



Commonwealth Secretariat

Briefing Note – Investment

The challenge

Private investment creates jobs and helps lift people out of poverty. Improving access to capital is therefore a priority for Commonwealth countries and the Commonwealth Secretariat's economic development agenda. The Secretariat seeks to use the distinctive focus of the Commonwealth on its poorest and smallest members to find ways of connecting the membership to the international economy on the one hand, and to find ways of maximising the efficiency of domestic resources on the other. The Secretariat's objective is to help member countries become more attractive destinations for foreign direct investment and develop robust indigenous capital markets.

The Commonwealth strategy

The Secretariat endeavours to assist member states in improving their investment climate and establish cost-effective mechanisms to attract long-term investments.

Key principles

The aim is to identify and pilot innovative approaches with a view to spreading good practice across the Commonwealth and to provide a demonstration effect to other investors. In response to successive mandates from Commonwealth Finance Ministers Meetings, the Secretariat has focused on two key initiatives – the Commonwealth Private Investment Initiative (CPII) and Lowering the Threshold (LTT).

The practical response

The Commonwealth Private Investment Initiative aims to mobilise capital for investment in developing member countries. Three regional funds were launched in the first phase – Comafin (Sub-Saharan Africa, US\$63.5 million, 1996), Kula (Pacific Islands, \$16.9 million, 1997) and the South Asia Regional Fund (SARF, \$106 million, 1998). The Tiona fund raised for the Caribbean was subsequently merged with the Caribbean Investment Fund and now lies outside the initiative.

A second phase of CPII focusing on the small and medium-sized enterprise (SME) sector was launched in 2005, based on a mandate from the Finance Ministers Meeting of that year. The Secretariat has partnered with Aureos Capital to deliver this mandate. Funds launched under this mandate included Kula II (\$16 million, 2006) and the Aureos South Asia Fund (ASAF, \$85 million).

The Secretariat is currently working with Aureos to raise the Aureos African Fund (AAF) with a target capitalisation of \$400 million. AAF will build on the success of the regional funds for Africa (Aureos East Africa, West Africa and Southern Africa Funds), which invested a total of \$104 million in 43 companies. Current commissions are in

excess of \$300 million and AAF is on course to achieve its target of \$400 million before a final closing in 2009.

CPII has raised in excess of \$600 million for investment in member countries, including in some of the most difficult investment environments. As important, the funds have generated good returns for stakeholders. CPII was launched at a time when foreign investors were showing little interest in emerging markets. Since then, private flows to emerging markets have grown to \$300 billion in 2005, up from \$25 billion in 1990. In Africa, venture capital/private equity funds raised well over \$2 billion for investments in 2006, and again in 2007. CPII has helped to demonstrate that pre-emerging markets and small economies can offer attractive returns.

The Commonwealth Secretariat has continued to explore ways of reducing the levels of risk and transaction costs associated with SME financing under the Lowering the Threshold initiative. Since the 2007/08 financial year, it has supported a pilot SME Credit Information Database in South Africa in partnership with the International Finance Corporation (IFC) and two private sector partners, Compuscan International and Status Credit Circle. The objective is to develop a credit information database on SME sub-contractors in the building and allied industries in the Western Cape Province of South Africa. The pilot database currently contains information on approximately 120,000 sub-contractors, of which some 10,000 have credit ratings.

The Secretariat also conducts research into alternatives to bank financing for SMEs in developing countries. Recent work on this area has focused on leasing. Leasing provides small and medium sized businesses that often lack the necessary collateral and credit history for traditional bank loans with a means of financing equipment. While leasing accounts for 15–30 per cent of capital investment in OECD countries, it only represents an estimated 0–15 per cent in developing countries. The leasing industry in many developing nations faces structural obstacles such as an absence of clearly defined and predictable laws governing leasing transactions, unclear accounting standards, lack of appropriate tax regimes, and the absence of a regulatory and supervisory framework.

The primary objective of the research is to assess the existing regulatory legal and fiscal framework pertaining to financial leasing and, if necessary, provide recommendations for making this framework more conducive to financial leasing. A pilot study in Trinidad and Tobago and Barbados has now been completed.

Ministerial meetings or other highlights

Mandates for investment work flow from the Heads of Government summits and finance ministers' meetings. We also respond to requests from member states.

Other Commonwealth players and their work

The Secretariat maintains ties with the Commonwealth Business Council (CBC).

Relations with other bodies involved in the sector

The Commonwealth Secretariat works with international and regional bodies including the International Finance Corporation, as well as regional development banks and private sector organisations.