

## Investment and Private Sector Development

The Commonwealth recognises that countries should strive for sound economic management based on market forces and that a wider role for the private sector, including the domestic private sector, must be found. Greater investment and a better flow of both foreign and domestic private capital go hand-in-hand with achieving these objectives.

The flow of private capital in the form of direct and portfolio investment to developing countries has increased dramatically in the 1990s, thus supplementing domestic savings and enhancing investment and growth. In the wake of such foreign flows also comes transfer of technology and expertise, greater access to foreign markets for domestic goods and increased competition within national markets, particularly for services.



*President Nelson Mandela launches the Commonwealth Africa Investment Fund in 1996 ... it invests mainly in small- and medium-sized firms*

Many developing countries, however, continue to attract little foreign capital despite implementing economic reform programmes aimed at creating a conducive macroeconomic environment and putting in place legal and regulatory frameworks allowing freedom to repatriate profits and dividends. The problem is exacerbated by the stagnation, in many cases, of official flows of capital. And where private flows are volatile, macroeconomic management can be difficult.

The Secretariat therefore helps member countries to attract and cope with private flows through its policy development and technical assistance work. It also assists in their efforts at privatisation and strengthening the private sector and in domestic capital market development.



*Helping member countries develop appropriate frameworks for stock exchanges, securities trading and investment schemes*

## Commonwealth Private Investment Initiative

In October 1995, Commonwealth Finance Ministers launched the Commonwealth Private Investment Initiative (CPII) which was endorsed by Heads of Government at the CHOGM in Auckland a month later.

The objective of the CPII is to channel long-term commercial investments to support expanding privatised or privatising companies, new ventures, and small- or medium-sized private sector businesses in Commonwealth developing countries. It addresses the risk capital needs of a much larger group of Commonwealth developing countries than more traditional approaches have done, as these tend to make short-term speculative investments or target blue-chip companies.

CPII is a collaborative venture between the Secretariat and the Commonwealth Development Corporation (CDC), a British agency. Under the CPII, a co-ordinated series of regional investment funds is envisaged. The first of these, the Commonwealth Africa Investment Fund (COMAFIN), was launched in July 1996 by President Nelson Mandela in London. It raised US\$63.4 million from investors in Botswana, Brunei Darussalam, Malaysia, Mauritius, Singapore, South Africa and Zimbabwe, and from the CDC itself. Further amounts will be sought from private institutional investors as a track record of successful investments is built up.

COMAFIN, which has been set up as a ten-year closed-end fund, is being managed by the CDC from its offices in Harare, Zimbabwe. It invests mainly in unlisted enterprises, including small- and medium-sized firms, requiring risk capital for their establishment, expansion or rehabilitation, and in the restructuring of businesses, especially those that promote exports, are part of a privatisation programme or contribute to the development of regional links.

The Secretariat and the CDC are broadening the regional coverage of CPII by establishing funds in other regions of the Commonwealth (see page 87). For the Pacific region, the Kula Fund has been incorporated in Vanuatu and has mobilised capital of some US\$15 million. It will support private sector development in the Pacific island states by making risk capital available in a wide range of sectors.

A US\$100-200 million South Asian Regional Fund for Bangladesh, India, Maldives, Pakistan, Sri Lanka and other members of the South Asian Association for Regional Co-operation is being planned for launch in October 1997. Work is also under way to establish the feasibility of a venture capital fund for the Caribbean, where most of the individual economies tend to be small, but where taken together they provide potential investment opportunities for supporting such a fund.

## Foreign Direct Investment and Access to Capital Markets

In 1995/96, the Secretariat prepared two major reports aimed at developing strategies to attract more foreign direct investment (FDI) in Commonwealth developing countries. The reports analysed new sources of FDI and suggested promotion strategies for targeting investments, including information on best practice. Their findings were disseminated through an investment seminar in Singapore and to the Working Group on Private Capital Flows. Similar workshops are being planned for other countries.

A regional programme is being developed for Africa which focuses on three main components: country strategies for investment promotion, strengthening investment promotion agencies and organising workshops to exchange experiences and disseminate best practice in promotion techniques.

Mobilising private capital for development also involves host countries attracting foreign private capital. With this in view, since 1995 the Secretariat has assisted the Government of Tanzania in reviewing the project arrangements, agreements and terms negotiated with foreign investors for the development of a large gas-to-electricity project in order to determine whether to proceed with the project. It has also helped the Governments of Bermuda and Guyana to review their intellectual property legislation to ensure they meet the international standards set by the WTO arrangements and to give potential foreign investors the confidence to invest there.

The Secretariat has provided assistance in designing legislative and institutional frameworks for offshore financial centres, for example, for Botswana. In The Gambia, follow-up assistance on previous advice in this area is being initiated.

*The Secretariat has helped the Government of Tanzania to privatise its publicly owned lake transport services business*



The Secretariat's quarterly journal *International Capital Markets* interprets and analyses developments in international capital markets from the perspective of developing country borrowers. The journal, which has been redesigned and produced in a new format since 1995, highlights new and innovative borrowings by these countries and reports on domestic capital markets and progress in privatisation in developing countries. It also provides up-to-date information on debt, export credits and country funds.

## Privatisation

Key elements of recent economic reform in developing countries have been the restructuring of the public sector and the expansion of the role of market forces in the economy. In parallel with this exercise, governments encourage greater involvement of the private sector in economic development.

In recent years, there has been a substantial increase in demand for Secretariat assistance in the reform and divestiture of state enterprises. In the past two years, the Secretariat has provided advisory services and policy analyses in relation to privatisation, especially in the fields of economic, management and legal matters. It has also reported on the feasibility of mass privatisation schemes in Africa. The Secretariat does not merely advise on the mechanics of a particular divestiture – it also offers advice on the regulatory and policy framework within which the privatisation is to take place, and on post-privatisation management.

Economic, management and legal expertise is included in country-specific advice on policy issues relating to different aspects of the privatisation programme. Thus, in the past two years, advice was given to the Government of Barbados on attracting private capital for its publicly owned petroleum and gas companies, and on privatisation options available to its publicly owned broadcasting corporation.

The Governments of Ghana and Zambia were advised on the restructuring of state enterprises and government agencies prior to privatisation or commercialisation. The Government of Tanzania is being assisted in privatising its publicly owned lake transport services business.

Secretariat assistance has also extended to capacity-building for privatisation and private sector development, dealing with pre-privatisation restructuring, and strengthening the institutional structure of the private sector so as to enable it to manage the additional post-privatisation responsibilities once they have been transferred from the state. Regional workshops were organised for Africa, Asia-Pacific and the Caribbean, and a national workshop held for Botswana to strengthen the capacity for policy formulation. Managerial capacities were strengthened through advanced management training described elsewhere in this Report (*see next chapter*).

Strengthening the role of market forces in a particular economy will often entail a review of and changes in the legal infrastructure for the private sector. At the request of the Ministry of Finance of Ghana, the Secretariat carried out a major diagnostic study of the laws affecting private sector development in that country. In 1996, a report was prepared for the then civilian government of Sierra Leone on double taxation arrangements to attract private investment.

### MOBILISING DOMESTIC CAPITAL

The task of mobilising domestic capital for development is as important as that of mobilising foreign capital. Putting an appropriate regulatory framework in place is vital to the process. The Secretariat therefore helps governments develop appropriate frameworks for stock exchanges, securities trading and collective investment schemes. It also assists governments and central banks in developing debt securities markets and undertaking financial sector reform. Since 1995, Ghana, Maldives, Mauritius, Tanzania and Uganda have received assistance in these areas.