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THOUGHT LEADER

Using European funds to leverage private finance for sustainable development

Micro, small and medium-sized enterprises (MSMEs) are the engines of growth, jobs and innovation in all economies. They have vision. They generate new business ideas. And they are the lifeblood of communities.

In the European Union (EU), they account for 99% of all businesses, and 85% of all jobs. In Africa, they make up 90% of companies and 50% of output. MSMEs play an invaluable role in attaining the Sustainable Development Goals and tackling inequality.

Building on success in Europe

Every year, the EU makes funding available to more than 200,000 businesses in Europe, including entrepreneurs, start-ups, micro-companies, and small and medium-sized enterprises (SMEs). One such funding programme is COSME. It gives SMEs easier access to guarantees, loans and equity capital by channelling EU financing through local financial institutions such as banks, venture capitalists or angel investors. These institutions decide whether to provide EU financing and determine the terms on which it is offered, such as amount, duration and interest rates and fees.

Now the EU is applying this successful model in sub-Saharan Africa and the European Neighbourhood, through the European External Investment Plan, or EIP. One of our main goals is to channel private sector finance from developed countries to small businesses.

With an initial input of €4.5 billion, the EIP should leverage €44 billion in total investments by 2020. This includes 28 innovative guarantees, amounting to €1.5 billion. These will attract initial financing for projects and share the investment risk with other public and private investors. The EIP also comprises €3 billion in 'blended projects'. These use public money to cover a part of the costs of development projects. They combine EU grants with loans and other financing from development banks and private investors.

Focusing innovative financial instruments on MSMEs

Much of this financing will benefit MSMEs, enabling them to contribute more effectively to sustainable development. Of the 28 EIP guarantees approved, 13 target small firms, accounting for almost a quarter of the EIP's guarantee financing. They are expected to create or support some 2.7 million jobs, many in countries affected by irregular migration.

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These investments will also target businesses led by women, young people and members of countries' poorest communities.

One such guarantee is the Nasira Risk-Sharing Facility, for which the EU has allocated €75 million. The lead financial institution for this guarantee, the Dutch Development Bank FMO, estimates that it could create and support up to 800,000 jobs, especially for internally displaced people, refugees, returnees, women and young people.

Many EIP blending projects also focus on small businesses. For example, the €180 million Boost Africa project invests in funds spanning start-ups to growing companies, from seed funds, accelerators' follow-on funds and business angel funds to venture capital growth funds. The final beneficiaries are start-ups and innovative small firms that use novel technology and have the potential to grow fast and create jobs.

Addressing other challenges

Of course, investment must also be effective. Hence, other challenges that small firms face need to be addressed. Too often MSMEs face stifling red tape, have to adapt to ever-changing regulations or make informal payments. And they must manage without reliable electricity supplies or other infrastructure.

The EIP supports government reforms aimed at making it easier to do business and improve the investment climate. It facilitates regular dialogue between the business community and government. And it funds studies to identify growth opportunities for companies in partner countries.

The EU is building on its longstanding partnerships with countries in Africa and the European Neighbourhood – in areas from trade and investment to humanitarian and development assistance – to enable small businesses to flourish, and societies to reap the benefits.