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# INDUSTRIAL AND ECONOMIC CO-OPERATION BETWEEN THE EUROPEAN UNION AND THE DEVELOPING COUNTRIES

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# INDUSTRIAL AND ECONOMIC CO-OPERATION BETWEEN THE EUROPEAN UNION AND THE DEVELOPING COUNTRIES

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# 2. INSTRUMENTS

## COMMISSION GRANTS

Commission grants for small and medium-sized enterprises in developing countries may be provided from the European Development Fund in the case of the Lomé countries, or the EU Budget in the case of the Mediterranean region, Asia and Latin America.

For the Lome countries, EDF grants are offered in various forms, often to local financial or technical intermediaries. Individual contacts between industrial firms in the European Union and the ACP countries are arranged by a specialised body, the CDI.

Through the MED-Invest and AL-Invest Programmes and the European Business Information Centres in Asia, the Commission promotes contacts between local private sector SMEs in Asia, Latin America and Mediterranean countries, and European firms and professional associations.

The Commission also supports efforts by European SMEs to internationalise their businesses. The AL-Invest programme (1994-96) is open to all Latin American countries. The MED-Invest programme (1993-95) is open to the 11 non-EU Mediterranean countries (MTCs) and the Occupied Territories. These two programmes extend services available to EU businesses - Business Co-operation Centres, BC-NET and Europartenariat - to companies in Latin America and the Mediterranean region respectively.

## EUROPEAN COMMUNITY INVESTMENT PARTNERS (ECIP)

The ECIP financial instrument operates through a network of financial institutions established in the EU Member States and the 60 eligible countries. Its aim is to support sustainable economic investments, particularly by private operators, in the developing countries of Asia, Latin America and the Mediterranean (and South Africa) through an increase in direct investment by EU and local companies. ECIP provides financial support for EU/local joint ventures and EU/local licensing agreements. It finances technical assistance and investment projects in all sectors of the economy which are developmentally-friendly.

## EIB LOANS FROM OWN RESOURCES AND RISK CAPITAL

The EIB finances private sector projects in the industrial, energy, mining and tourist sectors by means of loans from own resources or in the form of risk capital drawn from the EU budget and the EDF. Risk capital can be used to partially fund investors wishing to acquire a stake in a joint venture, to help EU and local financial intermediaries promote SMEs in developing countries, to improve local lending institutions, and to finance project studies and other forms of technical assistance. EIB financing is available to the ACP, MTC and ALA countries (the latter have been eligible for EIB support since February 1993 and do not benefit from risk capital funds).

## CENTRE FOR THE DEVELOPMENT OF INDUSTRY

Funded by the European Development Fund (EDF), the CDI aims to support local industry in ACP countries and create long-lasting ties of co-operation between SMEs in the 70 ACP countries and businesses in the EU. It provides technical assistance through three networks: local antennae - usually financial and commercial organisations - in the ACP countries; similar intermediaries in the EU Member States; and development financial institutions. CDI assistance is open to private, parastatal and public manufacturing industries in the ACP States.

## BUSINESS CO-OPERATION NETWORK (BC-NET)

BC-NET is based on a network of almost 600 business consultants and intermediaries covering the 12 EU Member States and a growing number of non-EU countries (via ECIP). Its aim is to promote co-operation between businesses by providing technical assistance to help them identify potential partners. It covers all industry and service sectors plus all types of industrial, technical or financial co-operation, such as advertising and patents in the distribution sector. It is currently open to the 12 EU Member States and 24 countries in Latin America, the Mediterranean, the Philippines, Thailand, EFTA, Central Europe, Canada and Australia.

# 3. INDUSTRIALISATION IN ACP STATES

## INTRODUCTION

Within the ranks of the 70 ACP states are to be found the least industrialised countries in the developing world. Some of these economies - particularly in sub-Saharan Africa - have remained largely at the primary stage of development, dominated by traditional subsistence farming, the production of cash crops for export and the extraction of minerals for export. Industry is relatively limited. The manufacturing sector, for instance, which is considered the most dynamic branch of industry, remained at around 10% of Gross Domestic Product (GDP) between 1965 and 1990 (declining still further since then, especially in Africa). By contrast, the manufacturing sector grew by about 5% to reach 28% of GDP in Asia and 23% of GDP in Latin America over the same period.

For the most part ACP industry consists of agricultural processing and light industries in consumer products (food, beverages, tobacco, textile, garment and leather industries). The leading heavy industries are the chemical, petroleum, coal, rubber and metal industries. There exists nevertheless a marked diversity in the level and focus of industrialisation among ACP countries. Nigeria, for instance, is probably the most industrialised country in sub-Saharan Africa with nearly 50% of GDP taken up by industry, mostly petroleum related. Tanzania's economy, on the other hand, is based on agriculture with under 10% of GDP generated by industry. Island economies like Jamaica and Trinidad & Tobago have well developed service industries in the financial, insurance and tourism sectors. Yet industrial production in all Caribbean countries has stagnated or declined since the mid-1980s.

### *Industrial Performance*

After a promising start in post-independence Africa in the 1960s, when manufacturing value added grew at more than 8% a year, the 1970s witnessed the start of a process of economic stagnation which continues today. In some ACP countries there has been "de-industrialisation" - a decline in manufacturing output.

This disappointing performance can be explained by a number of factors. Externally, the ACP States have been hard hit by a number of shocks. A combination of the oil crises of the 1970s and declining terms of trade dramatically reduced available foreign exchange and therefore reduced the ability of these countries to pay for key imports and service foreign debt. The conclusion of the Uruguay Round of the GATT in December 1993 led many to fear still further erosion of their preferential trade margins. In many cases civil war or drought, sometimes both, have aggravated the economic malaise by draining limited resources.

In addition to these external factors, industrial development in the ACP States is hindered by fundamental structural constraints: limited internal markets (a combination of the size of the population and its purchasing power), political instability, lack of appropriate regulatory frameworks, poor administration and lack of skilled entrepreneurs.

### *Past Industrial Strategies*

The stagnation of industry can also be attributed to inappropriate development strategies adopted by many ACP States. Industry was seen as the engine of economic growth and was therefore given priority. Resources and incentives were biased towards heavy industry much to the neglect and detriment of agriculture and the rural areas. Governments often pursued large-scale, capital intensive undertakings which concentrated on the production of essentially luxury consumer goods. Policies such as heavy protection and extensive regulation, coupled with extensive State involvement, led to high production costs, a poor investment climate and an underdeveloped private sector.

This pattern of industrialisation failed to foster growth and linkages with other sectors, in particular agriculture. Projects often resulted in industries that were oversized, too dependent on imported imputs and over-equipped with sophisticated machinery. As a result, by the mid 1980s, many industries were reported to be under-utilising capacity by 70% and in some cases lack of spare parts has left plants in complete disrepair. Production of consumer goods has been geared towards luxury items consumed by a small minority of the population - the 20% who accumulate over two thirds of national income. The majority of people in developing countries still earn little more than subsistence wages and live in the countryside where markets are very underdeveloped.

### *A New Approach to Industrial Development*

A different approach emerged in the late 1980s. This recognised that the performance of local agriculture - the major activity in many ACP States - strongly affects the industrialisation process. Not only does agriculture provide many of the raw materials for the manufacturing sector but the rural population represents a large part of the domestic market for industrial products. This new approach therefore envisages industrial development accompanying rural development rather than preceding it.

Policies are increasingly based on a strategy of self-reliance and tailored to domestic markets, local resources and local needs. Growing disillusionment with "modern" industry has led many ACP States increasingly to regard SMEs, including micro-enterprises and the informal sector, as appropriate agents for achieving the aims of industrial development, or at least for getting the process of industrial development off to a good start.

Operating at grass roots level, the SME sector is engaged in manufacturing simple products for low income consumers and using both local resources and labour-intensive technologies. SMEs are therefore well suited to provide the right type of industrial support for agriculture, such as manufacturing agricultural inputs (fertilisers, tools etc.) and processing farm output. The emphasis on SMEs represents a growing shift away from State intervention to the promotion of the role of the private sector. Such an approach involves not only targeting SMEs but also rehabilitating potentially viable industries and making more efficient use of existing capacity.

In addition, governments are adopting structural adjustment reforms as a way of improving the macro-economic environment in which industry operates. This entails such measures as liberalising exchange rates and interest rates, removing price controls and, amongst other things, adopting non-inflationary monetary policies. Liberalising reforms have also been accompanied by measures to improve the investment climate. ACP states are now more receptive to foreign direct investment as a means of transferring know-how, skills and financial resources.

## EU INDUSTRIAL CO-OPERATION WITH ACP STATES

This new approach to industrial development was already partly reflected in the provisions of the Lomé III Convention (1985-1990). It is even more prominent in Lomé IV (1990-2000). Lomé III introduced the idea that in promoting the economic transformation of ACP countries, industrialisation should be closely linked to agricultural and rural development, as well as generating jobs, income and essential products. At the request of the ACP States, Lomé IV concentrates even more on industrial co-operation[1]. Not only does it consolidate many of the provisions of Lomé III, it also includes innovations which together constitute an integrated approach to industrial development.

Two new Titles were drafted for Lomé IV expressing the desire for greater inter-sectoral integration and increased support for the private sector and diversification. These are Title V: "Industrial development, manufacturing and processing" and Title VIII: "Enterprise Development".

Title V seeks to promote co-ordinated sectoral strategies for agricultural and rural development, mining, energy, infrastructure and services. The aim is to maximise local value added and create an effective capacity to export manufactured products, whilst ensuring that the environment is protected and natural resources are managed sustainably. Lomé IV pays more attention to rehabilitating existing industries and capacity utilisation. The joint ACP-EU Centre for the Development of Industry (see below) has adopted a policy of concentrating more effective aid on a smaller number of "viable" projects and countries and decentralising its activities.

Title V and the new Title VIII, "Enterprise Development", also reinforce efforts to create a stable environment in ACP States for foreign and local investment. Lomé IV seeks to strengthen the role of the emerging local private sector, particularly SMEs, as a means of stimulating growth and diversifying ACP economies. It also recognises the importance of the informal sector in ACP economies.

The Lomé Convention offers a wide range of financial, technical and commercial assistance, designed to respond to whatever request for assistance the ACPs make.
Lomé IV gives special attention to:

- enterprise development in inter-sector industries (processing of local raw materials, agro-industries)
- job creation, transfer and acquisition of technology
- restoring and optimising the use of existing industrial capacities
- industrial training and information
- promoting co-operation between ACP and EU industrial firms
- strengthening small and medium size enterprises (SMEs)
- marketing ACP industrial products (market surveys)
- encouraging legal, fiscal and economic reforms conducive to the development of an enterprise culture.

There exist other instruments which complement industrial co-operation, including preferential trade terms, trade promotion for ACP products, support for regional trade within Africa and promotion of private investment. For instance, under the trade provisions of the Lomé Convention, ACP States enjoy free access to EU markets for manufactured and processed exports which are exempt from EU custom duties and quantitative restrictions. The aim is to encourage ACP industries to expand and diversify their exports away from traditional exports of commodities and raw materials and more into manufactured and processed goods[2].

Industrial co-operation with the ACPs[3] is implemented by the European Commission, the European Investment Bank (EIB) and the Centre for the Development of Industry (CDI), a joint ACP-EU body set up by the Lomé Convention. ACP countries may request EU help to improve the overall framework in which their businesses must operate, or to boost the efficiency of intermediary financial institutions. The EU can also offer direct or indirect support to individual enterprises. The framework for co-operation is each ACP country's 5-year National Indicative Programme (NIP). The NIP specifies the main sectors to be assisted by Commission grant aid and the sectoral policies needed to achieve the development objectives agreed upon with the ACP government. For the EIB the programming exercise leads to the establishment of a list of priority projects or sectors for assistance.

[1] Lomé IV, signed in December 1989, saw a big increase in total financing from ECU 8.5 billion to ECU 12 billion - ECU 10.8 billion set aside for the EDF and the remainder accounted for by EIB own resources.

[2] For further information see note DE71.

[3] And with the Overseas Countries and Territories of the Member States (Netherlands Antilles, British Virgin Islands, French Polynesia, etc.) The OCTs are eligible for assistance on the same terms as the ACP States (ECU 25 million in both loans and risk capital set aside for the OCTs for the period 1991-1995.) For details of EU co-operation with the OCTs, see note DE76.

## The European Commission

The special characteristic of EU industrial co-operation with ACP countries, as compared to co-operation with developing countries in other regions of the world, is the wealth of instruments on offer to respond to ACP requests for assistance. EU aid managed by the Commission is not limited to helping micro-enterprises and small firms but also includes support for relatively larger enterprises via fora for investors and other activities designed to promote the private sector (see below). What the Commission cannot provide in terms of technical and financial assistance, may be available through the complementary forms of aid provided by the EIB and the CDI. The idea behind the varied and flexible approach currently in force is to find a way to respond positively to whatever viable request for assistance the ACPs make.

### *National Indicative Programmes*

The framework for EU co-operation is each ACP country's 5-year national allocations for programmable aid (NIP). The Commission manages each country's NIP, including whatever funds it sets aside for industrial development not carried out by the EIB. Under the 6th and 7th European Development Funds (Lomé III and IV) the amounts disbursed for industrial activities have been relatively modest. 13.7% of the 6th EDF (1985-90) went to industry compared to 18% of the 5th EDF (Lomé II, 1980-85). Since food security, agricultural production and rural development were the focus of attention under Lomé III (over 62% of all resources), few of the NIPs included industrial co-operation activities. Industrial development nonetheless came second in the priority ranking.

The first three years of 7th EDF implementation (ie, 1991-93) saw the continuing predominance of the rural sector, although in retreat compared to previous EDFs. However, a considerable number of ACP countries have asked for support for the development of their private sector, particularly manufacturing.

### *Private sector support*

Current Commission support for the development of the private sector in the ACPs centres on four different types of action:

- EU-ACP industrial forums, bringing together EU and ACP entrepreneurs;
- seminars and programmes designed to strengthen local organisations representing the private sector (chambers of commerce, business councils, etc);
- information for ACP firms on the Lomé instruments available for private sector support (direct information to companies, indirect information through the Commission delegations in the ACPs, the bi-monthly "ACP-EU Courier" and information campaigns on specific themes);
- special assistance for SMEs and micro-enterprises, in the form of easier access to finance; and help in a) assessing the feasibility of projects and b) managing them properly.

The Commission is also involved in a novel initiative to assist Kenya's privatisation process. In the first stage this means helping in the rehabilitation of public companies to prepare them for privatisation.

### *Examples of projects*

A project which exemplifies the type of assistance the Commission can provide to small-scale industry is the financial support given to the Small Enterprise Development Organisation of Malawi (SEDOM). In Malawi there are hundreds of thousands of SMEs which are important to the economy for the employment they provide and the contribution to GNP they make. However, a major constraint to their development has been lack of access to capital. SEDOM is one organisation set up to foster SME development through the provision of loans and technical assistance.

SEDOM was established with the financial support of the EU through two instalments amounting to ECU 8.1 million. In the first 10 years since its creation in 1983 SEDOM made 2800 short- or medium-term loans to its 1,800 clients and has proved to be an indispensable tool for the promotion of SMEs.

The most advanced SME and micro-enterprise support projects and programmes are located in West Africa. A large number of projects are currently being prepared in other ACP regions. The relative concentration on Africa can be explained by the large number of countries in the continent and by the fact that other regions, better structured industrially, have made less call on the Commission's support instruments.

In West Africa, a Commission-financed project in Mali (ECU 6.6 million) has created hundreds of micro- and small-scale enterprises employing thousands of people, including young people and people formerly out of work. The key factors in its continuing success are its close follow-up of promoters, its objective criteria for granting loans and its encouragement of the formation of mutual guarantee companies. A similar initiative is underway in Senegal (ECU 13.6 million). In Niger, the NIP concentrates a substantial ECU 12 million on private sector development. It targets small-scale activities in the informal sector, aiming gradually to integrate them into the formal economy. It also promotes institutional reform designed to restore confidence between bankers and promoters and revive bank credit. Similar projects are underway in Burkina Faso (ECU 10.5 million), Ghana (ECU 4.8 million) and Congo (ECU 10 million), setting up lines of credit, independent management structures, technical assistance for the preparation of studies and business plans, banking units and training courses for entrepreneurs.

### *Studies*

Although the EIB and the CDI are the major bodies concerned with investment promotion in ACP countries, the Commission has also financed investment studies. For example, one recent study investigated the need for an ACP-

EU investment guarantee system and examined the various investment insurance or protection schemes available to European private sector investors in ACP countries. Another study on investment in ACPs and related financial flows examined how a more stable flow of private capital from the EU might be achieved. Further studies have looked at the rehabilitation of malfunctioning industrial units in the ACPs and investigated the constraints hindering industrial co-operation between EU and ACP firms.

### *A variety of beneficiaries*

These varied types of Commission intervention are designed to reach the widest possible range of beneficiaries operating in the private sector. Assistance for the informal sector targets people working in marginal activities, manual production, services and small trading operations (people earning less than a minimum wage, temporary and manual workers, family workers, street sellers, scavengers, etc).

Incentives designed to foster the emergence of a dynamic private sector help local entrepreneurs and encourage foreign investors. Trade promotion initiatives, such as the ECSEDA (East Caribbean States Export Development Agency) Programme aim to increase the competitiveness of small firms with substantial export potential and help large firms expand and diversify their export markets. Programmes to reform ACP States' tax, legal and administrative environment seek to create a favourable climate for private companies.

Sectoral and General Import Programmes (SIPs and GIPs) can lighten the State's financial burden by supplying hard currency to buy imports which are often vital for industry.

### *SYSMIN*

The Commission also manages the SYSMIN facility. First introduced under Lomé II, SYSMIN is a financing facility designed to help mineral-producing countries maintain production capacity. This was done initially through special loans (repayment over 40 years with 10 years grace) during Lomé II (ECU 282 million) and Lomé III (ECU 415 million). Under Lomé IV ECU 480 million has been set aside for SYSMIN, now disbursed as grants.

SYSMIN covers seven products: bauxite/aluminium, copper/cobalt, manganese, phosphates, tin, iron and uranium. Countries are eligible to apply if their mineral exports represent at least 15% of their total exports over a period of four years. Funds are granted on a case-by-case basis and are often coordinated with other institutions (EIB, World Bank, African Development Bank). In 1993 SYSMIN projects were approved in Namibia, the Dominican Republic and Burkina Faso.

Of all the ACP mineral producing countries, Zambia is one of the most dependent on mining to earn its foreign exchange. Copper accounts for 43% of its total exports, yet in 1988 the real world price for copper had fallen to less than half its value in 1978. Less revenue and higher transport costs meant that there were less funds available to invest in renewing obsolete, ageing or damaged equipment. In 1981 Zambian Consolidated Copper Mines Ltd, saw a fall in production output and were operating at a loss. Loans from SYSMIN worth ECU 83 million, plus loans from the World Bank (US$ 75 million) and the African Development Bank (US$ 27 million), were particularly timely in helping to resuscitate the industry and replace obsolete equipment. Simultaneously, the EIB loaned ECU 25 million to help the company reprocess waste which resulted in the production of an extra 40,000 tons of copper. The SYSMIN facility was most important in arresting the decline of viable copper production in Zambia.

## European Investment Bank

In accordance with the division of responsibilities between the Commission and the EIB, industrial development in ACP States is financed to a large extent through loans from the Bank's own resources (funds raised on the capital markets). The EIB also manages operations using risk capital drawn from EU or Member States' budgetary funds.

Under the first Financial Protocol of Lomé IV (1991-1995), the EIB set aside ECU 1.2 billion of its own resources for lending to ACPs (compared to ECU 1.1 billion under Lomé III). In addition, the Bank manages risk capital drawn from the resources of the European Development Fund (ECU 825 million is available for the period 1991-1995.

Loans from both own resources and risk capital are earmarked for projects likely to offer adequate rates of return so as to cover repayment of principal and payment of interest. However, while the EIB operates on a commercial basis it can offer advantageous terms for its loans. For instance, market rates attached to EIB loans are usually "softened" by an interest rate subsidy financed from the EDF (ECU 280 million have been set aside for this purpose under Lome IV). In this way interest rates borne by the borrower are kept between 3% and 6% (between 5% and 8% under Lomé III). Lightening a country's debt service burden in this way is therefore another form of aid. (See Chapter 4 on industrial co-operation with Mediterranean countries for a detailed explanation of the EIB's operations.)

Risk capital can take the form of conditional and subordinated loans, repaid only after other loans have been settled. In addition, risk capital may finance equity participations, feasibility studies and technical assistance. The choice of finance depends on the nature of the project and on the overall economic situation of the country concerned, but often the Bank provides financing from both own resources and risk capital, making for greater flexibility.

### *Trends in financing for industrial projects*

The EIB has been providing assistance to developing countries since the 1960s. In recent years, the difficult economic circumstances facing many ACP States, particularly in Africa, have led to a slight slow-down of investment in industry. Nevertheless, the EIB has continued to support industrial development through individual loans for larger projects and indirect financing of SMEs via global loans.

Two significant trends have emerged in EIB operations in the ACPs in the 1990s. Geographically, the focus of activity has shifted to Southern Africa, the Caribbean and the Pacific. On the sectoral front, financing for energy projects, industry and services is claiming the bulk of aggregate funding. Increasingly, this support is benefitting SMEs in the private sector. To this end, Lomé IV widened the range of financing possibilities. The EIB now has a wide range of instruments for financing the development of the industrial sector and SMEs:

- direct participation in the equity of SMEs;
- indirect participation through financial intermediaries in the equity of enterprises, mostly SMEs;
- financing of risk capital funds which specialise in the acquisition of shares in the equity of SMEs;
- financing of public financial institutions in the Member States which specialise in long-term development financing - the EIB partially funds their participation in the equity of private enterprises;
- financing of EU promoters participating in joint ventures with an ACP partner;
- direct loans including conditional and subordinated loans;
- global loans (lines of credit) to local and EU financial intermediaries for onlending to SMEs;
- loans to governments for onlending to development and commercial banks for the financing of enterprises (known as Apex lines of credit)

These different instruments are designed to reach a maximum number of enterprises of all sizes, providing risk capital to promote new ventures and financing the rehabilitation and expansion of existing private enterprises or public enterprises undergoing privatisation.

Breakdown of financial instruments (own resources and risk capital):

| | |
|---|---|
| • direct and indirect equity participation | 9% |
| • direct loans to enterprises (including conditional and subordinated loans) | 49% |
| • global loans for onlending (including Apex) | 42% |

The terms and conditions of Bank financing, in particular the operations from risk capital (41% of total commitments) which are the most flexible, are designed to be as encouraging as possible for promoters. The Bank's ability to take commercial risk and share the foreign exchange risk (Article 234 of the Lomé Convention) and to apply flexible interest rates, are particularly attractive to companies and financial intermediaries.

Until now, more than 50% of Bank commitments under Lomé IV have been for industrial projects and the balance has been devoted to infrastructure without which there can be no industrial development: electricity, water, sewerage, telecommunications, etc.

## The Centre for the Development of Industry (CDI)

The EU and the ACP States established the CDI in 1977, notably to promote private sector SMEs in ACP States and the Overseas Countries and Territories of the EU Member States (OCTs). The CDI is a practical operational instrument for creating and strengthening industrial firms. It does this by providing technical assistance which facilitates the creation of durable partnerships (especially joint ventures) between ACP and EU companies. The ACP firm gains access to the EU partner's industrial and managerial experience, equipment, finance or technical know-how, and possibly entry to the partner's markets. The EU firm gains from the ACP partner's knowledge of local markets, access to local raw materials, an existing business or workforce and the chance to diversify its markets.

Compared to the European Community Investment Partners scheme which is designed to assist promising enterprises in the Mediterranean, Asia and Latin America (see relevant chapters), the CDI is more suited to help enterprises struggling against the much greater odds facing most ACP countries.

The CDI does not itself provide equity or loan finance and operates generally at the level of individual enterprises. What the CDI can and does do is to assist ACP companies choose appropriate EU partners and locate sources of finance (development finance institutions, export credits, share capital, etc). Banks are obviously more willing to lend money when they know an enterprise has committed partners, experienced management and has a good prospect of being able to repay its borrowings.

The CDI received ECU 60 million under Lomé IV for 1990-1995 (ECU 40m under Lomé III) to carry out a wide range of free services. It helps identify, promote and implement viable projects, as well as aiding in the rehabilitation and improvement of existing SMEs.

Limited resources, a desire for greater efficiency and the dire situation in many African countries have led the CDI, under Lomé IV, to operate more selectively. In 1992 it adopted a policy of triple concentration:

- on ACP countries which are prepared to commit a significant percentage of their National Indicative Programme to the development of private sector industry;
- on sectors with high potential, including agro-food, fish processing, animal feed, textile and garments, building material and non-metal minerals;
- on promising projects, especially rehabilitation and capacity-restoring operations, which then receive repeated follow-up support.

At the same time, the CDI continues to take account of the special problems of less developed countries.

The CDI is also beginning to decentralise its operations, through the creation of local and regional service companies in selected ACP countries. These independent, privately-run Management and Technical Support companies provide local entrepreneurs with a direct point of contact with CDI expertise. The first was set up in Burundi in January 1994 and there are plans for others in Trinidad & Tobago, Cameroon, Ivory Coast and Zimbabwe.

### *CDI Activities*

Project Identification: Projects are identified by the CDI's ACP or EU antennae and presented to potential EU partners. The sectors covered are manufacturing industry, agro-industry, fisheries, forestry, quarrying and small-scale mining and certain services.

Promotion: The CDI promotes various ACP-EU business partnership agreements: joint ventures licensing, management contracts, franchising and international subcontracting. Project promotion is carried out through meetings and industrial fora for prospective ACP-EU partners (eg the annual West and Central African industrial fora).

Feasibility Studies: These are undertaken to establish the economic and technical viability of selected industrial projects. Costs are shared between the CDI and the prospective partners.

Implementation Assistance: Technical services, legal advice and sourcing of industrial finance. CDI support may include :

- selection of plant and equipment
- advice about appropriate technology
- marketing assistance
- industrial training
- management assistance for start up.

Rehabilitation, expansion and diversification: The CDI gives high priority to the restoration of productive capacity since it is a most cost effective way to raise output. It undertakes diagnostic studies and assists with implementation.

Information services: The CDI has a library and data bases providing information on technology, markets, etc.

The CDI's broad range of activities are supported by slender human and financial resources. Nevertheless a growing number of ACP-EU partnerships have benefitted from CDI assistance. During 1993, 154 enterprises received assistance in the form of 192 interventions. Some 62 of the enterprises were new projects while the remainder were either expanding or diversifying (42) or needing rehabilitation (50). The majority (84%) of the projects were in private hands and 64% of the firms involved European partners. An analysis of CDI interventions by region showed that the majority were carried out in Africa (74%). 18% were in the Caribbean and 6% in the Pacific. The level of activity in Africa will at least be maintained, as the continent's need for this kind of support is the most acute.

The CDI hopes to be able to increase its operations. This will depend on the outcome in March 1995 of the mid-term review of Lomé IV (to cover 1995-2000). The CDI would like to see this lead to an increase in its own budget, use of funds from the NIPs and possible new facilities envisaged for the development of the private sector.

## Co-ordinated operations (co-financing)

Given the limited resources available and the need for efficiency, the Lomé Convention provides for close operational co-ordination between the EIB, the Commission, the CDI and the ACP authorities in charge of industrial development. This is particularly true for the CDI. Since it is not a financing institution, its activities must be closely co-ordinated with those of the EIB and the Commission. Close co-ordination with other donors like the World Bank and UN agencies (UNDP, UNIDO) is also important to avoid replication and to raise efficiency.

Co-financing is an important aspect of co-ordination. Lomé II provided for two types of co-financing: joint and parallel. Joint financing involves pooling different contributions into a common fund, while parallel financing consists of assigning each contribution to a separate part of the project.

Many industrial co-operation projects are co-financed. For example, the Upper Tana Hydropower project in Kenya received contributions from the Commission (ECU 26 million - EDF), the EIB (ECU 12 million), EU Member States (ECU 50 million) and the Kenyan government (ECU 23 million). In 1993, the CDI had 11 projects in the pipeline with the EIB, of which four have already received approval for financing worth ECU 9.5 million. The creation of Management and Technical Support companies should also help the CDI to make it easier for SMEs to use EIB lines of credit distributed through local financial institutions.

Two projects concerned with the production of palm oil and soap in Papua New Guinea highlight how the CDI and the EIB have cooperated to make co-financing a success. The palm oil project, the Higaturu Oil Palm Pty Ltd. (HOPPL), began with the cultivation of 5,600 hectares by village units. Two EIB loans (ECU 14 million) helped transform this project into an integrated agro-industrial complex with the construction and modernisation of an oil mill. Operating at full capacity of 60 tonnes/hour the project provides employment to 2,000 people in the mill and plantation.

The palm oil produced by HOPPL is also one of the raw materials used by Womsop Pty Ltd, a soap factory set up with CDI aid as a joint venture between a local cooperative and a German firm. In addition to finding the German partner, the CDI financed the feasibility study, initiated contacts with a development bank and contributed to the costs of technical assistance and training. The factory is now operating at full capacity and producing 2000 tons annually.

# 4. INDUSTRIALISATION IN THE MEDITERRANEAN REGION

## INTRODUCTION

The EU has signed Co-operation Agreements with the Maghreb countries (Morocco, Algeria and Tunisia), the Mashrek (Egypt, Jordan, Lebanon and Syria), the Northern Mediterranean (Cyprus, Malta and Turkey) and Israel. There is also nascent co-operation with the Occupied Territories[1]. Between 1960 and 1980 the Mediterranean emerged as one of the developing world's relatively prosperous regions. The region is, on the whole, more industrialised than the ACP States, although there are disparities between countries.

The majority of industries in the Southern and Eastern Mediterranean focus on textiles, clothing and food processing, although Algeria, Turkey and Israel also have well developed heavy industries such as petroleum and chemical production. Due to the limited size of their markets, many of these industries are export-oriented. Consequently, many were affected by the downturn in world economic growth following the 1970s oil crises. The oil crises also affected countries like Algeria which have oil-based industries.

Slow economic growth in the 1980s was accompanied by a decline in private foreign investment. Foreign investment represented an abnormally low share of total capital flows entering the region, when compared to Asia and Latin America. The majority of incoming capital still consists of official development assistance. The reasons are various: political uncertainty, administrative obstruction, a comparatively low level of skill and education, and inadequate infrastructure. Recently, many of these countries have adopted structural adjustment programmes to liberalise their economies and improve the investment climate.

This said, trade, investment and other commercial flows from the EU are expected to grow substantially. EU co-operation aims to promote this trend by providing maximum support for joint-ventures and investment, giving priority to the development of SMEs, especially in the private sector.

[1] The EU has agreed to provide ECU 500 million in Direct Aid to Palestine for 1994-98.

## EU INDUSTRIAL AND ECONOMIC CO-OPERATION WITH MEDITERRANEAN STATES

The Mediterranean countries are particularly important to the EU. In geo-strategic terms the EU depends on the Middle East for much of its energy supplies. Economic factors reinforce this interdependence. After EFTA and the US, the Mediterranean Third Countries (MTCs) are the EU's third largest trading partner. Besides trade the EU has a vested interest in promoting economic progress in this region, both to arrest the tide of immigration and to protect the environment of the Mediterranean Sea.

### *Co-operation Agreements*

The Agreements signed with each of the MTCs are based on a single model reflecting the EU's search for an overall Mediterranean approach. They combine various instruments designed to boost economic and social development, including preferential trade arrangements and financial assistance to fund economic and technical co-operation. The EU's Redirected Mediterranean Policy to intensify co-operation in the 1990s has also seen the approval of a substantial package of aid for regional programmes and projects under the so-called "horizontal" non-Protocol Co-operation programme.

### *Financial Assistance*

Although Co-operation Agreements last for an indefinite period, their Financial Protocols, laying down the amounts the EU allocates in financial assistance, are fixed for a period of five years. The first three Financial Protocols, commencing in 1978, earmarked a total of ECU 5.5 billion for the region. Under the current Fourth Financial Protocols, plus new non-Protocol co-operation, the EU has more than doubled its contribution compared with the previous five years, providing a total of ECU 5.324 billion: ECU 2.794 billion under the Fourth Financial Protocols for individual countries, and ECU 2.53 billion for non-Protocol co-operation. These funds consist of loans from EIB own resources (67%), grants (and special loans) from the EU budget (31%) and risk capital managed by the EIB (2%).

**EU - Mediterranean Fourth Financial Protocols, 1992-96**

(in million ECU)

| | EIB loans | Risk capital | Grant aid | Total |
|---|---|---|---|---|
| Algeria | 280 | 18 | 52 | 350 |
| Cyprus* | 50 | 2 | 22 | 74 |
| Egypt | 310 | 16 | 242 | 568 |
| Israel | 82 | - | - | 82 |
| Jordan | 80 | 2 | 44 | 126 |
| Lebanon | 45 | 2 | 22 | 69 |
| Malta* | 30 | 2 | 13 | 45 |
| Morocco | 220 | 25 | 193 | 438 |
| Syria | 115 | 2 | 41 | 158 |
| Tunisia | 168 | 15 | 101 | 284 |
| Turkey* | 225 | - | 375 | 600 |
| | 1605 | 84 | 1105 | 2794 |

*Not yet in force

**EU - Mediterranean Non-Protocol Assistance**

(in million ECU)

| | | | | |
|---|---|---|---|---|
| Horizontal Co-operation | 1800 | 25 | 205 | 2030 |
| Occupied territories | 250 | - | 250 | 500 |
| | 2050 | 25 | 455 | 2530 |
| TOTAL | 3655 | 109 | 1560 | 5324 |

Between 1978 and 1993, 9% of total Protocol aid was dedicated to strengthening the infrastructure which underpins industrial development (roads, power stations and grids, etc.).

While infrastructure remains a priority in the 1990s, particularly for projects of regional dimensions (see EIB below), the Third and Fourth Financial Protocols recognise the importance of developing the productive sectors, both industry and agriculture, and promoting economic links between the EU and the MTCs. Support for the development of a robust private sector (in particular through the creation of joint ventures between local and EU operators, investment promotion, information exchanges, industrial training, etc) is seen to be just as important here as in other developing regions of the world. Industrial co-operation is financed by the EU budget and the EIB.

## European Commission

The Commission manages and implements the grant aid element of financial assistance while the EIB manages the risk capital and interest rate subsidies. Of the total budget funds committed by the end of 1993 under the Fourth Financial Protocol nearly 44% had been allocated to the industrial sector.

### *European Community Investment Partners*

The ECIP programme is the key instrument provided by the EU to promote joint ventures and EU investment in non-ACP third countries. Set up in 1988, ECIP provides four different types of financing facility to promote EU business links with the Mediterranean, Asia and Latin America. It is particularly geared towards European investors who face high risks when investing in a developing country and possess limited knowledge of the opportunities available. EU participation helps make it possible to mobilise risk capital from European companies for joint ventures.

ECIP is managed by the European Commission but its strength lies in its structure as a market-driven facility. Much of the work is done by a network of participating banks and financial institutions in the EU, Mediterranean, Asian and Latin American countries. The financial institutions identify private sector projects and propose them to the Commission. Once a project is approved, it is the intervening institution which manages the funds and controls implementation. The Commission offers the financial resources to help projects and exercises a measure of control, but otherwise plays a largely hands-off role.

The scheme offers financial support for four types of operation linked to investment projects (see the following chapter on Asia for more details):

1. Pre-project studies to identify potential joint-venture projects and partners.
2. Feasibility studies and pilot projects for the establishment of joint ventures (interest free advances).
3. Financing of risk capital for new joint ventures.
4. Provision of technical assistance for training in and management of joint ventures.

An analysis of ECIP activity over the period 1988-93 by geographical area indicated that Asia was marginally the most favoured target. However, 1992 saw more ECIP actions in the MTCs, despite the fact that there are comparatively few financial institutions there and that ECIP activity in the Mediterranean is complementary to that of the EIB[1].

This trend has continued and in 1993, the Mediterranean was the second most favoured region (after Asia and before Latin America), accounting for 29% of projects approved and 31% of amounts committed. This is a new development, as previously the MTCs had been the least favoured region of the three. As far as the size of ECIP deals is concerned, the MTC received a higher than average share.

By the end of 1993, 202 ECIP projects had been approved in the MTCs (27% of the 1988-93 total of 747). Out of the total ECU 79 million allocated, ECU 22.6 million (29%) went to these EU-MTC joint ventures. Their average size came to ECU 112,000 as compared to the overall ECIP project average of ECU 105,000.

[1] The EIB's financing operations in the MTCs come within the framework of the Redirected Mediterranean Policy. Within this framework, EU financing comprises: a) loans from EIB own resources; b) Commission grant aid, in some cases earmarked for financing interest subsidies on EIB loans; c) EIB risk capital assistance.

### *MED-Invest*

The MED-Invest Programme is the Commission's newest industrial co-operation instrument for the MTCs. It is designed to provide an even wider range of facilities to encourage the development of an environment conducive to SMEs and increase their ability to compete on local and EU markets. The programme organises contacts between Mediterranean and European SMEs and professional organisations. For each project, a network of EU and MTC businesses and/or professional bodies will be created, thus drawing on the EU's experience in creating and supporting new SMEs.

MED-Invest, like the similar ECU 20 million AL-Invest programme for Latin America, is upstream of the ECIP programme. It puts firms in contact with each other, and when their embryonic joint operations reach the investment stage, ECIP intervenes to give them concrete shape.

During its ECU 10 million pilot phase (1993-95), MED-Invest will set up 11 trial "actions" (covering a number of pilot projects) in areas including information, training, consultancy, investment financing, partner identification, access to new technology and international markets, equipment modernising and human resources management. The most effective types of action could be extended to other MTCs during a consolidation phase lasting throughout 1996.

The MED-Invest programme is divided into two sections: Section A is concerned with extending to the MTCs existing EU industrial co-operation instruments and programmes: Europartenariat, Interprise, BC-Net and BRE - Bureau de Rapprochement d'Entreprises, similar in function to the BCC in the AL-Invest programme for Latin America (see Chapter 5 on Latin America). The aim of the four types of action in Section A is to promote meetings and co-operation between potential partners which will encourage them to define and launch joint projects. Between 12 and 15 events (A1, A2, A3) are to take place in different regions of Europe and the MTCs before the end of 1995.

Section B involves 7 trial actions designed to provide instruments which support the growth and development of existing companies or the creation of new ones in the MTCs. It will also set up a system of audits and grants for increasing the transfer of know-how and responding to SMEs' needs.

**EU contribution during the pilot phase**

| **Actions** | | **ECU** |
|---|---|---|
| A1 | Europartenariat | 400,000 |
| A2 | Med Partenariat | 1,750,000 |
| A3 | Med Interprise | 400,000 |
| A4 | BC-Net and BCC training | 400,000 |
| B1 | Access to credit (2 pilot projects) | 450,000 |
| B2 | Export management companies (2 pilot projects) | 1,150,000 |
| B3 | Consultancy services (3 pilot projects) | 1,350,000 |
| B4 | Development agency (3 pilot projects) | 900,000 |
| B5 | Support for new businesses | 1,000,000 |
| B6 | Study and training grants | 400,000 |
| B7 | Audits/studies | 400,000 |

## European Investment Bank

The EIB's operations in the MTCs commenced in the early 1960s. Its activities expanded significantly following the signature of the First Financial Protocols in 1978, and again when the EU adopted the Redirected Mediterranean Policy (RMP) in 1990. Unlike the Lomé Conventions, the RMP comprises two distinct elements - bilateral co-operation with individual countries under the Financial Protocols and "horizontal" financial co-operation in support of regional projects. It is principally, although not exclusively, through the Financial Protocols that the EIB has supported industrial co-operation in the Mediterranean.

Within this overall framework EIB financing has taken two forms:

- Loans from its own resources, which account for the major part. The interest rates applied to these loans closely reflect conditions on the capital markets on which the Bank raises its funds. In some specific cases these loans attract an interest subsidy financed from the grant aid provided from the EU budget;
- Risk capital assistance managed and granted by the EIB from EU budgetary resources. This is mainly utilised to promote the creation or strengthening of the equity base of productive enterprises, particularly joint ventures with EU partners.

With these resources the EIB provides by far the largest percentage of EU industrial sector financing in the MTCs.

## *Own resources lending*

Initially, support to the productive sector was provided mainly through the mechanism of global loans. These were already widely employed by the Bank in the EU Member States and the ACP States to assist the development of SMEs, which play a vital role in economic expansion and employment creation. Global loans take the form of a credit line opened by the Bank to selected local financial intermediaries, usually development banks, which on-lend the funds made available to finance capital projects mainly in the industrial and tourism sectors.

Global loans for the industrial and tourism sectors have been extended in most of the above countries. Since 1978 the EIB has committed ECU 723 million through this mechanism via 49 global loans. These funds have supported some 750 projects in a wide range of sectors, leading to the creation of some 27 950 jobs. Total capital investment was ECU 1.464 billion. Between 1989-1993, some ECU 299 million was committed through global loans, representing 15.5% of the Bank's total lending to the MTCs over the same period.

The development of industry has also been supported through individual loans to larger projects, particularly in Egypt. During the past five years the Bank has lent ECU 119 million for such projects, representing 6.2% of total lending to the region over this period. A recent example was a loan of ECU 35 million to finance the construction of a new printing works near Cairo, a project implemented by one of the largest publishing houses in both Egypt and the Arab world. As well as improving and modernising production facilities, the project will permit the closure of an obsolete and environmentally-damaging plant in central Cairo.

The EIB is also providing indirect support for the development of industry through the financing of economic infrastructure (notably power, transport and telecommunications) which constitute the necessary framework for industrialisation. Loans to these sectors accounted for 37% of total lending to the region from 1989 to 1993. Under non-Protocol regional co-operation, two major regional energy projects are underway to transmit gas from Algeria to the EU via pipelines to Spain and Italy. When completed, their capacity is expected to attain 44 billion $m^3$ a year. The projects are being implemented in conjunction with Morocco and Tunisia, which stand to benefit from transit fees or gas deliveries. The Algeria/Morocco/Spain pipeline alone is expected to cost ECU 2.9 billion. ECU 200 million of the ECU 280 million the EIB lent to Algeria in 1993 went to the Algerian section of this project (the total cost of which is ECU 830 million). The Spanish section has been designated one of the EU's trans-European network priorities. In the telecommunications sector, the EIB has lent ECU 125 million to support three projects: two will improve Jordan's international telecommunications links with its neighbours and Europe (ECU 45 million), the third will strengthen Morocco's links with the EU (ECU 80 million).

Finally the Bank provides finance for industrial estates in certain countries, on a selective basis. An example is the Sahab Industrial Estate, near Amman, which has benefitted from four EIB loans worth a total of ECU 17.5 million. Set up in 1984, the estate houses more than 300 firms and provides employment for some 9,200 people.

## *Risk capital assistance*

Since its introduction in 1986 under the Third Financial Protocols, risk capital has been utilised to foster the development of the private sector in a number of ways. In the first instance, this was achieved through the well-proven mechanism of global loans. Risk capital is channelled to the capital of SMEs via the direct or indirect participation of a financial intermediary whose familiarity with local economic conditions and ability to identify and appraise projects had already been demonstrated in their management of own resource global loans (in Egypt, Jordan, Tunisia and Cyprus). A variation on this approach has been to make global loans available to a number of banks in a beneficiary country managed through a central bank or other official entity (as in Morocco, Cyprus and Malta). Since commencing such operations, the EIB has provided risk capital finance for some 180 initiatives in these countries, generating some 10,570 local jobs. This type of financing also has an appreciable multiplier effect in terms of attracting additional equity funding. The Bank has so far provided some ECU 28 million for such operations, funding industrial projects worth some ECU 330 million in total.

In some cases the EIB has been able to identify joint venture projects of sufficient size to warrant a direct intervention by the Bank itself. Here risk capital is provided to finance an equity participation acquired through a local financial intermediary, sometimes in tandem with a loan from own resources to fund investments. An example is the construction of a tyre factory near Alexandria by an Italo-Egyptian joint venture, supported by the Bank with ECU 3 million risk capital assistance and an own resource loan of ECU 25 million. The plant, now nearly completed at a total investment cost of ECU 133 million, will employ a workforce of 750.

Finally risk capital can also be utilised to support the establishment of venture capital companies (as in Algeria and Morocco) to provide seed capital to joint venture projects.

The above schemes are targeted towards the local partners in joint-venture initiatives. A further dimension was added to the support the EIB provides to industrial development in the MTCs with the launching of the Europartenariat (Europartnership) facility in 1993, utilising ECU 9 million of the ECU 25 million risk capital foreseen under non-Protocol assistance. Under this scheme, up to 50% of an EU partner's capital contribution to a productive sector joint venture can be financed by the EIB. Implementation of the scheme is managed by local commercial and development banks already familiar with the operation of EIB global loans. At present, financial institutions in Egypt, Jordan, Morocco and Tunisia are participating in the scheme and access to the facility is expected to be extended over the coming months to other countries in the region.

# 5. INDUSTRIALISATION IN ASIA

## INTRODUCTION

The Association of South East Asian Nations (ASEAN) - Malaysia, Thailand, Singapore, Indonesia, Brunei and the Philippines - represents one of the fastest growing regions in the world today. Singapore has a comparable level of development to Europe, while Brunei, Malaysia and Thailand are considered to be newly industrialised economies. By the year 2000 around 1 billion Asians, notably in the East and South-East, will have significant consumer spending power. The Asian economic miracle has resulted in a steady increase in direct foreign investment since the early 1980s. Asia absorbed a third of the EU's direct foreign investment in 1993 (as did Latin America). However, EU investment in Asia (10% of the total) remains well behind that of Japan (28%) or the US (17%). With increasing investment also from South Korea, Taiwan and Hong Kong, Europe's position is not improving.

By contrast, Indochina and South Asia, represented by the South Asian Association for Regional Co-operation (SAARC) - Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka - have a higher proportion of people living below the poverty line than any other part of the world. Even so, there have been important increases in wealth. Although still very poor, India experienced an average annual rate of industrial growth of 8% in the 1980s and has an industrial co-operation agreement with the EU. It has the third largest pool of scientists and is the second most populated country in the world. India is an economy on the verge of "take off" and represents a market of enormous potential.

## EU INDUSTRIAL AND ECONOMIC CO-OPERATION WITH ASIA

### *Co-operation Agreements and Economic Co-operation*

The European Union has Co-operation Agreements with 14 countries in Asia and is developing co-operation with several others. Traditionally, agreements between the EU and Asian countries have centred on trade and development aid. However, Asia's dynamism has encouraged an increasing focus on economic and industrial co-operation, which is set to assume much greater importance in the future. Between 1976 and 1991, the EU disbursed aid worth over ECU 3.2 billion, making the EU the second largest donor to Asia after Japan and providing three times more than the US. Yet in 1993, only 12% of this aid was committed to economic co-operation, the majority going to rural development projects, food security and poverty alleviation in the poorest countries.

The 1980 EU-ASEAN Co-operation Agreement was the first accord with ALA countries to make provision for economic co-operation. An EU Regulation in 1992 foresaw the addition of much greater economic co-operation with those countries with high growth potential. This approach is seen as more likely to prove successful and sustainable in the long-term than direct EU assistance. It also enables the EU to achieve maximum impact from limited budgetary resources. The objectives are threefold:

- to improve the economic and investment climate of the partner country (institution building, liberalisation etc.) in order to stimulate mutually-beneficial two-way trade, partnerships and investments;
- to stimulate the transfer from European to local operators of resources (technology, capital, know-how) which are indispensible ingredients for the modernisation of the partner country's industrial base;
- to mobilise the direct participation of the private sector, particularly SMEs, as long-term agents of economic progress.

### *Towards a New Strategy for Asia*

EU instruments for industrial and economic co-operation with Asia (such as EIB loans, the European Community Investment Partners programme, European Business Councils and the Generalised System of trade Preferences, which enhances EU market access for some 72% of Asian imports) do exist. And in 1987, the EU approved a scheme to broaden the areas covered and replace its ad hoc approach by a more integrated one.

However, as in Latin America, these instruments are still very under-used. Consequently, the European Commission presented a strategy paper to the Council of Ministers in July 1994. "Towards a new Strategy for Asia" proposes a clear targeting of a few priority countries and sectors, rather than attempting a thin but ineffectual region-wide coverage. Now this debate has been launched, the Commission plans to follow it up with more concrete proposals. These include:

- More forceful and systematic lobbying for the removal of laws hampering trade and investment through the discriminatory use of standards, intellectual property rights, and testing and certification requirements.
- Follow-up of the "EU market transition programme" in Vietnam with other initiatives offering policy advice to former state-trading countries which have embarked on economic reforms. Those countries already fairly advanced down that road, such as India and Pakistan, need more active help in installing deregulation programmes.
- Support for joint ventures between European and Asian companies by providing information on local investment conditions, opening up European Business Councils in China, Indochina and Pakistan and linking them

more closely to Chambers of Commerce in Europe.

- Extending scientific co-operation in Asia, by extending the EU's Forum on Science and Technology in Japan.
- Establishing European Technology Centres in sectors where Europe has a comparative advantage, notably banking, energy, environmental equipment, transport equipment and telecommunications.
- Promoting investment by providing financing incentives for joint ventures and supporting trade promotion.

The EU is now the second biggest market for Asian exports after the US, absorbing ECU 128 billion, or 27% of their total exports, in 1993. The share of EU exports to Asia jumped from ECU 15 billion in 1980 to ECU 93 billion in 1993, demonstrating the increasing interdependence of the two regions. Despite this, the EU's relative share of direct foreign investment has declined sharply, hence, the Commission insists, the need for a far more pro-active investment promotion strategy.

### *Co-operation instruments*

As in the Mediterranean and Latin America, industrial co-operation is financed by the EIB and the EU budget.

## European Commission

There are essentially four elements to the industrial co-operation strategy which have provided a basis for action in Asia and Latin America. The first element - ECIP - is directly concerned with investment while the remaining three elements are involved with business development in general. 19 Asian countries are eligible for ECIP. In Latin America, the other three elements are generally grouped together under the pilot AL-Invest programme. In the case of EU co-operation with Asia, these elements have yet to be grouped together.

### *EC Investment Partners*

ECIP is becoming one of the greatest catalysers of private investment in the EU's developing partners. An analysis of ECIP activity in 1988-93 indicated that Asia was marginally the most favoured target region and that its share had continued to increase. By the end of 1993, 294 ECIP projects had been approved in Asia (42% of the total). Out of a total amount of ECU 79 million committed, ECU 29.9 million (39%) went to these EU-Asia activities. Their average cost came to ECU 101,742, as compared to the overall average of ECU 105,893.

As explained in chapter 4, this financing instrument is composed of four facilities:

- Facility 1: identification of potential joint venture projects and partners. Beneficiaries are Chambers of Commerce, professional associations, public agencies and ECIP financial institutions (individual companies may not benefit). Beneficiaries receive a grant of a maximum ECU 100,000 to cover up to 50% of total costs. They may apply directly to the Commission or through its network of financial institutions (95 members in 1994).

  *Examples: ECU 35,900 was provided through Amsterdam-Indonesia House to bring together Indonesian and European entrepreneurs in the metal-working and engineering industries for a four-day seminar of company presentations, counselling, and bilateral company meetings. ECU 29,590 was granted through the Federation of Malaysian Manufacturers to fund a visit by Malaysian industrialists to various EU toy and giftware manufacturing centres to observe European trends and discuss joint-venture activities and licensing agreements with their EU hosts.*

- Facility 2: operations prior to launching a joint venture. Beneficiaries are either EU or local companies, or EU/local joint venture companies wishing to undertake a joint venture investment project. A maximum of ECU 250,000 is available through a Financial Institution to cover 50% of total costs. It comes in the form of an interest-free advance which is later converted into a grant, a loan or equity.

  *Examples: SOFINASIA (Paris) provided ECU 55,700 for a feasibility study prior to the setting up of a joint venture in the Thai shrimp-hatchery industry. ECU 137,500 was provided through ING Bank (Amsterdam) for various operations prior to launching a joint venture in manufacturing semi-conductor equipment in Malaysia, including a feasibility study, a partner search, training and a pilot project.*

- Facility 3: financing of capital requirements. Beneficiaries are joint ventures set up by EU and local partners, and local companies which operate under a licensing and technical assistance agreement with an EU firm. A maximum ECU 1 million is available to cover 20% of the joint venture capital. It comes in the form of an equity holding or equity loan from a Financial Institution, which must also cofinance the project.

  *Examples: The Copenhagen-based Industrialisation Fund for Developing Countries (IFU) put up ECU 500,000 for direct participation in a new wood processing and furniture manufacturing joint venture in Vietnam.*

- Facility 4: human resource development (training and management assistance). Beneficiaries are as for Facility 3. Awarded through a Financial Institution, which must cofinance the project, a maximum ECU 250,000 is available in the form of an interest-free loan covering up to 50% of the cost.

  *Examples: The Belgian Corporation for International Investment (SBI) supplied ECU 150,000 for training personnel and improving management expertise at an Indonesian unit producing high tension power transformers.*

In July 1994, the Commission proposed to enlarge the scope of ECIP for the post-1994 period to cover privatisation and private infrastructure projects (eg. in the energy, utilities, transport and environment sectors) under Facility 1. Later, in the implementation of the project, operators would remain eligible under existing criteria to request ECIP finance under Facilities 2-4. The Commission also proposes improvements in the conditions for financing projects (which implies a larger budget), such as allowing a grant element in Facility 2, medium- and long-term subordinated loans in Facility 3 and changing Facility 4 financing to grants. Projects which benefit from the ECIP tend to be smaller in size than those financed by the EIB but the two instruments are clearly complementary.

### *Development of business co-operation infrastructure.*

This element involves the promotion of investments and joint ventures through institutional measures. It also provides a forum in which problems and possible solutions pertaining to international business can be discussed.

Council of European Chambers of Commerce: In order to reinforce local representation of EU business and influence, individual Member States' chambers of commerce are grouping themselves into a single Council of European Chambers of Commerce in the partner country (eg. the Philippines).

Business Council/ Business Information Centre: Business Councils of EU and local businessmen and Business Information Centres are being set up to complement the work of the Chambers, initially in ASEAN countries (eg Malaysia, Indonesia and Thailand).

Joint Investment Committees: In each of the ASEAN countries Joint Investment Committees (JICs) were established in 1987 and 1988. They serve to promote European investment in the region and improve the investment conditions by reducing existing obstacles (eg. bank guarantees in foreign currency, financial engineering). They are staffed by both Europeans and Asians. The JICs have generated a number of projects which have been implemented with Commission financial support, including:

- the establishment of an Investment Advisory Unit at the European Chamber of Commerce in the Philippines;
- a survey of existing market research studies, which is listed in both Europe and ASEAN countries and is updated every 2 years;
- a study of an ASEAN country Customs System.

Asian investment promotion offices in Europe: ASEAN countries have begun joint ASEAN Investment Promotion Sessions in Europe which entail visiting regional Chambers of Commerce in Europe and informing potential investors of the opportunities in these countries.

### *Direct Measures for Promotion of Joint Ventures*

A number of measures are adopted to directly promote investment and technology co-operation by arranging meetings between businessmen from the EU and Asia. They include:

- business weeks and trade fairs;
- the ASEAN Industrial Joint Venture (AIJV) scheme. This identified promising product groups (rubber-based products, metal-cutting machines, wood-working machines, rubber and plastics processing machines, food and fruit processing and packaging, chipless metal working machines) and arranged workshops and business weeks for each. Trade fairs and seminars are the next stage;
- business seminars to inform interested Asian and Latin American businessmen about industrial opportunities with Europe.

### *Support Measures for Enterprises*

This element supports actions covering a number of sectors aimed at providing assistance and information to SMEs. Information is offered through the Business Co-operation Network (BC-Net) (see following chapter on Latin America), studies and business reviews (such as the ASEAN Business Review, which provides country and sector profiles for each ASEAN member).

Industrial training (management co-operation and human resources development) is provided through Executive Exchange Programmes (eg. for ASEAN members and India), Business Familiarisation Programmes and plans for an ASEAN-EU Management Centre in Brunei to promote research and business management.

Industrial standardisation, quality control and certification are important aspects of industrial co-operation. The EU is supporting Indian industry with a large and comprehensive industrial co-operation programme involving industrial standardisation. This includes familiarisation with European standards, the exchange of regulations, exchange of experts and the study of certifications as well as technical workshops.

## EIB

It was only in February 1993 that the EIB was authorised to finance projects in Asian and Latin American countries which have Co-operation Agreements with the EU. A ceiling of ECU 750 million in loans was set for the period 1993-95.

The EIB rapidly began identifying projects in Asia. During 1993 three projects were fully appraised and one financial contract was signed with India. All three projects are in the energy sector and are designed to make energy use more efficient and less damaging to the environment. The Indian project concerns the electricity sector in Southern India.

Other projects - in Thailand, Pakistan, Philippines and Indonesia - have now been signed or are awaiting final approval. The EIB accords top priority to helping finance private sector projects involving direct European partnership, technology and technical assistance. At least 75% of the projects financed by the EIB are industry-related. The Bank's aim of committing ECU 500 million in Asia and Latin America before the end of 1994 is likely to be achieved.

(See previous chapters on the ACP and Mediterranean countries for details of EIB mechanisms.)

# 6. INDUSTRIALISATION IN LATIN AMERICA

## INTRODUCTION

After the debt and double-figure inflation crisis of the 1980s, there is evidence that strong growth is returning to Latin America and is likely to continue. Chile, Argentina, Mexico and Brazil possess particularly promising productive capabilities and the potential to modernise, with others not far behind. Latin America and East Asia together took about 80% of global direct foreign investment in 1992. A third of EU direct foreign investment currently goes to Latin America and the EU remains the major or second trading partner for this group of countries.

Relative economic and political stability, trade liberalisation and the drive towards regional economic and political integration (MERCOSUR, NAFTA, the Andean Pact, the Group of Three, Central America and the Association of Caribbean States) have contributed significantly to this development. On the other hand, as in Asia, there are still pockets of abject poverty (notably in Central America and the Andean Pact) where good resources are badly exploited and fundamental concerns such as food security, water, sanitation, health, education and the reintegration of ex-combattants in civil wars must take immediate precedence over industrialisation.

## EU INDUSTRIAL AND ECONOMIC CO-OPERATION WITH LATIN AMERICA

The European Union has Co-operation Agreements with all the non-ACP countries of Central and South America bar Cuba. As in Asia, these Agreements are increasingly focussed on economic and trade co-operation (though development aid remains important), seen as more likely to prove successful and sustainable in the long-term than direct EU assistance. This also enables the EU to achieve maximum impact from limited budgetary resources.

As in Asia, the EU has various instruments for industrial and economic co-operation with Latin America, the most important being the European Community Investment Partners programme, AL-Invest, EIB loans and the Generalised System of tariff Preferences. However, as in Asia, these instruments are still under-used and are now the subject of EU promotional campaigns. The EU is also a dedicated supporter of regional economic integration in Latin America. Trade with MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) has increased 35% over the last four years and there is talk of free trade agreements between the EU and MERCOSUR, Mexico and Chile.

While classic development aid needs to continue in the least developed Latin American countries, economic and industrial co-operation has an increasingly high profile in those countries which have reached an intermediate level of industrialisation (see earlier chapter on Asia).

As in Asia too, the EU's industrial co-operation strategy in Latin America revolves around the European Community Investment Partners programme (ECIP) and a whole series of business tools brought together under the Commission's pilot AL-Invest programme. Both are financed from the EU budget. The EIB's role is also set to grow in the region.

### European Commission

***EC Investment Partners***

ECIP is available to 17 countries in South and Central America, plus Cuba, even though the latter has as yet no Co-operation Agreement with the EU. The details of this financing facility are explained in the chapter on Asia since ECIP also applies to Asia, the Mediterranean and South Africa. Since its establishment in 1988, it has committed ECU 25.5 million to 235 projects in Latin America (31% of the total number of projects and 32% of the total amount approved). The average size of projects was ECU 108,450, just over the global average of ECU 105,893. The following are examples of recent projects:

Facility 1 (identification of projects and partners): ECU 56,066 for the identification of new biotechnology, energy and environment technology companies in Chile and Mexico and their participation in TechTrans'92 in Denmark, in order to review joint investment projects and technology transfer agreements (financed through the Messe Centre, Herning). ECU 39,500 for an identification study of projects and partners in the graphics industry of Latin America as a whole, and the organisation of meetings between Latin American and EU industrialists to promote joint venture creation and technology transfers (financed through the Madrid Chamber of Commerce and Industry).

Facility 2 (preparations for the creation of specific joint ventures): ECU 35,000 provided through the Industrialisation Fund for Developing Countries (IFU) in Denmark for a study to evaluate the profitability of a joint venture for the local production and sale of fresh white cheese in Colombia.

Facility 3 (financing of capital requirements): ECU 302,000 as an equity loan from IFU to cofinance a joint venture for asparagus processing in Peru. This enables local asparagus to be canned and exported as a finished product. In the case of Mexico, ECIP facilities helped finance the setting up of the first modern dairy industry providing milk processing facilities for local markets (ECU 350,000, through the IFU).

### *AL-Invest*

The EU has set aside ECU 18.5 million for a pilot scheme designed to promote industrial co-operation projects based on private-sector initiatives with 18 Latin American countries. Similar in concept to MED-Invest (see chapter 3) it is arguably wider in scope and has greater immediate potential. AL-Invest is financed from the EU budget up to a 50% ceiling and will run for 2 years from 1994.

Targeted specifically at small and medium-sized enterprises, AL-Invest is designed to facilitate the transfer to Latin America of technology, know-how and European finance.

The programme aims to help Latin American businesses consolidate and further develop their economic position through support from European business partners with direct experience in the field. AL-Invest also gives European firms access to rapidly expanding new markets, thus creating an international dimension to their business.

AL-Invest is designed to replace the formerly ad hoc, dispersed nature of industrial assistance to Latin America (as still seen in the case of Asia) with an integrated and coherent co-operation strategy. AL-Invest is complementary to the ECIP Programme. Like ECIP, AL-Invest is an economic catalyst, though it intervenes earlier on in the co-operation process. AL-Invest puts EU and Latin American companies in contact with each other and when concrete joint venture investments start to materialise, ECIP takes over.

Responsibility for the AL-Invest Programme lies with the Commission services, with external logistical support from the Brussels-based AL-Invest Secretariat. The Secretariat has three component parts: (i) the Employers' Federations of Spain (CEOE), Portugal (AIP), France (CNPF), Germany and Italy (Cofindustria); (ii) Eurochambres and AICO (the Ibero-American Association of Chambers of Commerce); and (iii) the Copaltec CIEI Consultancy group. The latter is responsible for the day-to-day running of AL-Invest under the supervision of the Commission services.

The AL-Invest Programme is made up of four elements:

1. AL-Interprise: During the pilot phase of AL-Invest (ending in 1995) some 40 sectoral business meetings are to be organised in both Europe and Latin America, usually in the margins of international trade fairs. These meetings of business leaders are a means of directly promoting co-operation opportunities in the chosen sector. A key aspect of AL-Invest is that it is multilateral: AL-Interprise activities always include economic operators from at least three EU and one Latin American country.

2. AL-Subcontracting: Access to this sub-programme is via the specialised sub-contracting networks - ALASUB in Latin America and RIOST in Europe. During the AL-Invest pilot phase, industrial sub-contracting meetings are to be organised as part of 10 major trade fairs - six in Europe, four in Latin America. AL-Sub-Contraction offers: (1) logistical support for Latin American firms participating in sub-contracting trade fairs in Europe ; (2) assistance with programme management; and (3) a ten-day course in Europe for Latin American entrepreneurs.

3. Economic Co-operation Networks: AL-Invest is a decentralised programme in which business initiatives (which should cover a single industrial sector and ideally involve a series of business meetings) come from individual businesses or the economic operators through which they act. The Commission plays a co-ordinating and guiding role but business drives the programme. The cohesion of AL-Invest depends on the creation of effective dialogue between the economic operators in Europe and Latin America. The consolidation and extension of Economic Co-operation Networks in both regions is intended to achieve this.

(a) In Europe: The COOPECO Network comprises around 160 economic operators specialising in industrial co-operation with Latin America. COOPECO members are either Chambers of Commerce, employers' organisations, professional organisations, institutions involved in regional development or with expertise in cross-border co-operation, or consultancies specialising in economic co-operation.

Drawn from throughout the EU, COOPECO members also belong to at least one of the Commission's European partner-search instruments. These include BRE, BC-Net, Euro Info Centres, Europartenariat and SPRINT. COOPECO members put forward proposals of interest to their member firms, as well as identifying and providing personalised guidance for European entrepreneurs who want to participate in AL-Invest actions. COOPECO members are also responsible for promoting and disseminating information about Latin America (eg. relevant investment information).

(b) In Latin America: During the pilot phase of AL-Invest, a total of 20 Eurocentros de Cooperacion Empresarial (ECEs) are to be set up throughout Latin America. Like the COOPECO Network members, their European counterparts, the ECEs are business service centres facilitating transnational co-operation between enterprises by: (1) identifying projects, (2) helping in negotiations with EU partners, (3) providing access to existing industrial co-operation instruments, and (iv) disseminating information to enterprises in the region.

The ECEs also house the Business Co-operation Network (BC-Net) and Business Co-operation Centres (BCCs) - two economic co-operation instruments which are now being extended to Latin America under AL-Invest. Originally designed for European SMEs wishing to enter into business partnerships, these two complementary networks are now available for entrepreneurs interested in wider trans-national co-operation.

BC-Net is a network of about 600 business consultants and intermediaries covering the EU Member States and a growing number of third countries. It currently operates in Mexico, Brazil, Chile, Argentina, Uruguay and Venezuela. Using an electronic matching data bank, it provides confidential technical assistance to help firms identify potential business partners.

The BCCs offer non-confidential technical assistance to SMEs looking for partners, in the form of documents exchanged between businesses, correspondents and the BCC central unit. BCCs and their correspondents are present in Mexico, Venezuela, Colombia, Costa Rica, Uruguay, Peru, Brazil, Argentina and Chile.

4. Consolidation and extension of the EU's TIPS programme: Unlike the Economic Co-operation Networks (see 3 above), which promote North-South exchanges, the Technological Information Pilot Scheme (TIPS) is designed to provide organisations in Southern countries (Latin America, Asia and Africa) with exchange opportunities. TIPS is already established in Argentina, Brazil, Colombia, Costa Rica, Cuba, Mexico, Peru, Uruguay and Venezuela., and is being extended throughout Latin America through AL-Invest. As with BC-Net and BCC, the TIPS co-operation instrument is to be hosted by the ECEs.

   The long term aims of the TIPS system are: (1) to promote South-South trade, (2) to increase South-South and North-South technical and economic co-operation, and (3) to increase South-North exports.

## EIB

In February 1993, the European Investment Bank was authorised to finance projects in Latin American and Asian countries which have Co-operation Agreements with the EU. A ceiling of ECU 750 million in loans was set for the period 1993-95.

As has been the case for Asia, the EIB rapidly started activities in Latin America and has identified several projects in the region. During 1993, four projects were fully approved and one finance contract was signed with Costa Rica. Two of the projects concern improvements in energy utilisation. The Costa Rican project involves the construction of a hydroelectric power plant to the east of the capital and extension of high-voltage lines to link up with the Nicaraguan and Panamanian grids as part of a regional interconnection scheme. Other projects currently under consideration for signature or final approval are located in Argentina, Chile, Mexico, Brazil and Peru. As already mentioned for Asia, the objective of committing ECU 500 million for Asia and Latin America before the end of 1994 is likely to be achieved. (See previous chapters on the ACP and Mediterranean countries for details of EIB mechanisms).

# 7. CONCLUSION

Promoting economic linkages between European enterprises and partner country firms - particularly private sector SMEs - is seen as a minimally interventionist, catalytic form of assistance. Though still at a relatively modest level, industrial co-operation and economic co-operation are taking on increasing importance, especially in the burgeoning economies of Asia and Latin America. They are also taking hold in the Mediterranean. Progress is slower within the ACP Group, particularly in the difficult conditions of sub-Saharan Africa, though industrial and economic co-operation is expected to be a major element of EU relations with post-apartheid South Africa, hopefully with positive repercussions on the whole Southern African region.

There is an emerging tendency for the EU to extend all industrial and economic co-operation instruments to all ACP, Mediterranean, Asian and Latin American countries, including some instruments formerly limited to the EU Member States. This extension is inspired not only by a wish for a more straightforward, more effective approach to co-operation with developing countries, wherever they are located, but also by a recognition that each of the four regions concerned is made up of countries with widely differing levels of industrial development and hence different co-operation needs. An instrument ideally suited to conditions in Senegal, for instance, may be totally inappropriate in Brazil.

There are already some common characteristics in the EU's approach to industrial and economic co-operation in these four regions. In addition to the traditional form of financing individual industrial projects, industrial co-operation and the associated instruments of economic co-operation, trade promotion, training and science and technology are being coordinated into a more integrated approach. Projects can now include a number of activities which draw on different instruments of economic co-operation. Moreover, the instruments increasingly overlap, as is the case with industrial co-operation and trade promotion.

In the past trade promotion concentrated on diversifying exports and promoting access to other markets. More recently, the concept of trade promotion has broadened. In order for a country's exports to be competitive on the international market, all aspects of the product life need to be improved and not just the activities dealing with exports. Trade promotion operations, therefore, include product design, production, market studies and distribution; activities which can also be considered under industrial co-operation.

This new, broader approach includes:

1. improving the legal, economic and investment climate of the partner country. By improving the climate in which business enterprises operate and removing obstacles to investment, this form of industrial co-operation provides incentives to expand industrial activities.

2. promoting the role of the European and local private sector, particularly SMEs, as agents of economic progress.

3. stimulating the transfer of resources (technology, capital, know-how and information) between European firms and local operators in developing countries. By promoting economic linkages between a European and partner country firm, such as a joint venture, this form of industrial co-operation introduces the concept of "shared interests" by matching the developing countries' needs with European countries' desire to broaden their geo-economic scope.

This new approach comes at a time when many developing countries are undergoing structural adjustment reforms, liberalising their economies and promoting foreign investment. Consequently, developing countries are showing greater interest in taking advantage of the instruments of industrial and economic co-operation to assist them in their economic restructuring. The consolidation of the EU single market and the global tendency towards regional economic integration are likely to reinforce this tendency.

## *GLOSSARY*

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|---|---|
| ACP States | The 70 developing countries in Africa, the Caribbean and the Pacific which are linked to the EU by the Lome Convention |
| ALA | Asian and Latin American countries |
| AL-Invest | EU industrial co-operation instrument for the Latin American countries |
| Andean Pact | Bolivia, Colombia, Ecuador, Peru and Venezuela |
| ASEAN | Association of South-East Asian Nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) |
| BCC | Business Co-operation Centre |
| BC-Net | Business Co-operation Network |
| CDI | Centre for the Development of Industry |
| ECIP | European Community Investment Partners programme |
| EDF | European Development Fund (for ACP countries) |
| EFTA | European Free Trade Association |
| EIB | European Investment Bank |
| EU | European Union |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| Group of Three | Colombia, Mexico and Venezuela |
| GSP | Generalised System of Preferences |
| MED-Invest | EU industrial co-operation instrument for the MTCs |
| MERCOSUR | Southern Cone Common Market (Argentina, Brazil, Paraguay and Uruguay) |
| MTC | Mediterranean Third (non-EU) Countries |
| NAFTA | North American Free Trade Association (Canada, Mexico and the United States) |
| NIP | National Indicative Programme (ACP countries) |
| OCT | Overseas Countries and Territories |
| SAARC | South Asian Association for Regional Co-operation (Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka) |
| SMEs | Small and medium-sized enterprises |
| SYSMIN | A financing facility designed to help mineral-producing ACP countries maintain their production capacity |
| UNIDO | United Nations Industrial Development Organisation |

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