ACP-EU Co-operation

Private Sector Development and Investment

1 Introduction

1.1 This paper considers the Draft Communication on Future EC Support for Private Sector Development in ACP Countries (DraCom), prepared by the European Commission (EC)(DG VIII), in the light of the ACP Group Negotiating Mandate (GNM) of 30/9/98, and seeks to identify any areas of divergence between the two positions, or proposals by either side requiring further clarification and discussion, and to provide commentary for negotiators to consider. The paper also makes a number of suggestions for the preparation of an agreed action plan for enhanced, private-sector led development in the ACP countries, and of specific initiatives within the plan.

1.2 The paper is based on a presentation prepared for and discussions at the Joint Commonwealth-ACP Secretariats' Workshop for ACP Ambassadors to the European Union on Post-Lomé IV Arrangements (the Workshop), held at ACP House in Brussels on 27th November, 1998. The principal conclusions and recommendations are summarised in the next paragraph, with more detailed discussion in the following sections.

2 Summary of Conclusions and Recommendations

1. ACP should focus pragmatically on an **action plan**, and seek to determine content, funding and responsibility for implementation of each element. Future discussions should centre on the detailed programme content, the methods of implementation and practical actions; (3.1.4).

2. Programme content should be agreed before fixing the total resources required. Extra resources need to be allowed for to enable EIB to help **finance PS infrastructure;** (3.1.5).

3. Although the EC's proposals on reform are coherent and consistent, and should not be contentious in principle, they are of limited scope, and **additional content and new ideas** should be put forward to enable it to achieve its stated aims; (3.2.1).

4. The ACP strategy of **investment-led development** is valid, and not inconsistent with the DraCom proposals, but it needs to be elaborated. Strategies should be developed for financing PS infrastructure, for technological acquisition, for new

enterprise support, and for developing new directions of trade, in close consultation with the ACP PS; (3.2.4).

5. EC could be invited to establish a special "cross cutting" programme, to assist ACP countries to **harmonise their investment codes** as a whole, including incentives as well as protection standards; (3.3.5)

6. It will be important for individual governments to **participate fully in the country diagnosis and planning exercise**, as full partners, and to set the agenda for a reform programme at the start. Provision will be needed so that diagnoses and strategic planning do not delay the initiation of priority programmes.

7. The added-value for an **ACP Investment Guarantee Agency** is not obvious; (3.3.6).

8. EC proposals for **investment promotion** need further clarification and detailing; (3.3.7).

9. The **Quick Access Facility** should be available to ACP firms, not just Europeans; (3.3.8)

10. More needs to be done to support the **project preparation** process, with emphasis on "helping entrepreneurs to help themselves". Support should be made available to ACP sponsors, and for intra-ACP investment. A contact and communication mechanism is needed. A special programme is recommended; (3.3.8, and ref para 5.5).

11. The proposed new **Investment Financing Facility** is potentially important, and its provisions need to be spelled out in more detail. The provision of the bulk of the new capital from EIB as **venture capital**, leveraged and coupled with capacity building, is to be welcomed. The eligibility of intermediaries needs to be agreed, and the investment terms examined in detail. Capital and project preparation support should be closely integrated. Clarification is needed as to whether EIB's funding for IFF and other facilities will require to be subsidised, and if so what subsidy will be available. A study is suggested into a special subsidy for venture capital and other financial services providers in **small island and landlocked states;** (3.3.9).

12. **In-company technical and management training**, involving the European PS and both higher education providers and commercial training services, should be a high priority for EC support, and a special programme is recommended to provide funding and TA for this; (3.3.10, and ref para 5.3)).

13. Assistance for the PS with tendering for privatisation and contracting out is a necessary complement to support for privatisation agencies; (3.3.11).

14. EC **support for PS organisations** should be detailed, and should include links with EU PS associations. Internet communications links would be very helpful in this, and for trade development. Responsibility for capacity building needs to be clearly defined. CDI is well equipped for implementation, but special funding is needed; (3.4.3, and ref para 5.2)).

15. EC and CDI support for development of **ACP-EU business links** to be most constructive should also cover intra-ACP contacts; (3.4.5).

16. The development of new export markets will be crucial for many ACP States, and a special programme of **support for trade development** should be requested. CDI advice on competitiveness and quality benchmarking will be valuable; (3.4.6, and ref para 5.4)).

17. A special programme needs to be developed to support **micro-credit and sa**vings initiatives, and a study of this should extend to the need for a **new specialised agen**cy, which could be based in an ACP country. A budget will be needed for this; (3.4.7, and ref para 5.1)).

18. Attachment of local **CDI** antennae to EC Delegations in ACP countries will be a positive step; but it is doubtful if it will be practical to relocate CDI's Head Office to an ACP country. A zero-based budgeting exercise will be needed to determine the resources needed by CDI to fulfil its extended mandate, when this is adopted; (4.4).

19. The possibilities for **enhancing CDI's mandate** need to be studied intensively before negotiations with EC are completed, and a joint ACP/EC team should be commissioned urgently to undertake an early study of CDI's mandate, powers, structure, network, budget and funding; (4.4).

20. Financial responsibility for micro-enterprises and SMEs may need to stay with the EC. CDI is not equipped to undertake the improved implementation and technical support needed for micro-enterprises, and has much else to do; (4.4, and ref 16 above).

21. EIB's continuing provision of **risk capital for PS**, including SMEs, in ACP is highly positive. Subsidy, if available, should be used to mitigate risk rather than reduce interest rates to end-users; (4.6).

22. EIB's proposed role in developing the financial sector needs to be defined; (4.6).

23. The EC's financial responsibilities for **investment promotion and PS capacity building** should be distinguished from implementation, in which not only CDI, but PS organisations and companies from both ACP and EU could be employed; (4.7).

24. The ACP team should press EC for detailed procedures and responsibilities for each segment of the proposed programme.

Note:- New proposals in this paper are listed at para 5, and conclusions and observations are summarised at para 6.

3 Analysis

3.1 Principles and Objectives

3.1.1 Both documents, DraCom and GNM, recite their common recognition of the fundamental principles of equal partnership and mutual respect, interdependence and solidarity, dialogue and goodwill, in a context of on-going change and current financial turmoil. Both sides recognise the basic objectives and common goals of that partnership as sustainable development towards the **elimination of poverty** and its causes, and the **integration** of the less-developed and often disadvantaged countries of ACP into the **world economy**. DraCom refers (para 8) to **employment creation through SME support** and **export growth through trade**, as underlying objectives of its present strategy, and (para 6) to the need to maintain **predictable financial flows**; while GNM also stresses (para 7) the principle of positive differentiation, and (para 9) the objectives of **food security**, and **social integration**, not explicitly mentioned by DraCom. DraCom announces EC's objective as being to knit together the current disparate strands of support into a **coherent, integrated conceptual framework for support**; while GNM does not lay claim to have developed any overall strategic vision, its proposals at paras 71-3 in fact constitute a pragmatic strategy of investment-led development.

3.1.2 GNM refers to the **"leading role" of the private sector (PS)** in the development process, while DraCom sees PS as a "leading actor" and "the **engine of economic growth"**, considering the promotion of PS, alongside the growth of trade and investment, and of the political, social and economic infrastructure, as crucial to achievement of its development objectives. GNM defines the role of governments as "putting in place the political, macro-economic and infra-structural framework", and lists a number of factors conducive to investment (para 69), while DraCom refers to "the complementary roles of the market and the state in competitive market economies", and recites (para 13) a similar list of elements conducive to the promotion of investment and PS growth. While both sides clearly share the recognition of PS as the main driver of economic development, and accept the need to maintain the reform process, DraCom gives greater weight to the need for reform of the **public institutional environment**, as a major element in its assistance programme.

3.1.3 GNM places heavy stress on the need for the new Agreement to give priority to the attraction of " both local and foreign (European) **direct investment**", particularly in manufacturing and processing, services, and new technology.