5

International Institutions and Enterprise Development in West Africa

5.1 Introduction

As an integral part of the paradigm shift in development thought which has become increasingly apparent, particularly since the 1990s, many multilateral and regional development agencies and financial institutions have embraced enterprise development and a focus on the private sector as an important means of promoting economic growth and poverty reduction in the developing countries. This shift of emphasis applies not only generally, but also to the development support activities of these international institutions in West Africa. This chapter examines the enterprise development mandate of relevant international development institutions and reviews the instruments which they deploy to fulfil it. The private sector investment and related support services of these organisations in West Africa are analysed within the framework of their mandates and in terms of their relevance and effectiveness. The focus of the analysis then shifts to a review of the extent of competition and/or complementarity in the enterprise development investment and other support activities provided by the international institutions. Finally, the analysis suggests a number of options for extending the reach and enhancing the effectiveness of various ACP-EU instruments for investment promotion, protection and guarantee.

5.2 Enterprise development mandate

In reviewing the enterprise development mandate of multilateral and regional development agencies and financial institutions, it is useful to categorise them into three groups. These are the World Bank Group, the African Development Bank and the institutions associated with the ACP-EU relationship.

The World Bank Group

The World Bank Group serves, in terms of its broad mandate for enterprise development, as a catalyst in the private sector by bringing together technical and management expertise, financial resources and information to help local and foreign investors. Thus the Group's private sector support activities constitute an integrated strategy, which is directed at promoting sustainable development. The Group's lead agency in this endeavour is the International Finance Corporation, which was established in 1957 primarily to address the concern that while there was multilateral lending to and through governments, there was insufficient direct support for the private sector, particularly in the developing countries. Hence, the IFC was established to promote economic development in the low-income countries by encouraging private sector investment activities.

More specifically, the mandate of the IFC is to promote sustainable development of the private sector by using a market-based approach to assist private enterprise. This mandate is implemented in three basic ways: the provision of debt and equity finance to private sector projects; the mobilisation of large volumes of additional funding from other sources through co-finance and syndication arrangements; and by offering a broad range of advisory services and technical assistance to businesses.

Two additional institutional organs have been created by the IFC to bolster its investment activities in Africa: the African Project Development Facility (APDF) and the African Management Services Company (AMSCO). APDF was established in 1986 to help viable SMEs by providing them with independent project advice aimed at assisting in organising, diversifying and expanding their businesses. To accomplish this objective, APDF identifies beneficiary enterprises and works with their entrepreneurs from project preparation through to implementation. It offers three broad types of services in support of the development of competitive SMEs in Africa: business advisory services (BAS); enterprise support services (ESS); and skills development and capacity building (SD&CB) services. The second IFC advisory facility in Africa, AMSCO, was created in 1989. It focuses on helping to strengthen African enterprises by providing experienced managers and training local management teams. AMSCO's arrival on the scene signalled the recognition that the changes in the African private sector environment, especially following the upsurge in privatisation, call for more intensive management capacity building if the sharply rising needs are to be effectively met (IFC, 2004).

In addition to the IFC and its advisory facilities, another World Bank Group organisation has been established to address issues associated with the attraction of foreign direct investment. This is the Foreign Investment Advisory Service, whose main function is to assist governments in developing countries to improve the environment for FDI in their countries. In particular, FIAS advises governments on laws, incentives, strategies and institutional arrangements aimed at increasing the volume of foreign investment and enhancing the benefits generated in the host countries by this investment.

African Development Bank

Within the framework of its institutional mandate, private sector development is both a strategic objective as well as a key priority of the African Development Bank. As indicated in the ADB's *Vision*, private sector development is regarded as a major objective of its development activities. In fulfilment of this mandate, the ADB seeks to promote private sector development in several ways. For example, it supports specific improvements to the policy, regulatory and other elements of the enabling environment for private sector development through country dialogue and policy-based lending operations. It promotes the development of private sector institutions by assisting professional associations and chambers of commerce with a view to enhancing their capacity to respond to the local, regional and international challenges faced by the private sector. In addition, the ADB supports human capital development in the private sector through technical assistance aimed at facilitating transfer of skills, know-how and technology.

The ADB also seeks to strengthen the physical and financial infrastructure of African countries as a means of enhancing the productivity and competitiveness of their private enterprises; and it catalyses the inflow of financial resources through direct investment and financing activities, as well as by complementing the activities of private financiers and other development partners. The ADB established its private sector window in 1991 in recognition of the sector's important role in stimulating African economic growth and development and as an instrument for implementing its mandate.

In its broader private sector promotion and support activities, the ADB acknowledges that the development of SMEs is a key condition for promoting equitable and sustainable economic development in many African countries. This derives from their significant role in the economies of these countries. SMEs represent over 90 per cent of private enterprises in Africa and account for more than 50 per cent of employment and GDP in most African countries. Hence, SMEs have a crucial role to play in stimulating overall economic growth, expanding employment opportunities and contributing to poverty reduction. But while the provision of technical and financial assistance to African enterprises, and in particular to SMEs, is a central part of the ADB's mandate for private sector development, targeting SMEs is quite difficult. This is due to several factors, including the sub-optional capitalisation and capital structure of these enterprises, their poor management and limited technical skills, weak market linkages and alliances, and scarce business development services and associated networks. These characteristics and deficiencies result in an extremely high mortality rate of local African SMEs and an associated reluctance of local financial institutions to provide medium- to long-term risk capital for financing their development. In other words, implementing the ADB's mandate for private sector development requires designing appropriate financing instruments and mechanisms suitable for taking account of the special characteristics of SMEs.

ACP-EU institutions

Over time, support for the private sector and co-operation with private enterprises have evolved into an integral and increasingly important part of the development co-operation between the EU and the ACP countries. This evolution parallels the recognition of the private sector as the engine of growth and provider of employment in the ACP countries and hence as a sector which has a key role to play in poverty reduction.

The process began with the Lomé Conventions, which gave considerable priority to industrial co-operation and to the financing and promotion of investment, as well as to private sector development generally (Bheenick, 1997). In particular, Articles 26–39 of Lomé I specified various elements of industrial co-operation between the EU and ACP states. More specifically, Article 36 provided for the establishment of the Centre for the Development of Industry (CDI). Lomé II directed even more attention to this subject; its Articles 65–82 were concerned with various aspects of industrial development. The provisions of Lomé III also went further. The industrial development aspects of co-operation were covered in its Articles 60–74, while investment promotion constituted the subject matter of Articles 240–247. Finally, Lomé IV amplified the general concerns much more concretely by devoting specific sections to the three main components of investment co-operation. Its Articles 260–262 dealt with investment protection, while financing of investment was covered under Articles 263–266 and co-operation on support for investment was taken care of by Articles 267–272.

The tradition of giving a key role to the private sector in the EU-ACP development co-operation established under Lomé has been carried over into the Cotonou Partnership Agreement. Under the parts of the CPA that deal with development finance co-operation, Chapter 7 is devoted to investment and private sector development support. In particular, Article 75 recognises the importance of private investment co-operation and acknowledges the need to take steps to promote such investment. Article 76 focuses on investment finance and support and specifies that 'co-operation shall provide long-term financial resources, including risk capital, to assist in promoting growth in the private sector and help to mobilise domestic and foreign capital for this purpose'. Article 77 covers co-operation with respect to investment guarantees, while Article 78 does the same in the area of investment protection.

In broad terms, the key areas of EU intervention in support of private sector development in ACP countries in the framework of ACP-EU co-operation include the creation and maintenance of a favourable environment for private sector development, promotion of investment and its financing, and technical support to individual enterprises. A wide variety of instruments of intervention and support for private sector development are available under the ACP-EU co-operation arrangement. These include the financing instruments of the EIB, EBAS, the CDE and PROINVEST.

Centre for the Development of Enterprise

The Centre for the Development of Enterprise is a jointly staffed ACP-EU institution, created by the Cotonou Agreement and financed by the European Development Fund (EDF). Its objective is to ensure the development of ACP enterprises and professional organisations in the private sector. It has a mandate to provide rapid and effective support aimed at assisting the creation, expansion, diversification and restructuring of ACP enterprises which have good prospects for growth, profitability and significant development impact (CDE, 2001). It is important to note that the CDE started life, in 1977, as the Centre for the Development of Industry, with a mandate to provide incentives for the development of small and medium-sized industrial enterprises in the ACP countries. During 1978–1985 its support to the private sector focused initially on seeking partnerships between European and ACP companies. This focus was broadened to include direct technical, commercial and other non-financial assistance for these enterprises. When the CID was transformed into the CDE in 2000 after the signing of the Cotonou Agreement, its mandate was further refined to focus on boosting the competitive position of ACP enterprises by extending support to all private corporate sectors and not just manufacturing (as under the CDI), lending support to joint initiatives involving ACP and EU business operations, providing support for strengthening the capabilities of intermediary organisations and other ACP service providers, and increasing the level of aid channelled through qualified intermediaries (i.e it moved from 'retail' to 'wholesale' assistance). The intermediary institutions include trade and sectoral business associations and consultancy firms. In implementing its mandate, the CDE also relies on a network of correspondents and representatives (made up of regional and local banks, national co-operative agencies and other private sector support agencies) to provide its customers with services which reflect their specific needs and the constraints faced in the countries in which they operate.

European Investment Bank

The European Investment Bank, as the development bank of the EU, serves as the primary institution through which private sector investment support to ACP enterprises is offered in the framework of ACP-EU co-operation. The EIB has been a development partner of the ACP countries for many years through under the Lomé Conventions; this co-operation has been substantially expanded under the CPA (EIB, 2002). As the main mechanism for facilitating the expanded scope of co-operation, the Investment Facility (IF) of the EIB was launched in June 2003 (EIB, 2003). The IF's primary purpose is to support economic development by investing in and financing, on market-related terms, the private sector in ACP countries and to finance commercially-run public utilities, especially those responsible for key economic infrastructure. Its mission is to be willing to invest in situations where private sector investors are reluctant to do so, and thereby fill the gaps left by other market participants.

European Business Advisory Services

The European Business Advisory Services scheme is an ACP-wide co-operation arrangement that gives technical and managerial advice to SMEs on a cost-sharing basis. It supports the supply of business development services to private sector enterprises and associations. EBAS supports projects such as consulting assignments and related activities that are likely to generate short-term and sustainable results. Activities that are eligible for support include interventions aimed at reinforcing quality and acquiring international recognised quality certificates, accessing new markets, optimising production, designing and marketing new products, improving management and promoting goods and services.

PROINVEST

The aim of PROINVEST is to support investment and co-operation on a regional basis, and thereby strengthen the competitiveness of the private sector and of the economy as a whole. It is targeted at reinforcing the weak investment environment in the ACP countries by strengthening ACP institutions and organisations through its Institutional Strengthening Facility (ISF) and by undertaking vigorous investment promotion programmes in selected sectors through the Key Sector Support Facility (KSSF). The demand-driven and cost-sharing ISF focuses on developing skills of intermediary organisations to play an active role in the improvement of the investment environment. Its private-public dialogue component assists ACP intermediary organisations to formulate, develop and promote policy changes aimed at improving the investment environment; its business development services component helps ACP intermediary organisations and investment promotion agencies to improve their professional skills and extend the range of their services. Its company matching initiative works to develop the capacity of ACP intermediary organisations to organise and promote partner-matching events between the EU and ACP companies. The KSSF represents an active investment promotion process which focuses on creating inter-enterprise partnership agreements. PROINVEST's basic aim is to make it easier to promote investment and partnership agreements between North–South enterprises. In addition, the programme seeks to improve business back-up structures with know-how, a better approach to markets and funding sources for ACP enterprises in relation to their European partners.

5.3 Private sector investment and support services

In implementing their various mandates in support of private sector development discussed in section 5.2, the various multilateral, regional and ACP-EU institutions provide a range of investment, financial and non-financial support services. The mix of these services, the extent to which they are provided and the recipients of the services provided differ across the various institutions. This section focuses its analysis on similarities and differences with respect to each of these dimensions.

Multilateral and regional institutions

The key multilateral and regional institutions actively involved in providing support for private sector development in West Africa include the IFC and FIAS, on the one hand, and the ADB, on the other. IFC support for private sector development in West Africa is guided by a set of priorities that include the revival of extractive industries through increased investment, developing SMEs, deepening the region's financial markets, putting existing industrial assets to more productive use and developing the region's physical infrastructure (Crystal, 1997).

While these priorities broadly guide IFC support activities in the region, they recognise the characteristics of West African enterprises. There is a prevalence of SMEs in West Africa, which typically require smaller amounts of financing than larger firms. Second, meeting the special financial needs of these smaller firms often requires the establishment of special investment funds and financing arrangements. In order to accommodate these characteristics, the IFC has taken concrete steps to modify its traditional direct financing arrangements in at least two ways. It has placed full-time representatives in several country locations in the region with a view to developing a fuller understanding of the investment financing needs of the domestic private sector in each country, cultivating relationships with the relevant private and public sector officials and stakeholders and working continually with clients to develop viable projects that may attract support. In addition, the IFC has created special funds dedicated to supporting smaller scale investments in the region. Thus the IFC has supported private enterprises in West Africa (as well as in other parts of sub-Saharan Africa) through the African Enterprise Fund (AEF). This fund is designed to provide debt and equity financing for projects which typically cost less than US$5 million, resulting in IFC funding support of between $100,000 and $1.5 million. More than 50 per cent of the projects supported in sub-Saharan Africa since 1990 have been funded through the AEF.

Table 5.1 provides data on the distribution of the investment portfolio of the IFC in West Africa in terms of cumulative gross commitments as of 30 June 2004.

Table 5.1 International Finance Corporation investment in West Africa, 30 June 2004

Country	Number of enterprises	Cumulative commitment (US$ 000)		
		IFC	Syndications	Total
Benin	8	9,939	–	2,939
Burkina Faso	6	3,064	–	3,064
Cape Verde	5	10,009	–	10,009
Côte d'Ivoire	40	265,016	70,964	335,980
Gambia, The	8	6,943	–	6,943
Ghana	40	292,609	272,000	564,609
Guinea	9	33,684	–	33,684
Guinea-Bissau	4	7,246	–	7,246
Liberia	3	12,703	–	12,703
Mali	18	93,781	40,000	133,781
Mauritania	10	51,692	9,503	61,194
Niger	1	2,493	–	2,493
Nigeria	52	459,329	113,155	572,484
Senegal	19	100,260	12,398	112,658
Sierra Leone	4	29,186	–	29,186
Togo	7	18,600	–	18,600
Total	234	1,389,554	518,020	1,907,574

Source: IFC (2004)

Table 5.1 shows that up to June 1994 a total of 234 enterprises had been financed in West Africa with a total sum of approximately $1.91 billion. Much of this financing (72.8%) was made from IFC funds and the rest (27.2%) was derived from syndications. The distribution of enterprises supported by the IFC is generally skewed in favour of West Africa's largest economies. Thus the top three recipient countries, in terms of the number of enterprises financed, accounted for more than half (56.4%) of the total number, with Nigeria (22.2%) in first place, closely followed by Côte d' Ivoire (17.1%) and Ghana (17.1%). The distribution is further skewed in favour of the same set of countries in terms of total cumulative commitments by the IFC, as well as commitments through syndications. In relation to the total amount invested, the three top countries received 77.2 per cent, which was distributed as follows: Nigeria (30%), Ghana (29.6%) and Côte d'Ivoire (17.6%). In terms of the IFC's own funds, these three countries accounted for 73.3 per cent, with Nigeria taking 33.1 per cent, followed by Ghana (21.1%) and Côte d'Ivoire (19.1%). Only six of the 16 countries in West Africa have benefited from funding through IFC-related syndications. Over half of all syndicated funds (52.5%) were invested in Ghana. Other significant recipient countries include Nigeria (21.8%), Côte d'Ivoire (13.7%) and Mali (7.7%). Overall, it can be concluded that the distribution of IFC investment support for the development of private enterprises in West African countries broadly reflects the relative size of the countries' economies, and this in turn also largely corresponds to the volume of activities of their private sectors.

While the IFC offers investment financing support for the development of the private sector, the FIAS provides non-financial support in the form of study-based advice. Thus the FIAS offers services that are aimed at helping client governments to attract FDI. What the the IFC offers is done at the request of the client government and is based on issues identified and agreed to by both parties as being relevant to the needs of the specific country. Studies which form the basis of FIAS policy advice cover a wide range of issues. For instance, the FIAS can undertake diagnostic studies to identify the main policy impediments which constrain productive FDI in a country. It can also study administrative and other barriers that hinder investment, review the competitiveness of the system of investment incentives and examine the impact of a country's legal and regulatory environment on FDI. In addition, the FIAS can help to design investment promotion institutions and formulate their strategies. Finally, the FIAS has the expertise to help countries design implementable frameworks for measuring the impact of FDI on various aspects of their economies.

Since its establishment in 1985, the FIAS has worked with the governments of around 120 countries. Every country in West Africa has requested its services in support of their attempts to attract FDI. Table 5.2 shows that the FIAS carried out 67 study and advisory projects in West African countries between the late 1980s and 2004. Senegal stands out as the most frequent client of FIAS in the region, accounting for 11 (16.4%) of these projects. Other active users of FIAS services over this period include Ghana, with seven projects, Guinea-Bissau and Mauritania, both with six projects, and Burkina Faso, Cape Verde and Nigeria, each with five projects. At the bottom end of the spectrum in terms of the frequency of utilising FIAS services within the region over the same period are Benin, Côte d'Ivoire and Liberia, with only one project each, The Gambia and Togo, with two projects each, and Guinea, with three. In addition, the FIAS has carried out four regional projects over the period.

Among these projects, the most popular have been those analysing the administrative and related barriers inhibiting foreign investment flows and those reviewing investment policy. Each of these two types of studies accounts for 17 (25.4%) of the total. Hence, taken together, these studies account for slightly more than half of all FIAS studies in West Africa. Other topics which have attracted significant attention include diagnostic studies (13 or 19.4%), institutions (8 or 11.9%) and incentives (7 or 11.3%).

Table 5.2 Foreign Investment Advisory Service projects in West Africa, 1987–2004

Country	Total no.	Diagnostic barriers	Administrative policy	Investment	Competition strategy	Incentives	Promotion	Institutions
Benin	1	2	–	–	–	–	–	–
Burkina Faso	5	1	2	1	1	–	–	–
Cape Verde	5	–	2	–	–	1	1	2
Côte d'Ivoire	1	–	–	–	–	–	–	1
Gambia, The	2	2	–	–	–	–	–	–
Ghana	7	1	2	2	–	–	1	2
Guinea	3	2	–	1	–	–	–	–
Guinea-Bissau	6	–	2	3	–	2	–	–
Liberia	1	1	–	–	–	–	–	–
Mali	4	1	1	–	–	1	–	1
Mauritania	6	1	2	2	–	1	–	–
Nigeria	5	1	2	–	–	–	–	1
Senegal	11	–	4	1	–	3	1	2
Sierra Leone	4	1	–	3	–	–	–	–
Togo	2	–	–	1	–	–	1	–
Regional	4	2	–	3	–	–	–	–
Total	67	13	17	17	1	7	4	8

Source: IFC, *Annual Report 2004*, Washington, DC, 2004

The African Development Bank is the premier regional institution with a significant mandate for supporting private enterprises in West Africa. The ADB views the existence of efficient local financial institutions and markets as a crucial condition for private sector development; it regards assistance to local financial institutions as its key area of activity in the region. This assistance is expected to enable local banks to on-lend to their clients, which are private enterprises. In addition, the ADB provides direct financial assistance to enterprises through several long-term financing instruments. This assistance takes the forms of debt (up to US$3 million but usually not more than 40 per cent of total project cost) and equity, which is limited to 25 per cent of the share capital. Direct financial assistance to private enterprises particularly supports activities in agribusiness, tourism and industrial modernisation, which are based on strong linkages with external markets. It also supports extractive industries (mining, oil and gas) which induce regional integration and activities (especially social infrastructure) which enhance the development of local communities. During 2002–2004, the ADB extended lines of credit for a total of $430 million with respect to projects for private sector development. Lending to financial services for on-lending to private enterprises accounted for 57 per cent of the total amount.

ACP-EU institutions

Among the ACP-EU institutions that provide support for the development of the private sector, there is a division of labour between the EIB, which offers investment support, and the CDE and PROINVEST, both of which provide non-financial assistance.

EIB funding goes, in principle, to support investment in all key sectors of the economy. In practice, around 25 per cent of this funding has gone to small and medium scale investments, largely indirectly through EIB's support of local financial institutions. In this process, EIB provides credit (in the form of global loans) to commercial banks or development finance institutions which then on-lend to their clients, based on their own credit judgment and according to criteria agreed with the EIB. The granting of global loans to commercial banks which, in turn, provide medium- and long-term finance to SMEs operating in various sectors of the economy is expected to generate several benefits. For instance, it assists in diversifying the local financial sector's funding sources, while also strengthening support for local private enterprises through the injection of long-term financial resources which are scarce on the local capital market. Other forms that EIB's risk capital operations can take include various types of individual loans to productive private enterprises and revenue earning infrastructure, and direct or indirect equity participation in financial intermediaries. Equity participation by the EIB in regional funds is done for the purpose of making equity and quasi-equity investment in SMEs which demonstrate strong potential for profitable growth. This provides capital and assists in strengthening the management skills of the SMEs and their capacity to carry out and efficiently implement new investment projects.

Risk capital funds of about €1.1 billion were provided under Lomé IV by the EDF to the EIB for investment in the ACP countries. Under the Cotonou Agreement, the funds to be managed by the EIB, on behalf of the EDF, for investment in the ACP countries increased sharply to €2.2 billion over the five-year period 2002–2007. In addition to the EIB's own resources of €1.7 billion, these resources constitute the capital endowment of the investment facility, managed according to market-oriented principles as a revolving fund. Under Article 3 of the internal agreements establishing the tenth EDF adopted by the EC on 17 July 2006, €286 million was allocated to overseas countries and territories (OCTs) for the period 2008–2013, of which €30 million was allocated to the EIB to finance the investment facility. Within the same period, the EIB will not provide any of its own resources for the 'pool' of funds. The use of these resources is guided by a development policy which places even greater emphasis on private sector investment, revenue-earning infrastructure in both public and private sectors, and financial sector development. Finally, the associated lending operations are designed to have maximum leverage effect in terms of attracting private financiers.

By the end of 2001, the EIB had provided over €7 billion in support of enterprise development in the ACP countries, although as much as €1.9 billion of this total was committed between 1997 and 2001 (EIB, 2002). During the ten-year period 1989–1999, the EIB signed up to around 300 risk capital operations involving approximately €1.5 billion in the ACP countries. In West Africa, EIB financing between 1999 and 2003 amounted to just over €336 million (EIB, 2003). Table 5.3 presents data on the distribution of this amount among beneficiary countries in the region.

Table 5.3 EIB financing in West Africa 1999–2003 (€ million)

Country	Total	EIB funds	EDF funds
Benin	26.1	–	26.1
Burkina Faso	32.0	–	32.0
Cape Verde	25.0	20.0	5.0
Côte d'Ivoire	–	–	–
Gambia, The	–	–	–
Ghana	23.5	–	23.5
Guinea	12.0	–	12.0
Guinea-Bissau	–	–	–
Liberia	–	–	–
Mali	5.7	–	5.7
Mauritania	60.2	30.0	30.2
Niger	5.0	–	5.0
Nigeria	5.0	–	5.0
Senegal	126.0	72.0	54.0
Sierra Leone	–	–	–
Togo	–	–	–
Regional	15.6	–	15.6
Total	336.1	122.0	214.1

Source: European Investment Bank, 2003

EIB financing in West Africa over this period represents 20.7 per cent of its commitments in Africa and 16.7 per cent of those in all ACP countries. A large proportion of the commitments in West Africa comes from EDF funds that are managed by the EIB; very little of the EIB's own funds were invested in the region. Furthermore, even this small portion was invested in only three countries (Senegal, Mauritania and Cape Verde), with Senegal accounting for 59 per cent. Except perhaps through the regional funds, six West African countries (Côte d'Ivoire, The Gambia, Guinea-Bissau, Liberia, Sierra Leone and Togo) received no EIB financing during this period. In addition, EIB financing was heavily concentrated. Nearly 70 per cent of the total financing in West Africa was accounted for by the top three country recipients, Senegal (37.5%), Mauritania (17.9%) and Burkina Faso (9.5%). The EDF funds component of total EIB financing was less concentrated in its distribution, but even here the top three countries accounted for 54.2 per cent of the total; they were Senegal (25.2%), Burkina Faso (14.9%) and Mauritania (14.1%). In both cases, the distribution does not appear to reflect the relative sizes of the individual West African economies or the size of their SMEs.

A comprehensive evaluation of risk capital operations managed by the EIB in ACP countries over the period 1989–1999 offers insights into several important aspects of the EIB's role in supporting the development of private enterprise (EIB Operations Evaluation Department, 2000). It found, for instance, that the use of EIB's risk capital has been essential in offsetting some countries' lack of credit worthiness and noted a significant change in the lending policy of beneficiary financial institutions from only providing limited overdraft facilities to offering short- and medium-term loans for private enterprises. In addition, the evaluation found the development impact of global lending to have been 'extremely important', and that the successes achieved with global loans have far 'surpassed expectations' in terms of their development impact. Hence, it concluded by pointing to the significant direct development impact of many of the EIB-supported projects and the strategic relevance of EIB support for the beneficiary economies.

As indicated earlier, the other ACP-EU institutions with a mandate for supporting private sector development in the ACP countries provide non-investment services. The CDE works together with its network to make a contribution in two areas. One of these is technical, i.e. the identification of consultants, partners, markets and projects for ACP private enterprises, as well as gathering economic, technical and commercial information useful to these enterprises. The other area involves the CDE's assistance to ACP private enterprises in tapping into financial networks to meet their demands and in funding arrangements that best reflect their project profiles. More specifically, CDE activities can be categorised into three groups. The first is intervention in terms of assistance to individual enterprises. In this case, the CDE can contribute, in general, up to a maximum of two-thirds of the total cost of an intervention, subject to a maximum of €100,000 per annum. The second is assistance for ACP intermediary organisations, where the CDE's contribution is determined on a case-by-case basis and it is expected, in any case, that the CDE will share the cost with the organisation which receives the assistance. The third area is assistance for consultants and advisory companies. In this case, the CDE's contribution is limited to two-thirds of the total cost of the intervention, subject to a maximum of €50,000 per annum. In addition, the CDE may carry out studies, in collaboration with other organisations, on joint programmes for investment promotion and other assistance to private enterprises. In this case, CDE participation does not normally exceed 50 per cent of the total cost of the intervention.

PROINVEST is funded by the EDF, which has committed a total budget of US €110 million over seven years from 2003. Its activities are aimed at reinforcing the weak investment environment of the ACP countries by strengthening their relevant institutions and organisations, and by supporting investment promotion programmes. In 2003, the first full year of the PROINVEST programme, over 80 per cent of the approved operational budget of €10.3 million was committed. The relative importance of each of the two branches of PROINVEST's operational focus may be deduced from the budget commitment allocations. The institutional strengthening component, which accounted for about 53 per cent of budget commitments, was obviously more important than the investment promotion programmes, which attracted approximately 38 per cent of the total commitment.

5.4 Competition and complementarity in enterprise development support

While various multilateral, regional and ACP-EU institutions have been shown to be active in providing various types of support to private sector development in West Africa, it is useful to examine whether these institutions are competing with or complementing one another in the provision of support and whether they are competing with or complementing similar private sector development support services offered by private sector financial and investment institutions in West Africa. Answers to these questions may suggest key elements of an appropriate mechanism of partnership between private sector institutions in the region and the multilateral, regional and ACP-EU institutions in the provision of adequate and efficient private sector development support services in West Africa.

To the extent that the multilateral, regional and ACP-EU institutions that offer support for private enterprise development in West Africa seek to assist the same category of SMEs, essentially an inherent degree of competition among them is probably unavoidable and is not necessarily a bad thing. This competition gives the recipients of assistance an opportunity to make choices based on comparative cost-benefit analysis. It should also induce the providers of support to improve their efficiency. In spite of this inherent tendency to compete, however, there is also a strong commitment among the support-providing institutions to collaborate and thus complement one another.

For instance, the IFC actively collaborates with ACP-EU institutions and with the ADB in its private sector development support activities in West Africa, particularly through co-financing. The establishment of the APDF was the result of a joint initiative by the ADB, the UNDP and its prime mover, the IFC. Similarly, in implementing the technical assistance side of its private sector development mandate, the ADB co-funds, with the IFC, specific programmes such as the AMSCO and APDF to assist local entrepreneurs in the area of project formulation and management. In the same way, the FIAS is a joint service of the World Bank and the IFC and its staff call on the experience of the entire World Bank Group (which includes MIGA and ICSID) in designing co-ordinated assistance packages for client countries. In providing such assistance, the FIAS benefits from IFC and World Bank funds, as well as from donations from more than 12 bilateral and multilateral agencies.

The key ACP-EU institutions are similarly integrated into the same network of complementary alliances. In particular, since the EIB aims at being a lever or catalyst for financing from others, it co-operates closely in co-financing with the private banking sector, the World Bank Group and the other main international and national development finance institutions, especially those of EU member states. In particular, EIB financing of major infrastructural projects with risk capital has been largely undertaken in association with co-financiers on whose policies and technical expertise it has often relied.

According to the CDE (2001), its roles are carefully designed so as to avoid overlapping and duplication of efforts with other service providers. Subject to this, the CDE combines its actions and measures with those of other key players in the international community by working closely with various public and private bilateral and multilateral financial institutions. In its own case, PROINVEST maintains complementary relationships and synergies with the CDE and works closely with other EU programmes in the ACP countries. It may be difficult, however, to establish the absence of any overlapping or duplication in the activities of the CDE and PROINVEST.

A recent evaluation of EIB work in the ACP countries raises some concerns regarding complementarity (EIB Operations Evaluation Department, 2002). It is suggested that the relationships and division of labour between the EIB and other support institutions have not always been appropriate, particularly in co-financing arrangements. For example, in some cases the EIB has had little strategic input into the preparation of co-financed projects. As a result, contentious policy issues, which are largely irrelevant to specific elements of certain projects financed by the EIB, have caused unnecessary problems for the institution. In particular, the EIB has experienced difficulties with some aspects of co-financing with the World Bank and has thus found itself financing part of an unviable project. Based on this finding, the evaluation report recommends that:

> *The EIB should co-finance with the World Bank Group (or other multilateral donors and investors) only when its contribution is expected to have a distinct development impact or it can make a strategic input … or it can exert leverage to ensure the sustainability of its components of the project.*

Apart from the possibility of overlaps and duplications in the activities of the CDE and PROINVEST highlighted above, there is some concern that the fragmented nature of the support provided by the ACP-EU institutions may constitute a significant weakness in their assistance for private sector development. In this context, Bheenick (1997) notes that 'a plethora of agencies', including the EDF, CDE, EIB and PROINVEST, is involved in the various stages of an investment decision, stretching from initial project identification to investment financing and project implementation. It is argued that the fragmented approach to investment facilitation which characterises the activities of the ACP-EU institutions constitutes a major bottleneck, and that a more integrated package of support services may enhance the use of these services and consequently increase investment in the ACP countries. In the context of such an integrated approach, 'all the various facilities available to support investment, ranging from grants for initial studies and exploratory discussions to term credit for investment' would be delivered at a single point (or 'one-stop shop') in the beneficiary country.

Partnerships already exist between private sector intermediary institutions in the region and various ACP-EU support institutions, and these could be strengthened into an appropriate mechanism that can serve as 'one-stop shops' in various ACP countries. Virtually all these support institutions extend their services to individual private enterprises through local or regional intermediary institutions. The EIB evaluation report suggests that its global loans made to local financial intermediaries which, in turn, provide medium-term sub-loans to individual private enterprises constitute a significant proportion of its risk capital operations. The report concludes that this lending vehicle has not only achieved significant success, but has also been associated with concrete development impact. Similarly, the provision of equity and quasi-equity support for regional funds by the EIB enables these funds to invest in SMEs in the ACP countries. Examples of this support modality include EIB investment of €6 million in the West Africa Enterprise Fund (WAEF) in 1999, aimed at enhancing WAEF's support through the provision of equity and quasi-equity investment in private sector companies in West Africa; participation to the tune of €8.75 million in the Aureos West Africa Fund in 2003 as a means of providing equity to private sector SMEs in West Africa; and investment of €25 million in the equity of the West African Development Bank in 2004 for the financing of small and medium-scale private sector ventures of regional interest in WAEMU countries. These examples help to establish the point that appropriate intermediary agencies exist in the region and in individual countries that can be strengthened, where necessary, to provide the integrated services of 'one-stop shops', provided the ACP-EU institutions can be reformed along the lines suggested by taking an integrated approach to the delivery of investment facilitation support services.

5.5 Does EIB funding 'crowd out' local resources?

An important policy issue which needs to be addressed is whether or not EIB funding of private sector enterprises in West Africa 'crowds out' local resources and, if so, the extent to which this may occur. This arises because there is some evidence that some amount of crowding out may have occurred in some ACP regions. An analysis of this issue requires a careful delineation of the various vehicles through which EIB funds are allocated in West Africa.

For projects involving investments of over €3 million, the EIB generally intervenes directly. Such projects are broadly of two types: projects of well-established private enterprises or those of 'commercially operated' public sector (generally infrastructure) organisations. For projects where investment is less than €3 million, the EIB operates through two types of vehicles. One consists of credit lines provided in the form of global loans to local financial institutions for on-lending to final private enterprise beneficiaries. The other consists of EIB's participation, alongside other development finance institutions and local banks, in the capital of venture capital funds which have been created to specialise in investing in the equity of new SME companies, or those under expansion or being restructured that offer good development potential.

There are several examples of both direct and indirect EIB funding activities in West Africa. Taking the direct funding mechanism first, it may be argued that this route is likely to be more susceptible to crowding out. This is because both the private and the 'commercially-operated' public sector enterprises tend to be large (to qualify for direct EIB financing) and therefore perhaps in a better position to attract alternative private local resources. To establish this point empirically, it is necessary to examine some examples of both types of large enterprises or projects. The first example is SONABEL III, whose beneficiary, the national electricity company of Burkina Faso, received EIB financing of €15.25 million in support of a project with a total cost of €77.1 million. The project consists of the 338 km electrical interconnection between Côte d'Ivoire and Burkina Faso and is the logical continuation of an activity which the EIB had previously financed. Perhaps more significantly, the project will support the privatisation process in Burkina Faso's energy sector. Thus, even though the project is large, its chances of attracting private local finance prior to the privatisation of the sector must be regarded as minimal. Hence, EIB financing is unlikely to constitute any significant crowding out of local resources. The Dakar-Ziguinchor Sea Link is another example of a large 'commercially-operated' public sector project which has received an EIB loan of €6 million to cover part of its total cost of €22.5 million. This project consists of the acquisition of a Ro-Ro ferry for passenger and goods transport between Dakar and the Casamance region and related port works. The project will connect the two halves of Senegal, and the operation and management of the ferry will be entrusted to a private company. As in the case of SONABEL III, the quasi-public features of this project would tend to diminish its ability to elicit local capital financing.

The next three examples are large private sector enterprises in West Africa which have received EIB funding support for their projects. The first is Econet Wireless Nigeria, whose project involves the construction and operation of a GSM mobile telephone network in Nigeria. The project has a total cost of €1 billion and it received EIB finance of €50 million. Given that the Nigerian telecommunications sector has been substantially deregulated and that the service to be provided is extremely profitable, it is clearly not unlikely that the project could easily have attracted adequate private financing. Hence, this may represent a case of crowding out of private local and/or foreign resources by EIB funds. The second private company is Obajana Cement Plc, a subsidiary of Dangote

Industries Ltd, which is a well-known Nigerian business conglomerate. The project consists of the construction and operation of a new cement plant on a greenfield site for the supply of Nigeria's domestic market. The total project cost is US$800 million and the EIB's contribution is about $150 million. Both the cement company and its parent company have also accessed equity funds from the Nigerian stock exchange and to that extent EIB funds are essentially supplementary. The third project is the financing of a bankable feasibility study on the exploitation of the Guelb el Aouj iron ore deposit for El Aouj SA, the Mauritanian subsidiary of Sphere Investments Ltd, an Australian company which already has mining operations in Mauritania. The EIB contributed about €5 million of the project's total cost, amounting to US$11 million. Given the level of development of the equity capital market in Mauritania, it is not clear that local private alternative finance was available. But the involvement of a foreign private company could have made the attraction of private foreign financing feasible.

These examples of EIB funding of large projects in West Africa suggest that 'commercially-operated' public sector projects may not necessarily find alternative private local and/or foreign financing and that such alternatives may be more feasible in the cases of private enterprise projects, particularly in those countries where the equity market is more developed. In such cases and environments, commitment of EIB funds may represent a displacement of alternative private financing.

This conclusion does not extend to EIB funds channelled to private SMEs indirectly through global loans to local banks and equity stake in local venture capital companies. Such funds are associated with a number of advantages. Their use not only leads to the creation of productive assets, but it also creates a demonstration effect by encouraging local financing institutions to expand their SME support portfolio. In particular, there is some evidence that the availability of EIB term financing enables local financing institutions to increase their term lending to SMEs. Generally, local banks in many West African countries have little available capital to support term lending, since local savings are lacking, and hence they prefer to operate in the very short-term end of the market. In addition, EIB funds channelled to SMEs through local venture capital companies convey multiple advantages to the SMEs – they provide long-term investment in their capital accompanied by invaluable management support. In effect, EIB funds channelled to SMEs through global loans to local banks and through equity stakes in local venture capital companies are more likely to crowd in, rather than displace, local private finance

Several examples of such EIB funding are worth discussing. For example, the EIB approved the Global Authorization for Microfinance in 2001 for micro-finance institutions, specialised funds and banks in ACP countries. This facility is associated with EIB finance worth €15 million, to be disbursed in response to requests for small amounts of up to €2 million for financing in the form of equity, quasi-equity, loans and guarantees. Its objective is to help micro-finance institutions to develop their operations and achieve commercial and financial self-sustainability and at the same time assist poor clients. A similar example, in this case for a specific country, is the Pret Global Secteur Financier Niger II facility of €8 million provided to three local banks in Niger and dedicated to supporting SMEs in that country. Finally, CAPE II is a project through which Capital Alliance Private Equity LP will receive EIB finance of US$10 million as a contribution to its private equity fund targeting $75–$100 million. This fund will in turn invest in the capital of selected high potential West African SMEs. The common feature of these examples is the dedication of EIB funds to the support of SMEs and the enhancement of the capacity of local financial institutions to leverage upon, and thus expand, that support.

5.6 Enhancing the impact of support for private sector development

A key part of the Cotonou Partnership Agreement obliges the EU to provide financial assistance to the ACP states through the EIB in the form of loans and equity financing for the business sector. EIB funds are available to enterprises in the private sector and 'commercially run' companies in the public sector, with particular emphasis on using these funds to improve the access of SMEs to medium- and long-term finance. In recognition of the difficult investment environment in many ACP countries, the Cotonou mandate to support private sector development further stipulates that the EIB should provide investment in the less creditworthy ACP countries or in any ACP country which presents a high risk profile.

Various characteristic and problems of private enterprises and, in particular, the SMEs in the ACP countries appear to have contributed to the articulation of this mandate. In spite of a range of macroeconomic reforms in many ACP countries since the mid-1980s, the investment climate for private investors remains extremely difficult. This makes it hard to attract significant private capital to invest in the SME sector. Hence, the strategy for private sector development which is implicit in the Cotonou Agreement combines measures for improving the investment climate with measures aimed at reducing the constraints to growth and the competitiveness of private enterprises in the ACP countries. The first set of measures should lead to the strengthening of the competitiveness and productivity of private enterprises; the second should assist in increasing their access to finance and in opening access to new markets by enhancing their technical capabilities.

In many West African countries, high costs and procedural delays prevent many SMEs from using bank credit. They are therefore forced to rely largely on their own funds for both operational and investment capital. For their part, local banks are wary of lending to SMEs and when they do they tend to limit their exposure to short-term overdrafts. Short-term loans are typically secured by high levels of collateral. Yet the banking systems in many West African countries suffer from high levels of non-performing private sector loans. In these circumstances, while private enterprises typically regard lack of access to affordable external financing as their main constraint to growth, experience suggests that even the most promising SMEs may require significant technical assistance combined with appropriate financing as two inter-related and complementary prerequisites for sustainable growth.

Given the above, it is useful to examine how effectively the EIB has been fulfilling its Cotonou mandate and what the prospects are for the future. An evaluation of the EIB and its Investment Facility (EIB Operations Evaluation Department, 2002) suggests that:

> *… the IF is clearly better designed for those ACP countries which have progressed further down the road of economic development, where market mechanisms have displaced state controls, where private investment in productive enterprises is strongly encouraged and supported, and where a coterie of competent project promoters and managers have emerged.*

It follows, therefore, that the allocation of IF funds is skewed in favour of these countries for at least two reasons. First, they should be able to generate more bankable projects; and second, they offer more conducive and investment-friendly macroeconomic conditions.

These considerations may explain, at least in part, two other emerging patterns of EIB financing of private enterprises in West Africa. One of these is that, in some countries in the region, global loan operations have not been mounted. The other is that non-Africans have been the predominant recipients of EIB financing, whether through direct lending or through sub-loans under global lending programmes, since African-owned enterprises are either generally ineligible for direct lending or are below the lower limit of the EIB's range for sub-loans. In addition, the capacity of West African SMEs, particularly those which are African-owned, to participate in EIB lending remains constrained because the EIB has only limited possibilities for using appropriate technical assistance for its enhancement. There are, of course, several other ACP-EU institutions which have a mandate to provide various types of non-financial assistance in support of the development of private enterprises in ACP countries. But the lack of an integrated approach for the delivery of financial and non-financial assistance to the private sector by the plethora of ACP-EU institutions sharply reduces complementarity between the two assistance components.

In order to fulfil its mandate under Cotonou, the EIB's lending programme will have to expand its coverage of countries and enterprises, and also strengthen the capacity of these enterprises to participate more effectively in the lending programme. Reform of the assistance provision of ACP-EU institutions in both of these directions is required as a means of providing investment support in less creditworthy ACP countries and in those which present high risk profiles. The Mozambique SME Initiative developed by the IFC has significant design features which capture the reform directions suggested above (IFC, 2004). Motivated by the recognition that an integrated investment and technical assistance package is the key success factor for SME financing, particularly in an African environment, the Initiative consists of two complementary components: an investment programme and a technical assistance programme. But neither will be free-floating. Rather, the technical assistance services will be dedicated exclusively to supporting the activities of the investment programme. In other words, the technical assistance programme will provide customised services to participating SMEs aimed at enhancing their capacity to benefit from direct financing through the investment programme, as well as developing successful and sustainable business practices post-investment.

In the kind of integrated approach to the support of private enterprises articulated by the Initiative, the technical assistance programme is captive to the investment programme. The adoption of this approach in the framework of EU assistance for private sector development in West African and other ACP countries requires reform, in some respect radical, in at least two areas. The first is the subordination of technical assistance services, currently provided by such ACP-EU institutions as the CDE and PROINVEST, to the financing assistance which is offered through the IF of the EIB. The second area is the transformation of the financing assistance programme of the IF from its current excessively risk-averse mode.