

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.

DraCom does not recognise this as a direct objective of the co-operation, seeing inward investment rather as the result of the PS strengthening and public sector reforms targeted by its programmes. However, it includes the **strengthening of the financial services industry and investment promotion**, including on-going dialogue with European investors, as activities for its support, and proposes a continuing role for EIB in catalysing and leveraging flows of private savings, through co-financing and risk mitigation. DraCom stresses (para 1&2) the purpose of its proposals as being the creation of a coherent framework for a **strategy of PS-led growth**, with the four key targets being the establishment of an **enabling environment, capacity building, strengthening of support services**, and mobilising **additional private finance**.

3.1.4 **Comment:-** The differences between the stated principles and objectives of the negotiation do not appear to be fundamental, but there are significant variations of emphasis. EC perceives its task, as detailed in DraCom, as being to work with, and provide support for, governments (**environment reform**), **PS organisations** (capacity building, dialogue and promotion), **service providers** and the **financial sector** (catalysing financing); leaving the PS to bear the main responsibility for initiating, funding and implementing development. This is a correct, classical view of the separation of functions in the market economy. GNM, by contrast, seems to assume that ACP governments will get on with reform at their own initiative, and places the emphasis on direct EC support for the PS, by way of finance for infrastructure, diversification, new technology and skills, etc. There is some philosophical divergence here, but the practical effect may not be too important. The way forward for the ACP States should be to focus pragmatically on a **concrete action plan**, and determine its content, funding, and implementation responsibilities.

3.1.5 Clearly, one major element in the negotiation not addressed in any detail is the total **availability of funding** for this part of the EC programme. DraCom refers, at para 1, to an “increased volume of resources” to be devoted to PS development, but gives no indication of a global sum or proportion. This will of course have to be negotiated eventually, but it will be better to determine programme content first, and to cost it, rather than to fix a sum of money, and have to work within it. However, this approach will inevitably be dictated by the overall negotiating strategy. It is understood that EU will finance infrastructure, etc, through the National and Regional Indicative Programmes (NIPs/RIPs) to be agreed with ACP States, not as PS support; but EIB may need **extra resources** to finance PS-funded infrastructure, etc, previously funded as public sector projects. This must be allowed for.

3.2 Investment Strategy

3.2.1 **The EC Strategy - Improving The Investment Environment:-** The EC strategy is essentially one of helping the ACP States to rectify perceived structural

constraints on development and to remove impediments to investment. As already noted, DraCom, in addressing the investment environment, places considerable emphasis on the need for “second generation” and on-going policy reforms, to create an **enabling environment** and a favourable investment climate for the private sector. EC will provide technical assistance and structural adjustment support for these purposes, which include not only **administrative, legal, tax, and regulatory improvements**, and **competition and consumer protection**, but also support for **privatisation** and public service **procurement**. Despite the difference in emphasis, these reforms are generally accepted by GNM, at para 69, as necessary and welcome; and GNM calls particularly for measures to improve information flows and to strengthen the responsible institutions, and improve their accountability. These EC proposals seem likely therefore to be uncontentious in principle, although their implementation in practice could give rise to considerable differences, in particular because DraCom seems to envisage that EC will be taking the leading role in initiating the reform process. DraCom proposes, in section 5, a process of **diagnostic reports**, prioritised **strategy documents** and co-ordinated programmes, and it will clearly be important for each country to be fully engaged in this process, if not to take the leading role itself. Implementation is addressed in detail later in this paper (para 6).

Comment:- The EC plans are coherent, and consistent with its perception of priorities. The strategy follows previous practice, and is relatively **limited in its scope**; it remains **Euro-centred** in many respects, and will still largely be delivered through existing **public sector** channels and NIPs. There is little direct support for the ACP PS. We must ask whether this proposed EC strategy will be effective, and whether it will address the needs perceived by the ACP, and fulfil its own objectives. The EC strategy, as stated in DraCom, will no doubt be helpful in assisting progress towards its stated objectives, but is unlikely to achieve them without additional content and some new ideas

3.2.2 **The ACP Strategy – Investment for Development:-** GNM recites, in para 70, a number of **structural impediments** to the attraction of foreign direct investment (FDI), which may be summarised as follows:-

- Low incomes and purchasing power, and low levels of domestic savings, resulting in sluggish rates of growth, and requiring increased support for micro-enterprises and SMEs;
- A lack of entrepreneurial, managerial and technical skills, resulting in poor returns to capital, and low productivity;
- Inadequate power, transport, water, and communications infrastructure, at both national and regional levels.

3.2.3 In paras 71-73, GNM seeks support for investment programmes to address these deficiencies and impediments, as follows:-

- a) **Infrastructure:-** Priority attention to improvement of the economic infrastructure, with special attention to the problems of island and land-

locked countries, requiring planning on a regional level, particularly of the land, sea and air transport and communications systems, but also of power generation and distribution, telecommunications, and water resources;

- b) **Financial Sector Reforms:-** Action programmes to facilitate economic diversification and PS development, improve the flow of savings, and boost incomes and growth rates, by supporting the development of the banking and financial services sector;
- c) **Micro- and SME support:-** Special attention to on-going support for the provision of micro-credits at low interest rates, and to capacity building at the level of SMEs, co-operatives and micro-enterprises;
- d) **New Technology:-** Building capacity for absorption of new technologies, through technical and professional training, scientific exchanges, etc, in support of the technology transfers from European technical partners, and of new investment to boost competitiveness.

3.2.4 Although GNM does not spell this out as constituting an alternative strategy, its implicit approach is to boost PS growth by increased direct EU investment in infrastructure, new technology, diversification, and in ACP businesses, particularly micro and SMEs, and this amounts to its own strategic vision for development.

1. **Comment:-** This is a perfectly valid development programme, which is not at odds with the EC approach, although there is an overlap in the respective perceptions of how the support requested is to be delivered. In particular, a coherent strategy for **financing infrastructural development** needs to be designed, which facilitates PS involvement through BOT and similar schemes, in a variety of public-private partnership mechanisms, shifting the EC financing emphasis away from direct public sector channels in favour of more flexible funding for infrastructure through EIB and other financing intermediaries.
2. The ACP States also need to develop **new trade directions**, and a great deal more emphasis needs to be accorded to this, and to **technology transfer**, than is the case in DraCom. This needs to be effected through an active and comprehensive strategy for new enterprise, based on self-help, supportive of ACP business through **in-company training**, project-focussed entrepreneurship development, links with commercial as well as academic European technology and information suppliers and funding for procurement. The present approach of confining technology transfer support to funding for potential European technical partners is transparently biased in favour of European exports; and while such programmes should be welcome, they should not form a major element of an aid package.
3. It is important that the ACP PS must be involved from the start in specifying what is needed, and in particular in developing the plans for their own organisational development. ACP govts need to **consult PS leaders** now, and continuously, and with their help develop their own new ideas into a realistic and practical strategic action plan.

3.3. The Main Elements of the Strategy:-

3.3.1 DraCom summarises in section 4.2 (paras 25-27) the main elements of its proposed integrated strategy for PS support, which may be summarised as follows:-

1. Support for ACP State reforms of their **investment environments**, mainly by technical assistance (TA) to define and implement reforms;
2. TA support for **PS/State dialogue**, by financing surveys and consultancy, etc;
3. Improving quality and availability of **financial services**, mainly by providing project finance and grants through EIB, as equity, loans and “global loans”, etc;
4. TA support for projects, by **CDI** interventions using local **service suppliers**, which will build capacity, and also support technology transfer;
5. **Co-financing** schemes, investment promotion, etc, to catalyse investment and leverage savings flows;
6. Finance and TA for **micro-credits and small savings**, aimed particularly at the poor and women.

3.3.2 DraCom contains reference to three new programme elements, which have been suggested to form part of the new Convention. For two of these, it is proposed only that EC will study, without commitment, the possibility of setting up

- a) a **“quick access” TA facility (QAF)** for EU firms investing in ACP; and
- b) a new **European investment guarantee agency (EIGA)**.

In addition, DraCom confirms, at para 52 in section 6.2, that EIB will manage a new, revolving **Investment Financing Facility (IFF)**. DraCom states that EIB will deploy for IFF both a new EDF contribution, or subsidy, alongside receipts from the existing (presumably)ACP portfolio. This IFF will be deployed through intermediaries, and the terms will be subject to EC and EU Member States’ agreement. It is expected that IFF will catalyse investment by others, and will be aimed at SMEs, privatisation warehousing, and help to mobilise local savings.

3.3.3 In para 74, GNM calls for specific “support and incentives” to stimulate investment, including the following items:-

1. An ACP-EU **investment guarantee** and protection scheme and FDI underwriting mechanism;
2. Assistance in **identification of projects and partners** for joint ventures;
3. Funding for **feasibility studies and pilot projects**;
4. **Capital** for joint ventures;
5. Assistance with **technical, management and training skills**;
6. Assistance in preparing proposals for **privatisation** and BOT/BOO contracting-out schemes.

3.3.4 **Comment:-** 1. There is clearly a considerable overlap between the two proposed programmes, but substantial differences of emphasis, reflecting the two sides' divergent strategic approaches. We must ask if the DraCom package gives effect to its proposed strategy, and whether new and additional elements are needed, as requested by the ACP States' GNM or otherwise. The elements in the DraCom package are little changed from present practice, and appear to focus again mainly on European "experts" and EIB finance. In general, the EC proposals set out in DraCom appear to be intended mainly to pull together and add focus to existing programmes.

2. We must also ask what EC commitment is there to the new initiatives proposed, are they needed, and are they sufficient to achieve the desired objectives? EC's commitment to the EIGA and "quick-access facility" ideas is only to study them, and although the IFF is, it appears, a firm proposal, it may add little to what has been available in Lome IV. DraCom is generally imprecise on specifics and methods, but EC seems willing to consider new ideas, within the set parameters. **New ideas** are needed, besides the three already on the table. Although calling for new forms of support, and a range of initiatives in general terms, GNM does not otherwise put forward specific new elements for inclusion in the programme. It seems clear that the initiative must lie with ACP, and that it will be up to ACP to put forward during negotiations a range of specific proposals to give effect to the investment-led strategy and the new forms of support which is called for in the ACP States' Mandate. GNM has started to provide these, in seeking new forms of support for PS, and for ACP States generally, but has not yet specified in detail the elements required (except the constructive call for creation of an ACP/EU business forum). ACP needs to develop its strategy into positive and coherent counter-proposals, and a detailed and practical **action plan** to supplement EC's proposals, in order to ensure effectiveness and adequacy of funding. Looking at GNM's suggestions to date, however, it appears that DraCom would in fact accommodate all of the specific ACP requests, none of which are inconsistent with DraCom's strategic thrust, or its past practice and stated approach. Each item is examined in turn in the following paragraphs.

3.3.5 **Reform of the Investment Environment:-** This is addressed, with strong priority, by DraCom in its section 3, paras 12-20, dealing with the ACP business environment, and at para 3.2.1 above. The GNM also calls, at para 78 ii, for support to ACP states in their creation of a conducive **investment climate**, and no further comment is required. One specific ACP request is for support for the **harmonisation of investment codes** and regulations. DraCom addresses one aspect of this point at para 39(e), on the need for common investment protection standards. The further issues of harmonisation of investment incentives and the terms and conditions for both local and external investors, are also important, and EC could be invited to extend support, perhaps as a special regional or "cross-cutting" programme, for the overall harmonisation of investment codes.

- 3.3.6 **EIGA:-** DraCom, at para 49(b), agrees that the Commission will, “in co-ordination with Member States (of EU), examine the added value of a European investment guarantee agency (EIGA)”, to provide insurance against political risks. It is not clear whether such an agency would cover the whole range of risks, such as exchange illiquidity, but such issues would presumably be addressed at appraisal. GNM stresses, at para 74, the need for a new European IGA, and calls for a mechanism to underwrite FDI flow risks.

Comment:- The added-value of the proposed new agency is not immediately obvious, in view of the existence of both MIGA and CIGA, and of a number of European credit guarantee agencies. While competition in this area is undoubtedly valuable, the risks of cross-default are considerable. The need for a new EIGA is not self-evident therefore, and the study should be open-minded on this. A mechanism to compensate for sudden out-flows of short-term portfolio investments is certainly needed, but is difficult to arrange, in view of the potential size of the commitments needed, and thorny moral hazard issues. However, there are already calls for international structures to be created to address this problem, for the benefit mainly of the larger emerging markets, such as Brazil, and the ACP States may benefit from these mechanisms, if they are set up.

- 3.3.7 **Project identification:-** This element has been the main focus of CDI’s activities, and DraCom envisages that this will continue, and will be supplemented by CDI’s extended role for non-industrial enterprises, and by its new focus on building capacity for local advisers. The Community will also continue and extend its support for investment promotion, although the nature of its “other support for business links” (para 48(e)) is not specified. This requires further clarification.

Comment:- This paper’s view is that much more could be done by ACP countries generally in supporting the private sector in identifying, developing proposals and business plans, contacting partners, forming joint ventures and implementing projects. While CDI has already been of great assistance in this area, much more could be done. The emphasis needs to be on “helping the PS, in ACP countries, to help themselves, rather than, as at present, supporting EC investors; and the scheme should be opened to encouraging intra-ACP investment, and not just EU investment into the ACP, which perpetuates out-dated dependency patterns. There also needs to be a programme of support for a contact and communication mechanism, and much more support for the identification of sound potential projects. An outline proposal for a similar, concrete action programme, has previously been prepared for the Commonwealth Secretariat.

- 3.3.8 **Feasibility studies and pilot projects:-** Here again, CDI has been active, and will continue its support, with additional emphasis on local service providers. In addition, at para 49(a) of DraCom, EC offers to set up a “**quick access**” facility (QAF) for feasibility and market studies, building on its experience elsewhere (presumably Eastern Europe). It should be noted that this facility will be for

European firms, and not apparently available to ACP firms. The objective of this new facility is expressly “to encourage European direct investment in ACP countries”, rather than to support ACP development directly.

Comment:- In the context of the stated EC focus on building capacity of local service providers, which this paper strongly supports, it seems illogical that the QAF is targeted solely at European firms. It is assumed that the ACP request for this facility was prompted by the need for less bureaucratic and speedier procedures, rather than for additional special funding for European investors, who are already extensively supported by CDI. The proposed on-going focus on the European partner strengthens the already disproportionate negotiating position of the technical partner in an ACP JV, in which the local sponsor has little backing and few resources. It would be preferable for the ACP entrepreneur to be supported directly in first defining his project, and its feasibility, and in identifying the most appropriate technology, using local advice so far as possible (Europe has no monopoly on expertise!), then in contacting a short-list of suitable potential partners, from Europe or elsewhere, and finally in conducting, with the selected partner, a full feasibility study and business plan, market survey, and, if necessary, a pilot project. This support warrants developing into a full-scale special programme. As already noted, it seems essential that the “quick-access facility” should be extended to ACP firms, not just EU partners, if the facility is to be recognised as of prime benefit to the ACP entrepreneurs, at whom it is surely intended to be aimed. Clearly, the full panoply of EC support would not necessarily be available for projects not involving a European partner, but it would be much fairer for the early stages of the process to be supported without locking in to a specific European partner before the project is properly defined. In itself, however, this facility is badly needed, and should prove complementary to the existing facilities of CDI. Clarification is needed as to terms and procedures envisaged, but it is presumed that it will be deployed by CDI, which leads EC’s activities in this area.

- 3.3.9 **Capital for Joint Ventures:-** DraCom confirms (para 50) that EIB financing is continuing to become more PS orientated, as well as emphasising job creation (through supporting SMEs), and building financial sector capacity. This approach strengthens the emphasis on investing in the equity of (and accordingly financing, and catalysing investment by others) local venture capital and other financial intermediaries, as well as providing SME finance through “global loans” to development banks, etc. The proposed new, revolving “**Investment Financing Facility**” (IFF) sounds similar to the existing ECIP scheme, but with extended parameters permitting use of the scheme for warehousing privatisation share issues, and to encourage unit and investment trusts, and other local capital market savings schemes. If so, this is a welcome development. The ECIP (Investment Partners) scheme, which helps to mitigate investment risks taken by EDFI institutions and other intermediaries, appears to have been successful, but is available in certain regions only. This is potentially an important new initiative.

Further confirmation and clarification is required, however, since the IFF may be envisaged as essentially just a replenishment of existing facilities.

1. **Comment:-** It is undoubtedly sound policy both that the bulk of the new Convention's capital support for the PS should be provided in the form of venture capital, and that this support should be leveraged so far as possible, and coupled with attention to developing capacity of venture capital companies and similar intermediaries, and of local advisers, with investment decisions all devolved to as close as possible to the entrepreneur. The categories and characteristics of intermediaries need to be clarified and agreed; for instance, whether regional funds will be eligible for investment as well as single-country funds. It will also be highly desirable for this capital support to be closely integrated with the project preparation facility propounded elsewhere in this paper, and with CDI support generally. The terms of EIB investment need to be examined in some detail, to ensure that they are not unduly restrictive, while remaining consistent with prudential rules. In particular, requirements for collateral or security cover, own contributions, and categories of expenditure eligible for financing under global loans may need to be defined more flexibly. However, the shift to more equity financing will ease such problems.
 2. The point was strongly made at the Brussels Workshop that there are many ACP situations, particularly affecting the **small island and landlocked States**, in which the logistical costs of operating, relative to the size of the economy, and the perceived greater risks attaching to the smallest countries, may result in market failure and make it uneconomic for any unsubsidised investment business to provide the financial backing needed for development. Although as a general rule this consultant's experience is that financial markets are well able to provide funds, at an appropriate commercial price, for all properly prepared and deserving projects presented by experienced sponsors in any stable and well-regulated economy, the existence of market failure in the special situations cited is undeniable. There may well be a need for a special programme to provide a degree of subsidy to cover the marginal costs to financial services providers of operating and investing in these special situations; and a study of this requirement is suggested.
- 3.3.10 **Training Assistance:-** DraCom does not refer specifically to assistance for training in the private sector, although this is implied in references to CDI's support for technology transfer, and for building capacity of local service providers (presumably this would include training services); and the need is strongly emphasised in para 18 (s 3.4). DraCom also mentions (para 9) the assistance extended by Member States for skill training and trade development. EC does of course make substantial contributions to human resource development under other chapters of the Convention

Comment:- Training in both technology and particularly in entrepreneurial and management skills, is a vital element in new project development, and is all too often overlooked. Technical training needs to be given on an on-the-job, in-company basis, as well as formally at training institutions. The same applies to entrepreneurial, commercial and management skills, for which training needs to be project related so far as possible, again “helping entrepreneurs to help themselves”. This sort of training support needs to be seen as an integral part of EC’s PS programme, not solely as education in the public sector. This need for training is further emphasised in the next section of this paper.

- 3.3.11 **Proposal Preparation Assistance:-** DraCom places strong emphasis in para 26(a) on support for public sector reform, including privatisation, and gives top priority to support to governments for “privatisation and public procurement “ and for “defining and prosecuting privatisation strategies”. GNM’s request for assistance with the preparation of privatisation proposals (presumably on behalf of PS tenderers in this context, and not just for the Privatisation Agency which is charged with achieving the privatisation or contracting out), and for the structuring of BOT/BOO contracting-out schemes for infrastructure or services, is a necessary complement to this.

Comment:-The absence of support for the ACP PS for these purposes will both prejudice the effectiveness of the strategy, and/or give an unfair advantage to external multi-national tenderers, who have had vastly greater opportunities to develop their expertise in this field. Country IPs should contain elements extending support for local enterprises in developing responses to these investment opportunities.

3.4 Private Sector Development

- 3.4.1 As noted, both organisations recognise the leading role of the PS, in generating growth, diversification, employment and wealth (GNM para 77), and DraCom treats its proposed support for the PS/government dialogue (para 26, b) as its second priority.

- 3.4.2 GNM calls (para 78/9) for new forms of support, both for PS and for governments, to enable government promotion of PS to be effective, and details some specific ideas. The ACP States’ PS support programme proposals are as follows:-

1. **Capacity Building:-** new forms of support for PS, to reinforce its organisations, and to encourage dialogue at national level;
2. **Financial Backing:-** improved access for PS to financial resources;
3. **ACP-EU Business Links:-** more regular contacts between ACP and EU PS businesses, and an ACP-EU business forum;

4. **Quality and Competitiveness:-** measures to assist ACP producers and suppliers in improving their quality standards and their competitiveness in international markets, in order to increase exports.
5. **Micro-credit Institutions:-** encouragement for establishment;
6. **Technology Transfer:-** enhancement of the processes for the transfer of scientific knowledge and technology development.

3.4.3 **Capacity Building :-** DraCom proposes to offer support for capacity building for PS organisations and associations, with a view to promoting dialogue between governments and the PS, as a main element in its integrated approach, and also between the European and ACP PS. DraCom envisages providing funds for consultancies and surveys, to ensure that PS organisations are well informed and advised, but does not otherwise specify how otherwise the capacity building will be effected , and under which agency's responsibility.

1. **Comment:-** Such support will no doubt be welcome; but will EC support extend to direct budgetary support for PS organisations, mainly to cover the costs of expert advisory work, computerisation, collection of statistics and market information, liaison with other regional and international PS organisations, etc? Such advisory work is better done in-house by attached expert staff than by *ad hoc* consultancies. Employment of advisers should not be restricted to Europeans, but should include local and internationally recruited experts.
2. It would also be desirable for links to be formed by ACP PS associations with European PS organisations, who could offer on-going advice, training and support, and possibly secondment of staff in both directions for useful periods. Such associations would also of course potentially be of great assistance in developing trade links, and they would be greatly strengthened by modern communications links, using the Internet, or a specific Intranet system. The Commonwealth's Combinet scheme aimed at Chambers of Commerce could serve as a starting point for this. EC funding for the development of such a programme would be most helpful, and this could probably be best implemented on a regional or overall basis.
3. Responsibility for execution of the capacity building initiatives needs to be clearly defined. DraCom assigns overall responsibility for this to the Commission, but CDI, or indeed bodies external to EC, including possibly the PS itself, could be better equipped to handle implementation under the Commission's supervision. This issue is addressed in more detail in section 6 below.

3.4.4 **Financial Backing:-** Dracom includes the improvement of the quality and availability of financial services to ACP PS, and the catalysing and leveraging of private savings flows, as main elements in its programme, with financial backing

extending, it appears, to both specific **project financing**, through EIB presumably, using the new IFF and other facilities, in the form of both loans and equity, and to **grants for special credit programmes** (both micro-/SME schemes, and on-going global loans from EIB); and also to the strengthening of local financial sectors. The financial services industry will benefit from acting as the intermediaries for these interventions; and DraCom also refers to “ participation in the promotion” of new services, underwriting of local issues, and the provision of guarantees.

Comment:- It should be clarified what DraCom has in mind here, but presumably it is intended that EIB will take the lead in this sector, and will be willing to provide a wider range of financial support for the services and products developed by the local financial services industry, as well as the European DFIs and other European external investors. These will presumably extend to loan guarantees, underwriting of new stock-market issues, and other new services, such as asset-based finance of various sorts, venture capital, bond issues, and savings and insurance products. The expected result of these expanded services is to encourage local savings, and to provide enhanced flows of capital to local businesses. Again, the development of better local services would be greatly enhanced by programmes to encourage investment by the European financial services industry in ACP countries, not only (or indeed mainly) for the sake of their capital introductions, which will generally be small, but for the sake of their expertise and their networks.

- 3.4.5 **ACP-EU business links:-** These have already been touched on at the level of PS organisational development; and the promotion of links and joint ventures at the level of individual businesses remains the principal concern of CDI, an agency which has already proved its usefulness to ACP countries. DraCom addresses issues of co-ordination and consultation in section 5.5, and the need for a dialogue between ACP and EU PS bodies is covered in para 45 particularly, which refers to the creation of fora for regular exchanges of information. EC action to “reinforce dialogue with the European private sector, and improve information about EC-supported initiatives”, and to assist ACP countries in investment promotion, are also cited in para 26 as a main element in their proposed integrated strategy; and para 48 (e) notes that the Commission will provide support for regional business forums and other business links. Neither the CDI’s activities in this direction, nor the individual business liaisons, are otherwise emphasised.

Comment:- The extent of EC support for the development of links, presumably mainly through CDI, needs to be further clarified. Inwards investment, trade and technology transfer all depend on the development of contacts and communication between businesses, and are recognised by GNM as crucial. Assistance from EC and CDI in this process will be very constructive, and a firmer commitment to an action plan should be a target. ACP countries should aim at developing a communications and contact network, involving not only business organisations but individual businesses, to facilitate both trade and investment. These contacts should not be restricted to ACP-EU links, but should certainly cover intra-ACP

contacts, if not international. The negotiating group could press for CDI's mandate to extend to the establishment of a communications and contact network, possibly using Internet technology, together with a programme of support for regional and international conventions, including the ACP-EU forum specifically proposed, to facilitate business contacts, and for discussion of mutual interests.

3.4.6 **Quality and Competitiveness:-** The ACP emphasises its requirement for support for improvements in quality standards and competitiveness, rather than directly for trade development and the identification of new markets. DraCom also approaches the issue indirectly, and not as a main element in its proposed integrated approach (moving away from this Lome IV bis priority). DraCom does, however, identify trade and service sector development, in particular trade facilitation and infrastructure, quality assurance and institutional support, together with the reduction of transport, communications and compliance costs, as priorities for country strategies. CDI initiatives for technology and business skills transfer are also highlighted, and para 56 notes CDI's ability to "build local capacities to diffuse information among local firms about the **product quality and standards required in external markets**". DraCom also focusses on support through CDI for building capacity of local providers of technical, management, professional and commercial services, and for their use in project identification, appraisal, preparation and implementation, and in **process and marketing problem resolution**.

1. **Comment:-** Competitiveness analysis, and on-going benchmarking in all aspects of quality, productivity and performance generally, are crucial in globalisation and in raising growth and investment. DraCom's approach of using CDI as its principal tool for this, and through them of building capacity of local professional firms, as well as supporting on-going technology transfers through joint ventures, is fine so far as it goes. However, the problems of quality and competitiveness extend far beyond new ventures and the advisory sector, and interventions need to address the problems of existing businesses, and employees as well as consultants. ACP could consider seeking support in the form of a wide-ranging **quality and competitiveness improvement programme**, aimed at the PS directly, with support from the European PS, to improve performance and modernisation. In-company technical training which is really up to date and up to international standards is a vital element in raising the level of skills in ACP economies, and is not generally available, or only at crippling cost, through importing expertise. Such a programme could also provide assistance with adaptation to the costs of compliance with special **labelling schemes**, new environmental and social requirements, etc.
2. ACP States should recognise that the approaching reduction, if not demise, of trade protection arrangements under successive Lome Conventions will expose many of them to a harsher, free trade environment, in which the development of non-traditional exports, the identification of niche export markets offering some

comparative advantage, and the opening up of new directions and relationships for trade and investment will become increasingly vital for their future prosperity. It was clear from the Workshop briefings that the new Convention may offer no more than a breathing space during which the PS must be encouraged to pursue **new opportunities for trade** as a very high priority.

3. It should also be noted that GNM addresses the need for enhanced scientific and technology transfers, presumably in the form of technical training, as an area for support principally to the ACP States (rather than to the PS); and this is of course a very valid request. However, in-company technical and managerial training, on a continuous basis, is essential in modern business, especially in the technologically advanced sectors, and this sort of training cannot be left to governments or public technical training institutions.

- 3.4.7 **The Establishment of Micro-credit Institutions:-** Here again, DraCom places high priority on both micro- and SME credit programmes, and savings schemes, at para 26 (f) and at para 39 (a), particularly in view of the large benefits of such schemes for both poverty alleviation and for employment generation. DraCom refers also, at para 26(f), to “ the provision of non-financial assistance” for the very poor, and for women in particular, and to the separate DraCom on Microfinance.

Comment:- ACP and EC clearly share concern that strong emphasis should be given to encouragement for the micro- and SME sectors within the PS, with a view both to poverty alleviation and to job creation. Both sides recognise also that these sectors are likely to require specialised intermediaries and a degree of subsidy or special support (despite the success of Grameen Bank in Bangladesh and some others in demonstrating that these difficult sectors can, in some communities, be successfully addressed commercially). There is a clear need for a special programme to be developed, on which individual countries can draw, to provide support in this area; and this is no doubt addressed in the separate Communication under reference. The question of implementation responsibility for the sector is addressed in the next section of this paper.

- 3.4.8 **Science and technology transfer;** DraCom notes, at para 26 d), that EC will continue to support, through CDI or otherwise, initiatives for the development and transfer of technology, coupled with know-how generally, and improved business management practices. This has always formed part of CDI’s brief, and it appears that this reference simply envisages continuation of present practice. There is no indication that any initiatives are contemplated, or that this aspect is given any priority.

Comment:- As noted in para 3.2.3 above, this is a high priority for ACP and is not given emphasis in DraCom. Support for training in technology is needed at both the state technical college and university, and at the in-company levels, and it needs

to involve closely both the European PS, at PS organisation and at individual business level, and also European higher education and academic institutions, and commercial providers of technical training of all types. Training at these levels involves very considerable costs, is not accessible to ACP countries, and should be a focus for EC support of the very highest priority.

4 Delivery and Implementation Responsibilities

4.1 DraCom sets out in some detail, in section 5, its proposed approach to the implementation of its strategy, and delivery of the programme elements, and the envisaged procedures for diagnosing problems, identifying priority tasks for reform, and defining the content of EC action and support programmes for the PS, in NIPs, in conjunction with the efforts to be made by other donors and agencies, and by Member States bilaterally. The approach calls for a careful, step-by-step diagnosis or identification of problems, priorities and requirements of each individual State, followed by agreement with the State on a country strategy, within which EC will determine its own action plan, integrating the activities of each of the agencies, CDI and EIB, with the EC's own programmes, co-ordinated by its Delegation. DraCom confirms, in para 40 particularly, its intention to work through intermediaries whenever possible, and on a commercial basis, with subsidies minimised and, where applied, subject to phased reduction. These issues are not addressed in GNM.

1. **Comment:-** These diagnoses and strategy documents are clearly going to be vital for ACP countries, and will presumably take place at the start of the next Convention period. Once completed, they will be very difficult to modify, and will set the framework for EC assistance throughout the period. As already noted at para 3.3 above, it will therefore be essential for ACP countries to participate fully in these diagnostic enterprises, not just at the level of consultation, but by setting the agenda and taking control of the direction of national development. EC refers to "participation", not only of governments but of the ACP and European PS and other donors, but the diagnoses should be seen very much as a joint exercise, in which teams of EC and ACP experts and consultants report back to the parties jointly, as the basis for discussion and agreement; and not as a set of proposals to be submitted to EC as the commissioning principal.
2. It is assumed, but this needs to be confirmed, that the diagnostic programme will address in detail for each country the reforms to the institutional context for business, necessary to create an enabling environment, covering all the areas already detailed in DraCom, together with investment incentives and the tax, regulatory and other regimes to be set in place to ignite sustainable growth, and financing for the reform programme, and the other main components of the strategy. While this is a commendable ideal, in practice the definition and agreeing of a fully worked out strategy for each ACP country is likely itself to take the length of the next Convention. It will be necessary to agree procedures