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

ensuring that obvious priorities can continue to be actioned without delay, while work on the strategy documents continues.

4.2 DraCom also details, in section 6, paras 46-56, the proposed responsibilities for the three major EU co-operation institutions, including EC itself. DraCom accepts the case for the extension of **CDI's remit** to enterprises generally (para 54), although it refers to "industry related services", rather than to "all sectors" as proposed in GNM. DraCom also proposes to continue the extension of CDI's activities into identification of and capacity building for local advisory and service providing firms, and the promotion of their use, as well as the role, noted at para 4.5 above, of providing information on quality standards. These extensions imply an enhancement of CDI's allocation of financial resources, and an up-dating of its mandate, although these are not specified. DraCom does not consider a role for CDI in micro- and SME support, nor the decentralisation of CDI and the reinforcement of ACP participation in CDI's control and management. The new CDI terms of reference will of course have to be negotiated in detail between EC and ACP as co-owners. DraCom also confirms the continuing responsibilities of the Commission for micro-and SME programmes, and of EIB for global loans.

Comment:- We must ask whether the means are in place to ensure **effective delivery** of the support promised. This involves taking a view on the effectiveness of the present system, and of each of the agencies concerned, and may also involve considering the need for new delivery mechanisms. Clearly, there is scope for considerable discussion of these management and structural issues, which will reflect each States' experience. However, the strong support in GNM for extension of CDI's role clearly reflects ACP States' recognition of the very positive contribution already being made by CDI, as well as their perception of the restrictions placed on it by its bureaucratic requirements, and of the failure in practice of their supposed joint control of the institution.

4.3 **CDI:-** GNM raises, in para 80, the **role of the CDI**, and the need for its enhancement, to become the prime instrument for micro- and SME support programmes, and for an extension of its present role in the promotion of industrial joint ventures to include enterprises of all types, including processing and service businesses. GNM calls specifically for an increase in the resources to be allocated to CDI, for its supervisory structures to be "rationalised", and its legal mandate up-dated, and for its joint nature to be reinforced. GNM also calls for a study into the possibility of decentralising CDI's operations, and of relocating its head office into an ACP state.

1. **Comment:-** The clear definition of CDI's extended mandate, its enhanced resource requirements to fulfil these extended responsibilities, and the control and administration procedures appropriate to both the extended mandate, and to CDI's joint agency status, all need to be studied in some depth, before they can be usefully discussed across the negotiating table. It is proposed that a

study should be commissioned by EC and ACP jointly, as a matter of urgency, to establish the facts and to present the options for the negotiating teams.

2. The **decentralisation** of CDI's operations to ACP countries, in the form of establishing local country or regional offices, presumably attached to the EU Delegations, would be a positive step. CDI's expertise in assisting ACP enterprises to plan and implement projects, and to surmount problems, is recognised by both sides, and it is praiseworthy that CDI has managed to do as much as it has, despite so limited a local network, and at such a distance from its clients. Its added responsibilities will make decentralisation imperative. However, CDI will still have the need to liaise with European companies, and it is hoped that this role will increase both in volume, and to include contacts with training providers. There will also be a need for on-going specialist expertise and for administration, etc, and it makes sense for this to be held centrally in Europe. Administratively, and practically, Europe has advantages for a head office location shared by few ACP countries, and it seems to be preferable not to pursue the proposal for relocation.

3. Following agreement on the enlarged mandate, and on the administrative and locational dispositions to be made in order to discharge the added responsibilities, a **zero-based budgeting** exercise will be needed to ensure that CDI has sufficient resources available to fulfil the enlarged role.

4. With regard to responsibility for micro-and SMEs, a clear distinction needs to be drawn between the responsibility for financing programmes, on grant terms, which is retained by the Commission, using specialised intermediary institutions for implementation, and the provision of technical support for the beneficiaries of such programmes. It is certainly possible that CDI could play a technical support role, but it is doubtful whether in fact it has any special expertise in this area. No doubt this could be developed, and it is clear that ACP has more confidence in CDI's ability to contribute usefully than in some other EC institutions. However, ACP should be careful not to overload CDI with too many new responsibilities at the same time, as this risks general under-performance. If there is a need for a **micro-SME technical support** unit to work with the specialised intermediaries, to develop specific expertise and techniques and to disseminate these, it may be better to establish a **specialised agency** for the purpose; and no doubt this possibility is being separately addressed in the DraCom on Microfinance. There would be a better case for such a new agency to be located in an ACP country, which has already acquired experience and developed techniques in this field, than that for CDI. Effective support for micro-enterprises is likely to include investment in workshop cluster facilities, bringing credit and logistical support together, and constituting market outlets for occupants. Sufficient funding will be needed for such initiatives, and an adequate budget needs to be established for

this agency, or whichever existing agency is to take responsibility, on a country, regional or overall ACP basis.

4.4 **EIB:-** DraCom refers, in para 51, to an intended enhanced role for **EIB** in supporting the Commission in policy making with regard to the business environment, and the financial sector in particular. It is clear that EIB's established role as the principal channel for EC direct, investment support for the ACP PS, mainly on commercial terms, is intended to continue. DraCom notes, at para 50, that EIB is phasing out subsidies on interest rates to end-borrowers, and it appears therefore that EC does not expect the concessionary element in EIB activities to continue. There is no mention in DraCom of any likely involvement of EIB in "social infrastructure", which is a sector more likely to require grant funding than commercial finance, even if funded and operated by the private sector. On the other hand, DraCom refers in para 52 to the use of "new contributions of EDF resources", as well as investment earnings and reflows, for the financing of the proposed new revolving IFF, discussed at para 3.3.9 above; and it is understood that this scheme at least will be intended to have a concessionary element. The subsidy will presumably accrue to the intermediaries, to induce them to risk their own money alongside EIB, on the ECIP model.

4.5 GNM observes, at para 75, that EIB has a critical role to play in the provision of credit, including its own resources, on soft terms, and calls for increased resources for EIB, to be used for physical and social infrastructure, and for SMEs.

1. **Comment:-** EIB's activities in ACP are subsidiary to its main role as a banker in Europe, and it deploys high professional finance skills and credibility as an institution, which are advantageous to the globalisation of ACP economies. The continued provision by EIB of risk capital for the PS, whether directly or through intermediaries, and particularly in the equity of financial intermediaries such as venture capital companies, which themselves mobilise additional risk capital, will be highly positive for PS and general economic development in ACP countries, and no other EC institution is equipped to play this role. It is also desirable that the same approach and disciplines should be applied to SMEs, so far as it is possible. It is preferable that a subsidy element, when available, should be used to mitigate risk rather than to subsidise interest.

2. This paper understands that EIB, as a bank, has little capacity to provide risk capital or loans on soft terms from its own resources, and depends on EDF grant funding for this purpose. Any increase in concessionary finance from EIB will accordingly mean an increased allocation of EDF grant funding. It should be clarified with EC in negotiation whether, and if so to what extent, it is in fact intended that EIB will provide funding, for IFF or otherwise, on a subsidised basis, or if it will act purely as a source of credit on commercial terms.

3. EIB is assigned the role of helping the Commission to develop the local financial sectors, but it is not clear how this will be done, otherwise than through advice. EC should clarify whether it is simply envisaged that EIB's investments will only be made in satisfactorily performing institutions, perhaps for innovative products or new initiatives, or if something more creative is envisaged. The emphasis on greater flexibility, and the new focus on venture capital are very much to be welcomed.

4.6 **The Commission:-** The role of the Commission itself, which presumably includes also the enormous contribution made by the EC's Delegations in ACP countries, as the co-ordinating and strategic authority for EC assistance, and the residual agency for implementation, is extensive, and includes the whole range of second generation and on-going structural reforms, plus the programmes for capacity-building support for the PS, and service providers, for micro-and SME support, for investment promotion, and for "cross-cutting " or any other residual subjects. All these matters will presumably be addressed in national and regional IPs, in consultation with governments and others, but will mainly be implemented, under the supervision of Delegates, by local and other specialised intermediaries.

1. **Comment:-** The Commission's role has been subject to occasional criticism, mainly on grounds of excessive bureaucracy and delay. As already noted, ACP countries will generally prefer CDI to take responsibility for as much as possible of the programme. However, it is necessary to distinguish between the Commission's responsibilities for negotiation with governments and control of the programmes (which it is difficult to get away from), and for implementation. It is likely to prove impractical, indeed probably legally impossible, for EC to surrender control of the allocation of finance to another agency. ACP should press not for overall control to pass to CDI, but for maximum and clearly defined devolution of responsibility for implementation to local authorities and agencies (which could of course include a local CDI representative, if these are put in place, as suggested in GNM and in para 5.2 above). Specifically, CDI must be well equipped to promote investment promotion activities of all sorts, in conjunction with both Delegations, and particularly the local and European PS and specialised PS organisers; and EIB will also be able to participate in this area and should be encouraged to do so. CDI will be equipped to contribute to PS organised capacity building, and possibly to certain aspects of micro-and SME development (but see para 5.2 Comment above).

2. GNM notes briefly, at para 79, that the role of the PS in the management of funds for PS development, will need to be examined by the Parties, and this paper fully supports this suggestion. The implementation of EC programmes and the management of funds by the PS, preferably local, but possibly including consortia of external and local businesses with the necessary experience and resources, obviously under ultimate Commission supervision, is no different in principle from

the contracting-out of public services to which EC itself gives such emphasis; and it could yield major savings and improvements in performance.

5 New Ideas and Initiatives

This paper has made a few suggestions, summarised here, which could be put forward in pursuance of GNM's call for new forms of support. In most cases, of course, these are ideas which have not yet been studied and they would therefore require discussion and feasibility assessment before adoption:-

1. An early study into the need for the establishment of a **new specialised agency**, and a specific funding programme to design, finance and administer **micro-credit and savings schemes**, and **micro and small enterprise support programmes**, covering workshops, cluster marketing and logistical facilities, etc.

2. The creation of a specific programme for **PS organisation support**, with an ACP/EU Steering Committee, managed probably by CDI, which will provide funds for advisers, computerisation and communications, TA from Euro PS organisations, and intra-ACP and international links.

3. Creation of a special programme for **PS on-the-job training** (not just institutional) in technical, commercial and management skills, with PS participation in planning and execution. The programme, managed again by CDI, would provide finance and TA for planning, procuring and monitoring in-company training courses, including overseas attachments.

4. A more extensive support programme for **trade development and investment promotion**, including creation of regional, intra-ACP and international contact and communications networks, funds for more visits and meetings, and links between PS business and trade associations, with the same range. Again managed by CDI, this programme will require specialist trade development people, and will include setting up wide-ranging and comprehensive **benchmarking** and **quality** and **competitiveness** improvement programmes.

5. The establishment of a special programme to develop and finance a coherent, devolved, self-help **strategy for new enterprises**, involving:-

   - A **project identification, preparation and implementation support scheme,** based on local service providers and self-help.
   - A new **contact and communication network**, Internet-based, supporting intra-ACP, regional and international links, not just with Europe.
   - ACP-entrepreneur-based support for new **joint-venture studies**, to supplement schemes focussed on European technical partners.