PANTEION UNIVERSITY OF SOCIAL AND POLITICAL SCIENCES
DEPARTMENT OF ECONOMICS AND REGIONAL DEVELOPMENT

DISSERTATION

SUBJECT:

AID TO DEVELOPING ECONOMIES OF AFRICA

A CRITICAL APPRAISAL OF EUROPEAN UNION FINANCED PROJECTS IN SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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to the memory of my father,

Mr. Emmanuel N. Achara

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PROLOGUE

The situation in the world capitalist system today is such that an economy is not shaped or directed so much by production and trade as was the case few years ago but by money flows.

The European and African (through ACP, African, Caribbean and Pacific States) affair was one centred around trade but European Union has like other Western States adopted political conditionality as an aid regime principle in 1989.This means that emphasis is largely laid on how conducive an economy is in terms of openness and competitiveness (by which we imply that there are no hindrances to market economics) and importantly how stable the political atmosphere is. EU programmes became more strict by taking up a political nature.

This brought about the Structural Adjustment programmes imposed on these needy economies as a prerequisite for financial assistance. Adrian Leftwich (1993) rightly defines the Structural Adjustment Programme as "a package of measures which the IMF, the World Bank and individual Western aid donors have persuaded many developing countries to adopt during the 1980s, in return for a new wave of loans."

The aim of the programme was to overcome the problems of developmental stagnation by promoting open and free competitive market economies supervised by minimal states. A standard feature of all Structural Adjustment Programmes was forced privatisation. According to World Bank, [C. Bayliss, (1995)], 400 industries were privatised in Africa in the 1980s. These included public utilities such as telecommunications, electricity companies, railways and credit organisations.

While national stock markets are still small and in the process of being formed, these privatisation policies ensured that foreign investors got a large portion of the action. The impact of the programme on most developing economies is much to be desired.

In my many years spent in Greece and in the educational system, I have hardly come across a tangible article or subject relevant to relationships between my country, Nigeria and Greece. I am convinced that both countries stand to gain a lot in terms of trade, development project, cultural and social interactions, etc.

Due to my conviction, most of my academic works have been centred on Greek- Nigerian relations in various sectors like trade and aid.

It is no wonder that when I had to choose a topic for my dissertation I chose a broad topic related to African- European interests.

The project is divided into two sections. Section I deals with the history of relationship that existed between the former colonial masters and their former colonial territories which led to the Yaounde Convention now christened the Lomè Conventions. An outline of each of the four Lomè Conventions and their successes or shortcomings is included in this section.

The Section **II** of this work is supposed to be centred on Nigeria. Ironically, during the country's isolation from the International Community in 1995 (after the infamous hanging of Saro Wiwa, an environmentalist and eight others in spite of the plea for clemency by the West) all economic, social and cultural activities between Nigeria and the West ceased. Documents that would have helped in this project became outdated. The work came to a dead end.

However, with a democratic government installed in Nigeria in May 1999 and a new body the 'Hellenic-Nigerian Chamber of Commerce and Technology' put into place, there is so much to look forward to. A group of high-powered delegation who are members of the above-mentioned Chamber in the company of Greek blue-chip companies visited Nigeria in July 1999 for the consolidation of bilateral relations between the two countries. Hopefully, Greece will take full advantage of its position as a friendly nation to become Nigeria's largest economic partner. A tall dream? NOT AT ALL.

SECTION ONE

INTRODUCTION

AID TO DEVELOPING COUNTRIES IN AFRICA

We can define foreign aid as any international transfer made on concessional terms (rather than at market rates) for promoting economic development. All foreign aid is concessionary and it comes either in the form of concessionary loans or outright grants.

The major source of foreign aid is bilateral assistance from the advanced nations to a selected number of poorer nations. We can say that virtually all foreign aid is intended for the purpose of economic development. And then, there can be a certain amount of aid allocated for emergency assistance such as food, clothing, and emergency medical care for victims of disasters, war and famine. These transfers that are called aid are made either as grants that need not be repaid or as loans whose terms of repayment are less demanding than those faced by the receiving country in its normal transactions. These favourable terms could be in the form of lower interest rates, longer periods of payment, and grace periods during which payments are reduced or waived altogether.

Foreign Aid which is defined also as an international economic transfer would improve overall productivity in poor countries. In the presence of vast differences in incomes within poor countries, aid should at least avoid further impoverishment of the already very poor.[1]

[1] A. P. Thirwall, "Growth and Development with reference to Developing economies", Second Edition, 1982.

Foreign Aid comes in the form of private foreign investment, bilateral grants, loans and technical assistance, capital goods, food, military weapons, and multilateral assistance of various types channeled through international institutions such as the United Nations, the World Bank and its two affiliates, the International Development Association and the International Finance Corporation.

It is worthwhile to note that not every import in the above list is aid in its strict definition. Our main focus is in the categories of aid which promote economic development. In this case, military weapons do not promote aid in the pure sense of the word. (We could argue, of course, that they promote security and stability which are very essential for good investment climate). Until recently, in most of the less developed countries (LDCs), military weapons, on the contrary, have served to sustain a *status quo* that inhibit change (military governments).

Ironically, the really poor and destitute nations do not receive much of the foreign aid in any given year. This fact is brought to light in a summary of some of the known research regarding the recipients of foreign aid presented by the United Nations Development Programme's 'Human Development Report 1993'.[2] The report implies that foreign aid programmes fail to reach the poorest 20% of income groups because these programmes usually tend to be designed for those that already have some assets, such as small farmers, rather than, say, landless farm labourers or informal service workers.

It is important that recipient countries have a high level of absorptive capacity for aid or else the probability of success is low. An instance is agricultural aid where new technologies such as the Green Revolution is applied. This system cannot be diffused because the recipient nation lacks the necessary technically trained cadre of farm advisers who can communicate with the

[2] Cypher, James M. and Dietz, James L., The Process of Economic Development, Routledge 1997, first edition, page 584.

peasantry and overcome their doubts and as well fill the gap between the technology and knowledge and those who would use the technology.

Bilateral assistance is, for example, the nation-to-nation foreign-aid programmes of the United States, the Western European countries, Japan, etc. The US was the major provider of official development assistance, followed by France, Japan and the UK, France, the Netherlands and Portugal as at 1972 (O.E.C.D., Review of the total net flow of financial resources and net official development assistance from D.A.C. countries,1973). They provided official development assistance close to or more than the target of 0.7% of donor countries' national income. Things have changed since then with the European Union providing for nearly 50 percent of the ODA from DAC countries (See table 2.2 for a rundown of the picture as at 1995).

Multilateral aid is the national participation in international agencies. Global and regional development banks, some United Nations agencies are some examples of multilateral activities.

Capital flows could come from private sources or from public or official sources.

Private flows are direct investments, portfolio investment and the provision of the export Credit. An economist and former employee of the U.S. Agency for International development, Judith Tendle in her study "Inside Foreign Aid" notes that foreign aid also has elements of an export-promotion scheme, since it increases exports from donor countries.[3]

Official flows are grants (including technical Assistance): concessionary loans (repayable in borrower's or lender's currency); contributions in kind; suppliers' credits; and reparations' payments. For an assistance to be regarded as official development assistance, the grant element of the flow must be at least 25 percent.

[3] Judith Tendle, Inside foreign Aid, John Hopkins University Press, Baltimore, 1995.

"The benefit of assistance is the difference between the normal value of assistance and repayments discounted by the rate of interest at which the country would have had to borrow in the capital market."[4] So, in this case, the benefit is aid measured as a differential as in cost-benefit analysis.

TIED AID

Most foreign aid is tied meaning that a proportion of the aid funds must be spent in the donor nation. This often results in more capital-intensive projects than necessary. In some cases, commercial interests shift the focus from product sales to the maintenance of prices and production. A donor nation may transfer surplus agricultural commodities off the domestic and global market as food aid to non-market channels, thereby helping to keep market prices higher than they would have been otherwise. This however, does not help the production by local producers in the recipient nations because local demand is reduced. No one can compete against food products which are either given away or sold below their cost of production. The process can force many local producers out of market and contribute to a dependence on imported food staples from the developed countries.[5]

Aid has concessional elements and is confined to the foreign exchange portion of the project with the recipient expected to finance the purely domestic expenditures out of its own budget.

The imports for the project are brought in by the donor country, transported in its ships, and insured by its insurers and this way, the continuing support of all these parties for the aid process is assured. Feasibility studies for proposed projects are also prepared by firms confined to companies with headquarters in countries where the aid originates from.

The results of tied aid are twofold:

- Projects with large import content are eligible for more aid than those which use domestic inputs. Imports, in turn, are more likely to take the form of

[4] A. P. Thirwall, Growth and Development with special reference to developing economies, Second Edition, 1982.

[5] Cypher James M. and Dietz James L., The Process of Economic Development, Routledge First Edition 1997.

capital than of labour, that is to say that projects financed by foreign aid tend to be more import-intensive and more capital-intensive than those whose support is purely domestic. We note also that a country's products initially implies continuing demands for spare parts and ongoing technical advice on operating the imported equipment.

- Aid tied to exports from a single donor country may buy less than unrestricted aid would if prices in the donor country are higher than elsewhere. If, for example, Greek cement cost 20% more than those purchasable in other European countries, the recipient country of Greek aid for cement industries gets 20% less than they would if the restrictions were not present. Where the price of a product under tied aid is higher than the international market price, the implicit interest rate on the loan repayments rises. If it exceeds the market rate of interest, no concessional element is present, and untied loans at open market prices would be the preferred choice.

Summarily and conventionally, tied aid could imply a relationship between a wise and wealthy benefactor and an ignorant and potentially careless recipient. Aid really does not provide incentive to initiative and effective organization that, in the long run, would reinforce the development process if a country depends so much on aid. For aid to bring about a good result on development, a multi-year aid commitment is necessary but unfortunately, in many instances aid programmes are allocated for one or few years making it difficult for the recipient nation to follow through to make a project viable.

The best projects may be overlooked due to ideological thinking. An example is the donor nation emphasizes the need for private sector development, the nations which have resisted this orientation have often found that aid is difficult to obtain.

The Nature of EC Aid[6]

The European Community (EC) has become the world's fifth largest aid donor in the 1990s, providing in 1995 $7.1billion or 10.5% of all aid disbursed by OECD countries. This reflects the rapid growth of the Community's aid programme over the past three decades, when it increased steeply in real terms and more than tripled as a proportion of total OECD aid. European Union Member States' aid together accounted for more than half of world aid in 1995.

Since the 1970s EC aid has changed not only in volume but also in terms of its regional composition. Today EC aid to sub- Saharan Africa accounts for aid disbursements of $2.6billion, far larger than any other region. However, sub-Saharan Africa has experienced a large decline in its share of total allocable EC aid, standing in 1994-95 at 40% of EC aid, down from over 70% at the beginning of the 1970s and 60% a decade later. In contrast, the share to a new group of beneficiaries, the Central and Eastern European Countries (CEECs) and the New Independent States (NIS), increased rapidly in the 1990s, accounting for almost a quarter of all EC aid disbursements for 1994-1995.

The regional composition of European Community aid has shifted over time, reflecting to a large degree the political basis for European aid-giving. The leading recipients in the early 1970s, after India and Bangladesh (major recipients of food aid), were Africa and francophone, in line with the preponderance of former French and Belgian colonies among the 'associated countries'. This shift followed the end of the Cold War, democratic elections in South Africa and movements towards peace in the Middle East, as well as conflict in the former states of Yugoslavia, Rwanda and Burundi.

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[6] Aidan Cox and Antonique Koning, Understanding European Community Aid, Aid policies, management and distribution explained, Copyright Overseas Development Institute, 1997.

The main sources of European Community aid over the 1986-95 period were the EC Budget, providing over half (57%) of all EC aid, and the European Development Fund (EDF), which provided over a third (37%) of commitments. The remainder, some 6%, was financed from the own resources of the European Investment Bank (EIB). The relative weight of the EDF has fallen from an average of 52% for 1986-89 to 30% in the 1990s, while that of the Budget grew from 40% to 64%. This shift is largely as a result of aid flows to the CEECs and NIS through PHARE (Poland-Hungary Assistance for Reconstruction of the Economy) and Tacis in the 1990s. The share of EIB flows has also declined slightly from 8% to 6%.

The vast majority (84%) of European Community aid qualifies as official development assistance (ODA). The remaining 15% of commitments went to the countries of Central and Eastern Europe and New Independent States, and are therefore classed as official aid (OA). Between 1986 and 1995 some 5 billion ECU out of 51 billion ECU of EC aid commitments were provided as concessional loans. Most of these came from European Investment Bank's own resources, with some financed from the EDF, and small remainder from the EC budget. This means that over 90% of EC aid was provided in grant form.

As has been noted in a paragraph of this dissertation, the EC aid is managed by the European Commission and the European Investment Bank.

Categorising EC Aid[7]

Hitherto, the inadequate or inconsistent categorisation of EC aid (with the exception of the European Development Fund) has not allowed a clear presentation of the development purposes to which Community aid has been put.

[7] Aidan Cox and Antonique Koning, Understanding European Community Aid, Aid policies, management and distribution explained, Copyright Overseas Development Institute 1997.

By the gathering of data at a highly disaggregated level and recategorising it according to a standard sectoral classification, provides comprehensive information on the development purpose of over 93% of all EC aid. The system is based on the OECD Development Assistance Committee (DAC) categories.

Five main instruments have been identified, with the fifth- Project Aid- subdivided into six sectors, making a total of distinct sectors:

1. Programme Aid
2. Food Aid (developmental)
3. Humanitarian Aid
4. Aid to NGOs
5. Project Aid:

- Natural Resources Productive Sectors (agriculture, forestry, fisheries)
  - Other Productive Sectors (industry, mining & construction, trade, tourism, investment promotion)
  - Economic Infrastructure & Services (transport & communications, energy, banking and business)
- Social Infrastructure & Services (education, health & population, water, other)
- Governance & Civil Society
- Multi-sector/ crosscutting (environment, women in development, rural development, other).

6. Un-allocable.

As we go further in this study, we will present cases of assistance from developed countries to developing ones and the progress made in the latter countries due to foreign aid.

CHAPTER 1

HISTORY OF EUROPEAN DEVELOPMENT ASSISTANCE POLICY IN AFRICAN COUNTRIES

INTRODUCTION

Europe's interest in Africa dates back to the colonial era. Though European Community's (EC) relationship with Africa started in the 1957-58 period, its member states' links with Africa are mostly well over a century old.

Unity existed between the first set of ACP countries that participated in the first Lomè Convention despite the long history of lack of contact between the anglophone and the francophone states in Africa. A major part of the credit for this unity goes to Nigeria, which has assured unity through her continuous presidency, then.

After the wave of independence of these countries from the colonial empires, strong economic ties still existed between them. These ties led to the Yaoundè 1 Convention which is today replaced by the Lomè Convention.

Presently, the African, Caribbean and Pacific countries (ACP) which are signatories to the Convention are 70 while the European countries involved in this assistance package are 15.

The European Union (EU) countries as a whole constitute the biggest source of economic assistance to the developing countries. They are equally the largest group of shareholders in the World Bank and the International Monetary Fund.

The EU relationship with the African states could be summarised as one in which raw materials flowed from Africa to Europe and manufactures and capital in the opposite direction. Europe was critical to Africa both as a market for primary commodities and as a source of investments for the development of these. The link between the two regions can rightly be described as one rich in land and other natural resources, and the other well endowed with capital and skilled labour and specialised in the production of manufactures.

The preferred domain of EU development policies continued to be Africa for many years and there is an enlargement of the sphere of application of EU development policies toward Eastern Europe, lately. Of course, the EU-ACP co-operation is still strictly an affair between states.

Below in Table 1.1, the financial assistance from EC through the European Development Fund (EDF) and the European Investment Bank (EIB) is presented from the period of the Treaty of Rome in 1958 to the Lomè IV Convention in 1995.

Table 1.1 EC Association arrangements: Resources and Reach

Convention (Funds)	**Date of Entry Into force**	**Total(nominal) [8]millions EUA/ECU**	**Total id(real) [9]millions of 1958 EUA/ECU**	**No. Countries (at time of signature)**	**Associated Countries' Population(millions)**
Treaty of Rome (1st EDF)	1-11-58	581	534	19[10]	55
Yaoundè I (2nd EDF)	1-7-64	730	530	18	69
Yaoundè II (3rd EDF)	11-1-71	918	464	19	80
Lomè I (4th EDF)	1-44-76	3462	1021	46	250
Lomè II (5th EDF)	1-1-81	5049	913	57	348
Lomè IV (6th EDF)	11-5-86	8500	1224	66	413
Lomè IV (7th EDF)	1-3-90	12000	1377	68	493

sources: Commission of the European Communities, *Ten Years of Lomè*, Brussels, 1986; *The Courier*, No. 120, March-April 1990; *European Economy*, November 1989, No. 42 (for EC GDP price deflators).

1.1 LOMÈ I

The first Lomè Convention was signed in 1975 between the EC donor and forty-six African, Caribbean and Pacific (ACP) recipient countries. The Lomè Convention established an impressive degree of unity between the nations involved. Developing countries' growth had been impressive (until the 1973 oil price disruptions) and for some years after this crisis, many of the middle-income developing countries were deemed highly creditworthy and were offered large amounts of lending at commercial rates.

[8] Includes EDF and EIB own resources
[9] Nominal aid deflated by EC GDP deflator index centred in the mid-year of each "convention period"
[10] Plus 12 other territories

The Lomè Convention included a trade regime that was more preferential than that given by the EC to any group of States. These special treatments are outlined below:

- A five-year aid programme that gave the recipients an unusual degree of freedom in determining priorities.

- The establishment of the most important innovation in the Lomè I convention -a novel scheme called the system for the Stabilization of Export Earnings (STABEX) - financed totally by the Community.

- The Sugar Protocol allowed the ACP countries to export to the Community for an indefinite period of time guaranteed amounts of cane sugar at predetermined prices. With this action, the ACP exports were guaranteed protection from global price distortions.

- Provisions covering industrial cooperation and consultative institutions for the continuation of financial as well as technical assistance.

Lomè I introduced STABEX financing. The mechanics of the STABEX system are that where an ACP country export proceeds from one product represent 7.5 per cent of total export earnings, and where the proceeds from the export of the products to the Community fall below 7.5 percent of the negotiated reference level of earnings, then that state may ask for financial assistance from the STABEX Fund. In the case of the poorest twenty-four ACP states the reference level is 2.5 percent. The very poorest countries will be eligible for help irrespective of the destination of their exports.[11]
(The reference level refers to earnings over a number of the immediately preceding years)

The basis of the Stabex system was laid down in Article 16 of Lomè: "With the aim of remedying the harmful/effects of the instability of export earnings

[11] The External Economic Relations of EEC, Peter Coffey, pp.79 The Macmillan Press Ltd 1976

and of thereby enabling the ACP States to achieve the stability, profitability and sustained growth of their economies, the Community shall implement a system for guaranteeing the stabilisation of earnings from exports by the ACP States to the Community of certain products on which their economies are dependent and which are affected by fluctuations in price and/or quantity."[12]

The basic principle is that Stabex transfers replace the amounts which would have been paid to producers if market conditions had been normal. But the ultimate objective must focus on the medium and long term: the primary aim of transfers must be to support efforts to improve the underlying conditions of production in the sector affected by the fall in exports earnings. Sector is used here in the broad, including not only production, but also processing, marketing, distribution and transport. In appropriate cases the system may also support agricultural diversification.[13]

1.2 LOMÈ II

The Lomè II Convention was signed in 1979 in Lomè to cover 1980-1985 period, and it contained few innovations- the only significant one being the System for Promotion of Mineral Production and Exports, SYSIM. This system is an insurance system against reductions of mineral output in ACP countries.

SYSIM was introduced as an alternative to the ACP's proposal to extend STABEX to mineral exports. In reality, SYSIM was an instrument designed more to ensure mineral supplies to EC consumers than to stabilize or increase export revenue in ACP producers. So, SYSIM can be seen as an indication of the weakening of ACP's bargaining power vis-à-vis EC countries.

[12] The European Commission, Directorate-General for Development, Information Unit, Brussels, December, 1997.
[13] The European Commission, Directorate-General for Development, Information Unit, Brussels, December 1997.

With the new economic and political circumstances of the 1970s, STABEX helped the developing countries to have a measure of insurance against commodity revenue instability without having to pay too dearly for it. Compensation for permanent losses in export revenue, when it occurred, was to constitute in practice a new way to distribute EC aid.

1.3 LOMÈ III

Lomè III was signed in December 1984, started to operate in 1985 and remained in force until 1990. Lomè III raised a new five-year European Development Fund worth ECU 7.4 billion, and sustained STABEX and trade access privileges for the ACP countries.

Most of the African countries south of the Sahara were in the midst of a profound economic crisis so their need for assistance was so high while their bargaining power was well reduced. In fact, the ACP countries had to concede to the inclusion in Lomè III of safeguards for EU private investments in their countries, something which was not thought of in the early days of the association. In Lomè III is contained a new chapter on cultural and social cooperation, a new section on tourism and some more attention to trade promotion.

In spite of the economic problems that the ACP countries were facing, Europe did not launch any autonomous special action programmes for Africa, however, it extended additional financial assistance to Sub-Saharan Africa through international institutions such as the World Bank and the International Monetary Fund (IMF), outside the framework of Lome.

1.4 LOME IV

The fourth convention was signed in December 1989 for ten years for trade purposes, for 1990-1999, although funding remains at a five-year cycle. This means that the European Development Fund (EDF) will again need to be replenished in 1995. Some important developments took place during this period such as the period of completion of the internal EC Single Market by the 1st of January, 1993 and the settlement of the Uruguay Round of the multilateral trade negotiations of the GATT, General Agreement on Trade and Tariff, that had drastic and negative results on the trade preferential treatment enjoyed by the ACP countries.

The Uruguay Round which was rounded up in April 1994 was based upon some basic principles such as the elimination of discriminative measures so that no member state will enjoy preferential concessions; the guarantee that all imported and domestically produced goods attain equal consideration in the national markets; and the progressive ensuring of easier accessibility to other markets. The effects of trade liberalization in the Uruguay Round has been disadvantageous to the African states (operating under the preferential terms of the Lomè agreements) predominantly dependent on primary products for their exports.[14]

With the fall of communism in East and Central Europe, new Community assistance programmes were channeled to the Eastern bloc- initially to Hungary and Poland (through the programme PHARE, Poland-Hungary Assistance for the Reconstruction of the Economy) and later directed to all the countries of East and Central Europe. This new development diverted resources away from traditional beneficiaries (ACPs) though European Ministers in the Commission's Horizon 2000 document which is a new Commission paper on development policy for the year 2000 and beyond in November 1992, agreed to maintain their 12 bilateral aid programmes (as well as the Community's effective thirteenth). They agreed to add more effort to the coordination of policies among themselves and a month later the heads of government at the Edinburgh Summit in December 1992 voted a 60% increase in EC budget funds for external policies by 1999- an increase so

[14] Analysis of the effects on the livelihood of the poor of trade liberalization in the Uruguay Round, Theodosis B. Palaskas, January 1996, prepared for the United Nations and presented at the annual conference "Trade and Poverty" of the member countries of the UN.

large that it will overwhelm many of the national budgets and put to even more resources at the centre of the EC.

At French insistence, to be exact, a paragraph was added to the Maastricht treaty, at Title XVII, Article 130w, stating that the new move shall not affect cooperation with the African, Caribbean and Pacific countries in the global EU policy of assisting sustainable economic and social progress among all poor countries in framework of the ACP-EEC Convention.[15]

By 1993, there were sixty-nine developing countries signatories of the Lomè Convention and therefore members of the ACP (Africa, Caribbean Pacific) group. About 40 of these countries are in Africa and Africa remains dominant in the ACP Group in terms of its share of population, output and also in the amount of EC funds it absorbs.

With the enlargement of the European Community from 12 to 15 nations in 1995, there was bound to be different opinions on development policies and strategies. Fortunately for the ACP group, the Scandinavian countries of which Finland, Sweden and Austria are the latest members of EU, have been very generous aid donors, with innovative, poverty-focused programmes. They have also been very supportive of United Nations (UN) development initiatives.

In November 1989, a month before the signing of the Lome IV Convention, the wall of Berlin came down. This had an adverse effect on the ACP countries. Due to the fact that brought an end to the Cold War, there came also developments which distorted political and geo-strategic balance.

Aid for the development of Africa lost out in political terms as that incentive of helping Africa in order to keep communism at bay was not necessary anymore. And another important factor, is that during this period also, democratic reforms were seen as a prerequisite for receiving development

[15] Hewitt, A. P. (1995) Development Assistance Policy and the ACP

aid. From 1990 to 1995, about thirty elections took place in the continent of Africa.

Many reformative programmes emerged known as "Structural Adjustment" which, of course, already existed in the 1980-89 decade. Structural Adjustment has very important social consequences for the population and implies reduced role for the State in economic affairs in sectors of production and exchange.

Community support for ACP countries' structural adjustment efforts continued as usual in 1996 using the allocation of ECU 1,150 million provided for this purpose under the 7th EDF, plus resources from the indicative programmes for the countries concerned. This implies that the Community provides the countries concerned with 10-30% of their total adjustment aid.[16]

The Lomè IV Convention provided a means whereby the EU can enhance its support towards this process of political and economic reforms.

1.5 REVISED LOMÈ IV 1995-2000

The fourth Lomè Convention and the Second Financial Protocol was signed in Mauritius in 1995. Emphasis was laid on regional economic integration, democratization of the ACP countries, human rights' policies, etc. ECU 80 million was allocated to support reforms of political organs and administration.

The Revised Lomè IV also gives increased priority to trade development of ACP states towards improving economic competitiveness, encouraging the development of their economies and their harmonious involvement in the global economy. It also drafted new guidelines for the implementation of regional cooperation programmes under the 8th EDF.

[16] Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century, European Communities, 1997.

Importantly, this revised Convention strengthens the support of the private sector, more especially, the Small and Medium-sized Enterprises (SMEs) of the ACP countries.

The 8th EDF allocation for the period of 1996-2000 amounted to ECU 14.625 billion as compared to ECU 12 billion which was available for the 1991-1995 period. This new bulk of resources represents an increase of about 22 percent.

At least 50 percent of risk capital which are made available to the ACP states by the European Investment Bank (EIB) will be used for the countries which support and actively apply ways of supporting investments in the private sector. The aim of the Centre for Industrial Development is chiefly this.

Below is a Table that shows the rise in nominal terms of aid funding by the four Lomè Conventions. However, in real per capita terms, the first Convention has been the most generous if we take into consideration the expansion in the number of ACP beneficiaries.[17]

[17] Hewitt, A. P. (1995) Development Assistance Policy and the ACP (Notes)

Table 1.2 Aid funding by the four Lomè Conventions, ECU million

	Lomè I (1975-80)	Lomè II (1980-85)	Lomè III (1985-90)	Lomè IV (1990-5)*
Total	3462	5409	8500	12000
EDF	3072	4724	7400	10800
Grants	2150	2999	4860	7995
Special loans	46	525	600	-
Risk capital	99	284	600	825
Stabex	377	634	925	1500
Sysmin	-	282	415	480
EIB loan resources	390	85	1100	1200

Source: EC commission (from Hewitt, A. P., 1995, Development Assistance Policy and the ACP)

*The Lome IV Convention runs 10 years (1990-2000) but the Financial protocol to the Lome IV Convention runs for 5 years (1990-1995).

The main innovation in Lome IV is a structural adjustment facility of ECU 1.1 billion within the grant total of nearly ECU 8 billion.

1.6 SUMMARY

One can point out that there are still many areas of potential reform. For instance, there is great concern that the Lomè trade provisions have not fully addressed the question of trade stimulation and investment- it is worth mentioning that Mauritius is an exception as its manufactured and semi-manufactured products have a share of EC imports from ACP countries which is rising in percentage unlike the other ACP countries. Performance in these above-mentioned areas has not been encouraging given that the leading declared aim of the Lomè Conventions has been to promote and diversify trade between the EC and the ACP states.

The EU has devised aid instruments such as the Stabex, indicative programming, the Lomè Convention (which is assumed to be a partnership of equals where a new way of organising economic and trade relations is negotiated by two groups of countries on a basis of equal partnership but has been transformed into a partnership of the strong and the weak) that are noble, theoretically.

Two major innovations were achieved, namely:

- the stabilization of export earnings (Stabex)

- the removal of reciprocity in the EC's trade preference giving.

This way, the ACP states could in theory develop manufacturing export lines and gain free access to the community's vast markets, over that accorded to their Third World competitors in Latin America as well as to industrialized countries without having to accord the EC countries similar tariff concessions in return. This has changed with the GATT Uruguay Round that started in 1986 and its aim was Free Trade so as to avoid the destructive consequences of the protective policies of the 1930s. Uruguay Round trade negotiations has created a new multilateral context which is speeding up a globalization of the economy driven by technological change and liberalisation of economic policies. Unfortunately, the African states have not diversified their production or exports. The industralization targets of the Lomè Convention have not been met. The whole matter boils down to the point that both aid and trade provisions have acted to confine the African states to the export of certain primary commodities. Coordination on development policy will surely help towards convergence.

CHAPTER 2

RECENT EUROPEAN UNION (EU) FUNDED DEVELOPMENT PROJECTS IN DIFFERENT SECTORS OF THE AFRICAN ECONOMIES

INTRODUCTION

In trying to list out various projects that are funded by the European Union in the African economies, it will be worthwhile that a focus on an outline of the main sources of the funds be made.

European Investment Bank (EIB) is one of the most important financial instruments used by the EC to implement aid cooperation in the ACP countries. The EIB loans were meant to finance investment schemes in the ACP countries that had potential for direct profit and were to be made on "special terms".[18]

The special terms meant a 40-year maturity, a 10-year grace period and favourable terms interest, including the possibility of a subsidy up to 3 percentage points over 25 years (Article 19 of Yaounde I and art. 12 of Protocol 5 attached to it).

The EU administers aid through the European Development Fund (EDF) which is the financial instrument for Lome Convention. The EDF is exclusively devoted to the ACP countries and it awards grants for aid programmes for the

[18] The European Community and the Developing Countries, Enzo R. Grilli, Cambridge University Press 1993

70 ACP states that are signatories to the Lomè Convention. Operations are programmed over 5 years to address priority requirements in fields such as education, health, rural development, infrastructure and private investment.

The 8th EDF totaling ECU12,967 million, has just been established to cover the last five years of Lomè IV. The criteria for the distribution of bilateral assistance used to be largely a matter for donors concerned. The criteria employed tended to be more non-economic than economic, reflecting historical relationships between countries, as well as military and political objectives. In fact, to a certain extent, many of the developing countries were a battlefield in the Cold War, and the distribution of bilateral assistance reflected this. This has all changed with the fall of communism.

One of the main sources of financial assistance to developing countries comes from the Official Development Assistance (ODA). ODA is the giving of financial resources by the government of one country to that of another. In some cases, external development finance was higher than government revenue raised domestically.

Below is a reference to a 1973 research work by Papanek which is worthy of reinstating in this project. A major study[19] by Papanek suggests that aid and growth are positively correlated across countries despite the poor level of assistance received per head and the fact that the productivity of foreign resources may differ markedly between countries. Papanek relates domestic growth (Y) to three types of foreign capital inflow:

- aid (a)
- private foreign investment (f)
- and other foreign inflows (o)

Taking 85 countries and including the domestic savings ratio (Sd) as an additional explanatory variable, the following equation is estimated (t statistics in parenthesis):

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[19] Papanek, 'Aid, Foreign Private Investment, Savings and Growth in LDC', Journal of Political Economy (January- February 1973)

$$\mathbf{Y} = 1.5 + 0.20(\mathbf{Sd}) + 0.39(\mathbf{a}) + 0.17(\mathbf{f}) + 0.19(\mathbf{o}), \quad \mathbf{r}^2 = 0.37$$

$$(6.0) \qquad (5.8) \qquad (2.5) \qquad (2.1)$$

The share of aid to LDCs (Least Developed Countries) in the combined GNP of the donor countries which are members of the OECD's Development Assistance Committee dropped from 0.09 percent in 1990 to 0.06 percent in 1995. This situation results from emergencies and humanitarian assistance needs which have led to more concentration of help in these crisis areas and have apparently crowded out support for regular development programmes in LDCs. The needs for financial aid still remains high in the structural constraints and low human development.

Total flows, that is, disbursements of ODA (Official Development Assistance) from members of DAC (Development Assistance Committee) to developing countries rose in 1994 to \$57.8 billion. European Union member states' contributions were \$26.6 billion or 46% of total ODA flows. In 1994, Japan was the largest ODA donor by \$13.2 billion, the United States donated \$9.9 billion while Germany's donation amounted to \$6.8 billion. ODA from the OECD's Development Assistance Committee (DAC), of which virtually all the EU member states are donors, continued to account for nearly all the flow of external resources to LDCs, but net ODA flows from OPEC countries and agencies which accounted for 7% of total ODA flows in 1985, continued to record a fall until it became a negligible amount after 1991.[20] Tables 2.1 and 2.2 show the financial contributions of the European Union and the ODA respectively.

[20] INFO FINANCE 1995, The European Development Fund (EU February, 1996)

Table 2.1 Financial Contributions to EDF 8 by EU member states (These contributions will only be drawn down when the resources of the 7th EDF have been consumed.

COUNTRIES	MECU	%
Austria	340	2.6
Belgium	503	4
Denmark	275	2.1
Finland	190	1.5
France	3120	24.3
Germany	3000	23.4
Greece	160	1.2
Ireland	80	0.6
Italy	1610	12.5
Luxembourg	37	0.3
Netherlands	670	5.2
Portugal	125	1
Spain	750	5.8
Sweden	350	2.7
United Kingdom	1630	12.7
Total	**12840**	**100**

source: INFO FINANCE 1995, The European Development Fund (EU February,1996)

Table 2.2 Official Development Assistance 1995 as a % of total DAC, ODA in 1995 (in billions of US dollars)

COUNTRIES	BILLION OF US DOLLARS	%
Japan	14354	20,80
France	8439	12,23
Germany	7481	10,84
United States	7303	10,58
European Union	31411	45,53
TOTAL	**68988**	**100**

source: INFO FINANCE 1995, The European Development Fund (EU, February 1996)

From Table 2.2, we can easily observe that the contribution of the EU amounts to nearly half of the total funds made available by ODA in 1995.

Generally, *total flows from DAC sources to LDCs reached a level of $16 billion on a net basis. Other official flows have reduced as DAC countries and other international financial institutions have shifted to providing mainly concessional finance to the LDCs. It is obvious that repayments on past loans seem to offset any new inflows*[21].

The fourth Lome Convention attaches much importance to regional cooperation and contains essential innovations as regards objectives and procedures/methods. It lays emphasis on promotion and support of regional economic integration through intra-regional trade and the coordination of macro-economic and sectoral policies at regional level which are given priority in each of the regional indicative programmes.

During the period of 1996, the Community stepped up technical and financial assistance for some major regional integration initiatives such as

[21] Info Finance 1995, The European Development Fund (EU February 1996)

- the Cross-Border Initiative in Southern and East Africa and the Indian Ocean which is aimed at reducing barriers to trade, investment and intra-regional payments.

- the setting up of the West African Economic and Monetary Union (UEMOA).

- the follow-up to the trade protocol signed by the Southern African Development Community in August 1996.

Decisions amount to ECU 651 million (of which ECU 509 million is for the African member-states of ACP), excluding loans from EIB own resources which equal ECU 101 million, interest rate subsidies which is ECU 25.5 million and risk capital of ECU 52.82 million. Payments totaled ECU 370 million.[22]

Regional Indicative Programmes (RIPs) were negotiated and signed under the 8th EDF for three regions: West Africa, East Africa, and Southern Africa. Trade and trade-related infrastructure projects dominated the three RIPs: the RIP for West Africa, for instance, focused on developing regional trade and improving economic competitiveness.

A large sum of money has been transferred from the EU to the ACP states in the form of humanitarian aid to war torn areas, but major sectors and themes as they concern different areas of the world, for example, are mentioned below:

1. Health/fight against AIDS (ACP)

[22] Financial Cooperation under the Lomè Conventions, Aid situation at the end of 1996.

2. Food aid programme, in conjunction with several member-states (ACP/ALA/MED)

ACP: Africa, Caribbean, Pacific; ALA: Asia and Latin America; MED: Mediterranean.

3. Special programmes against apartheid (South Africa)

4. Urban development (ACP)

5. Human rights (Rwanda)

6. Institutional development (ACP/ALA/MED)[23]

[23] Financial cooperation under the Lomè Conventions, Aid situation at the end of 1996.

2.1 PROJECTS IN DIFFERENT SECTORS OF AFRICAN ECONOMIES

Of the 70 ACP countries, 47 are in Africa. This represents over 77 percent of the ACP countries and it also means that a substantial amount of EU funds end up in the Africa continent as compared to the Pacific or the Caribbean countries. In this part, recent projects so far undertaken will be presented.

The 70 African, Caribbean and Pacific states received ECU 24 billion between 1986-95, or half of all allocable EC aid. More than three-quarters of this was provided through the European Development Fund (EDF)- a five yearly financial allocation from the EU Member States-, 14% of commitments were from the EC Budget and 7% from concessional European Investment Bank loans.

The Lomè Convention sets out the principles and objectives of Community cooperation with the ACP and its distinguishing characteristics include: the partnership principle; the contractual nature of the relationship; the combination of aid and trade aspects; long term (five year) perspective.

The European Investment Bank (EIB), the European Union's long term financing institution has lent ECU 98.1 million to African, Caribbean and Pacific (ACP) states under the Lome IV Convention during the first half of 1996. The EIB operates in the ACP states within the framework of the EU's external cooperation policy under the Lome IV Convention.

The finance went both to public and private sector investment for infrastructure and industry, energy mining and water projects, with particular attention given to small and medium sized enterprises (SMEs). Listed below are the allocations to the African states of the ACP.[24]

[24] Information from the EU website at "webmaster @eib.bei.org" Last web modification: 31 December 1997.

Table 2.3 European Investment Bank loan to various African states within the first half of 1996

Country	**Amount provided**	**Project**
Botswana Power Corporation (BPC)	ECU 6.6 million (Bank's own resources)	Construction of a new substation in order to provide additional power to Botswana
Grafites de Ancaube (Mozambique)	ECU 0.5 million (risk capital resources	Development and operation of a mining project producing high quality graphite
Societe Nationale Industrielle et Miniere (SNIM) Mauritania	ECU 2 million (risk capital resources)	Setting up and operating a mechanical workshop
Societe Arabe du Fer et l'Acier (SAFA) Mauritania	ECU 1.4 million (risk capital)	Setting up a foundry
Societe Energie du Mali (EDM)	ECU 5.3 million Risk capital)	Financing of the Balingue thermal power station
Societe Burkinabe des Fibres Textiles (SOFITEX) Burkina Faso	ECU 6 million (risk capital)	Renewal and extention of the cotton ginneries plant
Zambia Venture Capital Fund (EIB's participation)	ECU 2 million (risk capital)	Established to subscribe for minority equity stakes in SMEs in Zambia
Agence pour la Securitè de la Navigation Aerieene en Afrique et a Madagascar (ASECNA)	ECU 30 million (Bank's own resources)	Renewal and modernisation of air safety equipment so as to enhance and improve air safety in the region

Source: European Investment Bank(Press release:EXT18/96)

In the last quarter of 1996, the EIB financed projects in ACP states under the Lomè IV Convention with a total of ECU 218.7 million. The African states received the following:

Table 2.4 EIB's funds to African Economy within the last quarter of 1996

Country	Amount provided	Project
Malawi	ECU 15 million	Expansion and Upgrading of the Lilongwe water supply system
Namibia	ECU 8 million (through the Nambia Central Bank	Support for Small and Medium sized Enterprises (SMEs)
Swaziland	ECU 3 million	To Swazi Sugar Association for the expansion of sugar industry storage and conditioning facilities
Kenya	ECU 45 million (through development and commercial banks)	Financing small and medium scale investments in the private sector
Ethiopia	ECU 9 million	Upgrading of the Bahr Dar textile factory
Ethiopia	ECU 10 million	To the Development Bank of Ethiopia for financing of private sector SMEs
Cote D'Ivoire	ECU 4 million (through two local banks)	To support private sector SMEs
Guinea-Bissau	ECU 0.18 million	For GEMSA, a private sector industry specialised in production of wood frames and doors
Mali	ECU 1 million	To OMNIUM MALI S.A. to finance a new electric battery production line
West Africa	ECU 0.4 million	CAURIS INVESTISSEMENT S>A to finance private sector SMEs
Madagascar	ECU 1 million (through the Banque Malgache de l'Ocean Indien, BMOI	For SMEs
Union Commercial Bank, Madagascar	ECU 680,000	To finance small and medium-sized ventures in mining, industry, agro-industry, tourism and transport
Gabon	ECU 10 million	For improving the air traffic control system

Source: European Investment Bank (Press Release: EXT 02/97)

2.2 ANALYSIS OF THE EIB'S OPERATIONS IN AFRICA[25]

18 African states received financing totaling ECU 189.7 million of which 84.5 million were in risk capital, while ECU 105.2 million from own resources (with ECU 30 million for the ASECNA regional project from this amount). The main reason for the decrease in the EIB's activity in Africa is the progressive exhaustion of the resources available under the Financial Protocol and the fast pace of commitments in the first years of its implementation.

Southern Africa:

The above region received a total sum of ECU 57.4 million, of which ECU 34.6 million from own resources. Projects included the extension and modernization of the water supply system in Malawi, construction of an electricity sub-station in Botswana and development of port and airport facilities in Namibia and Mauritius. Many productive projects were also financed such as sugar refining in Swaziland, mining in Zimbabwe and Mozambique. There were also loans granted small and medium-sized investments and share holdings in Namibia, Zambia and Madagascar.

West Africa:

Loans worth ECU 20.3 million were accorded the region in risk capital to the industrial sector. In Mali, a workshop to produce saline batteries was set up. Other projects include the extension and modernization of cotton processing factories in Burkina Faso, the setting up of machine shops and smelters in Mauritania, the construction of a door frame factory in Guinea Bissau. There was a project in the electrical energy sector in Mali and a global loan was accorded to Cote D'Ivoire. The EIB also acquired a share holding in a regional financial company in West Africa on behalf of the European Union.

[25] Financial Cooperation Under the Lomè Conventions, Aid Situation at the End of 1996,European Commission DE92, November 1997.

Central and East Africa:

A total sum of ECU 82 million of which ECU 41.5 million came as risk capital was accorded the region. The EIB financed the modernization of airport and aviation facilities in Gabon and the textile industry in Ethiopia. Global loans were accorded to Kenya, Ethiopia and Uganda and Gabon was given financing for fish farm pilot project.

The main regional programmes of European Community Aid as related to the ACP countries are as follows[26]:

- Most ACP aid (78%) went to sub-Saharan Africa; the main beneficiaries were Ethiopia, Ivory Coast, Mozambique, Cameroon and Nigeria.

- The three components of the programmable aid instrument-structural adjustment assistance, Stabex and Sysmin- which are largely specific to the ACP (95% of all programme aid commitments) make up about a quarter of all aid to the region.

- Stabex, which provides compensation for losses of export earnings from non-metal commodities, has formed an important component of aid to the ACP, amounting to ECU 3.1 billion. Of the largest recipients- Ivory Coast, Cameroon, Ethiopia and Papua Guinea- the first two depend on Stabex for more than half of their EC aid flows.

- Food aid remained relatively important for the ACP countries, with main recipients Ethiopia, Sudan and Mozambique, while humanitarian assistance rose substantially in recent years due to the crisis in Rwanda and Burundi.

- Project aid which accounted for 58% of all EC to the ACP went mainly to the transport and communications sector (11%), followed by industry, mining and construction (8%), social infrastructure (7.4%), rural development (6.9%) and agriculture (5.8%).

[26] Aidan Cox and Antonique Koning, Understanding European Community Aid, Aid policies, management and distribution explained, Copyright Overseas Development Institute 1997.

- The more developed ACP countries, such as Nigeria, Kenya, Zimbabwe, Ivory Coast, Jamaica and Papua Guinea, benefited most from the concessional loans managed by the EIB, half of which went to the industry and energy sectors.

- South Africa, not included in the Lomè Convention, has received EC aid from the Budget, largely through a Special Programme for Assisting the Victims of Apartheid; in 1995 this was extended to form the European Programme for Reconstruction and Development; South Africa received commitments of nearly ECU 600 million over the decade, of which over half dates from the past three years.

CHAPTER 3

EVALUATION AND IMPLICATION OF DEVELOPMENT PROJECTS

INTRODUCTION

It is not easy to evaluate developmental impact of multilateral aid from the European Union in the associated countries. Food aid which was the main stay of the then European Community (EEC) in Africa has created consumption habits that these recipient states in Africa can hardly afford. This has led to stifling of local production of traditional food staples.

3.1 THE EFFECTS OF COMMUNITY AID

The positive side to the effects of EC aid comes from a few analysis of country experience conducted on a project-by-project basis.

In Malawi, EDF-financed projects appears to have been relatively successful in different sectors at least until the early 1980s, and government authorities seemed to have been able to take advantage of the new source of aid by effectively using EC funds as aid of last resort.[27]

On the contrary, in Sierra Leone, the developmental effectiveness of agricultural and road transport projects financed by EDFI seemed to have been poor.

[27] Enzo R Grilli, The European Community and the Developing Countries, Cambridge University Press, 1994, page 122.

Also in Zaire (now Congo), of the agro-industrial projects examined by the Court of Auditors of the Commission[28], not one was still viable after ten years. They all continued to operate only because the local government or external sources were supporting them.

The criteria for country allocation of EC aid were hardly clarified and project appraisal was often criticised as too lax technically while EC administrators were prone to let social and political considerations override economic facts. Disbursement of the funds (by the Management of the EDF) for rural development, agro-industrial, education and health projects were slow.

Other problems that slowed the effectiveness of developmental policies in these African States can be attributed to the quality of economic policies being pursed, the degree of competence and honesty of its administration, the efficiency of its aid planning and in some cases the level of popular mobilization and participation it is possible to ensure.

The above are the reasons for the big difference in the Malawi and Sierra Leone cases that were referred to in the third and fourth paragraphs above.

In Malawi, a more competent government was able to take full advantage of EC aid, to integrate it into its cycle and to use it effectively in project financing.

In Sierra Leone, on the other hand, a less competent and less dedicated government administration was able to obtain funds from the Commission for doubtful projects, which did not produce many lasting benefits.

A survey was carried out in Africa of European Union Support for enterprises between 1980 and 1995 and the results are as shown below.
Of 103 projects identified, 44 were analysed in depth, leading to the following findings:

- Finance was provided to about 5000 entrepreneurs

[28] Court of Auditors, "Annual Report Concerning the Financial Year 1980,page 153.

- Between 25,000 and 30,000 jobs were created
- Loans granted ranged from ECU 780 to ECU 71,500
- Sectoral breakdown of finance provided: Industry and crafts-47.4%, Commerce and services-27.1%, Agriculture-21.1%, Other-4.4%
- 24% of the beneficiaries were female
- Between 5 and 7 jobs were created on average in each enterprise receiving finance.[29]

3.2 SUMMARY OF IMPLEMENTATION OF AID FOR THE LOME CONVENTIONS

Various ways are used to evaluate and assess the progress made in the implementation of aid such as the physical completion of projects, the commitments and contributions of national governments, etc.

For the Lomè III Convention, the cost of decisions taken amounted to ECU 56 million, contracts were ECU 116 million while payments totalled ECU 195 millions. Under Lomè IV financing decisions totalled ECU 1004 millions, contracts ECU 1239 millions and payments ECU 1100 millions.

From the above figures, it is apparent that implementation slowed down compared to the previous years. Decisions taken were more than the payments made. The factors that led to this are the aid restrictions and suspension in countries like Liberia, Nigeria, Somalia, Sudan, and Zaire due to political developments and the fluctuations of certain procedures for implementing ACP-EU aid.
In accordance with the Financial Regulation applicable to the 7th EDF, the Commission informs the Council each year of the contracts concluded during the year, in an annual report devoted to invitations to tender and contracts.

[29] The Courier ACP-EU no. 165, Sept-October,'97 (Business and enterprise development in the ACP countries by Dr. Luis Ritto)

The data below is a picture aid implementation for 1996.The table equally shows the changes in the proportions of works, supplies and service contracts under successive EDFs.

Table 3.1 Aid implementation for 1996

EDF	Works	Supplies	Technical assistance
6th	42.47%	30.49%	26.04%
7th	44.13%	14.27%	41.60%

Source: Financial Co-operation under the Lome Conventions, Aid situation at the end of 1996,European Commission DE 92, November 1997, page 34.

From the above table, we can equally denote that the pattern of contracts varies over the lifetime of the Convention concerned. Technical assistance is of more importance during the initial stages as can be observed by the high percentage 41.60% of this type of contract under the 7th EDF.

Aid is a major source of income for many ACP countries however, it is very difficult to determine its impact and effectiveness in terms of improvements to a country's economic and social conditions. Trends in these conditions are the result of a wide range of exogenous and endogenous factors, such as the country's own economic and social policies, which aid can influence but not ultimately supplant.

Some studies suggest that the aid allocated by the donor community to ACP countries has probably had a beneficial but limited effect on growth, investment and the improvement of health indicators, and that this effect has varied considerably from country to country according to the initial situation and economic policy conditions.[30]

Aid has been markedly more effective in those countries that started out with the least capital and human resources, and in countries that have embarked

[30] Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century, Challenges and options for a new partnership, European Communities, 1997

on stabilization policies and structural adjustment programmes. The Lomè Convention has without doubt been a unique framework for co-operation between two groups of countries. Its main advantages lie in the fact that it has been a testing ground for development aid, that it has provided a negotiated framework for the drafting of a corpus of shared principles and objectives, and that it has mobilized considerable - and almost entirely concessional - funding, without which many practical schemes could not have been carried out. The predictable nature of European aid - part of a long-term partnership - encouraged the governments of the recipient countries to embark on long-term transformations.

The principle of partnership enshrined in the Lomè convention has diminished in substance and has not been fully realized. It has tended to be restricted to the institutional side of co-operation and the joint administration of aid resources.[31]

3.3 CONCLUDING REMARKS

After independence and well into the 1980s, most ACP countries pursued policies that did not favour private sector development. Consequently, potential for the growth of a dynamic private sector operating in a market friendly environment failed to materialise.

Emphasis was mainly on central role of the state in planning and managing economic development with public enterprises producing goods and services for the domestic market.
Towards the late 1980s, things have changed and the importance of the private sector as the engine of economic growth is now recognised together with the fact that State should withdraw from direct involvement in productive sectors of the economy.

[31] Green Paper on relations between the European Union and the ACP countries on the eve of the 21st century, Challenges and options for a new partnership, European Communities, 1997

It is important to note that industrialisation is strongly influenced by the performance of local agriculture since it is the major activity in many African countries. Farmers provide many of the raw materials for manufacturing, while the rural population represents a large part of the domestic market for industrial products.

SECTION TWO

CHAPTER 4

A CRITICAL APRRAISAL OF EUROPEAN UNION FINANCED PROJECTS IN SMALL AND MEDIUM ENTERPRISES IN NIGERIA

INTRODUCTION

Nigeria has abundant natural resources. The discovery of oil in the early 1960s, in the South, led to an economic boom and considerable investment in the industrial sector. Unfortunately, the collapse of oil prices and the consequent fall in oil income has had a major impact in the economy.

Nigeria has not reaped fully the benefits of its national wealth over the past two decades. Apart from a promising but brief interlude in which structural adjustment was pursued seriously, the country's development has stagnated and its economic social conditions have deteriorated.

During the 1980s and early 1990s, the population grew by more than 3% per annum, outstripping real GDP growth, and real per capita GDP declined by a cumulative 15%. Taking into consideration the deterioration in the terms of trade during this period, real per capita national income has dropped by some 45%.[32]

Nigeria's economic and financial performance has suffered from erratic macro-economic policies, weak management of its natural resources, and major inefficiencies of its public investments, which have given rise to waste

[32] International Monetary Fund, March 1997, Occasional Paper 148 by Gary Moser, Scot Rogers, and Reinold Van Til with Robin Kibuka and Inutu Lukonga, Nigeria: Experience with Structural Adjustment.

and opportunity for substantial patronage rents. These policies were also inspired by the wish to create a state-sponsored industrial complex, which was not exposed to the discipline of the market, operated behind high protective walls, and heavily subsidised.

Oil has dominated the economy and has led to the neglect of the agricultural sector, thereby compromising employment creation, export diversification, and the development of the rural economy.

Agriculture is the dominant economic activity in terms of employment and linkages with the rest of the economy. It employs about 67% of the labour force and constituted about 28% of 1995 GDP. 90% of agricultural output comes from food crop production, which is largely based on small-scale farming. Productivity is low but with improved technology, increased irrigation and other innovation, agriculture could have large gains. Nigeria's land is arable and about 40% of this is cultivated. [33]

The United Nation's Food and Agricultural Organisation rates Nigeria's farmland from low to medium in productivity, but notes that most of the country's cultivable land would have medium to good productivity, if properly managed. The principal export crops are cocoa and rubber which account for nearly 60% of non-oil merchandise exports while yams, cassava, sorghum, and millet constitute the main food crops.

Manufacturing accounts for less than 5% of GDP. The service sector dominated by trade accounts for about 18% of 1995 GDP.

Oil wealth also largely explains why Nigeria has been able for so long to sustain fundamentally unsustainable macro-economic policies, characterised most of the time by excessively expansionary financial policies, a substantially overvalued currency, and a lopsided structure of public finance, on both the revenue and the expenditure sides.

[33] A World Bank Report 1996, Trends in Developing Economies.

Table 4.1 Structure of the Economy
(%of GDP)

	1975	1985	1994	1995
Agriculture	31,7	37,3	38,7	28,2
Industry	28,5	29,2	34,7	53,3
Manufacturing	5,0	11,6	7,7	4,5
Services	39,8	33,5	26,6	18,5
Private consumption	66,7	73,8	68,7	58,8
General government consumption	12,6	13,5	11,3	9,6
Imports of goods & non-factor services	22,8	12,4	22,7	37,2

Source: Trends in Developing Economies, A World Bank Book, 1996.

During the 1970s, Nigeria evolved from a poor agricultural economy into a relatively rich, oil dominated one. In 1969 the oil sector accounted for less than 3% of GDP and a modest US$370 million in exports, that is, 42% of total exports; per capita income was only US$130; and more than half of GDP was generated in the agricultural sector.[34]

By 1980, the oil sector had come to account for nearly 30% of GDP, oil exports totalled US$25 billion, that is, 96% of total exports, and per capita income exceeded US$1,100. Following the discovery and exploration of oil, the economy experienced so many changes with the real effective exchange rate appreciating steadily during the 1970s. The steady erosion of competitiveness of non-oil tradable goods sector was reflected in the substantial decline of agricultural exports, which began in the mid-1960s, and continued through 1976, when oil production reached its peak.

[34] Gary Moser, Scot Rogers, and Reinold van Til with Robin Kibuka and Inutu Lukonga, Nigeria-Experience with Structural Adjustment, Occasional Paper 148, International Monetary Fund, March 1997

Notwithstanding the dramatic rise in oil revenue in the 1970s, the Government failed to strengthen public finances. The excessive expansion of public expenditure, from an average of 13% of GDP during 1970-73 to 25% in 1974-80, moved the fiscal balance from a small surplus to a deficit, averaging 2.5% of GDP a year. The monetary financing of these deficits contributed to a rapid growth in broad money and a sharp acceleration in inflation. The real effective appreciation of naira (the country's currency) that followed the surge in oil prices toward the end of 1973 eroded Nigeria's competitiveness, and growth of real GDP slowed remarkably. A buoyant oil sector sustained an average external current account surplus of 1.5% of GDP during this period, while gross international reserves averaged the equivalent of about 7 months of imports. By 1980, the country's external debt was only US$4.1 billion, or 5% of GDP, and the debt-service ratio was a modest 3.7%.[35]

The economic policy orientation during the 1970s left the country ill prepared for the eventual collapse of oil prices in the first half of the 1980s. Public investment was concentrated in costly, and often inappropriate, infrastructure projects with questionable rates of return and sizeable recurrent cost implications, while the agricultural sector was largely neglected. Nigeria's industrial policy was inward-looking, with a heavy emphasis on protection and government controls, which bred an uncompetitive manufacturing sector. Nonetheless, because of its size, Nigeria's economy remained dominant in the region[36].

In spite of all these, the Nigerian economy has a great influence on the West African region - around 80% of the products sold in the West African region originate from Nigeria.

[35] Gary Moser, Scot Rogers, and Reinold van Til with Robin Kibuka and Inutu Lukonga, Nigeria-Experience with Structural Adjustment, Occasional Paper 148, International Monetary Fund, March 1997

[36] Gary Moser, Scot Rogers, and Reinold van Til with Robin Kibuka and Inutu Lukonga, Nigeria-Experience with Structural Adjustment, Occasional Paper 148, International Monetary Fund, March 1997

In June 1986 the Government adopted a comprehensive structural adjustment programme (SAP) that signalled a radical departure from previous adjustment efforts. It emphasized reliance on market forces and deregulation.

The objectives of the SAP were to

1. restructure and diversify the productive base of the economy so as reduce dependency on the oil sector and imports
2. achieve fiscal and balance of payments viability over the medium term and
3. promote non-inflationary economic growth.

The growth and inflation objectives for 1987-88 were a real GDP growth of 3-4% and a reduction of inflation to 20% per year on an average annual basis. It was thought that the anticipated devaluation of the naira (the country's currency) would have a considerable impact on consumer prices.

The European Union has traditionally been the largest importer of Nigerian goods. Under the four successive Lomè Conventions since 1975, Nigeria has been allocated a total of over, European Union Currency Unit, ECU 1 billion, of which approximately ECU 640 million is in the form of programmed grant aid and over ECU 420 million in the form of loans managed by the European Investment Bank (EIB).[37]

Nigeria's Lomè IV National Indicative Programme (ECU365million) is one of the largest received by any ACP country. These resources are focused on human resource development, conservation and protection of the environment in connection with agricultural development, provision of drinking water, training and institutional support. The institutional co-operation programme is the largest of any ACP country.

The degradation of the political and economical climate during 1994 led to difficulties in project implementation. As a result a limited number of revisions were introduced in early 1995, combined with a review of ongoing

[37] EU-ACP COOPERATION IN 1994, pp. 154, Special issue July 1995.

programmes. In addition, as regards the identification of new projects and programmes, a set of EU guidelines to be applied to future development co-operative projects in the country was approved in the late 1994. These focus primarily on poverty alleviation.

~~EU placed a series of sanctions on the country which include the suspension~~ of development co-operation. During 1996, the sanctions were extended to June 4, 1997 and virtually all Lomè IV programmes have been brought to an end.

4.1 EUROPEAN UNION COOPERATION IN NIGERIA

Under Lomè IV, the EIB has already committed ECU 130 million from its own resources for the development of the energy sector, small and medium sized enterprises, agro-industries and other productive sectors of the economy. Regrettably, as a result of non-payment of arrears, all EIB programmes in Nigeria have been at a standstill since 1994. The irony of it all is that Nigeria was deemed a good performer economy with GDP of 5.3 in the period 1989-93 while it recorded a GDP growth of 5.9 in the period 1985-89.

At a regional level, Nigeria has benefited from regional EDF funds allocated for Pan-African Rinderpest programme, an Aeronautical Satellite Telecommunications Programme, agricultural research and the flight against coastal erosion.

The below table shows the sum of EU allocation for Nigeria between 1976 and 1995:

Table 4.1 Allocation of ECU in millions [EDF and BUDGET]

I ECU= 1.34 US$ in June 1995.

	1976-80	1981-85	1986-90	1991-95
Budget	-	5.6	-	5.6
Other EDF+EIB	51.7	37.9	240	173
NIP(envelope for 5years)	9	50	213	365

source: LA COOPERATION UE-ACP EN 1994, EU-ACP COOPERATION IN 1994, Special issue, July 1995.

From the above table, it is worth mentioning that there was a steady increase of funds injected into or projected for the Nigerian economy.

Below is another table showing the breakdown of the NIP allocation calculated in June1995.

Table 4.2 Sectoral breakdown of NIP in percentage (%) of the total envelope

SECTOR	%
Environment	12
Rural development/fishing	24
Transport & communications	16
Mine & industrial development/SMEs	10
Social Sectors	24
Others	14

Source: EU-ACP COOPERATION in 1994, Special issue, July 1995.

Below is a brief description of the implementation of financial and technical co-operation in Nigeria before the suspension of Aid to the country in 1995.

Under the National Indicative Programme for the 6th and 7th European Development Fund, Nigeria is allocated respectively ECU 213.5 million and ECU 365 million. Lomè IV bis (ECU 200 million) will not be notified until suspension is lifted. These resources are focused on Rural development, Human resources development, Environmental protection, Provision of drinking water.

MAIN PROJECTS FINANCED UNDER THE 6TH EDF ARE[38]:

- Oil Palm Belt Rural Development Project - ECU 68.9 million
- Rural Electrification - ECU 4.2 million
- North East Arid Zone Development Programme - ECU 35 million
- Sokoto Environmental Protection Programme - ECU 30.6 million
- Training and Rural Programme - ECU 30 million
- Middle Belt Programme - ECU 33 million
- Sectoral Import Programme - ECU 10 million
- Training Awards Programme -ECU 19 million
- Environmental Monitoring - ECU 2 million
- Katsina Afforestation Programme - ECU 9.4 million

MAIN PROJECTS FINANCED UNDER THE 7TH EDF ARE:

- Aeronautical Satellite Telecommunication - ECU 20 million
- Mambilla Tea Development - ECU 31.8 million
- Rural Health Facilities - ECU 1 million
- Nigerian Telecommunications Maintenance and Training-ECU 0.5mill.
- Oban Hills National Programme - ECU 6.5 million
- Universities Libraries Programme - ECU 11.5 million
- Katsina Arid Zone Programme - ECU 25 million
- Assistance to News Agency Nigeria - ECU 3 million
- Borno Region Anti-Poverty Programme - ECU 15.4 million
- Management support Unit - ECU 2 million
- Kaduna Arid Zone Afforestation - ECU 1 million

[38] Financial Cooperation Under the Lome Conventions, Aid Situation at the End of 1996, European Commission November 1997.

- Multi-Annual Training Programme - ECU 2.8 million

A sum of ECU 25 million was foreseen for Structural Adjustment in the Lomè IV N.I.P. However, following the breakdown of relations between IMF and the Government in 1993 this sum was reallocated to other countries and consequently is no longer available to Nigeria. The Bank issued a warning to Nigeria on 5th December, all outstanding loans would be suspended which is approximately US$ 1.5 billion.

Nigeria benefits from a number of regional programmes of which the most important ones are the following:

- Aeronautical Satellite Communication - ECU 30.5 million of which ECU 20 million from NIP
- Pan- African Rinderpest Programme - ECU 1.9 million
- Regional Centre for Training in Aerospace Surveys- ECU 3 million

All EU Development Cooperation with Nigeria was suspended after the hanging of Environmentalist, Ken Saro-Wiwa, and other measures against Nigeria were adopted, including arms embargo and visa restrictions. The financial aid has come largely in humanitarian help e.g. ECU 200,000 allocated in 1996 to help combat cholera in the north of the country.

A European Union Delegation began talks with Nigeria officials in January, 1999 on resuming Development aid, cut off in 1995 in an attempt to force the ruling generals to carry out reforms.

The European Union lifted many of the sanctions it imposed after the death of the Nigerian dictator in 1998, but development assistance has not yet resumed, fully.

4.2 PRIVATE SECTOR DEVELOPMENT

The European Union considers the private sector as a leading actor in development, and thus as a major partner in its development cooperation. In its framework, priority is given to private sector development in the Eighth EDF- both in indicative national and regional programmes and through EIB financing- and in the next EU-ACP cooperation Convention.

Opposition to the private sector development has been encountered on the European side and even more on the ACP side.

[39]On the **European side**, it is not actual opposition but on the contrary, many decision-makers in the Member States or the Commission are convinced of the priority which must given to this new departure. It is the Member States, however, reflecting the views of their business circles, which do not feel that the ACP constitutes a political or trade priority.

On the **ACP side**, stiffer opposition may be encountered, for variety of reasons.

- The first is the weakness of the private sector in the ACP countries. The private sector is made up of a mass of informal micro-enterprises or small-scale, technically modest SMEs. Private enterprises, often foreign-owned, are still very limited and confined to the areas of mining, agro-industries, and light manufacturing. State ownership is still very prevalent, in spite of a movement towards some privatisation.

What is more, when this private sector tries to expand it runs into serious constraints, which are either structural and an inevitable result of under development (lack of markets, infrastructure, financial systems and management skills) or of a political nature (an unstable and unbalanced macro-economic background, not very conducive to private businesses)

[39] Andrle Huybrechts, Relaunching the Private Sector Approach in Future ACP-EU Relations:Outline of a Strategy. (ECDPM Working Paper No. 59). 1998 Maastricht:ECDPM.

- The second reason, which seriously exacerbates the first, is that this private sector is badly organized and lacks structure. It has not bothered to create representative bodies of groupings (independent of traditional political/administrative authority) capable of stepping in effectively when needed. Of course, there are exceptions to this general observation, and things are slowly moving in the right direction.

- The third reason, and the most serious of the three, is the traditionally preponderant role played by the state in the ACP economies. Since gaining independence, ACP states have mostly developed centralised economies, they have nationalised foreign-owned companies, and they have created public institutions and state enterprises. The institutional and legal environment has been built up not so much to encourage the development of enterprises, but rather to allow the state to extract maximum profit from them. After a generation of state control and resolute opposition to any rival power block (which a strong private sector would undoubtedly be) the state apparatus in many ACP countries is still clearly averse to and distrustful of the private sector. It is difficult for dialogue to be embarked on and even when it is, parties find it hard to listen to one another. Governments "put up with" the structural adjustment imposed on them, without understanding it or admitting that it is well-founded. Vague overtures that are made to the private sector are not enough to inspire confidence in investors. To this must be added the existence of strong and influential vested interests. Representatives of the ACP states will not lightly give up the power they enjoy through the inter-state nature of cooperation with the European (indicative programmes, national authorising officers) and other advantages this bestows.

The proposed strategy is intended to make a powerful contribution to poverty elimination and to the beneficial integration of ACP countries into a world economy which is rapidly globalised.

Below are the main features of the strategy:[40]

a) cooperating with ACP governments to improve environment for investment and private activities of every scale

b) working with organisations of the private sector to enhance their effectiveness in providing services to their members and in engaging the government in dialogue

c) working to expand and increase the productivity and international competitiveness of the private sector through financial, technical and professional support services

d) catalysing additional flows of private finance for enterprise, and

e) mobilising the EU's private sector, in particular through the reinforcement of EU-ACP business cooperation. The Commission will not attempt to provide direct support to ACP businesses, but will reach out to them through qualified and competent service providers.

The private sector is the engine of economic growth and the source of most employment in the majority of developing countries. One can define private sector to mean the sphere of economic activity where physical and financial capital is in the main privately owned, and where business decisions are made as a result of private initiative in the context of markets which are in the main competitive[41]. It includes major parts of the informal sector where 80% of the population are often employed. It also contributes up to 65%-75% of GDP. We must however recognise that the structure and dynamism of the private sector vary enormously from country to country.

European Community development cooperation for private sector development under Lomè IV has been driven by three underlying objectives:[42]

⇒ employment creation through support for small and medium enterprises

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[40] Andrle Huybrechts, Relaunching the Private Sector Approach in Future ACP-EU Relations:Outline of a Strategy. (ECDPM Working Paper No. 59). 1998 Maastricht:ECDPM.

[41] Adapted from "Support of Private Sector Development", OECD Development Guidelines Series, 1995.

[42] INFO FINANCE 1995, The European Development Fund (EU February 1996)

⇒ poverty reduction in the informal sector through support for micro-enterprise, and

⇒ export growth through trade development.

There are three levels of support namely:

a) Enterprise level which are programmes that provide financing, guarantee facilities and technical support for individual (small and medium) enterprises, and growing number of programmes of support for micro-enterprises.

b) 'Meso level' in which the Commission provides some capacity-building support for financial intermediaries, and the providers of technical, professional and training services, and for representative organisations and associations in the private sector. The EIB invests in some of the development finance and venture capital institutions, which handle its global loans. The Commission's national and regional[43] programmes also assist the providers of export market intelligence, including information about technical rules, standards and environmental requirements, and technology transfers for meeting them. The STABEX and SYSMIN facilities are also available to strengthen sectors affected by export earning losses.

c) Policy and institutional framework in which case the Commission provides structural adjustment support[44] to bring about improvements in the policy, regulatory and institutional environment for business including (i) macro-economic stabilisation, (ii) structural reforms (which contribute to the liberalisation of trade, prices, investment and interest rate, and to public sector restructuring), (iii) trade facilitation measures to increase exports, and (iv) regional cooperation and integration initiatives, which aim to

[43] The Lomè Convention (Article 138) provides separate resources for trade development, which are managed by the Commission outside National Indicative Programmes.
[44] Communication from the Commission to the Council and the European Parliament, A European Community strategy for private sector development in ACP countries, Brussels, 20.11.1998, COM (1998) 667 final

coordinate legal and regulatory frameworks for business, to protect investments, and to facilitate intra-regional trade, transit and payments.

4.3 ENHANCING SMALL AND MEDIUM SCALE ENTERPRISES (SMEs)

In recent times, the role and position of SMEs have been reascertained in development in Africa. After the independence of most countries in Africa, so much attention was paid to promoting large industrial enterprises. These enterprises benefited from preferential access to credit, foreign exchange and subsidies, without serious constraints from costs or profitability.

Some efforts were made to promote SMEs undoubtedly but it was not encouraged by the mainstream political, economic and institutional leadership.

In the 1980s, a major shift in development strategies emerged mostly under foreign financial constraints where most countries began to introduce policies for liberalising the economy, deregulation, allocation of resources by the market, promoting the private sector, etc. and with these the role of SMEs was enhanced.

Below is an outline of factors to justify the importance of the development of SMEs[45]:

- they make a crucial contribution of economic growth
- they are characterised by their high rate of job creation
- they can help cushion the social costs of structural adjustment
- they contribute towards greater diversification an disintegration of the productive base, especially in industry
- they are often considered a breeding ground for managers.

[45]Development Centre DOCUMENTS, New Approaches to Financing Development in Africa, OECD, 1996

Importantly, SMEs can and do play a key role in developing a new, systematic competitiveness, by adopting the principles and practice of flexible production, and by belonging to innovative networks.

The above outlined factors are of great importance to African countries, especially, the least developed, because one of their most often sighted problems outside the informal sector is the relative scarcity of small and medium scale enterprises.

Even though Nigeria has important stocks of cheap labour in industry for example, it is still faced with international competition. An improved environment alone is not sufficient though it is a necessary condition.

Nigerian economy can boast of abundant labour but its textiles enterprises cannot compete with a textile enterprise in China. Even if labour rates and management methods are identical between the two countries, Nigeria cannot augment its capital. However, with the newly installed democratic government, in power, there is a more favourable environment for investment. It is then apparent that cheap labour alone is beneficial but capital is very important. Every necessary step must be taken to attract foreign capital (investment) into the country's economic system.

Nigeria for many years has been unable to attract foreign investors due to disincentives of the regulatory and tax environment (restrictions on investment and repatriation of capital, an unfavourable tax system, etc.) which have discouraged investment. Things are beginning to change but the infrastructure is still inadequate and the economic performance is poor.

It is encouraging to note that in Nigeria, the mode of development is shifting from public sector to private sector where market forces are favoured. Governmental controls on investment and its environment is virtually coming to an end and the development of private enterprises is encouraged. Nigeria has always followed the pattern of self-sufficiency and import-substitution but the economy is now opening up to the outside world and competition is encouraged.

Nigeria has to improve her stock exchange market because it is an important channel through which foreign capital flows into the country. Until very recently, economies depended on the traditional form of financing through loans but today no country is entirely dependent upon institutions such as the World Bank or the International Finance Corporation, and finance is increasingly passing through investment funds (e.g. Emerging Markets Management).[46]

Nigeria set up its stock exchange in the 1960s. These markets were created for political reasons. It wanted to establish instruments which would convert capital into local wealth. It sought to force the multinationals to sell a part of their stocks to local investors so that the economy would not be controlled solely by foreign companies and capital could belong to its citizens.

Fortunately, the stock exchange market during this period of liberalism has undergone drastic reform transforming these essentially political tools into real economic instruments.

A good and well-organised banking system is very important for enhancing SMEs. Many of these enterprises face problems in obtaining credit for financing productive investments because the credit was too expensive (very high interest rate), the banks did not lend enough or the banks did not have confidence in them. Of course, banks are being very careful because they do not have any recourse in the event of non-payment and no legal protection. It is therefore important that if the banks are to participate actively in financing these SMEs, the information from enterprises must be more reliable, the banks need more guarantees and they need proper legal protection.

There are many hindrances to the development of SMEs. The most important is related to the lack of financing for starting up and developing an enterprise.

[46] Edited by Jean-Claude Berthèlemy and Carlos Quenan, Development Centre Documents, New Approaches to Financing Development in Africa,OECD1996.

Historically, we have a situation of "financial repression"[47] which took the form of fragmented and uncompetitive financial systems, control of interest rates and managed credit which favoured priority sectors. This way credit mainly financed import-export trade and the output of large firms.

In the 1980s, Nigeria and Africa as a whole experienced financial liberalisation which aimed at improving the efficiency of financial systems, at a much better allocation of credit through increased competition between banks, removal of ceilings and other quantitative restrictions, and decontrol of interest rates. The banks, faced with greater competition, have started to become interested in SMEs, especially the medium-sized enterprises in the upper-strata of the modern sector.

Another difficulty is caused by the fact that small- and medium-sized enterprises in Nigeria refer to a broad landscape, hard to define. SMEs embrace all activities related to the production of goods, and service enterprises can also be included. M. Lelart[48] rightly says that SMEs are situated between structured permanent entities and micro-enterprises, occupying a middle ground between the formal and the informal sector.

Nigeria could adopt some criteria that will help it to effectively categorise the SMEs first and foremost so that aid and financial assistance in whatever way will be directed to the appropriate quarters. Some of these criteria are used in Greece[49] and can be applied in Nigeria:

- Determine the maximum number of employees that qualify an enterprise as an SME.

[47] Edited by Jean-Claude Berthèlemy and Carlos Quenan, Development Centre Documents, New Approaches to Financing Development in Africa,OECD1996.

[48] Lelart M., (1985) "Les modes de financement des petites et moyennes enterprises, Enterprises et Entrepreneurs en Afrique", edited by S. Ellis and Y. A. Faurè, Karthala /Orstom, Paris.

[49] T. Palaskas, Notes from lectures on the course "Topics of sectoral economic analysis" 4th Semester, Panteion University March 1998.

- Determine the maximum percentage of share which belongs to a third party.

- Determine the maximum turnover that allows an enterprise to be classified as an SME.

The EU has adopted new development strategies (as earlier mentioned in this chapter) which devote considerable effort to supporting the development of SMEs and the private sector in general. These efforts aim at improving their environment and supporting their creation and their viability, especially by institutional assistance and specific support programmes. Private Sector organisations have already announced the establishment of an ACP Business Forum.

CHAPTER 5

CONCLUSIONS

One of the major characteristics of the condition which exist in developing countries is that on one hand there is the industrial sector of the economy which produces mainly consummable goods for the domestic market while on the other hand we have the external sectors which include the production of minerals, fuel or agricultural products with the use of lesser or more of modern methods of production. These two sectors consists of the "modern sector".[50]

A general observation in the these economies is the lack of industrial sector of the economy which produces capital goods. And it is known that this sector puts in motion all the mechanism of development since capital accumulation can be realized through this sector. In developing economies, this gap in the sector is supplemented by the external sector. It implies that the possibilities which exist in the industrial sector (capital goods) are neutralized by the fact that the natural resources are not used for the benefit of the domestic economy, as we inferred already since production is concentrated in mining and export. The profits which are realized are not reinvested in the economy but find their way outside the economies.

The external sector could be transformed in such a way that the developed countries could transfer the technological know-how involved in processing these primary products to the developing countries and this way they can become exporters of capital goods and of processed minerals instead of being just exporters of unprocessed minerals.

[50]Marinou Nikolinakou: The dependence and economic development, Nea Sinora. January, 1977.

An identification of the causes to the difficulties faced in their economic development will help appraise and determine the variables involved and therefore develop a workable model.

The causes of bottlenecks in the economic development of third world countries

Below are some of the causes of difficulties faced by Small and Medium scale enterprises and it is through these bottlenecks that we can appraise them, determine their variables and then develop a workable model of SME development in the Nigerian economy.

- Aid from the Western countries are channeled to the recipient countries through governments that in most cases are corrupt and irresponsible with poor governance.

- There is a lack of technological transfer to help these countries to develop projects that will produce multiplier effects that lead to increase in production, income and employment.

- Aid in some cases go to projects that are not feasible where the countries are unable to manage capital intensive programmes.

- Aid is provided for the development of SMEs but because there's no clarity on what enterprises qualify as SMEs, the aid goes into the wrong hands while the SMEs who need it end up winding up their firms for lack of resources to continue operating or suffer set-backs.

- Many developing countries are plagued with market failures. Foreign direct investment, technology and know-how agreements are important for the creation of the indigenous research capacity

Suggestions to counter face the above causes

There should be regular contact established between the African countries and some European organs where such matters of common interest are discussed and developed such as the matter of transfer of technology, exchange of know-how, environment, etc. A decentralized cooperation will think of formulating studies for the determination of the projects and programmes financed or to be financed through the EU-ACP programmes.

Creating an information net among the countries of EU-ACP makes possible a more rapid circulation of information and knowledge, helps the search of partners for projects to develop together and allows quicken the transferring of technologies that in the majority of cases are already available on the market but have an insufficient diffusion.

Creating networks and the determination studies are fundamental requirements to make possible the achieving of further financing, improving the efficiency of decentralized cooperation.

It is important to include different organizations like Non-governmental Organizations (NGOs) and by increasing and targeting funds towards projects particularly in areas such as financial sector development and institutional support for SMEs. Dependence should be placed on private flows so as to lift the levels of probity, accountability and management in government.

Links between public and private sectors need to be improved and strengthened among developing countries in order to enhance infrastructure with the ability to produce and market goods at internationally competitive prices, match skills with needs and balance general and vocational training.

Aid should be directed towards the development of micro, small and medium-sized enterprises because under the correct conditions, they have the potential to act as an engine of growth for the manufacturing sector. This means that arrangements between donor and recipient countries should ensure that SME development be given priority, legal and regulatory frameworks need to be upgraded to meet the requirements of SMEs and an efficient support system is required for ongoing, large-scale, small firm development. This includes the provision of a large range of public and private institutions and agencies and the development of financial, supply and export channels in research institutes, and training programmes.

The huge magnitude of flows is not always apparent since much of the external assistance is provided for general import support, in which case it is the counterpart funds that eventually become government revenue. Aid resources for these countries are usually a major element of public expenditure. In other words, the aid providers conveniently went along developmentalist ideology even as evidence of corruption mounted and as inconsistencies appeared. Just a small proportion of official aid was passed through the International NGOs while the large amount go through the government.

Recently, donor agencies are targeting countries or governments that are pursuing rational and successful economic policies. There is no point in providing resources to governments which are likely to squander them, either corruptly or incompetently. Maybe a third of the people of Sub-Saharan Africa live in countries which are largely excluded from aid because their governments are incompetent, corrupt or even non-existent (Zaire, Sudan, Somalia and until recently Nigeria). As donor agencies withdraw their support from such regimes, they must explore other channels for reaching those who continue to live in poverty instead of leaving them in complete isolation.

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