

**THE EFFECTIVENESS OF INVESTING IN THE PRIVATE SECTOR FOR
SUSTAINABLE GROWTH AND DEVELOPMENT IN AFRICA: THE
CASE OF AFRICAN DEVELOPMENT BANK (ADB)**

BY

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FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A
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DECLARATION

This research is my original work and has not been presented for a degree in any other university. Any references have duly been acknowledged in the study.

To my dad, Jackson Muinde, and Mum, Mary Mumbua for your unfailing love and care during this long journey in search of knowledge.

Signed Muinde

Date 28/11/2006

To my brothers, Gideon & Nicholas, and sisters, Jennifer, Hellen and Edith for always Muinde Patrick Mumo have needed your help and support.

This research project has been submitted for examination with my approval as the university supervisor.

Signed Winnie I. Nyamute

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First and far most is to the almighty God, for I know it's only by His grace that I have come this far.

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And finally, to all nasema asanteni sana, sana.

LIST OF ABBREVIATIONS

AIDS	Acquired Immunodeficiency Syndrome
APRM	African Peer-Review Mechanism
AU	African Union
BAT	British American Tobacco
BIT	Bilateral Investment Treaties
CSP	Country strategy papers
EADB	East African Development Bank
EAG	Environment Assessment Guidelines
FDI	Foreign Direct Investment
G8	Group of eight wealthiest countries
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
ICSID	International Center for Settlement of Investment Disputes
IFC	International Finance Corporation
IMF	International Monetary Fund
IPA	Investment promotion Agency
LOC	Lines of credit
MDGs	Millennium Development Goals
MGA	Multilateral investment Guarantee Agency
MNC	Multinational corporation
MNC	Multi-national Corporation
NEPAD	New Partnership for African Development
NGOs	Non-governmental Organizations
NSG	Non-Sovereign Guarantee
OAU	Organization for African Unity
OPSD	Private Sector Department
PFI	Public Financial institutions
PPP	Public – private partnerships
PSCP	Private Sector Country Profiles

RMC	Regional Member Countries
SDD	Social Dimensions of Development
SME	Small and Medium Enterprises
TNC	Transnational Corporation
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Center for Trade and Development
US	United States
VAT	Value Added Tax

The objectives of the study were set to identify the investment strategies used by the African Development Bank (ADB), establish the adequacy of these strategies in promoting the private sector development agenda for Africa and to establish the role of the private sector towards the attainment of sustainable growth and development in Africa. The study was a case of ADB and data was collected from both secondary and primary sources. The qualitative approach to research was used with content analysis being used to analyze the data.

The findings of the study identified the bank key areas of focus as: the growth and development of financial institutions, building up of both physical and social infrastructure, support of Africa's privatization process, project financing and support to the growth of small and micro-enterprises, with particular focus on growth oriented women entrepreneurs. It was established that the bank has developed a variety of instruments, both financial and non-financial, including loan facilities, lines of credit, equity and quasi-equity finance, guarantees, underwriting, loan syndication, advisory services, lease financing, franchising, venture capital and the micro finance sector among others to meet its objectives.

It was further established that the bank's private sector may be considered to establish, expand and modernize productive facilities in manufacturing, agriculture, infrastructure, tourism, transport, energy, extractive industries as

ABSTRACT

The African development Bank is one of the key development institutions in the African continent, being indigenous to the continent. It has partnered with the African governments and other stakeholders to address the challenges of sustained growth and development that face the continent as a whole. It has come to be widely accepted the world over that the private sector must be allowed to play its role if meaningful development levels are to be attained across the globe, a fact that has been embraced by the bank as it has recognized the private sector in its vision and development strategy.

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It was further established that the banks private sector assistance may be considered to establish, expand and modernize productive facilities in manufacturing, agribusiness, infrastructure, tourism, energy, transportation, extractive industries as

well as banking, finance and other service industries. For the bank to be involved in a project it must be satisfied that a project is in line with the host country's economic growth policy, has a comparative advantage and that it is likely to succeed in a sustainable manner.

Evidence indicates that the private sector in Africa is effective in creation of new employments, transfer of technology and skills, promotion of local entrepreneurship, development of rural infrastructure, utilization of local raw materials especially in the rural areas and the general improvement of the living standards in the continent. The task to avert poverty and underdevelopment still remain enormous and the challenges intimidating as ever. But, the world in general dare not give up if we are to make the world today a better place to live in. In Kenya, since the 1990's, the economy has performed below its potential, with low economic growth and employment, and a decline in productivity. Per capita income in constant 1982 prices declined from US \$271 in 1990 to US \$269 in 2002. The number of people unemployed stands at over 2 million or 14.6 percent of the labour force, with the youth accounting for 45 percent of the total. Majority of the unemployed, though educated, do not have necessary skills. In addition, the number of the working poor is staggering, comprising primarily subsistence farmers, female-headed households and slum dwellers (Republic of Kenya, 2004). Yet, all this is reminiscent of the situation and the case for the African continent in general.

Sen (1982) in an article on poverty and famines argued that much about poverty was obvious enough and that one needed no elaborate criteria, cunning measurements, or probing analysis to understand its antecedents. Sen argued that some of the worst famines have taken place without any significant fall in the supply of food. To illustrate his thesis, Sen chose the famine that had gathered force from 1985 to 1973 in Sahel region of Africa. The Sahel, from the Arabic word 'shore' referred to a group of six countries in the western fringes of the Sahara, where the desert sand lay up against the vegetation of Africa's semiarid zones. Countries worst affected by this disaster 30 years ago were Mauritania, Mali, Upper Volta (now Burkina Faso) and Niger. But now, Niger is once again in the grip of food crisis, if not a full-blown famine (Economist, August 20, 2002).

CHAPTER ONE

INTRODUCTION

1.0

1.1 BACKGROUND

Sustainable growth and development still remains very elusive to the developing world despite the efforts of both the developed and the developing countries and other partners to address the problem once and for all. Though there seems to be some progress in the right direction, the gap between the developed and the developing world remain very big. The task to avert poverty and underdevelopment still remain enormous and the challenges intimidating as ever. But, the world in general dare not give up if we are to make the world today a better place to live in. In Kenya, since the 1980's, the economy has performed below its potential, with low economic growth and employment, and a decline in productivity. Per capita income in constant 1982 prices declined from US \$271 in 1990 to US \$239 in 2002. The number of people unemployed stands at over 2 million or 14.6 percent of the labour force, with the youth accounting for 45 percent of the total. Majority of the unemployed, though educated, do not have necessary skills. In addition, the number of the working poor is staggering, comprising primarily subsistence farmers, female-headed households and slum dwellers (Republic of Kenya, 2004). Yet, all this is reminiscent of the situation and the case for the African continent in general.

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Danso (2005) pointed that as African poverty continued to hit the headlines, so has the world redoubled dedication to donor aid. The commission for Africa recommended twice as much for Africa while the United Nations (UN) committee on Millennium Development Goals (MDGs) recommended a huge aid boost if Africa was to hit the MDG targets on poverty elimination. Danso argued that the international community often forgot what could seal the continent's development: increased investment, and recognition of Africa's commercial potential, Private sector efforts to work efficiently and sustainably, to employ and train workers, to encourage sensible planning and regulatory approaches on behalf of governments and to create wealth and development.

Is a continent as diverse as Africa. But one generalization is valid:

Annan (2005) outlining the investment case for Africa noted that one of the many challenges that Africa has faced over the years was to draw the world's attention to the continent's investment opportunities. Annan argued that outside companies and individual investors continued to direct vast majority of their capital to only a small number of countries, and that many of Africa's own domestic investors, and Africans abroad, invested very little in their own countries. He pointed that prospective investors were nervous about armed conflicts, governance, devastation inflicted by HIV/AIDs, low agricultural productivity and high rates of child and maternal mortality. Also, there were questions on corruption and basic conditions for investment like personal security, infrastructure, skilled labour force, and legal and regulatory frameworks. Annan, further argued that although the issues raised were serious, many of them were being addressed in ways that should create confidence. He noted that African states were building new institutions such as the African Union (AU), showed determination to resolve long-standing conflicts and new emergencies, and that most African countries were at peace, had more democratically elected governments and that many countries were experiencing rapid and sustained economic and social recovery and were undertaking constitutional and civil service reforms. Further, he argued that African countries were making more targeted efforts to create an enabling environment for business activity, and that business codes were being updated to be comparable to those of Asian countries that received bulk of foreign direct investment (FDI) in developing world. Moreover, African stock exchanges are increasingly active and well managed, with recent studies showing that, even when adjusted for risk, investments in Africa have yielded high returns. Annan asserted that Africa had reached a moment when, helped by the right

partners, even small investments could make real, sustainable difference. However, he pointed that much hope for increased investment in Africa rested on the ability of African countries to achieve the MDGs on internationally agreed plan for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. More importantly much hope rests on the expertise and initiative of the private sector, which could help to build up local skills, create networks of suppliers and specialized products, and enable small enterprises to gain access to financing.

Annan (2005) says that, "broad generalizations do an injustice to a continent as diverse as Africa. But one generalization is valid: The right kind of investment, at the right time, are good for Africa, good for business, and good for the world."

Nkuhlu (2005) emphasized on the need for business participation in addressing the development agenda for Africa. He said that the New Partnership for African Development (Nepad) had made a good start through the establishment of a private sector liaison unit within its secretariat and the inauguration AU private sector forum. Nkuhlu however, argued that more needed to be done to build capacity in Africa's private sector. He pointed out that the Nepad business group, with support from the African building foundation, was working to ensure that private sector was capable of discharging its responsibility, and that public-private partnerships were critical to the success of the Nepad agenda. He asserted that even with the best will in the world, there was no way that African governments could act as the engine for Africa's economic growth, but rather, the private sector must perform this role.

Laing (2005) in an assessment of how company's can promote MDGs and safeguard their investment, pointed that the UN millennium project January report was damning in that, most of the sub-Saharan Africa faced significant challenges in meeting the MDGs on almost every dimension of poverty, with many countries falling behind. He argued that poverty and hunger rates were rising across the continent, with the average wage at around 71 cents per day (dollars). He criticized the recommendations of the UN MDGs committee calling up on donors to increase aid quantity and quality, open markets and mobilize scientific research to tackle health, agricultural and environmental management,

and underscored the commission for Africa report that compared the continents progress unfavorably to Asia's since colonial times. Laing further argued that Africa's average income had gone from double to half that of Asia, yet the prognosis was the same; massively increased aid volumes to airlift Africa out of poverty: \$ 25bn per year until 2010, and a further \$ 25bn per year until 2015.

Laing outlined learned failures as that while recognizing the role of private sector as the engine of growth, recommendations for governments to create the right environment for business to flourish were reserved; that it was left unsaid that business must come and fill the gap, make investments, establish business in that environment, employ and train people, buy goods from suppliers who also employ people, pay taxes and generally stimulate economic development. Yet, what was not left unsaid, but rather repeated time and again was that any increased economic activity, development aid, or investment could be wasted in inefficiency and corruption. And for this reason governance was the cornerstone up on which development could take place: a social, legal and economic framework for growth. Stability, security, reliable public service, infrastructure within which to conduct business, accountability of the government to its people, a predictable system of laws and taxes being spent on the right public services rather than stashed in foreign accounts, all were essential to rebuild investor confidence and allow business to flourish.

Kehinde (2005) argued that West Africa governments must collaborate with the private sector since it was a major force in West Africa, with the potential to generate significant economic growth in the region. He pointed that in 2003, BAT and its companies and products had generated more than \$ 200 million in the form of custom duties and taxes for West African governments. Kehinde concluded that collaborating with the private sector to implement regional trade agreements was the single most important factor in successful regional integration, since no constituent better understood the complexity of trading across borders than the private sector.

An in-depth analysis of private investment behavior in Kenya and Africa in general indicates that private investment is driven by factors like growth in national income, profitability, interest costs, crowding-in factor of public investment and the availability of

credit to the private sector. Therefore, with the realization of increased credit availability for the private sector, it is anticipated that the impetus for private investment will be supported. Thus, the private sector shall be able to play its role that we all agree is very vital for sustainable growth and development (Republic of Kenya, 2004).

as has been the case in the 1990s among developing countries, desperate to attract foreign private capital and develop their private sector (HIPC 2004). Many years into independence, Africa is still under the grip of slow economic growth and development. Quality life still remains very elusive to many of the African people. This is despite the billions of dollars provided to Africa in form of aid and grants, mainly through the public sector, characterized by inefficiency, misallocation of resources, patronage politics and corruption, and the real objectives and desired results of the financing are often lost.

Nyong'o (July 12, 2005) urged donors to stop financing development through Non-governmental organizations (NGOs). He argued that financing development through NGOs had failed to produce desired results such as the MDGs. He noted that financing development through NGOs had failed to deliver economic growth in Africa over the past four decades and will not work for the current generation. Nyong'o argued that there seemed to be an emerging populist attitude that where governments are weak, development financing should be channelled through NGOs, and asserted that it was a ploy by the assistance providers to channel the assistance back to the north in unforfeitable proportions.

Nkomo (2005) argued that even with the best will in the world, there was no way that African governments could act as the engine for Africa's economic growth, but rather, the private sector must perform this role. The African governments and NGOs have failed to effectively utilize development aid and funding from the Africa's development partners almost five decades into independent Africa.

Despite the emphasis of the role of the private sector as the engine of development in Africa, not much research seems to have been done to establish how the private sector will play its role in Africa's development, and how effective its operations have been. The study thus sought to answer the question: is investing in the private sector the effective way to cause sustained growth and development in Africa?

1.2 STATEMENT OF THE PROBLEM

A development financing strategy is essential to mobilize the most appropriate financing for national development. It is not enough to accept passively every offer of financing for the private sector whether through aid, foreign equity investment or private sector debt, as has been the case in the 1990s among developing countries, desperate to attract foreign private capital and develop their private sector (HIPC 2004). Many years into independence, Africa is still under the grip of slow economic growth and development. Quality life still remains very elusive to many of the African people. This is despite the billions of dollars provided to Africa in form of aid and grants, mainly through the public sector, characterized by inefficiency, misallocation of resources, patronage politics and corruption, and the real objectives and desired results of the financing are often lost.

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1.3 OBJECTIVES OF THE STUDY

1. To identify the investment strategies used by the African Development Bank (ADB).
2. Establish the adequacy of these strategies in promoting the private sector development agenda for Africa.
3. To establish the role of the private sector towards the attainment of sustainable growth and development in Africa

1.4 SIGNIFICANCE OF THE STUDY

The study is vital to a number of parties in the donor community, governments, the private sector and in academia as described below.

DONOR COMMUNITY/DEVELOPMENT PARTNERS

The study shall benefit the development partners in that they shall be able to know the adequacy of their investment strategies within the private sector. This shall provides insights into areas for further improvement and cooperation to ensure that the private sector fulfills its role in the attainment of sustainable growth in Africa

GOVERNMENTS

Since the governments are accountable and responsible for the well being of its citizenry, the study shall provide insights that shall guide governments' policies that allow the private sector to flourish, and support the initiative of the development partners. The governments shall also understand their roles to link the private sector and the donor community, and create the enabling environment that supports growth of economic activities in Africa

PRIVATE SECTOR

The private sector stands to benefit in that there initiatives and innovation shall be supported by both the governments and the development partners, and that they shall understand their critical role in supporting development activities in the African economies.

SCHOLARS

The findings of the study shall point the gaps that the academia community, need to fill in order to attain the desired development since growth and development requires a holistic approach. Development of human resources remains at the center of development and the institutions of learning have a significant contribution to growth of human capital. The study shall further identify areas for further research.

The ADB is a regional multilateral development bank, engaged in promoting economic development and social progress of its Regional Member Countries (RMC) in Africa. The bank was established in 1964 and started its operations in 1966 with its headquarters in Abidjan, Cote d'ivoire. Its shareholders are the 53 countries in Africa as well as 24 countries in the Americas, Europe and Asia. The African Development Fund provides development finance in concessional terms to the low-income RMCs that are unable to borrow on non-concessional terms from the bank. In accordance with its lending policy, poverty reduction was the main aim of fund development activities in borrowing countries. The fund, which was established in 1972, commenced operations in 1974. The bank's mission is to promote economic and social development through loans, equity investments and technical assistance. It is dedicated to combating poverty and improving the lives of the people of the continent and engaged in the task of mobilizing resources towards the economic and social progress of its RMCs.

2.1.1 THE EVOLUTION OF THE ADB

The origin and history of ADB can be traced back to the early 1960s, a time when Africa was taking its destiny at hand and in its early stages, with reference to the major market networks of pre-colonial Africa. The then African leaders and heads of states drew up a project of an African development bank that would be hundred percent African, an 'afrikanbank' that would only be neutral. At the time, Africa was taking charge of itself, and wanted to stand distant from the ideological and linguistic divides of the time, that were reflected in the three emergent groups that dominated the continental geopolitical scene of the time. The Brazzaville group which consisted of twelve countries (Cameroon, Congo-Brazzaville, Cote d'ivoire, DRC (Kinshasa), Gabon, Upper Volta (Burkina Faso), Madagascar, Mauritania, Niger, the Central African Republic, Senegal and Chad) that had founded the African and Malagasy Union in 1960 at Brazzaville, the Casablanca

CHAPTER TWO

LITERATURE REVIEW

2.0

2.1 BACKGROUND OF ADB

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group of 1961 that was made up of seven countries (Algeria, Egypt, Ghana, Guinea, Libya, Mali and Morocco), and the Monrovia group that comprised of the twelve countries of the Brazzaville group as well as Ethiopia, Liberia, Nigeria, Sierra Leone, Somalia, Togo, Tunisia and Congo (Kinshasa). Though the history of these grouping could be more intimately linked with the genesis for Organization for African Unity (OAU, now African Union) than with African growth financing issues, all these aspects together pointed to the need to establish a regional development bank.

2.1.2 PARTNERSHIPS AND CO-OPERATIONS

Although the road to the establishment of what has become the premier finance development institution in Africa was marked by several events, multiple initiatives, and countless contributions; amongst the 'founding acts' was the Tubman-Nkrumah-Toure conference of 1958, the year in which OAU was established. The heads of state of Liberia, Ghana and Guinea, three advocates of pan-africanism, spent four days in a conclave in the village of Sanikoli, in Liberia, with a final resolve of their determination to commit all their resources to bringing all African countries to independence and to succeed in developing the continent in solidarity. This was later followed by the Monrovia conference in 1961 and another in Lagos, in which two charters were drawn; one for OAU and another for ADB. Later, there was the committee of nine that represented the African diversity and chaired by Horton, a stage at which the primacy of the pan-african character was affirmed to avoid importing the cold war into the institution. The committee drafted an agreement that was ratified in a meeting held in Khartoum, the capital of Sudan, in September 10, 1964, and in which 25 governments from Africa were represented. It was out of the ratification of the agreement that ADB came into being and with the hope of seeing the new-born institution contribute to the development and unity of Africa.

Forty years on, the ADB Group has financed 2,885 operations, for a total of 47.5 billion US dollars, and wound up in 2003 with the best results in its history, with an AAA rating from major rating agencies and with a capital of 32.043 billion dollars. The bank has preserved its fully African character even with the entry of non-regional countries in 1982. It has kept Africa's pace, surviving each crisis, amplifying and diversifying its resources and action from year to year. It has supported the process that history will perhaps remember as the completion of de-colonization, political democratization and the economic liberalization of the 1990s. It has coordinated its activities with those of its

partners in poverty reduction efforts, the international financial institutions, governments and official development aid agencies, NGOs, and increasingly conceived its action in consultation with the representatives of local societies so that they might be actors in their own development. ADB has laid emphasis on the role of women, education and structural reforms, and lent its support to key initiatives like debt alleviation to highly indebted poor countries (HIPC), regional integration and the Write up of Nepad.

2.1.2 PARTNERSHIPS AND CO-OPERATIONS

The bank has a fully dedicated division with the mandate to promote and coordinate non-statutory cooperation relations and strategic partnerships with bilateral aid agencies, multilateral development institutions, African organizations and institutions and other aid agencies. The primary purpose of such co-operation and partnership is to mobilize additional financial resources and technical skills and inputs, through co-financing, technical cooperation arrangements and partnership agreements that can supplement the banks lending and administrative resources in financing development activities of RMCs in accordance with the bank's strategic plan.

2.1.3 PRIVATE SECTOR OPERATIONS

The private sector window of the bank was established in 1991 with the objective of broadening the scope of development to RMCs in recognition of the important role of the private sector in stimulating economic growth and development. The activities of the private sector comprise of two categories: Non-sovereign guaranteed (NSG) lending activities in the area of financial intermediation, Direct lending, and infrastructure; and non-lending activities including studies, initiatives and new programs.

The bank assistance is provided directly to private entities through term loans, equity participations, quasi-equity investments, guarantees, syndications, underwriting and advisory services. The bank further extends lines of credit to financial institutions for on lending to export oriented companies and small and medium enterprises (SMEs). The nature, terms and conditions of the banks investment in a particular venture are commercially-based and prices on risks and the expected returns of the venture, as well as the characteristics of the corporate entity receiving the investment. Assistance may be

considered for projects to establish, expand, diversify and modernize productive facilities in various sectors including energy, manufacturing, agribusiness, tourism, transportation, infrastructure, extractive industries as well as banking, finance and other service industries, as long as the investment is beneficial to the economy of the host country.

The bank may invest in domestic, or regional financial and capital market institutions that support low-income housing activities, or extend agency credit lines for such purposes. Consideration is given to financially and economically viable proposals which primarily contribute to generation of foreign exchange earnings and savings; job creation, improvement of skills and enhancement of productivity of capital and labor; transfer of technology and acquisition of appropriate scientific equipment and; forward and backward linkages enhancement. To be involved in a project, the bank has to be satisfied that the project is consistent with the countries economic development objective, has sufficient comparative advantage and is likely to succeed in a sustainable manner. Under the private window, the bank can also lend on commercial terms to publicly owned entities including financial institutions, utility companies, municipalities among others provided they do not require a sovereign guarantee, are financially sound and viable and are autonomously managed.

In the non-financing activities, the bank is engaged in corporate governance, African women in business and franchising to support SMEs development in Africa. In corporate governance, the private sector department (OSPD), in collaboration with other department is assisting the African Peer-Review Mechanism (APRM) in developing indicators and benchmarks in corporate governance to be used by member countries of Nepad. In developing the assessment tool, OSPD considered it necessary to produce a document that will serve as an instrument to contribute to the rising awareness among stakeholders and to inform them of the current trends of corporate governance at international as well as African levels and, explore areas where the bank should play a more active role. The importance of corporate governance to the bank is that it is necessary to complement on the broader actions in the area of governance. This would permit sustainable business environment, improve the sustainability of economic activity and attract foreign investment. Corporate governance also promotes efficient use of public resources.

Under its gender policy, approved in 2001, the bank has reiterated its commitment to gender mainstreaming as a means of poverty reduction, while also promoting economic empowerment of women. The development of SMEs is acknowledged as a key condition in promoting equitable and sustainable economic development. SMEs have a crucial role to play in stimulating growth, generating employment and consequently alleviating poverty. They represent over 90 percent of private business in the continent and contribute to more than 50 percent of the employment and of GDP in most African countries.

2.1.4 CHALLENGES AND HOPES OF ADB

There has been progress at all levels with regard to democracy, growth and restoration of the macro-economic balances in Africa over the years, but challenges are still posed; half of Sub-Saharan Africa still lives under US \$ 1 a day, and Aids is threatening the social fabric of the continent. Studies conducted by ADB and the World Bank among other organizations indicate that the UN MDGs will in most cases not be attained by the year 2015 as earlier planned, however, the same studies have indicated that majority of African countries could make notable progress to these ends.

The progress achieved in key areas concerning regional infrastructure are windows of opportunity. However, to make good of this a three level approach would be needed; on the part of donor countries, they are required to increase the official aid assistance as they have undertaken to do; the beneficiaries must pursue and deepen economic reforms; and foreign private investors are required to integrate Africa into their industrial, commercial and financial strategies. It is hoped that ADB group on its part will persist on its founding mission: that of remaining in the service of the development of the whole continent.

2.2 EMPIRICAL STUDIES ON AFRICA'S DEVELOPMENT

2.2.1 INVESTMENT DEFINED

According to (Sharpe et al, 1999), investment in its broadest sense means the sacrifice of current dollars for future dollars. The general attributes involved are time and risk. The sacrifice takes place in the present and is certain while the reward come later, if at all, and its magnitude is generally uncertain. Either the element of time or risk could predominate in different investments or could be both important in others. In general, investment could be defined as any use of resources intended to increase future production output or income.

Olum (1976) defined Capital investment as an expenditure on tangible or intangible assets for use in the conduct of business and not intended for disposal in the ordinary course of business. Capital assets are used in the production of finished goods or in the furnishing of services throughout the useful lives of the assets. Although capital investment is done by all firms, there is no accepted (ble) definition of the expression that exists. To many financial writers, the expression generally means the outlay of scarce or at least limited resources in the hope of obtaining satisfactory returns in the future. Merret and Sykes defined capital investment as the outlay of valuable resources in the expectation of future gains. In the simplest case, it is the outlay of cash in one period in the expectation of the return in a larger sum in the following period. In the most common case, an investment comprises a planned series of capital expenditure undertaken in anticipation of their generating larger series of cash flows (generally uncertain) at various times in the future. Archer and Ambrosio states that "----- an investment involves an exchange. ----- there are two elements in an investment decision. First, there is the element of time where time preference is the dominant consideration. Time preference is the rate at which present consumption is foregone for future consumption. The second element of investment decision involves risk aversion i.e. the desire to avoid risk. Given time preference and risk aversion, investment should take place only when the firm is compensated for bearing risk and waiting i.e. only when the firm expects greater returns in the future than in the present." Carsberg summed up investment as "The essential quality of an investment is that it involves waiting for a reward; it involves the commitment of resources which could be used for current consumption in the anticipation that some

benefit will result at a future date. Strictly, indeed we might define an investment as any activity for which the required outlays and the benefits are not expected to be current," (Olum 1975).

2.2.2 RECENT TRENDS IN INVESTMENT FLOWS IN AFRICA

Lai (2001) states that international investment or foreign direct investment (FDI) is an investment made to acquire management interest in an enterprise outside the economy of the investor. Cross-border business activity has been in existence for decades and its rapid growth since the 1990's has been a major driver of the world economy. Investment in African countries by enterprises located in another economy has been there since the pre-independence period. Firms from the parent countries invested substantially in Africa to acquire natural resources from the continent. Such investments were located in the primary sectors of agriculture and mining with the principal purpose of supplying farming products and industrial material to the developed countries.

Lai (2001) argued that since mid 1980's, Africa has entered into a new era of relationship with international investors, since nearly all African countries have taken steps to reform and liberalize their economic management system. Governments have accepted the imperative of market forces and the indispensable role that the private sector plays in economic development. He pointed the main policy changes in Africa that had been adopted to deregulate their investment regime as: that as a matter of policy, FDI has been actively promoted. This is clearly reflected in African government's policy statements, development strategies, speeches of senior officials, and the direction of public investment which has among others, the objective of creating the necessary infrastructure for private investment; The legal and regulatory framework for FDI has been significantly improved, with a majority of African countries having revised or promulgated new investment regulation. For example, Namibia passed a foreign investment Act in 1990, Uganda published an investment code in 1991, Ethiopia revised its 1992 investment code twice, Ghana adopted an investment promotion centre act in 1994, Tunisia put in place the investment incentives code in 1994, Tanzania approved the new investment act in 1997, Egypt enacted a new investment incentives and guarantees law in 1997, and Sudan introduced an investment act in 1999. These

regulations simplify investment procedures and provide incentives and good conditions to foreign investors. They also guarantee the repatriation of profits and dividends, assure legal stability and prohibit nationalization and expropriation without compensation; Further, African countries seek to offer an attractive package to foreign investors. On one hand, entry restrictions have largely been removed, particularly for sectors like telecommunications and public utilities once considered strategic and reserved for the state and, ownership ceiling is no longer a constraint. On the other hand, a variety of incentives are offered to investors including land allocation, tax exemption, waiver of duty on capital goods imported, easier repatriation of profit and dividends and granting of work permits for expatriation.

The above developments, coupled with progress in other areas of economic and political

Lai (2001) further argued that investment promotion agencies (IPAs) have been established to provide one stop service for investors. As at August 2001, there were 35 IPA's in Africa, though the coverage and quality of their services vary widely. For example, Kenya's Investment Promotion Centre, Mozambique's centre for investment promotion, Namibia investment centre and Tunisia's foreign investment Agency among others. In general, these agencies approve investment licenses (in order to benefit from incentives), publicize business opportunities, supply information on investment climate and legal provisions, facilitate interaction with line ministries and local authorities, acquire land and properties on behalf on investors, match domestic and foreign enterprises and provide other support services. They have played a useful role in facilitating investments, addressing the concerns on investors and reducing bureaucratic obstacles. Finally, Lai argued that the international regulation of investment has been strengthened. African countries have signed several kinds of international agreements which serve to limit the action of state vis-à-vis the investors from other economies. The first kind of such agreements has been the bilateral investment treaties (BITs). According to data of United Nations Center for Trade and Development (UNCTAD), African countries had concluded 428 BITs by the end of the 1990's, doubling the number at the end of the 1980's. These agreements provide for investment protection and guarantees, favorable national treatments, fair and equitable treatment, prohibition on performance requirements and transparency of national laws. They are strong signals to investors, conveying the governments desire to maintain a predictable legal framework for encouraging FDI. The second kind instrument of bilateral treaties is for the avoidance of double taxation. African

countries have entered into more than 250 such agreements mainly with European countries. Third is the international instrument dealing with disputes involving state and foreign investors. As of August 2001, 42 African countries had joined the convention on the settlement of investment disputes between states and nationals of other states, which is administered by the international center for settlement of investment disputes (ICSID). More than half of the countries had also participated in the convention on the recognition and enforcement of foreign arbitral awards. Additionally, 42 African countries are members of the multilateral investment guarantee agency (MIGA), which offer non-commercial risk coverage for foreign investment.

The above developments, coupled with progress in other areas of economic and political reforms like the liberalization of foreign exchange regime, streamlining of tax and customs administrations, advancement in democratic governance in some countries among others, amount to a fundamental improvement in the overall condition for foreign investors. This has been a major reason for the impressive growth of international investment in Africa. Over the last decade, FDI to Africa has increased by an average of 14% per year.

2.2.3 OPPORTUNITIES FOR INTERNATIONAL INVESTORS

Research in recent years has greatly improved the understanding of the behavior of international investors and the determinants of foreign investments in locations. It is understood that transnational corporations (TNCs), that is, any enterprises with entities in two or more countries that are linked through mainly ownership, undertake overseas investment to seek markets, natural resources, efficiency or strategic assets. A decision to invest in a foreign country is made when the combined advantage of both ownership and location is higher than those of other business arrangements such as agency relationships and licensing. International investments are driven to a location primarily by the destination country's favorable economic policies, good conditions and facilities for conducting business as well as a host of other economic factors such as resource endowment, size of domestic market, access to regional international markets, skilled labor force, factor cost and innovation capacity.

In this framework, Lai (2001) argues that the policy environment in a majority of African countries has measurably improved after one and half decades of structural adjustment. Notably, macro-economic performance has been strengthened in several fronts including lower inflation rates, reduced fiscal deficit and better debt service ratio. Important to the international investor is the fact that since the 1990's, many African countries have embarked on a new generation of reforms aimed at improving governance, building institutional capacity and strengthening of legal and judicial systems. The investment climate in the region is thus continuing to change for better. Again the provision of infrastructure services is very limited in Africa, viewed from the continental level. However, infrastructure necessary for business activities, are reasonably good in certain locations such as in South Africa, Mauritius, Namibia, Egypt, and in urban areas especially in industrial zones.

3.2.4 CHALLENGES OF FDI PROMOTION IN AFRICA

Therefore, for investors with a long-term perspective, the weak infrastructure base in Africa could actually represent significant opportunities. According to Lai (2001), it is estimated that Africa requires US\$ 18 billion investment in infrastructure per year in the current decade. Africa also, has much to offer to resource seeking TNCs. Although less than 10% of the land-masses in Africa have been prospected for minerals, current discovered reserves are large and diversified. In energy resources, Africa's oil reserves are estimated at 10.5 billion tons, about 8% of the world total. Further, Africa needs investment in exploratory activities, particularly in non-traditional minerals to improve the quality of geological data and map new deposits and even the discovered are for a large part untapped. More opportunities exist in provision of capital and technology, which African countries often do not have. Thus, foreign investors are generally welcome by African governments to this sector. This has further been facilitated by changes to the laws and regulations related to mining.

Moreover, attractive opportunities still exist for investment in agriculture, which is the mainstay of the African economy. Despite large swaths of desert, the continent is rich in agricultural resources. According to FAO data, 37% of land areas excluding the water surface are under agricultural use. However, a striking feature of agricultural development in the region is that, while Africa is famous for many agricultural products it exports, the continent is a severe food deficit area. On one hand, Africa exports some

US\$ 15 billion in agricultural products per year, around 13% of the value of the merchandise exports. These are exports of commercial crops mainly coffee, cocoa, tea, tobacco and sugar. On the other hand, the region requires about 20 millions tons of cereal imports each year. There are only two countries; South Africa and Zimbabwe that appear to have attained food self-sufficiency (Lai 2001). Finally, good investment prospects are present in several other areas. In cash crops, Africa's market share in traditional export commodities has declined for the last three decades. Investments are needed to raise productivity, enhance competitiveness and diversify into non-traditional commodities. Productions catering into niche markets in developed countries are particularly promising, including organic products, horticulture, medical plants and spices among others.

2.2.4 CHALLENGES OF FDI PROMOTION IN AFRICA

Lai (2001) argues that the market for investment on corporate control has become an international one. MNCs now manage their location assets on a global scale. Only destinations that promise to create the highest value for investors (shareholders) can hope to attract significant amounts of foreign investment. Secondly, is a notable trend in FDI's decreasing importance of traditional attractiveness factors such as incentives and natural resources. The reduction of trade tariffs worldwide has also diminished the significance of market seeking investment activities. A basic set of financial incentives, reasonable infrastructure and business facilitation services are now taken for granted by international investors. Among others, rule of law and innovation capacity are emerging as two critical factors for corporate investment decisions. International investors attach great importance to the predictability, transparency and accountability of the policy regime and the quality of legal and judicial system in the host country. Thirdly, in addition to keep on strengthening policy environment, infrastructure and business conditions, African countries need to make greater efforts to improve governance and human resource capacity. Long-term strategy for Africa's international investment relationship should be to move towards rules and skills based FDI promotion. Finally, Some African countries have started to rise up to the challenge of investment competition with specific initiatives like skills development in Mauritius and Namibia.

Lai (2001) points that ADB has financed structural and sector adjustment programmes in Africa along with other donors and that the bank has supported a great number of infrastructure projects on the continent in sectors of transport, telecommunications, power, water supply and sanitation. Through the private sector arm, ADB has made available direct financing to private investment projects since 1992. Further, the bank is also assisting RMCs to meet the upcoming challenges of FDI promotion on good governance and human resource development and finally, the bank has launched an initiative to support PPP in Africa.

2.2.5 AFRICAN GROWTH AND DEVELOPMENT IN 1970S

Much that has been recently said and written with respect to economic development, particularly in a semi-popular vein is connected with Rostow's stages of economic growth. Ligthart and Abbai (1967) outlined five stages of growth distinguished by Rostow as: the 'traditional society' in which a ceiling exists on the level of attainable output per head resulting from the fact that the potentialities which flow from modern science and technology were either not available (the under pre-industrial revolution case) or not regularly and systematically applied (the under-developed country case); the 'pre-condition for take-off' where the traditional society is transformed in the way necessary to start application of modern technology in production; the 'take-off' where old blocks and resistance to steady growth are finally overcome, and the forces making for economic progress expand and come to dominate the society with growth becoming a normal condition; the 'drive to maturity' where the regularly growing economy drives to extend modern technology over the whole front of its economic activity; and the 'age of high mass consumption' where the resources tend to increasingly be directed to the production of consumer durables and to the diffusion of services on a mass basis.

Rostows' concept of growth was criticized mainly in his 'take-off' stage, which could be defined only in terms of the state of steady growth that follows it. Unfortunately, this state of growth 'sustained and self-reinforcing' was not defined nor was it proven that it indeed was or could become a normal condition and, with respect to the advanced countries and, therefore, it certainly seemed to be only a bold assumption. Ligthart and Abbai argued that the growth of an economy is composed of forward thrusts of separate

industries gaining in impetus and leveling off, not only stimulating and strengthening, but also, at times, obstructing each others growth, and that lack of expansion of certain industries or certain facilities could put a break on the forward surge by causing bottlenecks. If impetus of the advancing industries were great enough, this by itself would provide an expansionary force for the lagging sectors. However, if it was not, or if renewal of bottlenecks needed a long gestation period like in the case of education, the general growth process could be stopped altogether. It generally was necessary for possible bottlenecks caused by such facilities, mainly education, transport and energy to be sufficiently cleared before the growth process could start in the more directly productive industries. It therefore, it seemed true that a pre-condition for take-off stage had to precede a period of growth if the latter was to be sustained; that was Rostow's argument in reverse.

Ligthart and Abbai (1967) further argued that the way forward was to structure production and trade, infrastructure and prevailing growth forces since economic development was normally associated with the structural changes in an economy. Given balanced distribution of resources, development involves, in the course of time, a growing share on non-agricultural output and services in the total gross national product. It could probably be assumed that in the relatively less developed countries, development followed a path of diversification of production from a closed agricultural economy to roughly, the situation that prevailed in the leading industrial nations of the world. In closed economies, changes in the production pattern were necessarily determined by changes in the expenditure pattern. If development was to continue, increase in income, identical with increase in production, must be split in some proportion between increased capital formation and increased consumption, so that expenditure pattern, in turn, was determined by the rate of expansion of the economy and by changes in consumption patterns resulting from the increase in income.

In an open economy, things were considerably less simple than in the closed ones, as the domestic pattern of production and expenditure could, to a large extent be adjusted to each other by exports and imports. A country that exported part of its agricultural production in exchange for industrial products was at a different stage of development from the country that consumed its entire agricultural production locally, all other things

being equal. Ligthart and abbai concluded that it was commonplace among students of African conditions to say that it was impossible to make generalizations and this was unfortunately no less true for individual countries than for the continent as a whole since wide and profound regional variations in characteristics exist in almost every respect within national boundaries as much as among different countries. Differences in population density are a first indication of such variation. Infrastructure deals with the provision of basic facilities such as energy, transport and education (levels of school enrollment and literacy). From the point of view of government policy, it was obviously important to know what kind of situation was required for some sort of self generating process of expansion (loosely a take-off stage) to start, not as a reflection of what happened elsewhere in the past, but as a logical minimum requirement in the present. In prevailing growth forces, the important point was to ascertain whether changes were already taking place and, if so, at what speed. Supporting statistics were, however, hard to one by one in Africa as even figures for economic expansion over the previous 10 years were not available for some countries. It could thus, be assumed that growth rates were not high and that any growth over the those 10 years was been rather irregular owing to fluctuations in crops and export prices, while production in real terms had been limited and confined to a few industries or areas (Ligthart and Abbai, 1967).

economic growth and development as structural imbalances and social and political bottlenecks. Further, Ratios of capital formation and savings, being structural features of the economy, except where conditioned by fluctuating export earnings, do not readily change overnight. Savings depend on income and expenditure patterns, which are normally rather stable, and capital formation largely depends on the rather rigid given investment opportunities of the economy. Savings and capital formation ratios are, therefore, an important index not only to any change occurring but also to its scope. A breakdown of capital formation will show whether investments are directly or indirectly productive or largely consumptive, while study of the financing of investment and the composition of savings will bring out the sources of finance, foreign or domestic and the origin of savings whether voluntary, typifying popular preference or imposed by the government.

Beyond the purely economic aspects of growth led social and political aspects. These weren't merely relevant to the Ligthart Abbai (1967) further argue that the necessary aims and efforts relates to plans and policies and instruments of economic policy and the impact of governments. They content that the traditional controversy regarding the role of the government sector and

the extent, as well as the character of government interventions in the operations of national economies are well known. At the heart of this controversy lie considerations of economic welfare and the social interest. They argue there is a body of opinion in favor of relating the role of government to the various phases of growth and of establishing a greater degree of public intervention in the initial stages of economic progress, designed to create the basic facilities that are of crucial importance for development, especially in the pre-condition period. Argument is that in the early stages of growth, the operation of the price mechanism is so limited in the scope that it cannot be relied on to ensure orderly development in those sectors of the economy which require inputs that are not directly profit-bearing. Even in the private sector, there are strong arguments for the view that, particularly where there is lack of domestic entrepreneurial skill and capital, the coordinating and promotional functions of governments, as well as their direct participation are essential for industrial and commercial growth.

Ligthart and Abbai (1967) pointed that during the early stages of development, governments normally are looking for more effective policy instruments and increasingly resort to non-financial and more direct measures to improve conditions, expand production and stimulate growth. They outlined remaining obstacles to economic growth and development as structural imbalances and social and political bottlenecks. Further, they argued that a striking feature of all African countries was the considerable disparity in income levels among the population and that leaving aside the subsistence sectors, and that differences in income levels between different social groups within the monetary sector were immense. Therefore, a convenient distinction could be drawn between a high-income and low-income group, the former consisting of the merchant and the business class in urban areas, together with the holders of senior positions in both the public and the private sectors on the one hand, and to the abundance of unskilled African labour on the other hand. Since the volume of personal money incomes shape the domestic market, the ways in which these incomes are spent are characteristic for that market, and therefore, important for economic development. Beyond the purely economic aspects of growth lied social and political aspects. These weren't merely relevant to the problem of economic development, but rather what distinguished them from other equally relevant forces was their decisive bearing on the process of economic change.

The pace and the very fate of economic development are in the end determined by how profoundly and quickly the political and social environment change. Large sections of the populations of many African countries find themselves in a social and cultural framework that is hardly suited to the dynamics of development. Traditional loyalty to a particular religious or social clan is in no sense compatible with a unified effort to overcome the pressing problems of economic underdevelopment. Though loyalty maybe directed merely to the old order of things, rather than to specific religious or social groups, while this may be less serious, where it exists it is still serious enough.

Bamwine (1975) investigated on the influences of certain variables on the levels and rates on development and establish ways and means of planning and controlling these variables to facilitate achievement of development goals. Bamwine noted that planning authorities in developing countries had established appropriate development agencies/corporations to deal with various aspects of underdevelopment problems like the industrial development banks. He established that almost all the big private industrial enterprises in developing economies were foreign dominated. Local investors did not usually have enough funds and entrepreneurial skills and experience to undertake big capital investments. The findings pointed out that high profitability of the foreign entities did not translate into local economic benefits as funds were transferred to parent companies. Further, he argued that projects profitability from a national point of view was best measured in terms of economic benefits; using opportunity cost rate of discount, in terms of social benefits; using social rate of discount or depending on national policy and emphasis.

Bamwine (1975) established that the East African Development Bank (EADB) analysed a projects financial profitability using discounting techniques, financial ratios and break-even-analysis to establish financial and business risk associated with various projects. However, no direct attention is paid to the effects of indivisibilities and externalities, which may have far reaching consequences on the small developing economies of East Africa. As an MNC, EADB could find it difficult to institute an investment policy that conveniently conforms with the development policies of the nations it serves for socialistic or capitalistic policies of states require different project evaluation mechanisms. Bamwine concluded that the banks achievement should not only be measured by the magnitude of

financial assistance to specific projects, but also by the effects the committed resources have had on the overall investment in regional economy, other achievements in industrial surveys and research, as well as technical and managerial assistance provided needed to be taken into account as they facilitate desired economic development and integration. Key setbacks outlined in the study include: Conflicts among partners due to differences in economic and political policies of partner states; Inward looking national policies that generally creates competition rather than cooperation and harmony which works against the banks objectives, and International monetary crises, oil crises and the general inflation effects on the economic activities and the performance of the bank. The general conviction was that lack of capital funds, explained by the vicious circle theory, was a major factor responsible for low levels of economic growth and development in developing countries. However, recently other factors considered as causes of underdevelopment included shortage of well conceived and prepared high priority projects and lack of competent management and manpower with relevant skills.

2.2.6 AFRICA'S GROWTH AND DEVELOPMENT IN THE 1990S

African Development and Economic Consultant (1996) did a study on Social Dimensions of Development: Investment study in Kenya, whose main purpose was to strengthen and broaden the conceptual frame work for the delivery of social dimensions of development (SDD) services to take into account concerns that had been raised by key stakeholders then, particularly donors when the government launched its strategy for SDD in October 1994. The objective was to develop a framework that ensures effectiveness, efficiency, accountability and transparency in the delivery of SDD services. The study reviewed Kenya's policy framework with respect to poverty reduction and in particular the macroeconomic policy orientation, institutional arrangements for implementation and in terms of the broad participation by all the actors in order to ensure sustainability.

The findings established that past efforts to compact poverty particularly among the very poor and vulnerable had only yielded modest results and in most cases, people other than the poor benefited from such efforts. Key weaknesses in such programmes were identified as: inability to target the beneficiaries properly; poor planning, design and project selection; lack of effective monitoring and evaluation systems; insufficient

attention to involving the key stakeholders at every stage of the programme cycle; implementation problems related to delays in disbursing funds to implementing officers; and in other cases misappropriation of funds and for most parts, failure to severely punish the offenders led to substantial leakages of resources to other beneficiaries. The study outlined priority areas for intervention as: Pro-poor labour intensive public investment programmes and increased private sector involvement in the provision of basic social services such education, health, water and sanitation, roads, housing and shelter; involvement of Women and children in development with focus on food and nutrition projects and population programmes; Promotion of small scale enterprise, more so in industry, agriculture and services, youth and school leavers development, and programmes to address unemployment and retrenchment; Promotion of sustainable environment and resource conservation with emphasis on pro-poor development methodologies and decentralized development; Social mobilization and sensitization focusing on development of information base for poverty monitoring and evaluation, training and institutional capacity building and; Protection of human rights mainly on re-integration of internally displaced persons, promotion of good governance, peace and conflict resolution, insecurity and crime prevention and emergency relief. At policy level the study emphasized on a two-pronged approach based on rapid and sustained economic growth in which the private sector was the primary source of growth; and a public investment strategy that was to be based on investment in the people. This was in recognition of the fact that poverty reduction was not possible without sustained economic growth. The pattern of growth is important particularly in a country like Kenya, where labour is in abundance thereby calling for labour intensive growth patterns that increase the incomes of the poor. It was noted that inline with the overall policy framework the government had made substantial progress in liberalizing the economy and creating an enabling environment in which the private sector can operate efficiently.

The consultants believed that their recommendations should be fully adopted in the government's effort to remove the remaining constraints to growth and poverty reduction. The consultants argued that shifts in policy direction had largely been influenced by changing economic circumstances, both internally and internationally. Lessons from past experiences was the realization that poverty was a complex problem whose underlying causes were diverse and dynamic and that solutions needed to be modified accordingly.

The consultants stated that Strategy for the SDD programme implementation was based on the premise that the most effective way to compact poverty was to strengthen the capacity of the poor to generate and sustain their own livelihood through activities that increase their productivity and incomes. Private initiative was therefore a central feature of the overall programme management. In this regard, the private sector would play a critical role in generating employment opportunities, developing human capital through education and training mainly on the job, and in financing SDD related programmes that empower the poor to participate effectively in the product and factor markets. The policy framework adopted by the government aimed at sustaining high levels of economic growth in a market-based environment in which the private sector plays the key role of generating employment and incomes. It is important, however, to point out that free market dominance in a liberal market system is not adequate.

There is need for a highly interactive relationship between the government and the private sector based on shared objectives and commitment and embodied in the development strategy as well as in the overall policy orientation. An important area here is the effective policies to remove the constraints that hinder the contribution of small-scale enterprises in generating income and employment. Private sector will also play a key role in assisting the poor to gain access to income generating opportunities.

In the past, the private sector has made significant contribution through the sponsorship of promotional activities in the small-scale enterprise sector as well as by contributing financial resources for basic education and training as well as in the provision of basic needs and in infrastructure such as access roads. Though, for the private sector to fully perform its role of employment and income generation, it will be necessary for the government to implement all the complementary policies and institutional changes that provide an enabling environment for efficient operation. These include removal of regulatory and administrative constraints, provision of adequate infrastructure, as well as provision of adequate public security.

Cleaver (1997) stated that about 70 percent of Africa's poor were rural. About 40 percent of rural household heads had completed primary education, compared with 70 percent of urban household heads. 45 percent of the urban population and 30 percent of the rural

had access to sanitation. 40 percent of school age females in urban areas were enrolled in primary school compared with 25 percent in rural areas. Overall, these household statistics showed that while a large percentage of the urban population does poorly, the rural population does worse (World Bank 1997). Cleaver argued that poverty reduction required agricultural development in most African countries, and not only because of the preponderance of the poor who were rural and dependent for the most part on agriculture. Analysis done by World bank shows that a necessary, though not sufficient condition for reducing poverty generally is rapid economic growth. An economic growth of 6 to 7 percent per annum has been found to be necessary on average in Africa to obtain 2 percent per year reduction in the number of poor (World bank 1997). Cleaver pointed that to obtain an average 6-7 percent per year economic growth rate, most African countries required an agricultural growth rate of 4 to 5 percent. This was due not only to the large contributions of agriculture to gross domestic product (GDP), which was 30 to 35 percent on average, but also to the fact that in most countries the major industries were related to agro-industry, agricultural marketing and farm input supply.

Many donors, and increasingly African governments, have identified special constraints facing women that reduce economic growth. Most working women are employed in agriculture and many of the constraints facing them exist in the rural economy as quoted in (World bank 1989; Cleaver and Schreiber 1994). These include: legal and customary constraints on land ownership and access to credit; absence on male partner who work in town and cities or off-farm, leaving the women to head the farm; work burden on women in addition to farming, including household management and water and fuel wood collection; and cultural constraints on women use of equipment and oxen.

Cleaver (1997) argued that improving the economic status of women would require dealing with the constraints facing women. Sub-Saharan Africa's agricultural performance has been poor on average according to the World Bank data. Agricultural growth has averaged less than 2 percent per year for the past 30 years. Population growth is more than 3 percent per year and food production per capita has been declining. Even with rapid increase in food imports (7 to 10 percent per year), 30 percent of Africa's population is food insecure. Cleaver pointed that about 50 percent of World bank assisted agricultural projects during the past 25 years had failed to provide sustained economic

returns initially targeted at 10 percent or greater. The implications of the above data are that agriculture is critical to Africa's economic, social and rural development. Cleaver further argued that early strategies for dealing with rural development excluded private sector marketing and credit. The private sector was often, suppressed by the government with private agricultural trade been highly regulated and in some cases was illegal above certain quantities. Government owned parastatals marketed locally produced cash crops, imported food crops, and government agencies fixed prices paid by parastatals to farmers. Although farmers were private, they received public services that were largely provided within donor-financed projects.

Academics, donors, governments and NGOs applauded this approach in the 1970s and 1980s. There was a remarkable homogeneity across donors and countries in implementing the projects within this policy framework. The impact of this was that in most countries, the governments' price and marketing policy toward agriculture effectively suppressed farmer incentives through the mid 1980s a situation that was ignored by donors during the project design. Tanzania, then a favorite of the donors at the time presents a typical case. The government maintained official agriculture prices so low as to be confiscatory; black markets developed despite the risk of confiscation and arrest of farmers and middlemen who participated, government marketing enterprises was characterized by inefficiency, high overhead and poor service. These enterprises could not meet agricultural marketing needs. Farm input supply by government was often accompanied by significant corruption and poor service. There was legal suppression of potentially competing input supply and marketing by private or cooperative operations and an overvalued exchange rate, reducing the local currency value of imported food. This resulted in the substitution of imports for local production and a decline in agricultural exports (Cleaver 1993). There were remarkable homogeneity in these approaches and policies across Africa. However, a few countries such as Cote d'Ivoire and Kenya were more open to private participation, while others such as Guinea, were even more closed and controlled than was Tanzania as quoted by Cleaver, 1997 from (Jaeger 1992; Cleaver 1993; World bank 1994a; Badiane and Palgado 1995). The result was a reduction in farmer incentives to produce, even when there was substantial donor investment in agriculture.

Cleaver (1997), however, pointed that there were some successes among the single crop development projects, although often with curious twist, which could have taught something about the elements needed for success. For example, cotton projects in West Africa (based on the model developed by the French Compagnie Française pour l'Élevage du Textile) were often successful. In this project type, agricultural prices, although fixed by the government, were close to world market levels in many countries, though not all. There was some participation in the French mother company. Other examples were Cote d'Ivoire rubber where the private company participated in the rubber company SAPH, Kenya tea in which farmers participated in the Kenya Tea Development Authority, Kenya coffee where farmers cooperative and private companies purchased, processed and marketed coffee and private sugar estates in Kenya. The private sector also had some successes without donor grant or loan assistance, however, the International Finance Corporation (IFC) invested in some projects. Kenya Horticulture, Kenya's east African Oil (Oil seeds), Ivoirien Cocoa plantations, Del monte pineapples in a number of countries, and Unilever (palm oil and cocoa) in the Democratic Republic of Congo, formerly Zaire, were among the success examples.

Public sector agricultural credit projects were a disaster (Cleaver 1997). All public sector credit banks in Sub-Saharan Africa become financially insolvent by the early 1990s, requiring continued donor assistance and government subsidy. In most cases, loans were made more often to the politically elite and to large farmers than to small farmers, despite the small farmers better repayment rates. The closest to success was the agricultural credit scheme in Malawi, but the difficult of maintaining the success was enormous. Cleaver (1997) argued that key adjustment needed in the development strategy was to allow greater private sector participation. It was necessary to develop more effective instruments of donor support to private sector farmers, marketing and processing companies and banks. These instruments do not need to be part of agricultural projects but could be part of direct support to private enterprise that process, market, and provide savings and loan services to agriculture. This donor support would stimulate greater private equity investment in these activities as well. Private sector projects in rural micro-enterprise development, rural savings and loan, and private marketing and processing need focused attention. However, it is important to note that as a prerequisite for private sector investment, effective policy reform programs are needed

to create the elusive 'enabling environment' that would encourage private sector investment in farming, marketing, processing and input supply.

Sen (1999) as quoted in the World Development report 2002, pointed that the availability and access to finance could be a crucial influence on the economic entitlement that economic agents were practically able to secure. This applies all the way from large enterprises, in which hundreds of thousands of people may work, to tiny establishments that rely on micro-credit. Quoted in the same report, De Soto (2000) and Yunus (1997) emphasized on the importance of private innovation supported by formal institutional change as instrumental in addressing poverty and underdevelopment. They argued for the case of the growth of the Grameen bank in Bangladesh in 1976. The Grameen bank was started with a simple idea to help poor people help themselves by giving them small loans to start businesses despite their lack of collateral or credit histories. It grew from a village branch of a government bank that expanded to other bank branches that eventually led the government to change the laws governing it. Established first as an independent entity with government control, then as an effectively private bank run by a private individual and an independent board of directors, today, Grameen bank has branches in more than half the villages in Bangladesh and more than two (2) million borrowers (World bank 2002).

While governments have an important role in providing public goods, such as laws that delineate property rights and the judicial institutions that enforce these rights and establish the rule of law, governments have been known to impede the development of markets through arbitrary exercise of state power, over taxation, corruption, short time horizons, cronyism, and the inability to uphold public order. Market development and private business flourish when the behaviour of those who govern is not arbitrary (World bank, 2002).

North (2000) as quoted in the world development report of 2002 argued that if we new the sources of plenty, then the poor countries could simply adopt policies that make for plenty. Thus, we must create incentives for people to invest in more efficient technology, increase their skills and organize efficient markets.

2.2.7 AFRICAN GROWTH & DEVELOPMENT IN THE 21ST CENTURY

The world Commission on Environment and Development (WCED) argues that sustainable growth and development is maintaining a delicate balance between the human need to improve lifestyles and feeling of well-being on one hand, and preserving natural resources and ecosystem on which we and the future generations depend. According to the WCED, this is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development implies economic growth together with the protection of environmental quality, each reinforcing the other. The essence of this form of development is a stable relationship between human activities and the natural world, which does not diminish the prospects for future generations to enjoy quality of life at least as good as our own.

Ongw'én (September 14, 2005) argued that for the world summit on MDGs held in September 2005 in New York, to have meaning to the impoverished countries, there was a compelling and urgent need for shift in policies and in their implementation, with deliberate focus on capacity building, better targeting and improved quality of aid. Muluka (September 17, 2005) commented the Brazilian president, Lula da Silva, who addressing the summit said that there could be no peace and stability in the world, for as long as a billion people wallowed under poverty, since the biggest weapon of mass destruction in the world is hunger.

Mitchel (September, 2005) argued that as the world leaders met in New York to review the achievements made towards the attainment of the millennium development goals, millions of people in southern Africa were facing the threat of food shortages. Mitchel further argued that the summit was in danger of becoming another talking shop since the poor of the world did not need more weasel words, but needed action, good governance from their own rulers and the freedom to trade with people in rich countries.

The economists (July 2, 2005) argued that the presidents and prime ministers of the Group of eight (G8) countries were under pressure following months of publicity for a campaign on them to make poverty history. The campaigns pinned their hopes on doubling of aid to Africa.

However, none of the signal events in the recent history of poverty eradication depended on the generosity of strangers. China's first cautious to take market in 1978; India's nod to entrepreneurship in 1982; Vietnam's *doi moi* reforms of 1986, were all homogenous policy reforms that allowed the countries to get richer by making money and not by receiving it. There is argument that aid is useless or even worse than that, but economists worry that it crowds out industries, by for example, bidding up the price of skilled worker. Gupta (2005) as quoted in the economist (July 12, 2005) argued that aid could make governments dependent on their paymasters in the rich world and not their taxpayers at home. Gupta contented that for every extra dollar of aid they are given, governments raise 28 cents less in tax.

There was, therefore, a growing realization that the changing global environment of the Economist (July 12, 2005) further argued that the hope in the 1980s and much of the 1990s was that aid could buy both reforms that cause economic growth and the growth itself. Money was given on the condition that prices were stabilized, markets liberalized and industries privatized. But after the easy reforms were done, the hard ones were too intractable. Argument is that the vogue now is for ownership and partnership, in that countries are supposed to devise their own strategies for fighting poverty, in wide consultation with civil society, and then invite donors to back them. He pointed that countries that received backing in a big way were like Mozambique. Recovering from war, it received aid worth half its national income in the mid 1990s. It grew quickly and has become less dependent on aid in recent years. Ghana is usually second on the list. Its economy grew steadily and its government raised more in tax revenue since the aid started flowing. Other countries that join the queue are Tanzania, Ethiopia, but not without some ifs, buts and wait- and -sees.

2.2.8 PRIVATE INVESTMENT AND AFRICAN GROWTH & DEVELOPMENT

Okelo (1997) analyzed the impacts of macro-economic policies on private investment in Kenya between 1970 to 1995. He proposed to investigate on the impacts of macro-economic policies on private investment in Kenya, prompted with the view being accorded to private sector investment today as the best economic agent in achieving sustainable growth and development in developing economies. Okelo argued that private

investment is today viewed and encouraged by the developing economies as the best strategy through which sound and sustainable economic growth and development can be achieved. However, African countries have done very little in boosting private investment. He pointed that investment of private business sector varied a great deal across African countries, as in some countries there was little or no indigenous business, while others were dominated by foreign corporations. Okelo found that the growth of public sector was going down in many economies, mainly due to failures in steering growth and development and, also, due to the fact that they have been crowding-out the development of private entrepreneurship.

There was, therefore, a growing realization that the changing global environment of the 1990s required recovery of private investment. This led to higher efficiency of resource use and served as a signal to foreign investors. Private domestic investment in developing countries, needed to be seen not only as a contributor to economic growth and employment, but also as a catalyst to attract foreign direct capital. It was, therefore, widely accepted that the expansion of private domestic investment should be the main impetus for economic growth, allowing public investment resources to focus on the public goods, including the alleviation of poverty and upgrading of social capital and services. Results of the study supported the hypotheses that private investment rates in Kenya was affected by public investment, real interest rate, growth rates, lagged private investment, credit to private sector, adverse terms of trade, dummy variable (financial liberalization), and uncertainties proxied by inflation rate and external debt/ GDP percentage. Further, results suggested that public sector investment negatively affected private investment over the period of the study. Empirical evidence suggested that, when the private sector was squeezed for credit, there was likely to be a reduction in the levels of private investment with the adverse impact on the long-term productivity capacity of the private sector.

Adedefi (2000) studying on endogenous growth and robustness of private investment: evidence of Nigeria, noted that the Nigeria's economic prosperity had long being viewed as beneficial not only to West Africa region, but to the continent at large. Results of the study indicated that the effect of increase in private investment on output growth was

robust. Further, the results suggested that impact of human capital development on output growth was registered via its positive effect on the volume of private investment.

Mugomba (1999) analyzed private investment in Zimbabwe between 1980 and 1997. He pointed that the system of investment licensing and price control restricted private sector demand. Results of the study indicated that fiscal and monetary policy variables had been found significant with high explanatory power on the level of private sector investment in Zimbabwe. The government of Zimbabwe had invested in competing sectors of economy with private sector, where it had operated parastatals inefficiently. Allocation of resources had been inefficient and at the same time prices had not been market determined. Mugomba concluded that such distortion's had instead discouraged private investment.

Ndororwi (1997) studying public policy and private investment in Zimbabwe defined private investment as the total fixed capital formation less gross investment of the public sector. Evidence from the study suggested that private investment in developing countries was constraint by the availability of financing, and that monetary policy by varying the flow of credit to the private sector that directly changed private investment decisions. Ndororwi argued that governments in the developing countries appeared to be in a position to alter the pattern of private investment by changing there own investment strategy, especially when a distinction was made between infrastructure and non-infrastructure investments.

Aryeetey (1994) writing to World Development Journal on private investment under uncertainty in Ghana stated that the Ghana's economic recovery program saw a considerable growth of economy during 1985 to 1991. However, performance had slackened after 1992, a fact attributed to poor private sector investment response following reforms. He argued that Poor growth in private investment could have been attributed to the perception of uncertainty in the political and economic environment since 1982. Growth in Ghana had not been consistent after macro-economic reforms, a fact he attributed to poor private sector investment response in the medium to long-term, quoting from World bank (1991). Possible factors for poor private sector response were:

inadequate institutional support, perception of inconsistencies in reform policies and general mistrust for government intentions.

Rodrick (1990) as quoted by Aryeetey argued that in practice, stabilization has proven not to be a short-term measure, as many economies that have undergone structural adjustment have perpetually remained unstable in macro-economic terms. Further, he argued that policies of liberalization applied in strong doses in an unstable host environment could not be sustainable in the medium term. Governments have, therefore, to ensure that the goal of sustainable policies takes precedence over liberalization. Policies must generally be perceived by the private sector to be sustainable since they will base their investment decisions on these policies. Private sector is indeed crucial to the stability of adjustment since growth is an essential component of any successful adjustment program. Rodrick wrote that for policy reforms to be successful, entrepreneurs, workers and farmers had to respond to the signals generated by the reforms.

Medium/large scale enterprises in a total sample of 133 firms surveyed by Aryeetey, Baal-Nuakol, Steal et al (1993), it was reported that inadequate finance was the most significant constraint for 53.3 percent. It became more of a problem the smaller the enterprise. World Bank (1990) outlined five major broad areas in which firms of all sizes were affected as inadequate policy framework; inadequate financial mechanism and incentives; inadequate knowledge of markets, product quality, investment and technical know-how; inadequate institutional support and; inadequate export infrastructure.

Aryeetey (1994) argued that problems are supposed to manifest themselves in inadequate trade policies, poor administration procedures, inadequate investment finance and working capital, as well as poor development of private sector organization to protect the interest of members and poorly established public institutions that were expected to facilitate exports. It was thus obvious, from survey evidence only that, a more vigorous response of private investment appeared to have been impeded by a number of institutional, structural and financial constraints.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 POPULATION AND SAMPLE

This was a case study of the ADB. The choice of the ADB was done judgmentally, based on the premise that ADB is among the key institution undertaking development financing in the African continent and that it is indigenous to the continent. Consideration was, also, given to the fact that efforts of attaining sustainable growth and development in Africa are joint efforts and entails wide collaboration among all the key stakeholders. It was, therefore, hoped that ADB as a case was typical and representative of the efforts, roles and action plans of other key stakeholders involved in addressing the problem of growth and development in Africa.

Koigi (2002) argued that case studies provide valuable insights for problem solving, evaluation and strategy. This detail is selected from multiple sources of information and allows evidence to be verified through in-depth probing.

Kipkore (2004), quoting Maychrak (1987) argued that a case study is commonly used in policy research. A policy research is the process of conducting research on/or analysis of a fundamental special problem in order to provide policy makers with action oriented recommendations for alleviating the problem. Rist (1982) as quoted by Kipkore, asserts that case studies give an in-depth analysis of superficial statistical portrayal of populations. Case studies also give complete understanding of complex situations by examining behaviour.

Musa (2003) stated the advantages of a case study as enabling an in-depth understanding of the behaviour pattern of concerned unit, facilitating an intensive study of concerned unit which is not possible with different methods, possibility of obtaining inside facts from experienced employees and, enriching generalized knowledge and makes it possible for the researcher to use one or more methods depending up on prevalent circumstances.

3.2 DATA COLLECTION

Both primary and secondary data was used. Secondary data was obtained from financial monitoring and performance reports on private sector operations, private sector briefs, private sector studies on support for growth-oriented women entrepreneurs in various RMCs and private sector working paper series done by the bank. These data detailed the banks areas of focus within the private sector, the expansion of the role, size and the impact of private sector operations. It further highlighted on how the bank has induced private sector growth in RMCs through supporting specific improvements to the policy/regulatory environment for private sector in RMCs, ameliorating the physical and financial infrastructure in RMCs to enhance private enterprise productivity and competitiveness, supporting the strengthening of human capital, in terms of technical assistance, transfer of skills, know-how and technology and, catalyzing inflow of financial resources to RMCs through direct investment and financing activities. These data also detailed the eligibility criteria used by the ADB in financing projects within the private sector.

Primary data was obtained through an online administered questionnaire to the private sector arm of the ADB. The questionnaire utilized structured, closed and open-ended questions. Such questions were preferred because they provide an opportunity for in-depth probing of issues. Emphasis was on the qualitative aspects of the data and factors in the phenomenon. In particular, focus was on individual projects as units of study.

3.3 DATA ANALYSIS

The problem was a social phenomenon and, therefore, the qualitative approach in research was used. This approach enabled the researcher to have a deeper understanding of the problem under investigation, and provided the mechanism to evaluate the complex and dynamic interrelationships between poverty, growth and development, the role of the African governments and the ADB and, the place of the private sector in seeking lasting solutions that ensure sustained growth and development among the African economies. Content rather than statistical analysis of the data was done to arrive at the conclusions.

According to Mugenda and Mugenda (1999), qualitative approaches in research are increasingly being used to address social and economic problems in the recent years.

Mugenda and Mugenda argue that in developing countries like Kenya, qualitative research is still not very well understood. However, despite this limitation, qualitative approach is slowly gaining acceptance by scholars in Africa because of its effectiveness in addressing social issues that affect individuals and families. By using qualitative methods, researchers are able to collect data and explain a phenomenon more deeply and exhaustively.

In qualitative research, data collection and analysis go hand in hand and are done simultaneously (Mugenda and Mugenda, 1999). Content analysis was used since it enabled the researcher analyze and make interpretations of the data as it was obtained. Mugenda and Mugenda argued that content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observations and detailed description of items, objects or things that comprise the study. Content analysis has been used successfully by: Njau (2000), Kandie (2001), Kirui (2001), Koigi (2002), Musa (2003), Koske (2003) and Kipkore (2004).

CHAPTER FOUR

4.0 DATA ANALYSIS AND RESEARCH FINDINGS

4.0

The ADB private sector window was established with the objective of broadening the scope of development assistance to RMCs in recognition of the important role of the private sector in stimulating economic growth and development. The growing role of the private sector in achieving sustainable development and poverty alleviation is evident world wide and recognized by the bank's vision. Under its vision the bank considers private sector development as a major area of its development agenda.

The findings established that one of the key development challenges to the socio-economic growth in the African continent has been the expansion of the role, size and impact of private sector activities. To support such expansion, it was found out that the needs in terms of policy/regulatory changes, human capital and financial resources are massive, and further exacerbated by the globalization of international markets, which has reduced the available time for African economies to adjust to international competition. The Private sector development has been a strategic objective and priority of the ADB. The bank, in harmony with concurrent development assistance initiatives by sister institutions, aims at inducing private sector growth in RMCs through: Support to specific improvements on the policy/regulatory enabling environment for private sector in RMCs through country dialogue and policy based operations; Ameliorating the physical and financial infrastructure in RMCs to enhance private enterprise activity and competitiveness; Supporting the strengthening of human capital, in terms technical assistance, transfer of skills, know-how and technology; and Catalyzing inflow of financial resources to RMCs through direct investment and financing activities.

The findings established that the bank's private sector window (private sector department, OSPD) is responsible for all direct lending operations non requiring sovereign guarantees. Within the overall bank objectives of assistance to private sector development, OSPD strategy has focused on four main dimensions: Contribution to the improvement of the enabling environment for business in RMCs, Technical and financial

support to the strengthening of local financial markets, Technical and financial assistance to support development of private infrastructure and, Technical and financial assistance to enterprises, in particular Small and Micro-enterprises (SMEs).

4.1 ADB INVESTMENT STRATEGY

The first objective was to identify the investment strategies used by the bank in order to achieve its overall objective of ensuring sustainable growth and development in the RMCs. It was found out that the bank established the private sector window in 1991 with the objective of broadening the scope of development assistance to RMCs, in recognition of the important role of the private sector in stimulating economic growth and development the world over. The bank's vision considers the development of the private sector as a major objective of its development activities. The bank has identified the creation of an enabling environment, strengthening financing systems, building competitive physical and social infrastructure and promoting trade as key priority strategies for ensuring effective private sector development.

A key objective of the private sector development strategy is to support the development of an enabling environment for the emergence of a viable private sector in RMCs. The bank has therefore implemented a bank wide approach to private sector development by providing strategic orientations and outlining responsibilities for the bank private and public sector windows. In support to creation of an enabling environment, the bank has assisted RMCs governments' reform their existing legal and regulatory frameworks and ensures the involvement of the business communities as well as other key stakeholders in the reform process. The bank provides assistance to reform the judicial systems, to introduce and strengthen economic and corporate governance, and promote fiscal responsibility, transparency and accountability. To strengthen the financing systems, the bank works with the central banks and financial institutions of RMCs to promote policy reform, good financial governance and build institutional capacity. The bank has developed financial instruments such as LOC, loans, guarantees, equity funds, quasi-equity and syndications over and above developing sound banking systems to create, broaden and deepen capital markets in RMCs. The bank has also assisted in diversifying non-banking financial products such as leasing, franchising, venture capital markets and

micro-finance institutions. In infrastructure, the banks is promoting PPP by developing broader financing options, supporting training for business skills and brokering PPPs for provision of basic services. Further, the bank assists governments develop and implement sound privatization strategies. Finally, to promote trade, the bank continues to advocate for trade liberalization and, in particular the removal or reduction of subsidies and other tariff and non-tariff barriers.

The bank provides financing programs to support and promote inter- and intra regional trade, to help local banks establish relationships with foreign banks and to strengthen the financial capacity of local trade financing institutions. It was found that for the bank to finance a project, it has to satisfy itself that the project is consistent with the host country's economic development objective, has sufficient comparative advantage and is likely to succeed in a sustainable manner. Further, the nature, terms and conditions of the banks investment in a particular venture are commercially determined, based on prices on risks, the expected returns of the venture, as well as the characteristics of the corporate entity receiving the investment. Assistance may be considered for projects to establish, expand and modernize productive facilities in various sectors including energy, manufacturing, agribusiness, tourism, transportation, infrastructure, extractive industries as well as banking, finance and other service industries as long as the investment is beneficial to the economy of the host country.

Finally, the banks investment strategies are such that the bank is not the single largest investor in any particular project, it does not compete other locals financing institutions in investing a particular project but rather compliments those other institutions and, has an established exit strategy from the investment once acceptable returns, with reasonable assurance that the project will be self sustaining are attained. Further, as part of its strategy, the bank focuses on supporting programs aimed at promoting SMEs and growth oriented women entrepreneurs with successful models in Kenya, Tanzania and Ethiopia.

4.2 ADEQUACY OF THE ADB INVESTMENT STRATEGIES

The second objective was to establish the adequacy of ADB investment strategies in the Africa's private sector. A broad measure of the success of the bank strategy has been the growth of the formal and informal economic sectors in the RMCs. The banks private sector operations department has lived to the challenges of playing a catalytic role in mobilizing financing resources for private sector development, extending technical assistance to intermediaries and beneficiaries concerned with private sector activities, identifying appropriate and innovative mechanisms to support private sector entities, with special focus on SMEs and, complementing other bank actions aimed at improving the business climate and increasing confidence among lenders and potential investors in RMCs, all pointing to the effectiveness of the banks strategy.

The findings established that the success of the ADB strategies in Africa can be linked to the development and existence of efficient local financial markets. Assistance to local financial institutions has therefore been a key area of activity of the ADB, and OPSD in particular. For instance, OPSD extended lines of credit (LOCs) for a total of US\$ 430 million in 2003 -2004. The LOCs usually have a long-term maturity of between 7 - 10 years, thus enabling local banks to on-lend to their clients on similar terms. This has helped local banks to balance their revenue streams versus long-term lending, and thus have been able to support investments with long-term returns, which in turn stimulates the industrialization process in RMCs. Where local banks have inadequate capacity to manage their operations with the highest professional standards or where limitations exists in specific areas such as portfolio management and risk management, OPSD provides technical assistance packages to those banks, concurrently with the financing of LOCs, and monitors the improvement of manager/technical capacity as a condition for extension of further financial resources. Further, OPSD activities in the area of financial intermediation are expanding to equity participations in private banks, lease financing, insurance and micro-finance.

In the physical infrastructure, OPSD has supported private infrastructure and public-private partnerships (PPP) through direct financing and provision of technical assistance services. Direct financing (including senior debt financing and provision of guarantees)

has included some of the most successful private infrastructure projects in Africa for the ADB, such as the Azito power plant in Cote d'Ivoire and MTN telecom project in Cameroon. Further areas of focus concern financing of transport infrastructure, particularly port facilities, and development of renewal energy sources. In this context, OPSD has funded preparatory studies for the expansion of the port of Abidjan (Cote d'Ivoire), the establishment of a new port in Mayumba (Gabon) and the identification of investment opportunities for wind energy in Africa among others.

The development of private infrastructure in Africa, which remains at about 6% of equivalent investment in South America, is currently affected by so many issues, and in particular: a progressive narrowing of the range of international operators active in this field, with the associated difficulties in maintaining sufficient competition in the sector; a growing reluctance by international commercial banks to finance private infrastructure projects, while shifting instead towards provision of advisory services; and the limited capacity among public administrations in RMCs to conceptualize, prioritize, formulate and negotiate proposals for private infrastructure initiatives. OPSD has in turn analyzed these issues in a comprehensive document (public-private partnerships in Africa, April 2002) and defined a course of action to boost investor's interest as well as capacity in public administrations in this sector.

Finally, the success of ADB strategies can be attributed to provision of technical and financial assistance to African enterprises (those legally registered in RMCs, irrespective of the nationality of their shareholders). On technical assistance, ADB is co-funding with the international finance corporation (IFC), specific programs (AMSCO, APDF) to assist local entrepreneurs in the areas of project formulation and management. Direct financial assistance is made available by OPSD through long-term debt financing (which is restricted to a minimum of about US\$ 3 million equivalent as bank contribution, and usually never exceeds 40% of total project costs), equity (which never exceeds 25% of the share capital of the enterprise) and guarantees. Again OPSD supports particular initiatives in agribusiness, tourism, and industrial modernization, based on strong linkages with external markets. It also supports extractive industries (mining, oil and gas) that induce regional integration and support mechanisms such as social infrastructure and financial instruments to local communities.

According to the banks latest private sector brochure, about 55 % of the banks active private sector portfolio is in financial intermediation. The breakdown is as shown in the table below.

Sector	% of active portfolio
Financial intermediation	54.6
Oil and gas	13.4
Infrastructure funds	11.1
Infrastructure	9.2
Manufacturing	4.5
Tourism	3.6
Mining	1.7
Agribusiness	1.5
Health	0.4

Source: source data - private sector brochure 2005
 (Active portfolio consists of committed portfolio, net of cancellation and completed projects, plus uncommitted approvals).

The banks sectoral distributions of its portfolio points to the ADBs emphasis on the growth of the African financial sector as key to the domestic as well as external resource mobilization for growth and development among the RMCs. Growth in the financial sector allows for efficient allocation of resources among the various sectors of the national economies in the African countries. This in turn facilitates the utilization of natural resources, creation of employment, transfer of technology, source of government revenue to support other national sectors, foreign exchange earnings among others, which lead to alleviation of poverty, economic growth and development among RMCs.

It was, however, established that targeting Small and medium enterprises (SMEs) has been particularly difficult in Africa, though a critical vehicle for sustained growth of the African economies. This is mainly because of sub-optimal capitalization and capital structure of enterprises, shortage of skills, weak market linkages and strategic alliances, and lack of business development services and associative networks. The overall result has been extremely high mortality rate of local enterprises, and an associated reluctance by local banks to finance SMEs. OPSD has however, initiated selected approaches to support SMEs development, through programs aiming at strengthening particular skills and business linkages, while providing concurrent financial assistance. In this context, OPSD has launched a continent-wide initiative to support franchising in Africa, in

collaboration with the South African Franchising Association in South Africa. The program includes an analysis of how to develop franchising business in Africa, activities to disseminate the franchising concept/mechanism, and the implementation of specific financing schemes for African franchises. Further, OPSD initiatives in the area of SMEs development has focused on programs targeting African business women as well as inducing associative capacity and linkages between SMEs and local financial sectors, along proven models developed in Europe, and particularly in Italy.

4.3 THE ROLE OF THE PRIVATE SECTOR

On the role of the private sector, the findings pointed that the private sector plays the following roles towards economic growth and development and alleviations of poverty in Africa.

- Employment generation. This has been achieved through direct jobs from the projects supported by the ADB and indirect jobs from the growth of associated industries and the informal sectors.
- Technology transfer and the acquisition of specific skills and knowledge. This has been mainly through DFI facilitated by the bank or as a result of confidence build of the investment climate among international investors by ADB presence in RMCs.
- Generation of foreign exchange earnings and savings. This has been attained either directly from projects financed or through the growth of industries associated with financed projects.
- Enhancement of value added products. ADB private sector activities has allowed for utilization of local raw materials in the production of finished products amongst RMCs.
- Development of local financial markets. LOCs and support of national financial markets has allowed ease of resource mobilization and capital flows among RMCs.
- Fostering FDI to African countries. ADB activities have fostered confidence on the investment climate in Africa for international investors.
- Utilization of local resources and raw materials especially in rural areas

- Development on both physical and social infrastructure. OSPD has supported directly the growth of physical infrastructure and indirectly led to the growth of the associated social amenities.
- Expansion of host government revenue. This is mainly the expansion of the revenue bracket due to growth of private businesses.
- Development of local entrepreneurship and
- Reduction on negative environmental impact among others.

The findings, however, established that in an effort to achieve its objective of private sector development, within the framework of promoting sustainable economic growth and reducing poverty, ADB gives priority to the financial sector operations and to infrastructure related projects, especially those involving public-private partnerships (PPP). It also supports programs designed to help the development of SMEs, and privatization projects.

4.3.1 FINANCIAL INSTITUTIONS

It is generally agreed that the development of a national financial sector is one of the key conditions to mobilize investment resources. Therefore, the ADB role has been to catalyze the flow of domestic and external resources towards the build up of the financial sector of the African countries. The bank has therefore focused on three major objectives: To increase private financial institution's responsiveness to an increased demand for long-term loans, to strengthen these institutions' capacities, especially to be able to address the specific financing requirements of SMEs and, to ensure sound business and financial management practices within the assisted institutions. For this purpose the bank has developed five instruments, which it can provide to financial institutions, namely: loans, lines of credit, equity participation, guarantees, and loan syndications.

LOANS

The ADB offers hard currency term loans denominated in the borrower's choice of currency such as the US dollars, Euro, Pound sterling and Yen. The bank however, is exploring the possibility to raise certain local currencies for lending purposes and currently local currency loans can only be offered in the South African Rand. Interest

rates and other charges are set in accordance with market practice to reflect the risks and other characteristics of the specific projects being financed, and taking into account terms available from market sources. However, the bank takes no foreign exchange risks in connection with its loans, which must be serviced in the same currency in which they are disbursed.

EQUITY AND QUASI EQUITY INVESTMENTS

The ADB equity investments may take a variety of forms, including common shares and preferred stock, with or without participating features. In most instances, equity instruments are denominated in local currency. The bank will however, not assume responsibility for managing an enterprise in which it invests but will closely monitor the activities of the company. In making equity investment decisions, the bank determines its prospective exit strategy. Furthermore, under normal circumstances, the bank would divest its equity holding once the project has reached the envisaged performance level and its operations are stable, and when a reasonable return can be achieved.

GUARANTEES

The ADB may provide guarantees to cover the payment of principal and interest for loans and debt instruments extended by others. The beneficiary of the banks guarantees, that is the funding source, may be financial institutions or commercial firms, both local and foreign. Guarantees are payable in one of the bank's normal lending currencies. In addition to guarantee fee, the bank will normally charge front-end fees and other fees similar to those applicable to loans.

LINES OF CREDIT

The ADB extends lines of credit (LOCs) to private and public (non-requiring sovereign guarantees) financial institutions (PFIs) for on lending to SMEs and other corporate clients. The PFI enjoys considerable freedom and flexibility in the utilization of proceeds from the LOC, but must demonstrate post-facto that such proceeds have been utilized in accordance with the bank policies and the various provisions in the loan agreement. The credit risk of the sub-loans, are borne by the financial institutions and/or their sub-borrowers.

LOAN SYNDICATIONS

Syndications may involve the bank acting as arranger of financing, whereby banks and other financial institutions are offered participation in bank loans, with the banks taking the same project risk as the bank on pro-rata basis. The bank charge fees to the borrowers for syndication services, including identification of funding sources, the coordination of participant's loans and the on-going administration of the loan participation. The fees are negotiated with the borrower inline with those prevailing for comparable services in the market.

The banks active private sector portfolio structured by instrument as at the end of the 2005 financial year constituted of 54% LOC, 31% loans, 9% on equity funds, 3% on private equity, 2% on guarantee and 1% on quasi equity. This active portfolio consists of committed portfolio, net of cancellation and completed projects, plus uncommitted approvals. This is according to the banks latest private sector brochure.

Instrument	% of active portfolio
Line of credit	54
Loans	31
Equity funds	9
Private equity	3
Guarantee	2
Quasi-equity	1

Source: Source data - private sector brochure 2005

This indicates that the banks largest portfolio is held in LOC for further on lending to SMEs and other corporate clients within the African region. According to the statistics at least 85% of the banks active portfolio is in resource mobilization to the domestic financial markets, probably emphasizing on the critical role of the growth in national financial markets in the development agenda for Africa. Mainly, LOCs and loans offered by ADB have long maturities of 5 to 15 years that allow ADB borrowers to further on lend to the SMEs and other corporate clients, leading to growth in private sector in the RMCs.

4.3.2 INFRASTRUCTURE

In the field of infrastructure, ADB promotes infrastructure projects and gives special attention to PPP investments. The bank provides financial support through direct equity investment and loans, advice to enterprises on the structuring of such projects and, advice to governments in order to introduce a conducive legal and regulatory framework, as well as technical assistance to enhance their capacity to adequately structure and handle PPP programs. The key objective of the bank has been to provide confidence and comfort to other lenders and investors who may hesitate to participate due to perceived risks or lack of familiarity with conditions in the host countries. When participating in a project, the ADB ensures that the interest of the host RMCs and the other parties to these ventures are protected.

4.3.3 PRIVATIZATION

ADB encourages the process of privatization and provides assistance in two ways: through technical assistance and advisory services to governments to structure privatization schemes and to establish the necessary legal, institutional and procedural frameworks for such operations and, financial assistance in the form of loans, equity participation and underwriting.

UNDERWRITING

The ADB can act as an underwriter of a portion of the securities issued by private sector entities and national or regional investment funds.

ADVISORY SERVICES

The bank may offer a wide range of technical assistance and advisory services, including: Policy advice and technical assistance to governments in order to facilitate the creation of the enabling environment, promote privatization schemes, revise and rationalize investment codes and fiscal regimes, promote foreign direct investments, develop the financial sector and capital markets; provide financial advisory services to governments for privatization projects; Advise private operators on the formation of new projects or the restructuring of existing ventures; provide technical assistance to private sector clients in order to overcome important constraints or capacity deficiencies; and/or

provide technical assistance to other economic agents, which play a role in promoting private sector development, such as business association.

4.3.4 SMALL AND MEDIUM ENTERPRISES

Considering the importance of the micro-enterprises sector in the African economies, ADB has designed a specific strategy to promote the development of SMEs in the continent. This strategy has been articulated into four axes as: Fostering a suitable business environment, Promoting entrepreneurship development, Supporting technical assistance and business development services and, Extending adequate and innovative financing instruments, generally through financial intermediaries such as commercial banks, investment funds and specialized financial institutions. These facilities have also been extended to micro-finance institutions.

4.3.5 PROJECT FINANCE

The findings established that ADB provides financing for projects that seek to establish, expand, diversify and modernize productive facilities in various sectors, with the exception of real estate business and trade. However, the total amount of bank's assistance to any enterprise, including loans, guarantees and underwriting commitment does not normally exceed one third of the total cost of the project, and the banks' equity investment will not normally exceed 25% of the share capital of any enterprise. This is because as a policy, the bank should normally not be the single largest financier in any one given project. In order to be considered by the bank, the total project cost should at least amount to US\$ 9 million. However, on exceptional basis, the bank may finance smaller projects if they have high potential development impact, with a strong spillover into the rest of the economy. This policy has prevented the bank from competing on smaller projects with local banks, which are in a better position to respond to small business. The banks assistance has been designed to complement rather than compete with private sources of finance, stimulating and supporting entrepreneurs, investors and bankers' initiatives, and providing direct financial support for worthy projects. Within this framework, the bank plays a catalytic role in financial mobilization, including in working closely with other organizations and financial institutions, and in particular multilateral and bilateral partners involved in promoting private business in Africa.

4.3.6 APPRAISAL CRITERIA

It was established that ADB has designed an elaborate system of selecting investment proposals and gives consideration primarily to proposals that are financially viable, holding good prospects for earning a profit and providing a good return on invested capital and, that contribute to the generation of foreign exchange earnings and savings, employment creation, labor and management skills improvement, and have an end result of increased global productivity.

It was found out that for ADB to be involved in a project, it must be consistent with the country's economic development objectives, possess the required comparative advantage in order to have high chances of success, have a sound project concept, technology, sponsorship and management with a confirmed market for the products or services and, comply with the Environment Assessment Guidelines (EAG), and the prevailing environmental regulations of the host country. Furthermore, in making investment decisions, the bank takes into account the economic circumstances in the country concerned, and the policies of the government as they affect private enterprises.

4.3.7 ELIGIBILITY CRITERIA FOR ADB ASSISTANCE

The findings also established that to be eligible for the ADB private sector assistance, an enterprise should be privately owned and managed, and it must be located and incorporated in a regional member country of the bank, although it may be locally or foreign owned. However, an enterprise partially or totally owned by the government may also be eligible for the bank's private sector window assistance provided that it satisfies the criteria of operational autonomy and managerial freedom, and is run on a commercial basis with no sovereign guarantees required.

4.3.8 APPLICATION PROCEDURE

The findings indicated that to enable the bank to promptly assess the eligibility of a project for investment, interested enterprises should submit a preliminary application covering, in general, information on the description of the project in terms of sector, location and production volumes etc; the sponsors, including financial and managerial background; Cost estimates, including foreign exchange requirements; Financing plan,

indicating the amount of ADB financing desired; Key technical and environmental features; Feasibility indicators; Business climate, market prospect, including proposed marketing arrangements; and implementation plan, including the status of required licenses, permits and certificates among others.

5.1 CONCLUSIONS

Having determined the eligibility of a project financing application, the bank will then initiate a full application review, and to facilitate this, the bank would require a feasibility study, business plan and an environment impact assessment, depending on the nature of the project. The bank will, however, observe appropriate confidentiality in its dealings with sponsors and the information required to consider the financing of projects.

Finally, it was found that some of the specific benefits associated with projects that have been approved for financing by the ADB have had an ability to allow for utilization of local raw materials, especially in the rural areas and the related alleviation of poverty, estimated new employments both directly from the project and indirectly from the growth of related sub-sectors, contribution to the growth of the informal sectors of the host country, ability of the project to allow for transfer of technology, development of local entrepreneurship and technical skills, estimates of foreign exchange earnings by export oriented enterprises and savings from import substitution enterprises, estimates of revenues in form of value added tax (VAT), corporate tax, income taxes and other levies by the host country governments from sub-projects, expansion of infrastructure in host country, contribution towards the reduction of negative environmental impacts in the host country, contribution towards the provision of social amenities and ability of the project to strengthen community development initiative.

5.0 CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

5.1 CONCLUSIONS

As Africa continue to grapple with the need to attain sustainable growth and development, a proactive and an all inclusive approach need to be adopted. Attracting the world attention to the African investment opportunities remains one of the biggest challenges that face the continent today. However, the investment climate has significantly improved in the recent past with the average growth rate exceeding 4.5% for the third consecutive year and effects of armed conflicts and civil strife at their historical low.

There is, however, an urgent need to allow the private sector play its role in the development agenda for Africa. It is clear that even with the best will in the world, African governments cannot act as the engines for Africa's economic growth and development, but rather the private sector must be allowed to perform this role. There is need for governments to support efforts that allow resource mobilization both domestically and externally in order to allow development of entrepreneurship, transfer of technology and skills, utilization of local raw materials, development of physical and social infrastructure, creation of employment and empowerment of the African rural communities. The business community need to partner with the public sector and the development partners in an effort to cause sustained growth and development in Africa, a fact that has come to be accepted world wide.

On its part, the ADB has played a critical role in the expansion of the role, size and the impact of Africa's private sector development. The banks strategies have been effective in stimulating the expansion of financial intermediation, infrastructure and the informal sector that are critical for resource mobilization both domestically and internationally. It is important to allow the African people to take an active role in their own development, and in particular, to empower the African poor and minority. The ADB has achieved this through supporting women entrepreneurs in Africa with Kenya, Tanzania, and Ethiopia as part of its success stories.

5.2 LIMITATIONS OF THE STUDY

- Online administered questionnaire was used to collect data, which did not allow room for extensive interviews and probing to validate the information as earlier envisioned.
- The study focused on ADB alone that, as a sample, might not have been exhaustive in addressing the African growth and development.
- The study did not take into account the views of the private sector itself that could be different from those by the bank.

5.3 RECOMMENDATIONS FOR FURTHER RESEARCH

- The study focused on the private sector in the African development agenda. However, no single sector can conclusively address the complex web of development issues that face the African continent. Further research can, therefore, be done to evaluate a case for public sector and for a partnership between the private and public sector.
- Further research can be carried out to take into account the views of other development institutions and the governments involved in the African development agenda.

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6. How would you rank the following sectors in order of priority as development priorities? One (1) being top in priority.

Energy	[]
Agribusiness	[]
Tourism	[]
Manufacturing	[]
Transport	[]
Infrastructure	[]
Extractive industries	[]
Banking and finance	[]

Others: Please specify? _____

7. What aspects do you consider in evaluation of a private sector project?

*The Effectiveness of Investing in the Private Sector for Sustainable Growth and
Development in Africa: The Case of ADB*

Questionnaire

Questionnaire no.-----

1. a) Name of respondent -----
b) Designation -----
2. How long have you worked with the ADB? -----
3. Have you ever been involved in private sector operations? Yes [] No []
4. If yes,
 - i) For how long? -----
 - ii) In what capacity? -----
5. How important would you say is the private sector in achieving sustainable growth and development in Africa? Tick where appropriate
Extremely important []
Very important []
Important []
Not important []
6. How would you rank the following sectors in order of priority as financed by ADB?
One (1) being top in priority.

Energy	[]
Agribusiness	[]
Tourism	[]
Manufacturing	[]
Transport	[]
Infrastructure	[]
Extractive industries	[]
Banking and finance	[]

Others: Please specify? -----
7. What aspects do you consider in evaluation of a private sector project?

8. During project evaluation, how do you satisfy yourself that;
i) The project is consistent with the host country's economic development objectives?

ii) Has comparative advantage?

iii) Is likely to succeed in a sustainable manner?

9. Does the bank finance public entities under the private window? Yes [] No []

If yes, how does the process of project evaluation differ from that of commercial enterprises above?

10. In your opinion, what would you say is the role of the private sector in causing growth and development in Africa? Please explain

11. How would you compare development financing through government mechanisms and the private sector in Africa from ADB point of view?

12. a) What tools do you use (if any), to assess the impact/effect of financing made to the enterprises financed under the private sector window of ADB?

b) In your opinion, do you think that the tools above are sufficient enough to assess such an impact?

13. What benefits accrue to the following through the private sector operation program?

a) ADB

b) Enterprises financed

14. a) What challenges do you face under the private sector project financing? Please, explain

b) What measures have been put in place to address the challenges mentioned above?

15. In your opinion, how effective do you think is the private sector in causing sustainable growth and development in Africa?

16. What other stakeholders do you think need to be involved in the private sector operation?

17. In 16 above, what shall be their role?

18. Comment on the future of the private sector in addressing the development agenda for Africa

19. In your view, do you think the private sector shall be able to fulfill its role under the existing framework?

If not, what do you think needs to be done? Explain

20. Would you consider the ADB private sector operations a successful model to be copied by other institutions? Explain

End

Thank you and May the almighty bless you