



*Aid for Trade - Prioritization of reforms and role of complementary policies*

## **The French Strategy on Aid For Trade**

**A case study of the Senegalese SME Upgrading Program**

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développeur d'avenirs durables

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## The French Strategy on Aid for Trade

- With the adoption of the European Strategy on Aid for Trade (2007) ⇒ Need of revision of the 1<sup>st</sup> French « Aid for Trade » Action Plan (2002) ⇒ **New strategic framework for French Aid for Trade** (endorsed in June 2009):
  - In order to fulfil EU commitments, definition of **quantitative objectives** : from 2010 onwards, average of 150 M.EUR a year for trade-related assistance + 850 M.EUR a year for overall Aid for Trade
  - A focus on **regional integration**, with 2 priority areas of action
  - **Regional targeting** (SSA, Med. Region + zones of RI)

## The two priority areas of action of the French Strategy

### **1. Developing regional trade policies connected to international markets by:**

- defining and implementing regional and national trade policies
- structuring regional professional stakeholders
- implementing a standards and quality policy that complies to international and regional market requirements
- managing the risks in markets for strategic products, including in terms of food security

### **2. Developing a competitive offer in local, regional and international markets by:**

- strengthening productive capacities (including those of actors in the informal sector, and in micro-/very small enterprises)
- developing and organizing value chains
- financing infrastructures with a regional dimension

## Why this focus on RI and national/regional markets ? (1/2)

- 1. Potential of South-South trade often neglected (emerging economy & regional integration)**
- 2. National/regional markets are easier to reach**
- 3. National/regional markets are more inclusive**

## Why this focus on RI and national/regional markets ? (2/2)

### 4. National/regional markets = new opportunity of business, with :

- Growing population + fast urbanization
- New demands with the emergence of a middle class  
Ex. in the agricultural/food sector : demand for more quality + changes in the diet (« nutritional transition ») + bigger demand of processed food (« ready to cook »)
- New strategies for commercialization  
(emergence of supermarket in Africa, « regional hub/factory » to supply the regional market, etc.)
- Progress in Regional Integration (FTA, Customs Union) ⇒ more interesting for the private sector (if free movement of goods is effective...)

## Examples of complementary policies needed to improve regional markets

1. Priority 1 : In order to satisfy growing national/regional demand, need to **increase the level of productions** in Agriculture and Industry, with more investments in these sectors, an improved regulatory framework, and better organization of the value chains (nat<sup>l</sup>/reg<sup>l</sup> level)
2. Priority 2 : **reduce the transport costs**, with improvement of the infrastructures, support to the enforcement of regional regulation (free movement) and trade facilitation (reduce time in port & in crossing the border)
3. Others complementary measures :
  - Support to **harmonization** of regulations/standards at regional level
  - Support the **structuring regional professional stakeholders**
  - Improve **the information of regional market** and evolution of the demand of consumers (both national & regional)

## Examples of complementary policies needed to improve regional markets

4. Last (but not least) : private sector of developing countries are facing new challenges with the liberalization (EPA, EuroMed, others FTA...)

### Increasing of the competition between national/regional productions and the imports :

- ⇒ Enterprises/producers need to improve their competitiveness on their own markets (both nationally and regionally), but also to be able to increase their exports on Northern and emerging markets = one of the main objective of the upgrading programs funded by AFD



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## Upgrading and modernization of SMEs programs

*AFD past experiences: Tunisia (1997), Morocco (2002), Senegal (2003, 2009), Mali (2009)*

### Main objectives

1. Increase competitiveness of SMEs to improve access to and tapping of local, regional and international market opportunities in a context of trade liberalization and increased competition
2. Contribute to growth and job creation through SME development

### Senegalese Program

- Approved in 2003, launched in 2005, achieved in 2010
- AFD grant of 11,9 M.EUR including 2 M.EUR contribution on PRCC resources (expected impact on trade integration) + UNIDO Technical Assistance
- Objectives:
  1. Implement a national upgrading and modernization policy
  2. Approve and finance **60 Upgrading Plans**
  3. Perennialize the program in the context of national (Industrial Redeployment Program, Accelerated Growth Strategy) and regional policies (ex: WAEMU Industrial Policy, WA EPA Development Program)

## Main principles of upgrading and modernization of SMEs programs

### Eligibility criteria

1. Firm of local law with private capital
2. Minimum of two years of existence
3. Turnover < 15 Bn.XOF (West-African Franc CFA)
4. Willingness to undergo a diagnosis / scoring procedure

### Implementation – How to improve SME competitiveness?

- Diagnosis realized by external consultants, coaching by the Upgrading Bureau
- **Upgrading Plan** (strategy + related investments) redaction, approved by a Steering Committee. The firm must undertake to finance 100% (capital or banks) of the plan :
  - Approved material investments (hard) = **20% subsidy**
  - Approved immaterial investments (soft) : studies, training, advisory, internal organization, information system, ISO certification, quality standards = **80% subsidy**

### Targeted sectors

- **Sectorial focus if specific policy** : construction, agro-industries, tourism...
- **Excluded** :
  - services : willingness to promote primary and secondary sector
  - financial sector, commerce, real-estate => speculation risk

## Quantitative and qualitative impacts

### Quantitative (2010 results)

- 276 firms declared eligible out of 930 identified firms / 69 approved Upgrading Plans (including 12 on WAEMU funds) / **50,9 Bn.XOF of anticipated investments**, 34,2 Bn.XOF approved / 7,9 Bn.XOF of subsidies approved
- Indirect impact :
  - **Consultancy sector** : 789 M.XOF turnover generated for diagnosis (593 M.XOF in subsidies) for 3,5 Bn.XOF in immaterial investments (2,3 Bn.XOF in subsidies)
  - **Banking sector** : credit production increase

### Qualitative (2008 survey among CEOs of firms that had Upgrading Plans approved )

- 7 out of 10 firms indicated they would have not completed their initial investment plan (established prior to contact with the Upgrading Bureau) without the Upgrading Program
  - **Subsidies and coaching are an effective incentive**
- Other satisfaction items : quality of the coaching of the Upgrading Bureau, introduction of new technology in production process, equipment modernization, better understanding of strategic positioning, improvement of internal organization

## Trade-related impacts

- 2008 inquiry revealed a 70% satisfaction rate on the « **conquering new markets** » item (rank: 6<sup>th</sup>)
- Sample example : Société Industrielle de Papeterie au Sénégal
  - **New local market opportunity tapped / import substitution** : SIPS increased turnover by 20% in one year by diversifying production in children diapers, a product previously only imported in Senegal.
  - SIPS obtained an international diapers brand certification (Huggies) and brand rights for exports in the WAEMU trade zone (tariff-free exports). Total exports went from **9% of turnover in 2007 to 19% in 2009** (investments finalized and subsidies disbursed in 2008).
- New inquiry in 2011 (end of pilot-phase) should give a better view of trade-related impacts.

## Lessons learned

### Lessons learned

- **Expertise of the Upgrading Bureau** : the Bureau needs to be recognized as competent on the upgrading process AND industry-wise to be able to speak on par with CEOs.
- **Balance of the Steering Committee** : public-private balance, representation of banks.
- **Incentive of the subsidy** : in face value AND in terms of speed of transfer. After the process is done, the subsidy is often considered as a way of minimizing the financial cost of the investments.
- **Need of structuring beforehand** : eligible firms need to be able to withstand the process. They must be able to finance the plan **without** the subsidy. This requires being able to dedicate one person almost full-time for data collection, consultant management and relationship with the Bureau. Smaller SMEs are *de facto* excluded.
- **Value of the diagnosis** : most firms have little knowledge of their positioning, internal organization, strength and weaknesses, costs, production times.
- **Hard is preferred to soft** : the Upgrading Process allows firms to discover the value of immaterial investment (training, patents, norms) and consultancy.



# Thanks a lot ! Any questions ?

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