ensure most of its aid is untied, with 96% of the ODA by EU institutions untied in 2020 (OECD 2022). It is important to highlight that 7% of the Neighbourhood, Development and International Cooperation Instrument-Global Europe (NDICI-GE) budget managed primarily by the Foreign Partnership Instrument can be channelled directly through European companies and is not DACable (i.e., does not qualify as ODA as specified by the DAC).

With the 2014 Communication on *'A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries'*, the European Commission placed the private sector at the forefront of international development. The **Communication** illustrates several ways in which European companies can contribute to development - i.e., employment creation, inclusiveness and poverty reduction - by *inter alia*:

- engaging in a dialogue and effective joint action with the European Commission through, for instance, the Policy Forum on Development;
- helping improve the investment climate, including the business environment (tackling issues such as access to finance, shortage of labour and skills, and inefficient regulatory framework), with a view to supporting private sector development;
- integrating enterprises in partner countries in their supply chains; and adopting inclusive business models and responsible business practices by integrating environmental, social and governance dimensions in their investment strategies; and
- investing or co-investing in the local private sector by leveraging EU grants, including through blending mechanisms.

In addition, the Communication indicates priority sectors, namely sustainable energy, sustainable agriculture and agribusiness, infrastructure, and green. Yet, reflecting the fact that engaging the private sector in development is a means to achieve sustainable development, the European Commission specified a set of six criteria (see Box 2) that frame this engagement "to guarantee development impact and sustainability, avoid market distortions, and mitigate reputational and fiduciary risks" (European Commission 2014).

Box 2: PSE criteria

The European Commission developed a set of six criteria as part of its Communication on 'A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries', in order to ensure that any support to the private sector is a relevant, efficient and effective means to achieve development objectives:

1. measurable development impact
2. additionality
3. market neutrality
4. shared interest & co-financing
5. demonstration effect
6. social, environmental and fiscal standards

Source: European Commission 2014

While there has been no update on the European Commission Communication relating specifically to PSE, the Multiannual Financial Framework (MFF) 2021-2027 goes one step further in recognising the role that European companies can play in development. The NDICI - Global Europe - which is the EU's main financial tool to **contribute** to sustainable development, dedicates one of its thematic global challenges to "sustainable and inclusive growth, decent jobs and private sector engagement". The European private sector is expected to play a role as part of it, through the implementation of the EFSD+ and Global Gateway. Following the logic introduced by the European External Investment Plan and the EFSD in 2017, the EFSD+ put increasing emphasis on the mobilisation at scale of sustainable and more impactful private investment, including from institutional investors such as pension funds and insurance companies. It also aims to involve small and medium-sized enterprises (SMEs) in development cooperation with partner countries (European Commission 2021a). The Global Gateway aims to "*create opportunities for the EU member states' private sector to invest and remain competitive, whilst ensuring the highest environmental and labour standards, as well as sound financial management*" (European Commission webpage). Part of this is to be done through the Team Europe approach (and Team Europe Initiatives - TEIs), bringing together European donors, implementing agencies, and financial institutions for development and involving European private sector actors (Okano-Heijmans 2022, Teevan et al. 2022).

A more geopolitical Europe is likely to reinforce the role of the European private sector in development moving forward. The concept of **sustainable and geopolitical European economic diplomacy,** understood as using development, trade agreements and trade and investment promotion in a coherent manner to foster EU economic and political interests, has gained further ground. Such an approach requires going beyond the **development** sphere and seeking complementarity with other approaches and actors supporting the internationalisation of the European private sector. Since 2016, important efforts have been deployed both in the EU's headquarters and in partner countries to promote a more integrated and proactive European economic diplomacy (Bilal 2021, Pangratis 2019).

With the von der Leyen's European Commission, and in the new polarised global context of geoeconomic fragmentation, **supporting the geostrategic interests of the EU** has become not just a 'nice to have' but a 'must' in the eyes of the EU. European engagement with developing countries is not only about fostering sustainable development and economic transformation but also about **promoting EU influence and geopolitical weight in the face of heightened systemic competition with other countries such as China and Russia**. The EU seeks to take advantage of all its assets with the ambition to assert its comparative advantage over perceived geopolitical rivals that have been very active in maintaining and consolidating political and economic ties with developing countries, in particular in Africa. Leveraging the European private sector weight is seen as a key pillar to achieving this objective. The Global Gateway can be seen in part as a concrete answer to respond to this challenge, involving all EU actors, including the private sector, in an approach that wants to be coordinated and coherent to strengthen EU visibility and its economic and political weight (Teevan et al. 2022). European businesses are expected to play a key role in investing in and implementing soft and hard infrastructure in digital, energy, and transport but also social sectors such as health, education and research systems. These investments will take place in the broader context of the TEIs - EU flagship initiatives, allowing European businesses to be an integral part of the Team Europe approach.

Therefore, instead of a traditional divide between the fields of development cooperation and economic interests (i.e., economic, trade and investment promotion), the EU has made increasing efforts to **build synergies**. Indeed, with the adoption of the universal 2030 Agenda for Sustainable Development, the SDGs apply to all activities and countries, not just development cooperation and developing countries, and therefore also to the European private sector, which increasingly endorses environmental, social, and corporate governance (ESG) principles. However, development tools should not be used to achieve purely economic objectives (CONCORD 2021). In that sense, while further efforts should focus on building synergies and complementarities, a careful distinction should be made between economic interests and development cooperation objectives and instruments. While PSE (serving development cooperation objectives) and the EU geostrategic interests can converge, this is not always the case - and it is therefore important to draw the line as to the extent to which EU development cooperation can contribute to the EU geostrategic interests.

Several Team Europe Initiatives also target the European private sector (see Table 1)**.** In a context where EU member states are often active at the bilateral (rather than European) level when it comes specifically to private sector engagement (in development), TEIs provide an opportunity to leverage the European private sector in a coordinated and integrated manner. This, in turn, is expected to contribute to supporting the geopolitical weight of the EU in a context of heightened competition with China and other global powers.

Table 1: Illustrative list of (regional) TEIs targeting the European private sector

Name	Description
TEI MAV+	TEI focusing on supporting local manufacturing and access to vaccines, medicines and health technologies in Africa. EU pharma companies are expected to contribute to the development of productive capacities and the transfer of technologies.
TEI Opportunity-driven Skills and VET in Africa (OP-VET)"	TEI focusing on upskilling / reskilling the labour force in Africa by supporting Vocational Educational Training systems VET, with a view to aligning labour and skills supply and demand. EU business associations, including those operating in partner countries, are expected to facilitate such an endeavour by sharing expertise and knowledge.
TEI Support to the African Continental Free Trade Area (AfCFTA)	TEI focusing on supporting intra-African trade and developing opportunities offered by the green and digital transition. This can benefit the local and European private sector, as new market opportunities will emerge from the consolidation of African markets.
TEI Sustainability in global Supply chains	TEI focusing on developing supporting measures to put in place corporate sustainability practices (due diligence) in upstream companies in partner countries (strong link with CS3D and other due diligence-related EU legislation). EU companies are expected to cooperate to accompany and support their suppliers in partner countries in this endeavour.
TEI Green hydrogen	TEI focusing on boosting investment opportunities in the field of green hydrogen in Chile by supporting the creation of an attractive enabling environment, providing concessional financing, promoting collaboration in R&D and fostering business cooperation.
TEI IYBA	TEI focusing on increasing the number of newly created MSMEs and, to help grow (very) early-stage companies in African partner countries, increasing the quantity and quality of public and private investment in MSMEs at their early stages and thereby generate much-needed decent jobs across the continent, empower women and young people and create opportunities even in the more fragile countries.

Key insights

Private sector engagement in development has been and is expected to be of growing importance moving forward, notably due to the increasing role of development finance.

European Commission private sector engagement in development cooperation has largely focused on the local private sector, with a lesser focus on the European private sector, and along the principle upheld by the EU of untying aid.

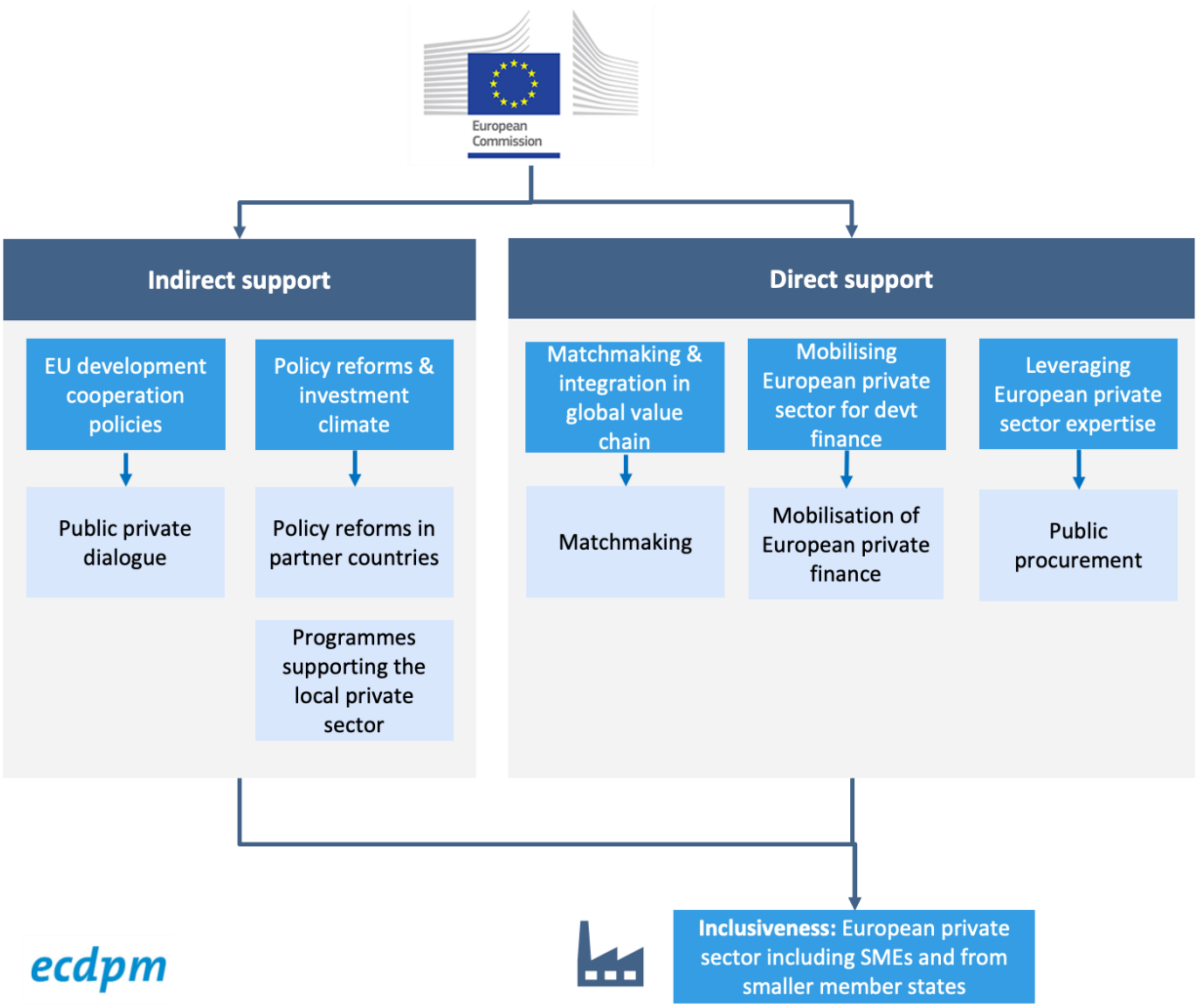
The increasing focus on the geostrategic interests and influence of the EU - as put forward by the Global Gateway - also leads the EU to increasingly seek to leverage the economic weight of the European private sector in a coordinated manner, making EU PSE a growing priority of the EU.

Moving towards sustainable European geopolitical and economic diplomacy also requires going beyond the development sphere, and seeking complementarity with other approaches and actors supporting the internationalisation of the European private sector.

3. PSE instruments

Reflecting the policy processes aforementioned, **the EU has developed a number of PSE instruments targeting, supporting and benefiting the European private sector.** However, their objective is not per se to support the European private sector but to contribute to sustainable development in partner countries. Figure 3 provides a simplified overview of these instruments, which are split between those providing direct and indirect support to the European private sector. This Section provides a short description of these instruments and some concrete illustrations of how they are implemented in practice.

Figure 3: Overview of EU PSE instruments targeting the European private sector



3.1. EU PSE instruments supporting indirectly the private sector

Three types of EU PSE instruments support and benefit the European private sector indirectly, and are presented in Table 2. Indirect support is traditionally a key pillar of the EU PSE, as the focus of the action is at the upstream policy level.

Table 2: Overview of EU PSE instruments supporting indirectly the European private sector

PSE focus areas	European private sector	Example of PSE instruments
EU development cooperation policy	**Promoting public-private dialogue at the policy level** - to shape, and implement EU development policy processes to foster their relevance and development impact.	• EU-Africa business forum (EABF) • Global Gateway Business Advisory Group (BAG) • Digital for Development (D4D) hub
Policy reforms, dialogues and other actions to improve the investment climate in partner countries	**The EU, through its support to business associations** for instance**,** can help structure the European private sector to create a more business-friendly environment in developing countries by sharing information and advocating for business reforms to governments. The EU can also help improve the investment climate, by developing interventions and/or multi-stakeholder partnerships tackling market failures such as the shortage of labour and skills in given sectors, or supporting the local private sector to comply with EU standards, facilitating EU imports.	• EU Business Group in Tanzania • EU chambers of commerce support • EU business fora at national level • Budget support, Twinning/Taeix • TVET programmes such as Archipelago • MARKUP programme • European Partnership for Responsible Minerals

a. EU development cooperation policy

To design relevant and effective PSE policies and instruments, the European Commission (DG INTPA and DG NEAR) **engages in a regular dialogue with European private sector associations** such as BusinessEurope, the European Business Council for Africa and the Mediterranean (EBCAM), Eurochambers, European Business Organisations Worldwide Network (EBOWWN) - all of which include directly or indirectly SMEs as part of their members. This dialogue takes place on a regular basis through various platforms of engagement and allows the European Commission to get inputs from European businesses on their policies and instruments based on their own experience and interests.

The European Commission also seeks to establish some **permanent platforms** to stimulate private sector (policy) dialogue with partner actors. This is the case of **the EU-Africa business forum (EABF)**, which is co-organised with the African Union (AU), and represents the main event ahead of each AU-EU Summit (EABF 2022). The EABF takes place every three years, preceding each AU-EU Summit. There is currently a shared interest from business representatives and DG INTPA to move the EABF from a "*one-off event to a continuing hub of dialogue that will identify problems, find solutions and create strong, effective and long-lasting business partnerships*" (EABF 2022). In this context, the EABF is expected to become a permanent platform by 2024. Other platforms where the European private sector can engage with policy-makers also exist and can be permanent such as the Sustainable Business For Africa (SB4A) platform, or ad-hoc such as the high-level multi-stakeholder platform on SDGs, which ran from 2017 to 2019 (European Commission 2022a).

Moving forward, the European Commission will set up the Business Advisory Group (BAG) to facilitate the dialogue with EU businesses as part of the Global Gateway. In principle, the BAG could help support the European private sector voice and benefit *policy*-makers by better understanding the challenges the European private sector faces in engaging in Global Gateway and in the Team Europe Initiatives. Though announced in 2021, there is still only limited public information on the BAG in terms of its objective, composition and governance. The intent is that the BAG will help facilitate exchanges with the Steering Group of the Global Gateway. It will include regular exchanges with European CEOs of major EU companies and institutional investors, European business and investor organisations and joint fora of European and partner country businesses. Private sector input in partner countries will also be garnered via the EU Delegations.

The insights raised from these regular dialogues can feed back in the European Commission policy processes and instruments, and their implementation, in a way that strengthens PSE, including with the *European* private sector, and maximises their relevance and impacts. At the same time, engaging in this dialogue with the European Commission is a way for the European private sector to exert some influence on the design and implementation of PSE instruments, better reflecting European economic interests, which can be leveraged for sustainable investment in developing countries.

b. Policy reforms, dialogues and other actions to improve the investment climate in partner countries

Improving the investment climate and, more specifically, the business environment in developing countries is one of the objectives of the EU development cooperation policy, which benefits the European private sector operating in these countries. DG NEAR helps the coherence and wider integration of economic and business regulatory framework in the context of the European Neighbourhood Policy to the benefit of both the EU and the EU's Eastern and Southern neighbourhood partner countries and their private sector operators and ecosystem. Improving the investment climate and business environment is also a priority of DG INTPA, with an estimated budget of €300-350 million per year in Africa alone for 2018-2020 (European Commission 2018).

This is an important dimension of the EU **budget support**, including Sector Reform Performance Contracts (SRPCs) focused on sector policies and reforms. Other major EU initiatives include Twinning/TAIEX, which provides institutional support in the form of technical assistance and policy support from public experts in EU member states to partner countries, and CONNEX, which supports developing countries' negotiating expertise on the extractive sector.

Under the **European External Investment Plan** set up in 2017, covering Africa and the European Eastern and Southern neighbourhood, a dedicated pillar focuses on supporting the improvement of the investment climate. It regrouped three sets of activities: i) analysis of investment constraints faced by the private sector and how to alleviate them, ii) action supporting partner governments' reforms and other initiatives to stimulate investment, and iii) public-private dialogue to address investment challenges. The European Commission dedicated €600 million to this investment climate pillar in 2019.

Public-private dialogues in partner countries are an important dimension of the European Commission's support for investment. They are geared towards identifying and addressing business and *investment* challenges. The scope and focus of these dialogues can differ following the challenges encountered. They can focus, for instance, on specific i) issues such as trade and value chain, skills development and vocational training, or the regulatory framework; ii) sectors such as agriculture or pharmaceuticals; and iii) specific subregions or the national/regional levels. While a large part of it takes the form of budget support, the European Commission has developed a few instruments and initiatives which provide the opportunity for the European private sector to engage in development. This is particularly relevant for EU SMEs, whose bargaining power is limited when it comes to pushing for policy reforms. By doing so, they support the local and European private sector in a country and contribute to economic growth and the generation of livelihoods and jobs in partner countries.

To *implement* such dialogues, the Commission provides financial support to European (and partner countries') business organisations (e.g., EU member states' chambers of commerce) involved in developing countries. These, in turn, provide technical support to the European private sector. This is the case of the **EU Business Group**, which provides visibility to European investment in Tanzania, facilitates dialogue on business environment issues (notably migration, taxation and non-tariff barriers), and strengthens access to information and services for European businesses. By forming an umbrella organisation, it helps coordinate and structure the European private sector, enhancing its weight to influence policy reforms in the partner country. This is particularly relevant for European SMEs, which often have limited bargaining power. The EU Business Group serves as:

- a dialogue platform between European businesses, and with the national government and the local private sector;
- business intelligence provider, by providing market information and organising regular events;
- advocate for policy reforms, for instance, by identifying challenges faced by investors and providing recommendations to the Tanzanian government and agencies such as the Tanzania Investment Centre; joining forces with the local private sector on addressing common challenges linked to the business environment (European Commission 2019).

EU *business* fora are also taking place at the national level, such as the EU Business Forum in Ethiopia, the 2022 EU-Angola Business Forum and the planned 2023 fora in Tanzania and Kenya. It helps facilitate dialogue between the European private sector and EU and local policy-makers on issues related to supporting a favourable business environment. Such public-private dialogue allows policy-makers to showcase how the private sector can leverage trade policy and investment (Angola-EU Sustainable Investment Facilitation Agreement) or development instruments such as the EFSD+. This can, in turn, facilitate the European private sector's investments in Africa. Importantly, these business forums are not developed by DG INTPA in silos: depending on the thematic focus, other DGs and, notably, DG Trade, are invited to co-organise/participate in these forums. DG INTPA developed tools and guidelines to support EU delegation in the organisation of such fora. It is important to note that some of these platforms supporting EU policy development aforementioned often serve additional objectives, including improving the investment climate. The EABF model is likely to be replicated in other parts of the world, including Latin America.

In Asia, these dialogues are, in fact, funded by the private sector, and often involve the *participation* of the EC. The 10th ASEAN-EU Business Summit, to take place later this year, is an important platform to facilitate this dialogue. Held along the theme: "Deepening ASEAN-EU Trade: Sustainable Development for All," the Council hopes the conversations and ideas generated from the Summit will reinforce the existing strong trade and investment relationship between ASEAN and the EU, and reignite Europe's interest in Southeast Asia as a region of opportunities.

These initiatives led by the European Commission provide indirect support to European businesses, which can benefit from *inter alia* a conducive business environment, a network of businesses and local government representatives, and a unique set of information and knowledge which helps reduce investment risks. However, contrary to export credit agencies (ECAs) or support instruments for economic activities managed by DG GROW, such as the Enterprise Europe Network (EEN), DG INTPA and DG NEAR do not provide direct funding or other forms of direct support to European companies on their internationalisation process, as this would be considered as tied aid.

Beyond public-private dialogues, DG INTPA has developed guidelines and a comprehensive investment climate reform toolbox, with concrete approaches, ranging from growth, gender, green, behavioural and norm *diagnostics* and checklists to pragmatic political analysis, advocacy capacity building and standards for results measurement and business environment reform indicators, to support reforms in the business environment (European Commission 2021).

Such efforts are often conducted by DG INTPA and DG NEAR through facilities and interventions at regional and national levels, often through local business organisations and with other (international) development partners. This is- the case, for instance, with the Investment Climate Reform Facility in Africa, Caribbean and Pacific (ACP) countries, the Western Balkan Investment Framework, the EU4Business Initiative in 6 Eastern Partnership countries, EBSOMED (Enhancing Business Support Organisations and Business Networks in the Southern Neighbourhood) to promote the Mediterranean business ecosystem, and other types of collaboration with other key actors such as the UN Global Compact.

DG INTPA and DG NEAR also provide direct support to European business organisations to implement *programmes* **aiming at improving the investment climate by addressing specific sectoral issues such as skills gaps in various countries.** This is the case of the **Archipelago programme**, which aims to reconcile skills demand with skills supply, thus fostering local employment opportunities and employability and helping private sector actors in their search for talent. To do so, the programme provides funding to European and African business organisations that provide labour market-relevant technical and vocational education and training (TVET). Thus far, the programme supported 11,500 beneficiaries, including 5,600 young people and 40% of women, supported the capacities of over 30 business member organisations, and involved over 1,500 MSMEs (CPCCAF 2019). Moving forward, a TEI dedicated to this TVET issue will be put in place, linked to the VET toolbox.

Other programmes of the EU which contribute to improving the investment climate include initiatives supporting the local private sector to comply with EU standards for exports. While they support the sustainable economic development of the African private sector, these initiatives also provide further *opportunities* for EU importers and investors. For instance, the EU funded the Market Access Upgrade Programme (MARKUP), a regional initiative to improve market access to the European Union for agro and horticultural sectors in the East African region between 2018 and 2022. Among other results, the programme improved the export capacities of 780 companies and facilitated more than USD 1 million of European investment in companies based in the East African Community (ITC 2022).

In this context, the European Commission also leverages multi-stakeholder approaches to address sustainability issues in developing countries. This was done in the case of the European Partnership for Responsible Minerals (EPRM), which was an accompanying measure to the EU Conflict Minerals *Regulation*. Instead of stopping sourcing minerals from developing countries, the EPRM developed projects aiming to foster responsible mining (tin, tantalum, tungsten and gold) production, responsible sourcing, and better linking production and sourcing. This partnership includes the public sector, supply chain actors and civil society organisations.

Moving forward, additional **interventions - including in the form of multi-stakeholder partnerships - focusing** *on* **EU standards compliance** are likely to be implemented, notably driven by the upcoming introduction of the EU Green Deal regulations, including the Carbon Border Adjustment Mechanism, the Regulation on deforestation-free products and the Corporate Sustainability Reporting Directive.

3.2. EU PSE instruments supporting directly the European private sector

The EU has also developed a set of instruments directly benefiting the European private sector, which can fall into three categories: i) matchmaking and global value chain integration, ii) mobilisation of private sector finance and iii) public procurement to mobilise private sector expertise (see Table 3).

Table 3: Categories of PSE instruments targeting directly the European private sector

PSE focus areas	European private sector	PSE instruments
Matchmaking and integration in global value chain	**Matchmaking and integrating enterprises in partner countries in their supply chains**: the European private sector can help ensure transfer of knowledge, skills and technology, including those relating to digital and green solutions. This can be done through, for instance, the implementation of multi-stakeholder partnerships	• EABF and national business for a • Matchmaking such as Get Invest • MAV+ matchmaking events • Team Europe Partnerships Portal (TEPP)
Mobilising European private sector for development finance	**Mobilising private sector finance (e.g., pension funds and insurance) for sustainable investments** by incentivising/ de-risking EU private investments in developing countries	• EFSD+ • Blended finance • DFIs/PDBs
Public procurement to mobilise private sector expertise	**Public procurement** represents another opportunity for the European private sector to engage in development cooperation, not as a beneficiary but as an implementer. In this role, the private sector leverages its competencies and expertise, thus addressing potential knowledge gaps or lack of capacities of donors.	Call for tenders

a. Matchmaking and integration in global value chains

EU matchmaking services aim at helping the European private sector identify business partners in developing countries (and/or vice versa) with a view to either develop an investment project in a developing country or integrate developing country suppliers in their own supply chain (Große-Puppendahl et al. 2016b). These services are particularly useful for European SMEs, who may lack the capacities and resources to find the partner they are looking for - let alone the perceived risks attached to this process. DG NEAR and DG INTPA have a long tradition of managing matchmaking instruments with the EuroMed and AL-INVEST instruments implemented in the EU's Southern Neighbourhood and Latin America, respectively. Moving forward, the recently developed Team Europe Partnerships Portal (TEPP) is also expected to play a key role as an information-sharing and matchmaking tool in the context of Team Europe initiatives and the Global Gateway strategy, connecting supply and demand, including from the private sector. The TEPP intends to be a one-stop-shop bringing together EU and member states institutions, development agencies, philanthropic organisations and the private sector, to help foster the exchange of knowledge, expertise and tools/solutions and facilitate collaborations. Moving forward, the TEPP will open to partner countries' institutions and the private sector and aims to respond further to the private sector's needs and interests as a single entry point.

For these instruments, the European Commission often provides funding to European and partner countries' business organisations, which in turn provide matchmaking services (and sometimes advice) to European companies investing in and/or sourcing goods/services from developing countries (Große-Puppendahl et al. 2016b, Große-Puppendahl et al. 2016c). Some of the funding provided to European business organisations active in developing countries is also used to provide advice and matchmaking services to EU companies. Matchmaking instruments supported by the European Commission can focus on specific regions, countries and/or sectors; and can be i)

DACable instruments (i.e., instruments meeting ODA criteria set by the OECD DAC) and; ii) non-DACable instruments through the Foreign Partnership Instrument (see Table 4).

Table 4: Examples of DG INTPA matchmaking support

Matchmaking platforms	DACability	Geographical focus	Sectoral focus
EABF and national business fora, such as the EU-Angola Business Forum	DACable	Africa	None
EU–Africa pharma and healthcare marketplace and matchmaking events	DACable	Africa	Pharma and healthcare
AL-INVEST Verde	DACable	Latin America	Green and digital growth
EU Gateway ∣ Business Avenues	Non-DACable	China / Japan	Environment, Green Energy, Construction, Healthcare Tech

Box 3 zooms in on the EU Gateway ∣ Business Avenues, which is an example of a non-DACable EU PSE matchmaking instrument.

Box 3: EU Gateway ∣ Business Avenues

EU Gateway ∣ Business Avenues organises business missions for selected European companies operating inter alia in Green Energy, Environment & Water, Healthcare & Medical and the Construction & Building sectors. Business missions facilitate European company entry into challenging markets (e.g., Asia), where the business culture and regulatory constraints differ from the EU. EU Gateway ∣ Business Avenues provide European businesses with:

- an assessment of business opportunities
- advice on how to minimise the market entry costs
- networking opportunities
- a platform to discuss challenges and opportunities with other private sector actors
- professional coaching and follow-up at all stages

Source: Adapted from EU Gateway∣Business Avenues (2022)

While DG INTPA matchmaking instruments may differ in scope, their services are generally comparable - brokering relations between businesses and providing technical advice. In that sense, they do not provide direct financial support to European businesses. Importantly, matchmaking instruments are particularly relevant to SMEs, which may not have the capacities or access to the necessary intelligence to identify relevant partners in developing countries.

Beyond matchmaking instruments, DG INTPA is also developing complementary approaches that can help support the development of global value chains. For instance, DG INTPA is currently conducting a study together with the International Trade Centre (ITC) and the United Nations Industrial Development Organization (UNIDO) to map potential opportunities along regional value chains in Africa. Such fact-finding missions and analyses can, in turn, limit transaction costs, mitigate risk and thus incentivise the European private sector to engage in development. Likewise, DG INTPA is also setting up strategic partnerships with key countries such as Namibia, which focus on critical raw materials - ensuring some degree of supply security. This, in turn, opens up opportunities for the European private sector to engage in development cooperation endeavours.

b. Mobilising European private sector for development finance

Mobilising European private sector finance has been an objective of the European Commission since the early days of its engagement of the private sector in development, notably through blended finance instruments. Although their primary focus is to mobilise and support the local private sector, the EFSD, subsequently strengthened with the EFSD+, is one such instrument that, by providing guarantees, can help mobilise (large) European private sector actors such as pension funds and insurance companies (see Table 5). Yet, this engagement is not direct. To seek to directly benefit from the EU guarantee, a financial institution is required to be pillar-assessed (i.e. entrusted to indirectly manage the implementation of EU funds or budgetary guarantees, following a positive assessment related to the protection of the EU's financial interests) by the EU (European Commission 2022, EY 2019). In practice, local, European and international private sector finance mobilisation mainly takes place through European financial institutions for development, such as the EIB, the European Bank for Reconstruction and Development (EBRD), European development finance institutions (EDFIs) and European PDBs, most of which are pillar-assessed. The EFSD+ guarantees can then help to indirectly cover investment activities by DFIs/PDBs' clients, which can be European private financiers and investors operating in developing countries. Some of the funds and projects financed through the EFSD+ will provide additional business opportunities for European private actors, which will co-finance and engage based on both economic and sustainability motives.

Table 5: EFSD+ and the European private sector

Role of the European private sector in EFSD+	Description
Direct financier implementer	To qualify to indirectly manage and directly benefit from budgetary guarantee under the EFSD+, European (private) financiers must pass the nine-pillar assessment required by the European Commission and make an investment proposal approved by the ESFD+ Operational Board.
Co-investor at fund level	The European private sector, such as pension funds, can invest in investment funds and facilities set up by DFIs (through the EFSD+). Such a setting allows mobilising EU private capital for development, potentially following, for instance, the examples at the member state level of the Danish SDG Investment Fund and the Dutch Fund for Climate and Development (Karaki and Bilal 2022).
Co-investor at the project level	Following the intervention of DFI to make projects bankable and their investments, the European private sector could act as a co-financier for given projects (mostly applicable in the case of large projects).
Project implementer	Following a public procurement process, European private actors can contribute to implement projects by a financial institution benefiting from an EFSD+ guarantee or accompanying technical assistance.
Project beneficiary	The European private sector involved in or based in developing countries can also benefit from projects and activities (e.g., loan/equity from a commercial bank or a fund) under or supported by the EFSD+ (largely indirect effect).

While an evaluation of the implementation of the EFSD and the EFSD guarantee fund was carried out in 2020, no specific result was provided on the extent to which it mobilised European private sector investments, in particular for development (European Commission BKP 2020). This may be explained by two factors: i) the focus of the EFSD is on mobilising and supporting the private sector as a whole, and not focused on the European private sector; and ii) the EFSD was 'the first of its kind' and helped consolidate experience with engaging European private investors. Yet, one of the recommendations from the evaluation was to better identify the different types of private sector actors targeted by the EFSD guarantees (European Commission BKP 2020). It is therefore expected that the EFSD+ will be more specific, targeted and transparent when it comes to mobilising, reporting on and monitoring the involvement of European private finance and investments. This is even more important in a context where, as part of the Global Gateway, the mobilisation of the European private sector finance is expected to play a bigger role.

In this context, while DFIs' primary target is the local private sector, the design of the EFSD+, which encourages the European private sector (in particular financiers such as pension funds and insurance companies), will likely push DFIs to make additional efforts in engaging the latter in development. This increased engagement with private financiers and investors will be done with a view to fostering the 2030 Agenda and may thus focus on those European investors which have a strong focus on Environmental Social Governance (ESG) / SDGs, in addition to their financial interests. This is, for instance, the case of the Danish SDG Investment Fund, whose financial structure - the Danish DFI IFU taking a junior tranche, allowing pension funds and private investors to invest in a senior tranche which is less risky- could be replicated at the EU level. The Danish SDG Investment Fund also mobilised downstream private investments following a ratio of 1:4 (IFU 2022).

Last but not least, ECAs and other EU member states and DG GROW public support to economic activities (such as investment promotion) also help promote the internationalisation of the European private sector, often following ESG and SDGs considerations but for economic purposes. Hence, it will be important to analyse the extent to which ECAs and DFIs can work together when engaging the European private sector in development (as discussed in Section 4; see also Große-Puppendahl et al. 2016a).

c. Public procurement to mobilise private sector expertise

The European Commission, including DG INTPA and DG NEAR, sometimes outsources the management of specific projects and/or activities to the European private sector (often management or **engineering consultancies), following a competitive tendering process.** The purpose of these calls for tenders is to mobilise private sector expertise and knowledge, and/or capacities to deliver specific outputs. In this case, the European Commission publishes a call for tenders, inviting European companies to put forward a proposal. These proposals are then assessed based on technical and financial criteria and awarded to the most competitive firm - i.e., the one providing the most value for money (Hoeckman and Onur Tas 2022), which receives the EU funding.

The EU, through its public procurement Directive (2014), incentivises EU authorities to encourage European SMEs' participation in public procurement, for instance, by reducing the average size of contracts and **considering the sub-division of contracts into smaller lots where this is possible.** While there have been efforts to facilitate SMEs' access to public procurement, there is a recognition that large firms are often better placed to i) comply with eligibility and selection criteria in terms, for instance, of turnover and staff, but also track record of project implementation; ii) can more easily incur the costs linked to the procurement process (Hoeckman and Onur Tas 2022). As a result, large firms tend to benefit more from public procurement opportunities than SMEs, though in principle, both types of firms have equal access. More generally, while it is possible to know which firms win a public procurement tender, some stakeholders wish for easier access to such data so as to foster transparency and allow SMEs to identify larger firms they could partner with to access procurement opportunities.

The difficulty to access EU development finance under EU blended finance instruments and, in particular, the EFSD+ is acutely pronounced for smaller European private entities and for actors in smaller EU member states. The EDFI association and EDFI management company play a critical role in stimulating the access of smaller European DFIs to the EFSD and EFSD+, and European blended finance facilities, including by fostering joint proposals and proposals under the EDFI umbrella, as well as promoting the new Team Europe approach and participation to TEIs. This, in turn, indirectly can help private entities in these smaller member states benefit from EU development finance mechanisms. Yet, fostering inclusiveness in a Team Europe approach and related public procurement opportunities, including for smaller European actors (DFIs and private financiers and operators) remains a challenge which should be tackled more forcefully (Jones 2021).

Importantly, public procurement is also a tool that can be used strategically to foster EU geostrategic interests. Some business member organisations have argued that EU funding should be open to entities from countries that grant reciprocal access to their public tendering processes (BusinessEurope 2021) - highlighting the fact that EU companies are not systematically considered for public procurement opportunities from the Chinese Belt and Road Initiative's projects. Restricting public procurement opportunities to countries providing reciprocal conditions may serve the geopolitical ambition of the EU by bringing further weight to the European private sector in developing countries whilst ensuring that the principle of untied aid is preserved (as discussed in Section 5).

Key insights

Overall, the European Commission has been increasingly active, seeking to leverage EU companies' resources, finance and expertise in development. A large part of the EU's engagement with the European private sector in development cooperation and finance is indirect.

The European Commission engages the private sector using a wide range of instruments, which address a wide range of issues and approaches, following EU policy development and priorities. In doing so, the European Commission PSE instruments tend to complement rather than overlap each other, although some instruments may benefit from further consolidation (e.g. various dialogue platforms used to engage EU and African businesses).

While some EU private sector instruments target distinctively European businesses as a whole, some benefit specifically European SMEs - such as matchmaking instruments.

In addition, given the higher ambitions of the European Commission in terms of engaging the European private sector in its development endeavours - as framed in the Global Gateway, the European Commission may be pushed to further improve, refine and tailor its EU PSE instruments, to match these ambitions and explore synergies with European public support to European economic interests and activities (as discussed in Section 4).

Greater coordination under the Team European approach and TEIs in particular, and beyond, should aim at enhancing the coherence, complementarity and effectiveness of engagement with the European private sector for sustainable development under EU-level instruments and EU member states' mechanisms.

Greater efforts should be geared towards improving the inclusiveness of smaller European private entities, in particular from smaller member states, in the EU PSE activities. This can be done by fostering the openness of the EU PSE system and facilitating the collaboration / incentivising consortia between smaller and larger European private entities - including from smaller member states in EU development cooperation and finance mechanisms.

4. Beyond development instruments, towards a geostrategic European economic diplomacy?

EU policies put increasing weight and emphasis on supporting the EU's geostrategic interests and geopolitical ambitions, including through development cooperation (Bilal 2021, Fittibene et al. 2022, Lagarde 2022). In this regard, the launch of the **Global Gateway** reflects a shift in EU policy towards European economic diplomacy, where promoting sustainable development goes hand in hand with meeting EU political and economic interests (European Commission 2021b, European Commission 2022b, Furness and Keijzer 2022, Teevan et al. 2022). To realise such a vision requires building synergies between public support for development cooperation and economic interests related approaches and instruments, which are often approached in siloes. And indeed, to give a complete picture of the internationalisation of European companies requires going beyond development cooperation. Aside from their development policy objectives, developed countries, including the EU (see Box 4), have long promoted and implemented instruments supporting their own economic interests in developing countries (Große-Puppendahl et al. 2016b).

Box 4: Coordination and synergies between DG INTPA, DG NEAR, DG GROW and DG TRADE initiatives

At the European Commission level, it is part of DG GROW's mandate to provide support for European businesses to access markets within and beyond the EU and find new business partners abroad. That said, DG GROW's competence is limited in comparison to the EU member states: DG GROW does not have exclusive or even shared competence with the EU member states when it comes to supporting businesses and industries. Instead, The EU can support, coordinate or supplement the actions of the member states (as per Article 6 of the Treaty on the Functioning of the European Union).

DG GROW, nevertheless, has several instruments supporting the internationalisation of European businesses (European Commission 2022). These include the European Cluster Collaboration Platform and, more especially, the Enterprise Europe Network (EEN). The latter, launched in 2008, offers international matchmaking support and stimulates innovation by providing advice for international growth and support services for business innovation. These services are provided through its network of partner organisations (over 599), which are spread over 65 countries (including Cameroon, Egypt, Nigeria and Tunisia). European SMEs can leverage the EEN network to internationalise, benefiting from technical assistance and an important database of potential local partners to engage with.

However, while DG INTPA follows the development of the EEN and is consulted, synergies between the EEN and DG INTPA PSE instruments are limited. According to some (van Seters and Bilal 2020), this is a missed opportunity as "*development cooperation can contribute to strengthening the services of business support organisations to their local firms, including as part of the EEN network. As such, it can contribute to making EEN work for sustainable private sector development in partner countries and their trade and investment relations with the EU. Matchmaking and other EEN services can also be provided to companies that have been strengthened with development cooperation support*". However, while synergies between DG GROW and DG INTPA should be reinforced, it is important to underline that the participation of EU member states is crucial, as these are even more active when it comes to supporting the internationalisation of their domestic private sector. This would also be more in line with a Team Europe approach and would bring further geopolitical weight to the EU.

Beyond DG GROW, DG INTPA also builds synergies with DG TRADE, for instance, through the EABF fora at the national level. DG TRADE, through the design and implementation of EU Free Trade Agreements, and the EU through the Green Deal, put in place policies and regulations impacting the local and European private sector. In this context, DG INTPA can support the compliance of the local private sector with EU quality and sustainability standards in a way that effectively supports the implementation of EU Free Trade Agreements. In turn, this could also facilitate the European private sector trade and investment in developing countries. However, according to some stakeholders, synergies between DG TRADE and DG INTPA initiatives are not necessarily coordinated and/or planned ex-ante, leaving a more limited room to work better together.

This can, however, change moving forward. In its 2021 Communication on 'Trade Policy Review - An Open, Sustainable and Assertive Trade Policy' (European Commission 2021c), the European Commission committed to explore options for an EU strategy for export credits which can include, inter alia, a so-called enhanced coordination of EU financial tools. The objective of the enhanced coordination would be to maximise the collective impact of the EU financing activities in support of third countries through a collaboration (e.g., by exchange of knowledge and data) between EU member states' export credits agencies and the EU (including DG INTPA and DG NEAR) managed financial tools. To evaluate this option, the Commission conducts a mapping exercise of financial tools supporting the member states' exports and selected tools of EU development cooperation, expected to be completed by the end of 2022.

These synergies should not only be thought of at the EU headquarter level, but also at the level of partner countries, and involve local actors. EU Delegations and member states' embassies can play a crucial role in identifying the geostrategic opportunities for investments and their possible connection with the development needs of partner countries. In this context, they can foster synergies between public support for development cooperation and economic interests - and in doing so, also involve local public and private sector actors.

However, while synergies between public support for development cooperation and economic interests should be strengthened, clear distinctions should also be made to ensure a clear separation in the mandate and tasks between development institutions and more commercially-oriented trade and investment public institutions (e.g. ECAs), thereby ensuring that European private sector engagement in development cooperation serves first and foremost sustainable development objectives and aid remains untied (CONDORD 2021). It is not always possible and/or desirable to combine different objectives and strike trade-offs on some key principles. In that regard, EU development instruments should not be used to achieve purely economic objectives - as this is not in line with its objective and mandate. In this context, it is of strategic importance to distinguish, on the one hand, what the role and place of the European private sector are in EU development policy, and what contribution it can bring to the EU geostrategic interests; and, on the other hand, the need for developing additional non-development tools to pursue purely European economic interests. This is even more important as development cooperation PSE instruments are i) limited given their objective, mandate and principles (foster sustainable development while upholding the untied aid principle); and ii) mostly directed towards indirect support (e.g., budget support).

In this context, **there is a need to better harness and further elaborate non-development tools in a way that builds on and completes i) other development EU PSE instruments while making clear distinctions; ii) EU member states' own instruments and initiatives as public support through commercially-oriented instruments are often** implemented **at national level** (Box 5)**.** While this adds a layer of complexity, this would also be in line with the Team Europe approach. To be effective, these Team Europe Initiatives should ensure that any engagement is aligned with the SDGs and with European values.

Box 5: Illustrations of EU member states' support to the internationalisation of its private sector

member states play a more prominent role than the European Commission in supporting the internationalisation of their private sector and have in place several tools and instruments, including Export Credit Agencies (ECAs) but also investment promotion agencies and National Promotional Banks (NPBs). NPBs often provide advice and financial products (loans, guarantees and insurance) tailored to the needs of businesses, to help them achieve their economic objectives. Their importance is not negligible: they account for USD 215 billion in official export support to domestic firms' exports and investments (Dawar 2020). Bpifrance offers an "International Growth Loan" directed at French firms to cover the intangible investments they have to make when going abroad, e.g. adapting existing products to foreign markets, acquiring foreign companies or setting up new affiliates abroad (Abel-Koch et al. 2018). KfW (the NPB) and Euler Hermes (the ECA) in Germany also accompany the internationalisation of German enterprises. More and more, ECAs and NPBs have put an increasing focus on the sustainable dimensions of their operations and investments - for instance, through the implementation of environmental and social standards, the assessment of climate risks, etc. Beyond NPBs and ECAs, EU member states' Ministry of Finance or Economic Development have additional tools and institutions supporting the internationalisation of their private sector, which provides information rather than offers financial support. This is the case of Germany's Trade and Invest for instance. Similar institutions exist in many other EU member states.

The Global Gateway and Team Europe approach could also offer opportunities for ECAs, NPBs, PDBs and DFIs, who are active in the same developing countries (mostly middle-income countries) and sectors (infrastructure), (Große-Puppendahl et al. 2016c, Große-Puppendahl et al. 2016a, Große-Puppendahl et al. 2016b, van Seters and Bilal2020) to build synergies. Despite their different objectives, mandates, principles (notably on tied aid, strongly upheld by DFIs) and incentives, ECAs, NPBs and DFIs have collaborated on an ad-hoc basis, by financing projects in parallel (i.e. separate lending targeting different components of the same project), as in the case of the Standard Gauge Rail's financing structure in Tanzania for instance. IFC works regularly with ECAs, which directly lend alongside or provide cover to commercial banks under a separate parallel loan tranche (IFC 2022). In this context, it is worth noting the Conclusions of the Council of the EU which highlighted the "key role of national ECAs in mobilising private capital and stakeholders required for the successful implementation of the EU Global Gateway strategy" and urged rapid progress towards the objective of enhanced coordination of EU financial tools, including in "analysing the opportunity of enhanced coordination and of an EU export credits facility as a complement to national export credit facilities, to development aid, and to investment support, both at national and EU levels, and notably to the NDICI" (Council of the EU 2022).

Such a collaboration is driven by their complementarities: ECAs have a strong network of exporters from their domestic market, and often guarantee long-tenure financing. DFIs have at hand a variety of financial instruments tackling different types of market failures, and a stronger presence and relationships with actors in developing countries (Sharma 2014). Importantly, both ECAs and DFIs are committed to upholding strong social and environmental standards in their transactions, as well as proper anti-money laundering policies, know-your-customer standards, and due diligence processes (even though the latter is not harmonised) (Große-Puppendahl et al. 2016c).

Key insights

While better coordination between public support to development cooperation and economic interests is required to realise the ambitions of the Global Gateway and achieve the EU geostrategic objectives, these approaches too often co-exist in parallel.

Synergies with DG GROW and DG TRADE would allow DG INTPA and DG NEAR to leverage, rather than duplicate, existing public support/tools serving the EU's economic interests. Complementarity between public support and tools to development cooperation and economic interests by the EU and its member states would also allow better differentiation between the EU geostrategic and economic objectives and development objectives, ensuring untied aid, while both sets of instruments can integrate sustainability concerns and geopolitical considerations.

While synergies should be encouraged, it is important to highlight that different actors and approaches also have different interests, objectives and incentives, which may prevent such coordination to take place in practice. In this context, particular attention should be placed on incentivising EU member states to share information and coordinate at the EU level to achieve EU geostrategic and development objectives.

Although ECAs/investment promotion agencies and DFIs/PDBs already cooperate, this often happens on a purely ad-hoc and very limited basis in the EU. There is hence a need to explore further synergies between these entities in a way that contributes effectively and efficiently to the engagement of the European private sector in development objectives, as well to the realisation of EU geopolitical objectives. Coordination between European internal and external objectives and instruments, as in the case of NPBs and PDBs, should also be encouraged to that end.

5. Challenges and recommendations

Engaging the European private sector in EU development cooperation and finance, with a view to achieve EU policy objectives, requires addressing several challenges, which are described and analysed in this Section. While this report puts forward a total set of 13 recommendations, an overall emphasis should be placed on the following four principles to realise the ambitions of the Global Gateway and to achieve the EU geostrategic objectives:

- Ensuring that the principle of untied aid remains a key principle of EU development cooperation;
- Better coordinating public support for development and economic interests, while respecting a clear separation of mandates and objectives;
- Ensuring the inclusiveness of the European private sector engagement in development by strategically involving SMEs and smaller EU member states' private sector; and
- Providing pragmatic mechanisms and clear/strategic entry points for the European private sector to engage in development activities.

Strengthening a Team Europe approach and coordination:

- with EU member states
- with the European private sector

To better understand how to support a more coordinated EU approach to engaging the European private sector in EU development cooperation and finance, it is key to take into account EU member states' incentives and interests. According to some stakeholders, some EU member states are (increasingly) active when it comes to engaging their domestic private sector in developing countries. For instance, the Netherlands' 2022 development cooperation strategy, 'Doing what the Netherlands is good at', foresees a growing role for Dutch businesses, in increasing investment in sustainability and digitalization, developing further connexions with the local public and private sector, including through the implementation of public-private partnerships (PPP) focused on export and innovation. Some EU member states have hence in place dedicated institutions/departments/financial institutions, instruments and networks in place both at the national/EU levels and in partner countries to do so. Some of those member states with a relatively mature PSE ecosystem do not necessarily coordinate at the EU level as they may see limited value and/or interest in a Team Europe approach to engage with the European private sector. From a political and strategic perspective, some member states may also want to ensure sufficient visibility for their own national initiatives and private actors, including to maintain a privileged relationship with their partner countries. While some member states may have a strategic and pragmatic interest in boosting coordination between European actors, including the private sector, through Team Europe, this approach may also entail higher transaction costs, possible trade-offs and implementation challenges.

On the other hand, **EU member states with a limited PSE ecosystem, as is sometimes the case in smaller EU member states, may be more interested in a better-coordinated approach at the EU level to actively engage, in an inclusive manner, the European private sector in EU development cooperation and finance.** Making this endeavour a reality will require collecting information, knowledge and mapping of PSE instruments at the EU member states level, which can help to shape what the European Commission could/should do, and what role it should play, in a way that would complement and build on European member states' initiatives and interests, and foster the coordination and synergies between the EU level and EU member states initiatives.

Recommendation 1: Build and map European private sector engagement expertise and knowledge
Following the Team Europe approach, EU member states should share information, knowledge and mapping of their bilateral PSE instruments and those most relevant in particular for their own private actors – the European Commission private sector expert working group could be used as a platform to that effect. Such information would also help the European Commission identify complementary priorities and synergies with their own instruments.

Recommendation 2: Identify traction for private sector engagement at EU level
A political economy analysis of the incentives and constraints of EU member states interest in a coordinated EU approach to PSE – and in particular in engaging the European private sector in development cooperation and finance – should be conducted to identify which are the most relevant entry points for such a coordination to take place, identifying both low-hanging fruits and longer-term objectives. Such an analysis would help shape TEIs involving the European private sector.

One common challenge for the EU is to identify and engage the European private sector. First, not all EU businesses are interested in internationalising and in sustainable development: SMEs are less likely to export and invest in other countries than large companies (partly because of capacity issues). Second, when EU companies internationalise, most of them target the opportunities in the Single Market (which is perceived as less risky than outside of EU markets). Third, not all EU businesses, when internationalising outside of the EU market and more specifically in developing countries, have sustainable development concerns in mind. In this context, identifying the private sector actors (businesses or business associations) most likely to be interested in leveraging PSE instruments to invest in developing countries is not an easy task. This task is even more complex as, according to some stakeholders, European private sector associations do not always manage to come together as one party, and sometimes reflect the interests of specific types of companies (large vs. SMEs) rather than the European private sector as a whole.

In addition, the European private sector and especially SMEs, are not always aware of or do not always understand EU development policies and instruments. That is, for instance, the case of the Global Gateway. While the latter mentions the involvement of EU businesses in development as a key pillar, the operational ways in which this will be done remain to be defined and clearly communicated with the private sector. It is rather challenging as it involves many actors at various levels (country/regional/global) and various key sectors and necessitates close cooperation with EU member states' activities in this field (linked to trade and investment facilitation and promotion). Likewise, the type of private sector actors and the sectors targeted, and the instruments to be used, are not well understood. While part of the EU support (EFSD+) is channelled through DFIs/PDBs, the European private sector does not necessarily have privileged access to these institutions. All in all, awareness and understanding of i) who provides, ii) which type of support/instrument, iii) what type of private sector actor operating in, iv) given sector and country, and v) under which eligibility criteria and modality, is often lacking.

When the European private sector, including SMEs, needs support to internationalise, it does not necessarily look at development cooperation instruments, but often considers first public support for economic interests and activities. Such instruments, provided by ECAs, NPBs, trade and investment facilitation and promotion agencies, and other similar institutions, often translate in practice by direct financial or technical support to companies in the form of a loan, equity, guarantee, insurance and advice, expertise, matchmaking and networking. Such public support for economic activities should remain differentiated but more complementary to development cooperation, ensuring untied aid in PSE. ECAs and NPBs also have more visibility at the national level and may be more connected to the private sector (e.g. through business forums and conferences) than EU public entities. This makes them a privileged interlocutor for businesses, including SMEs.

Recommendation 3: Set up a one-stop-shop for the European private sector

The European Commission, in collaboration with and/or with the support of EU member states, DFIs and ECAs, could set up a one-stop-shop, or virtual platform, providing all relevant information and access for the European private sector interested to engage in development cooperation and finance. This would be particularly relevant in the context of the Global Gateway, which could provide the momentum and focus needed for such an action. By filling up a set of criteria (country of origin, country of operation, sector, type of support sought), private sector actors could access relevant information on what programmes they can be eligible for, who they should get in touch with (DFI, development agency, ECAs, etc.). Importantly, the issue to be addressed is not only the amount of information available, but the relevance of the information given that the private sector and especially SMEs which have limited resources and time available. The one-stop-shop could be integrated in the TEPP, and should reflect private sector needs and interests.

Recommendation 4: Make the BAG a strategic tool

As part of the Global Gateway, the European Commission will implement the Business Advisory Group (BAG). To be effective, it should:

- involve key sectors (including sustainable infrastructure, digital, energy) and actors,
- build on existing initiatives, such as the EABF,
- identify challenges and opportunities for the European private sector, including in particular SMEs from small member states, at large to engage in the implementation of development policies; and
- help connect public support for development cooperation and economic interests, while respective task division (improve coherence/synergies).

Recommendation 5: Encourage DFIs to also work with European private sustainable investors entailing a strong development added value (e.g. impact and ESG investors)

As the European Commission channels some PSE instruments such as the EFSD+ through DFIs, it could encourage DFIs to reach out to European private investors (at national level and in partner countries) which have a strong added value in scaling up sustainable and impactful investment (e.g. impact or ESG investors), to stimulate such private co-investment at fund and project's level. To do so, DFIs could seek complementarities and coordination with ECAs, as the latter have relevant expertise, tools and networks and may provide relevant and attractive financing schemes to specific European private investors. In addition, the European Commission could also add an additional question for the next round of EFSD+ proposals on the extent to which DFIs intend to mobilise European private sustainable and impactful investments, in line with EU development and geostrategic interests.

Bridging the gap between public support for development cooperation and economic interests:

- Fostering synergies between public support for development cooperation and economic interests, while respective separate mandates and task division
- Exploring complementarities between ECAs, NPBs and DFIs/PDBs
- Considering the different interests, objectives and incentives of each actor and approach

With the Global Gateway, the impetus to work better together, in a coordinated approach is a condition for achieving the geostrategic interests of the EU. The EU and its member states will not be able to engage and mobilise the European private sector at scale through their development cooperation instruments alone. With the principle of untied aid strongly upheld by the European Commission, its actions lie largely in exploring other ways to engage indirectly the European private sector and to build synergies between public support for development cooperation and economic interests (as the latter does not face the same legal constraint and have different objectives). DG GROW and DG TRADE aim to provide direct and indirect support to EU businesses – and have instruments in place to this effect, which do not follow development rules and principles, though they often comply with sustainability standards and should be aligned to the SDGs. However, despite growing efforts to better coordinate DG INTPA and DG NEAR with DG GROW and DG TRADE initiatives and instruments, coordination and synergies between these different entities remain often limited in practice.

Likewise, ECAs, NPBs and DFIs/PDBs operate too often in parallel, with limited synergies and possible cooperation in practice. In turn, this fragmented approach undermines EU geostrategic interests, in a context where other countries, in and outside of the OECD, use a whole-of-government type of approach to promote their national interests and influence in developing countries. Beyond ECAs, other economic actors, such as National Promotional Banks, also offer internationalisation support and should be considered when looking at the case for potential synergies. In this context, DG TRADE is currently conducting a study aiming to identify ways in which ECAs and DFIs instruments could be better coordinated and to assess the feasibility of establishing a European Export Credit Facility to complement the existing export credit arrangements at the member states' level and increase the EU's overall firepower in this area.

In order to bridge the gap between public support for development cooperation and economic interests, and their respective actors' interests, constraints and incentives should be carefully considered. For instance, DFIs have a development mandate, while ECAs' objective is to support the domestic economy by fostering the internationalisation of the national private sector; DFIs/PDBs target specific markets – e.g., poorer and more fragile states, and thematics - e.g. climate adaptation and gender, while ECAs do not aim as such to engage in such market failures; DFIs provide mostly debt finance (in addition to equity and guarantees) while ECAs offer mostly insurance and guarantee. All these aspects shape the extent to which these actors could and should work in a coordinated approach.

Recommendation 6: Build synergies between public support for development cooperation and economic interests, and further develop non-development tools

More efforts should be dedicated to building synergies between DG INTPA / DG NEAR PSE instruments and those of DG GROW and DG TRADE in order to strengthen a more comprehensive engagement with the European private sector and strengthen the EU international actions and geopolitical weight globally and in developing countries. Such efforts should be facilitated and coordinated by the European External Action Service. In addition, as development aid is not to benefit the European private sector, the European Commission should look beyond development and further develop EU public tools to support national engagement of the private sector in EU member states that can better accompany and complement development policies and instruments.

Recommendation 7: Explore synergies between ECAs, NPBs and DFIs/PDBs activities as part of a Team Europe approach, in particular in the Global Gateway and specific TEIs

DFIs/PDBs, NPBs, and ECAs should coordinate and build synergies, leveraging their complementarity under Team Europe approach and initiatives. To do so, they should start by better understanding their respective practices and procedures as well as of the areas of business priority; sharing data on trade, insurance, investment volumes in developing countries (in this regard, the Global Emerging Markets Risk Database Consortium -GEMS- database could be extended to ECAs); sharing their respective networks, and passing on business opportunities going beyond the scope of their respective activities; building synergies between their respective instruments to share economic, political and financial risks and; considering harmonising their processes and standards - especially when it comes to ESG standards, building on higher DFIs/PDBs' SDGs approaches and standards .

In this context, and following the results of the DG TRADE study on export credit, the European Commission could help convene meetings to foster dialogues between these entities to share experience, knowledge and information, with a view to identify potential areas of cooperation (including for the engagement of the European private sector) starting from low-hanging fruits. The European Commission could leverage the EDFI, the Joint European Financiers for International Cooperation (JEFIC) which comprise major European national PDBs, the EIB and EBRD and the EU Export Credit Group to facilitate these discussions at the EU level.

Recommendation 8: Distinguish between public support for development cooperation from economic interests instruments

Building synergies and strengthening coordination should be done with a view to contribute to sustainable development. In this context, aid should not be used to advance EU commercial or geostrategic interests if it does not serve first and foremost sustainable development. This exercise will be important especially in the context of the implementation of the Global Gateway and the Team Europe Initiatives, which mix development and geostrategic objectives. The European Commission should keep upholding the principle of untied aid. Particular attention should be paid to fragile and conflict-affected contexts. In addition, particular attention should be paid to ensuring that in cases of synergies, due diligence on environmental and social requirements and standards comply with those used by development cooperation, and that a thorough monitoring of the impacts of commercial/economic activities supported by development instruments is implemented.

Ensure inclusiveness of the European private sector engagement and explore further opportunities to involve EU SMEs in development:

- SMEs in Global Gateway
- SMEs in public procurement
- SMEs in fragile contexts

While the Global Gateway offers opportunities for the European private sector to engage in development cooperation, it is already important here to highlight that the focus on soft and especially hard infrastructure may only benefit certain EU institutions and member states. 90% of such hard infrastructure investments are carried out by European institutions (such as the EIB and EBRD), France and Germany (Teevan et al. 2022). In addition, most businesses able to invest outside the EU are large companies. Given this context, it can be expected that European SMEs and smaller member states may not be able to play an active role in implementing hard infrastructure projects. The dynamics are different for soft infrastructure projects, which could be a possible entry point for smaller member states and their own private sectors abroad. While the European Commission PSE instruments often consider, if not target, European SMEs, more will need to be done to ensure their engagement in development. Given the wide range of instruments, special attention should be given to facilitating their access and tailoring them to address European SMEs' needs rather than creating new/specific PSE instruments. Facilitating and fostering collaboration between European SMEs and larger companies, through supply chains, under the Global Gateway activities.

In addition, public procurement processes are not necessarily fit for European SMEs' characteristics: for efficiency reasons, **tenders' budget is often large and includes criteria (in terms of turnover, number of staff, etc.) which can hardly be addressed by SMEs.** In addition, the requirements in terms of documentation and the timeframe between the bid and its implementation may not fit the European private sector pace and require significant resources. This is even more the case for SMEs with no prior experience in handling the required documentation (EP 2021). Importantly, in cases where EU funds are channelled through an intermediary (e.g., implementing agencies or DFIs), the public procurement rules of the intermediary apply - preventing the development of harmonised public procurement processes beyond the EU procurement directive requirements.

Besides, the eligible entities criteria described in Article 28 of the Regulation (EU) 2021/947 establishing NDICI - Global Europe foresee that in the case of co-financing, the eligibility criteria in the procurement rules of the co-financing entity (e.g., DFIs, EIB, EBRD) prevails (NDICI-GE Regulation Art. 28(5). When European DFIs and PDBs have non-discriminatory procurement processes, it means that, for instance, third-country state-owned companies, as often the case in China, can be eligible to indirectly benefit from co-financing from EU grants and guarantees via the concerned DFIs and PDBs (EIC 2018). In the context of increased geopolitical competition, EU financing of Chinese companies becomes politically extremely controversial and often perceived as undermining the objective of more actively engaging the European private sector in development cooperation and finance. This is even more so given the fact that European companies do not always have access to public procurement opportunities from China's Belt and Road Initiative (BusinessEurope 2021). In this regard, a notable development is the 2022 EU International Procurement Instrument, which can be used to retaliate against discrimination targeting the European private sector. The EU can do so by enacting a score adjustment that disadvantages the evaluation of bids submitted by businesses from that third country, giving other bidders a competitive advantage; or excluding bids from bidders from that third country (Loyens and Loef 2022).

It will also be important to mobilise tools and approaches to promote the ability of SMEs to engage in more fragile contexts, with partners and possible de-risking mechanisms, as part of a coherent approach to private sector engagement in fragile and conflict-affected environments (Ahairwe et al. 2022). Such an approach would be in line with the policy first principle promoted by the EU and integrated its policies and instruments, including the EFSD+.

Recommendation 9: Mainstream European SMEs considerations in any existing and/or new instruments
The European Commission should not create yet another PSE instrument targeting SMEs, but rather tailor their existing instruments to facilitate SME participation, including from smaller EU member states, – to the extent that is relevant. Particular attention should be paid to those low-hanging fruits where minor changes can bring forward impact in terms of European SMEs' engagement in development. For instance, though non-DACable, the EU Gateways | Business avenues could provide further support to EU SMEs in Africa - while currently the programme focuses mostly on Asian countries. Likewise, the EEN could provide services to those companies that have been strengthened with development cooperation support.

Recommendation 10: Tailor the public procurement opportunities to EU SMEs needs and constraints
The European Commission could focus on ensuring that public procurement processes are fit for EU SMEs – in terms of process (documentation requirements, selection criteria etc.); foster partnerships/consortium between large and small firms; and promote sustainable/responsible business practice by adding selection criteria focusing on firms' sustainability. This is in line with the EU strategic added-value and would contribute to EU geostrategic interest and development objectives. The European Commission could also use public procurement as a geostrategic tool: e.g., should EU aid support third-country state-owned contractors (e.g., Chinese) companies for infrastructure projects? However, in this context, the guiding principles of untied aid and additionality should be respected to ensure that development funds achieve sustainable development in partner countries.

Recommendation 11: Consider the opportunity of giving priority to engaging with the European private sector over engaging with companies from geostrategic and systemic rivals

Given the complain that the EU development finance unduly benefit China and other geoeconomic rivals, consider the merit of revising public procurement rules, such as opening EU funding only to entities from countries that grant reciprocal access to their public tendering processes, or revising the Financial Regulation to restrict procurement opportunities to a limited number of countries, including those countries that effectively implement the OECD-DAC Recommendation on Untying ODA (which de facto would exclude China). The International Procurement Instrument could also be used to address discrimination towards European companies in public procurement opportunities from third countries including China, impeding the competitive advantage of third country businesses in EU public procurement. Doing so would also be in line with the principle of untied aid.

Explore the need to adapt the regulation framework on state aid rules and de minimis

- State aid rules and de Minimis rules

Another legal challenge relates to the state aid and de Minimis rules. According to the latter, grants provided by the state cannot exceed €200,000 in order to ensure that they do not distort competition. However, this amount is limited in view of the investments often required from European private sector businesses when entering or developing activities in developing countries (for instance, a feasibility study can sometimes amount to €1 million). This is particularly the case for hard infrastructure projects targeted as part of the Global Gateway. In addition, providing a grant exceeding this threshold is possible, provided the obtention of a State Aid notification (to ensure that the grant provided does not qualify as illegal state aid pursuant to Article 107 TFEU). But this process is relatively complex and time-consuming - making public support less relevant to private sector needs and interests.

This challenge has recently been taken up and analysed by the Practitioner's Network for Development Cooperation. The latter has put forward a proposal to revise the General Block Exemption Regulation (GBER) by including entrepreneurial projects/initiatives commissioned/funded/co-funded under member states' or the EU Authorities' Development Cooperation programmes. It is important to note that the GBER is expected to be revised, with exemptions foreseen for the Green Deal (and EU industrial and digital Strategies). As the Green Deal has also an external dimension and closely relates to sustainable development, there may be an opportunity to enlarge the scope of the exemptions to development cooperation. If not feasible, other alternatives could be pursued, where the exemption could be made solely for projects benefiting from EU funding through member states agencies.

Recommendation 12: Explore the need to adjust and update EU regulations by adapting the GBER or following other (more pragmatic) alternatives and approaches

The European Commission should explore the need to adapt the regulation framework on state aid rules and de minimis to encourage and facilitate EU PSE, including in EU member states. Reflecting on the limitations incurred by state aid rules including the de Minimis, the European Commission could explore whether expanding the General Block Exemption Regulation (GBER) to development cooperation could help the engagement of the private sector within TEIs and development more generally, and the achievement of higher sustainable development impacts. To do so, the European Commission could undertake an ex-ante impact assessment, which would provide quantitative and qualitative data points on this specific topic. More broadly, it should ensure that regulations as they exist are fit and flexible enough for delivering on the objectives of the Global Gateway.

Monitoring and reporting systems, geared towards development impact

Monitoring and assessing the impact of private sector engagement instruments is another challenge, particularly in contexts where the support **is indirect.** Evaluations and data (whether quantitative or qualitative) on European Commission's private sector instruments, and the extent to which they engage European businesses (including SMEs) and for which impact, is currently limited. This may, in turn, prevent the European Commission to capitalise on lessons learnt and integrate these in the implementation of new instruments or the improvement of existing instruments (making them more relevant, effective and efficient). This is even more crucial as using ODA to engage the private sector for development offers potential opportunities but at the same time involves risk and challenges (Große-Puppendahl et al. 2016a, Große-Puppendahl et al. 2016b), notably when it comes to the notion of additionality (i.e. to prove that the impact achieved is additional to what the private sector would have done anyway).

Recommendation 13: Strengthen M&E process around PSE instruments to foster continuous learning
The European Commission could integrate a continuous improvement model, based on evidence provided by their M&E framework - the Global Europe Reporting Framework, allowing it to collect data (in terms of outputs, results and impacts) on the performance of its PSE instruments. This could feed in evaluations that could draw lessons (on what works and what doesn't) and provide recommendations, thereby contributing to improving PSE instruments. Such improvement can be in terms of process - the extent to which PSE instruments are efficient and fast in providing support to their target; characteristics - tailor the instrument to the type of European private sector targeted; and technical features (i.e., type of non-financial products offered).

In this sense, a review of PSE instruments could help the European Commission adapt its instruments to make them more relevant, effective, efficient and/or coherent, including to engage the European private sector, in order to achieve its geostrategic objectives. These reviews and evaluations should be made available to the public, as a way to strengthen trust and accountability.

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