

## **SUMMARY**

The Centre for the Development of Enterprise (CDE) is a joint technical body established in 1976 under the first Lomé Convention I of 28 February 1975. The CDE is now governed by Annex III of the ACP-EU Partnership Agreement. The CDE is financed 100% by the European Development Fund.

The EU Contribution to the 2015 budget of the CDE is introduced in the context of the closure of the CDE, agreed at the 39<sup>th</sup> ACP-EU Council of Ministers held in Nairobi in June 19-20<sup>th</sup> 2014. It proposes to provide the CDE the means (running costs and operational expenses) necessary to finalize the implementation of the on-going Private sector development programmes and recruit a curator in order to prepare the orderly closure of the institution.

The total amount proposed, EUR 7 418 000, to be financed by the EDF Bridging Facility, reflects further reduction in CDE's running costs, taking into account that, since 2013, the European Union to the CDE operational activities' has been limited to a limited number of Private Sector Development Programmes (PSDP). It includes as well a closure of 4 regional offices without operational activities.

The method of implementation proposed is direct centralised management through a grant agreement.

## **ANNEX**

of the Commission Decision on the “EU Contribution to the 2015 budget of the Centre for the Development of Enterprise (CDE) in favour of Africa, Caribbean and Pacific group (ACP) to be financed from the European Development Fund Bridging Facility”

### **Action Document for “EU Contribution to the 2015 budget of the Centre for the Development of Enterprise (CDE)”**

#### **1. IDENTIFICATION**

Title/Number	EU Contribution to the 2015 budget of the Centre for the Development of Enterprise (CDE) CRIS N°: FED/ACP/2014/037-612		
Total cost	Total estimated cost: EUR 7 418 000 Total amount of EDF contribution: EUR 7 418 000 financed under the EDF Bridging facility (Intra-ACP envelope)		
Aid method / Method of implementation	Project Approach Direct management		
DAC-code	32130	Sector	Small and medium-sized enterprise development

#### **2. RATIONALE AND CONTEXT**

##### **2.1. Summary of the action and its objectives**

The Centre for Development of Enterprise (CDE) aims at supporting private sector, in particular the small and medium-sized enterprises (SMEs) in the African, Caribbean and Pacific (ACP) group of countries. Since 2013, its operational activities have been reduced to the implementation of the on-going Private Sector Development Programmes (PSDP) with the West African Economic and Monetary Union (WAEMU), as well as the Governments of Cameroun and Ivory Coast and the Delegations of the European Union (EU) to Botswana, Democratic Republic of Congo, Congo-Brazzaville and Haiti.

The 2015 Budget will finance the functioning costs of the Centre and the PSDP programmes still on-going, namely all the above, except the contract with WAEMU, that expired in April 2014.

##### **2.2. Sector context:**

The areas of intervention of the CDE are outlined in Annex III of the Cotonou Agreement (Institutional Support, CDE and CTA). The CDE is mandated to support Private Sector Development (PSD) and to promote competitiveness in ACP states. A Joint ACP-EU Working Group (JWG) was constituted in October 2013 to discuss the Cooperation framework for Private Sector Development support in ACP Countries.

This group discussed, in the context of search of efficient means of implementation, the future of the Centre for the Development of Enterprise (CDE). Indeed a number of evaluations and studies have highlighted the weaknesses of the CDE, in particular limited results and added value, a serious cost-effectiveness problem and governance and accountability issues. In addition successive reforms over the past several years have not produced the expected results to date.

In light of this context, the 39<sup>th</sup> ACP-EU Council of Ministers of June 2014 has adopted first a “Joint ACP-EU Cooperation Framework for Private Sector Development support in ACP Countries” recalling the assessment of CDE lack of efficiency; secondly a Joint Declaration agreeing to proceed with the orderly closing of the CDE and the amendment of Annex III of the Cotonou Agreement.

A delegation of powers has been given to the ACP-EU Committee of Ambassadors to take the necessary measures to implement this decision. The Joint Declaration foresees that the ACP-EU Committee of Ambassadors will be assisted by a Joint Working Group that held its first meeting on September 2014.

As soon as a Curator is recruited by the CDE Executive Board a closure budget and action plan will be prepared and submitted for financing Decision to the Commission. Such action plan should incorporate all the additional expenses that the CDE will have to cover until its closure by end 2016 at the latest.

### **Rationale of the 2015 CDE budget approved by the CDE Board**

In order to proceed with an orderly liquidation, the CDE Executive Board will appoint a Curator. However, waiting for instructions from the ACP-EU Committee of Ambassadors, who has been granted delegation of powers to adopt the necessary decisions, the CDE Executive Board has adopted a 2015 Budget related to its normal functioning for next year, which is the purpose of this Commission Decision.

The key elements to highlight on the 2015 Budget adopted by the CDE Executive Board are the following:

- ✓ the CDE forecasts the closure of 4 Regional Offices by July 2015, three that do not have any operational activity (East and West Africa, Pacific) and one (Caribbean) that has a private sector programme that could be managed from Brussels;
- ✓ the CDE has forecasted a lump sum of EUR 500 000 for the Curator, while the CDE considers that as from January 2015 no additional funds will be needed for Directorate function;
- ✓ Operational expenses of PSDPs for 2015 and 2016 have been forecasted to be spent in 2015;
- ✓ Additional economies were made mainly on other operational expenses (network of experts) and communications.

On top of the 2015 CDE Budget, a CDE 'closure' budget will be prepared (as soon as the Curator is recruited) and submitted for Commission Financing Decision. Such Decision process should intervene as soon as possible in 2015 and might complement / modify certain aspects of the 2015 CDE budget, based on the expertise of the Curator.

### **2.3. Lessons learnt**

A reform process formally started in 2006, at the request of the CDE Executive Board jointly with the services of the Commission, following CDE deficiencies in terms of management and financial transparency. In early 2007, the EU decided to support the CDE's Executive Board reflection on the current impact and perspective of the CDE. With this aim, it commissioned the study: "An analysis of the mandate, positioning and structures for a new CDE".

On the basis of the study, the partners involved (ACP, EU Member States, European Commission, Council) undertook a series of debates related to issues such as the enhancement of the Centre's efficiency, mandate and level of intervention (meso/micro level), simplification of the governance and regionalisation of the operations.

Following a clear consensus among all the stakeholders, the CDE has undertaken a major reform process with the objective of modernizing the institution, increasing its relevance and efficiency and placing it closer to the beneficiaries' requirements:

- A controversial restructuring of the CDE Headquarters (HQ) took place in December 2009, with a substantial reduction of the staff based in HQ (17 out of 45 staff). The International Labour Organisation (ILO) issued a judgement in 2013 regarding these redundancies where it ordered the CDE to reinstate or pay its ex staff the equivalent of five years of salaries, among others, due to the irregularities detected in the dismissal process.
- This reduction was carried out in parallel with an increased regionalisation to reinforce the Centre's activities in ACP regions. The Regional Offices were enlarged to six, the last two new ones being opened during the first semester 2011 in Cameroon to serve the Central Africa region and in Fiji for the Pacific region.

A special audit launched by the Commission in 2014 highlights a number of weaknesses in the organisation of the decentralisation process.

- To formally assess the Centre's performance and contribute to the on-going evolution of the CDE's orientations, the European Commission launched in early 2011 an external evaluation of the CDE's results over the period 2005-2010. This evaluation recognised some positive effects of the reform process, while mentioning that there are still critical issues that need to be addressed, related to the fundamental aspects of approach, delivery of its services and organisation.
- The second Cotonou revision incorporates decisive changes in the governance of CDE (Annex III). The Joint Committee of Ambassadors remains the supervisory body of the Centre in charge of the overall strategy, while the Executive Board sees its role reinforced notably by its budgetary responsibility and for appointing

the management. Still, governance and management issues in 2011 and 2012 ended in the dismissal of the Director and Deputy Director. In 2012 an incident occurred in a transfer of funds between the European Investment Bank (EIB) and the CDE in 2012.

- In 2013 and 2014, waiting for the result of the on-going discussions between the ACP and the EU side on the future of the CDE, the EU granted the CDE twice a reduced budget of EUR 10 000 000, based on running costs estimations ‘a minima’ and an operational budget reduced to the cooperation agreements mentioned above.

## **2.4. Complementary actions**

The EDF support to the CDE is supplementary to national, regional and other all-ACP Cooperation Programmes that address constraints of the private sector. At ACP States level, it complements activities of the EU Delegations.

## **2.5. Donor coordination**

The CDE Regional Offices coordinate their activities with some donors in the field. EU Delegations are among the main partners of the CDE Regional Offices. Coordination is done by inviting other donors to fund part of the activities identified or to contribute with technical assistance; for example in Botswana, the CDE Regional Office is coordinating activities with the Chanel foundation.

# **3. DETAILED DESCRIPTION**

## **3.1. Objectives**

The specific objective of the CDE is to support the private sector, in particular the Small and Medium size Enterprises (SMEs) in ACP countries through the following means:

- facilitating ACP-EU business partnerships
- developing enterprise support services in ACP countries (capacity building with private sector organisations and service providers)
- supporting investment promotion activities and organisations
- supporting technology transfer and management skills.

## **3.2. Expected results and main activities**

*Running costs:* Expenses that are not considered necessary to the execution of the above mentioned programmes have been compressed in full respect of the applicable legislation.

*Operational activities:* the operational activities of the on-going multi-annual PSDP have been completed or transferred. Any exception will have been discussed with the Curator.

*Curator*: a detailed work plan and budget have been adopted and its implementation has started.

### **3.3. Risks and assumptions**

The main risks in the execution of this action are related to the governance of the institution and the impact on its management and control systems, particularly in the current context of its closure.

The underlying assumption is that the CDE will nominate a Curator as soon as possible in order to ensure an orderly closure process. Also, such Curator should lead the CDE in assuring continuity in the execution of key functions during the closure process.

### **3.4. Cross-cutting issues**

Programme selection and principles adopted by the CDE Management take into account the fact that various cross-cutting programme facilities (such as environmental/energy management and industrial maintenance) should be deliberately combined and focussed on the priority sectors chosen, rather than being applied separately and dispersed over various sectors. This synergy should strengthen results and impact. Sustainable consumption and production and the green economy should be promoted as key elements for sustainable development.

### **3.5. Stakeholders**

The beneficiaries of the CDE interventions are the private enterprises in ACP countries, as well as intermediary organisations, financial and non-financial service providers for the SMEs.

The joint ACP-EU Committee of Ambassadors is the supervisory authority.

The CDE cooperates with the Governments of Cameroon and Ivory Coast as well as with the Delegations of the EU to ACP countries, such as Botswana, Congo-Brazzaville and Democratic Republic of Congo.

## **4. IMPLEMENTATION ISSUES**

### **4.1. Financing agreement**

In order to implement this action, it is not foreseen to conclude a Financing Agreement with the intra-ACP beneficiary, referred to in Article 17 of Annex IV to the Cotonou Agreement.

### **4.2. Indicative operational implementation period**

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 24 months (starting from 1<sup>st</sup> January 2015), subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The relevant Committee shall be

informed of the extension of the operational implementation period within one month of that extension being granted. The contracting period is limited to 12 months.

#### **4.3. Implementation components and modules**

##### **4.3.1. GRANT: DIRECT AWARD (DIRECT MANAGEMENT)**

- (a) Objectives of the grant, fields of intervention, priorities of the year and expected results

To provide the CDE the means (running costs and operational expenses) necessary to finalize the implementation of the on-going Private sector development programmes and recruit a curator in order to prepare the closure of the CDE.

- (b) Justification of a direct grant

Under the responsibility of the authorising officer by delegation, the recourse to an award of a grant without a call for proposals is justified in the current circumstances because the CDE is a body identified by the basic act (Annex III of the Cotonou Agreement).

- (c) Eligibility criteria – Not applicable

- (d) Essential selection and award criteria – Not applicable

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

- (e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 100%.

The maximum possible rate of co-financing may be up to 100 % in accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012 if full funding is essential for the action to be carried out. The necessity of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

The CDE is a body mentioned in the basic act “ACP-EU Cotonou agreement”. It has been financed through Community funds since its inception, according to the terms of this agreement. Full financing of this ACP-EU body proves therefore essential for it to carry out the mandate it has been given by the above agreement.

- (f) Indicative trimester to contact the potential direct grant beneficiary – Not applicable

(g) Exception to the non-retroactivity of costs

The Commission authorises the eligibility of costs prior to the submission of the grant application as of 1<sup>st</sup> January 2015.

**4.4. Scope of geographical eligibility for procurement in direct centralised and decentralised management**

Where applicable, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

**4.5. Indicative budget**

Module	Amount in EUR
4.3.1. Grant: direct award (direct management) split as follows:	7 418 000
Running costs	5 518 000
Operational costs	1 400 000
Curator related costs (provision)	500 000
<b>Total</b>	<b>7 418 000</b>

**4.6. Performance monitoring**

An information management system, Procede, is in place to monitor the activities and outputs of the Centre. With its new procedures, the Centre has introduced selection and grading schemes with a view to improved effectiveness and impact. These schemes and criteria, applied for programme selection as well as individual assistance requests, are designed to improve the choice of beneficiaries, the type of assistance and thereby the resulting impacts.

The CDE's documentation indicates that the logical framework method is in use for all sector programmes. The logical framework should serve as a tool for establishing criteria and indicators for monitoring and evaluation. According to CDE, interventions will be assessed after completion of a short questionnaire by the beneficiary enterprise. This aims at giving feedback on the efficiency of the CDE's service provision and also at providing indications on effectiveness and likely impact of the assistance. Response by the beneficiary has been made a contractual obligation of the allocation of the subsidy.

#### **4.7. Evaluation and audit**

The CDE will carry out statutory audits in order to establish legality and regularity of expenses and to certify the application of international accounting standards. According to the Financial Regulation, the accounts of the CDE must be audited by an internationally recognised auditing company.

In addition, the European Commission may undertake evaluations of CDE operations and external financial audits on the EDF funds paid to the CDE, financed from the EDF Administration expenditures. The Court of Auditors and the European Anti-Fraud Office may also carry out verifications.

#### **4.8. Communication and visibility**

The CDE will undertake steps to ensure the visibility of the operational actions financed by the EU. It is done through reference to the joint character (ACP-EU) of the institution on its letterheads in all correspondence. The EU logo is also present on the CDE's website and in its publications.