Mobilising the Private Sector for Development

With official development assistance stagnating in recent years and in line with the desire to achieve sound economic management based on market forces, Commonwealth governments have increasingly sought to promote the private sector and to attract private capital for development. Although there has been a surge in private flows to developing countries, these have been concentrated in a relatively few countries. The Secretariat has therefore also sought to help member countries to evolve new ways of attracting foreign investment.

Southern African countries working towards more regional co-operation

Thus, the Secretariat has established a Commonwealth Business Network aimed at strengthening the role of private business organisations throughout the Commonwealth in promoting international flows of trade, investment and technology and the development of the small business sector.

The Secretariat has implemented three interlinked projects with CFTC funding in Tanzania, where for years enterprises were publicly owned. Assistance has been given in preparing five state enterprises for privatisation. A blueprint and enabling legislation for a collective investment scheme were developed to channel small savings into investment in the newly privatised companies. A regulatory framework was also prepared for an interim share trading facility and stock exchanges.

In Ghana, following earlier assistance in establishing a stock exchange, the Secretariat has helped to update the Companies Act in the light of developments in the capital market, as well as to revise the legal framework for collective investment schemes. It is also examining the country's entire legal system to identify impediments to the conduct of commercial activity. Advice on the regulation of the securities industry has been given to Bermuda, Mauritius and Uganda.

Investment Funds

The Secretariat has been particularly active in the promotion of privately owned and operated investment funds on international capital markets, which provide a rapidly growing source of portfolio equity capital to developing countries. An early example was the Commonwealth Equity Fund (CEF), launched in September 1990 with a capital of US$56.6 million. This fund's achievements include its initiation of external portfolio investment interest on a pan-Commonwealth basis, with its early investments in Bangladesh, Pakistan and Sri Lanka predating those of other foreign funds; its help in developing the capital markets of some Commonwealth countries; and the excellent returns it has generated for its shareholders (20 per cent on an annualised basis up to September 1994).

At the request of Caricom, the Secretariat has also examined the feasibility of a Caribbean Investment Fund, which would invest not only in existing shares, but also primarily in businesses not yet listed on Caribbean stock exchanges. A proposal for such a fund has been accepted by Caricom Heads of Government and they have also agreed to policy concessions which host governments would offer as incentives for investors.

Options were identified for the privatisation of the state-owned broadcasting corporation in Barbados

In 1993, Commonwealth Finance Ministers endorsed a proposal for the establishment of an Emerging Commonwealth Privatisation Fund (ECPF). Due to unfavourable market conditions, however, the launch of this fund was postponed. At the same time, consultations with the Commonwealth Development Corporation (CDC) and other key market players revealed a need for change in the ECPF. As a result of these consultations, agreement has now been reached with the CDC to refashion the original concept and launch a new Commonwealth Private Investment Initiative. Finance Ministers are to consider the proposal when they meet in October 1995.

Under the CPII, a co-ordinated series of regional investment funds and other structures will be set up to mobilise capital for the private sector and help privatise public enterprises in Commonwealth developing countries. The first such fund is to be set up in Africa in early 1996. CDC will manage the fund and provide initial seed capital of US$25 million. It is expected that additional funds of $25-50 million will be mobilised from other Commonwealth and private sector sources.

More recently, the Secretariat received a request from the Common Market for Eastern and Southern African States (COMESA) to facilitate the establishment of an investment fund for the region. The Secretariat undertook the necessary investigations and concluded that such a fund would be feasible, especially if it were structured in a way that would both allow portfolio investment in listed companies and provide capital for new and expanding private businesses.

Foreign Direct Investment

Foreign direct investment (FDI) flows have tended to be highly concentrated, with the majority of countries in Africa, the Caribbean and the Pacific not benefiting significantly. The Secretariat has therefore embarked on a project designed to assist member countries to attract such investment from new sources. Reports on new sources and forms of FDI, 'soft' infrastructure, and promotion strategies and capacity-building are being prepared.

The report on new sources and forms of FDIs undertakes a detailed examination of recent trends in such flows to developing countries and seeks to identify new ways of attracting FDIs and to assist in the design and implementation of policies to help such investment inflows.

The second report examines the role of 'soft' infrastructure in crafting a successful FDI policy. This includes issues important for the creation of a business-friendly environment, including local accountancy practices and how they impact on investment decisions, international compatibility of the accounting and legal framework, reform of accountancy practices, weaknesses in the legal framework for the corporate sector and financial market, the role of the tax regime and problems of tax administration, development of the services sector, foreign exchange regulations and their administration, and other elements which impact on doing business in developing countries.

A third report on promotion strategy and capacity-building will examine the weaknesses of existing strategies and seek to identify steps that could be taken by Commonwealth countries to develop a comprehensive foreign investment package.

Privatisation

Since the 1980s, the Secretariat has developed policies and provided technical assistance to support privatisation programmes in member countries. Under a project entitled 'Removing Impediments to Privatisation', the Secretariat has been examining the major causes of the slow implementation of the privatisation programmes in Africa, looking at the experiences of and lessons learnt from Eastern European and other countries in applying mass privatisation techniques; and assessing the relevance of these techniques to Africa.

In 1994/95, a series of regional workshops was organised in Africa, Asia/Pacific and the Caribbean to provide opportunities for the senior officials who are directly concerned with privatisation to meet one another, share experiences and assess the impacts of privatisation to date. The Secretariat has also provided assistance to Sri Lanka in establishing a body to service the Public Enterprise Reform Commission, and in launching a wide-ranging programme of reform of the public enterprise sector.

In-house Secretariat consultants have given advice on the legal, economic and management dimensions of specific privatisation projects, as well as on general strategy. This has been supplemented with external consultants where appropriate. Barbados received assistance in privatising its two state-owned oil and gas companies and in identifying the options for the privatisation of its state-owned broadcasting corporation.

In Guyana, in addition to enterprise-level advice on a group of enterprises selected for privatisation, the Secretariat undertook a diagnostic review of the Government's general privatisation strategy. Other governments which have received enterprise-level privatisation assistance have included Ghana, Tanzania, Trinidad and Tobago, and Zambia. Capacity-building has been promoted with a series of regional workshops on privatisation in Africa, Asia and the Caribbean. In addition, specialised training programmes at pan-Commonwealth and regional level have been developed for the top management of state enterprises facing privatisation. This training is then linked with consultancies and other technical assistance to help governments implement change.

Financial Services

The Secretariat provides assistance to help member countries develop efficient and competitive financial services markets. Short- and long-term consultants and experts have been appointed, through the CFTC, to help restructure banks and financial institutions and develop computerised systems in banks. Financial specialists, banking operations experts, bank managers as well as banking legislation consultants have been sent to a number of countries, such as Bermuda, Ghana, Sri Lanka, Tanzania, Uganda and Vanuatu.

The Secretariat has also supported training programmes in banking, financial management and computer training to meet regional needs, and experts have been provided to assist in the development of insurance services. In addition, some countries have received assistance in putting in place a regulatory framework for non-banking financial institutions, and in one instance to refine commercial loans.

Private Finance for Infrastructure Projects

Public finance constraints, and the need for efficiency to meet rapidly expanding demand, have led a number of Commonwealth developing countries to seek private finance for infrastructure projects. Some countries, especially in Asia, have sought private sector investment in such projects, usually on a 'Build, Operate, Own' or 'Build, Operate, Transfer' basis. Attracting private participation has, however, proved extremely complex and difficult.

The key issues involved are the thinness of domestic capital markets relative to financing needs for infrastructure projects; the need for policy changes in relation to the legal framework, pricing structure, fiscal treatment and compensation rights; the problem of transfer and conversion risks; and the availability of guaranteed financing. The Secretariat has commissioned a report on the subject which will seek to identify ways of overcoming the problems.

Attracting the private sector to play a greater role in development

Financial Services in Mauritius

Putting an appropriate regulatory framework in place is a vital part of the process of mobilising capital for development. Since January 1994, the Secretariat has been helping the Government of Mauritius to develop the legal, regulatory and institutional framwork for non-banking financial services covering the insurance business, international business activities, the securities industry, collective investment schemes and non-banking specialised institutions.

It has helped in the preparation of a draft Bill to establish a Financial Services Authority. This Authority will integrate all the existing non-banking supervisory authorities under its single umbrella and take up the regulatory functions of the various existing regulatory agencies of individual activities. Where there was no existing regulatory legislation, this was remedied.

In the course of this project, wide-ranging consultations were held by the Secretariat with officials of the Ministry of Finance, the officials of regulatory bodies, the Stock Exchange of Mauritius and other officials. The Secretariat also advised on various improvements to be made to the existing securities legislation in the light of international developments. It assisted in the preparation of draft legislation to amend and consolidate the revised provisions in the form of a new Securities and Exchange Bill to be administered by the new Authority. Assistance is also being given in the preparation of separate legislation to regulate all forms of collective investment schemes.

The Financial Services Authority Bill, the Specialised Financial Institutions Bill and the Securities and Exchange Bill have been finalised and are expected to be enacted by late 1995. In addition, the Secretariat was also working on the Collective Investment Schemes Bill for enactment towards the end of 1995 when a new Companies Act is also expected to be enacted.