THE SCOPE, ROLE AND IMPACT OF PUBLICLY SUPPORTED PRIVATE FINANCE ON DEVELOPMENT AND POVERTY REDUCTION IN AFRICA: THE CASE OF RWANDA AND ZAMBIA

AFRODAD

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

THE SCOPE, ROLE AND IMPACT OF PUBLICLY SUPPORTED PRIVATE FINANCE ON DEVELOPMENT AND POVERTY REDUCTION IN AFRICA:
THE CASE OF RWANDA AND ZAMBIA

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LIST OF ABBREVIATIONS

ACP/OT	Africa, Caribbean and Pacific and Overseas Territories
AfDB	African Development Bank
AFRODAD	African Forum and Network on Debt and Development
CSOs	Civil Society Organisations
CIDA	Canadian International Development Agency
CEDP	Competitive and Enterprise Development Programme
CDC	Commonwealth Development Corporation
CSR	Corporate Social Responsibility
DEG	Deutsche Elasmobranchier Gesellschaft
DFIs	Development Finance Institutions
EIB	European Investment Bank
EPSA	Enhanced Private Sector Assistance
EU	European Union
EURODAD	European Network on Debt and Development
FAPA	Fund for African Private Sector Assistance
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFC	International Financial Corporation
IFI	International Financial Institution
ICT	Information and Communication Technology
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
MNCs	Multi National Companies
ODA	Official Development Assistance
OECD	Organisation for Economic Corporation and Development
PEARL	Partnership for Enhancing Agriculture in Rwanda through Linkages
PPPs	Public Private Partnerships
PSDRP	Private Sector Development Reform Programme

PSPF	Publicly Supported Private Finance
PSD	Private Sector Development
RDB	Rwanda Development Bank
RICRP	Rwanda Investment Climate Reform Programme
RIPA	Rwanda Investment Promotion Agency
SMEs	Small and Medium Enterprises
SSA	Sub-Sahara Africa
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
ZACCI	Zambia Chamber of Commerce and Industry
ZDA	Zambia Development Agency

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EXECUTIVE SUMMARY

The research reviewed and analysed the scope, role and impact of Publicly Supported Private Finance (PSPF) provided by Development Financial Institutions (DFIs) and bilateral donors to the private sector and their contribution to development and poverty reduction in Rwanda and Zambia. It also explored the instruments that are used in PSPF investments in the two countries. The study covers the period from 2000 to 2013 which saw the dramatic rise in PSPF investments from DFIs to developing countries in Africa.

There has been an increase in the amount of aid that has been channeled by these DFIs and donor governments to the private sector in developing countries in the last decade. PSPF investments have reached over USD40 billion a year, a substantial increase over the years as many developing countries are now focusing on a private sector led economy. European Union's lending activities have increased to €450 million a year and are expected to reach €9 billion by 2020. The International Finance Corporation (IFC) has increased its investments from USD2.7 billion in 2001 to over USD20 billion in 2013. According to the European Network on Debt and Development (EURODAD), the amount flowing from bilateral and multilateral banks to the private sector is expected to reach USD100 billion by 2015, making up almost a third of external public finance to developing countries. At the same time Official Development Assistance (ODA) has been declining in recent years though it increased by 6.1% in 2013. Development aid fell by 4% in real terms in 2012, following a 2% fall in 2011 and overally on average, rich countries' contribution fell from 0.32% of their gross national income in 2010, to 0.29% in 2012. ODA to developing countries and Least Developed Countries (LDCs) have been declining in recent years with flows to Africa declining by 5.6% in 2013 whilst allocations to middle income countries have been increasing. Although the increase in ODA channelled to the private sector is not more than the decline in ODA the impact of such moves deserves scrutiny.

However, there have been concerns on the use of aid for private sector investments detracting from much needed public sector investments, which still face huge financing gaps in the majority of developing countries. Some developing countries that receive PSPF investments have generally remained poor despite massive investments. In the past some PSPF investments have failed to deliver positive development outcomes in the past because private investments respond to profit seeking and have limited mandate to directly tackle poverty reduction. Social outcomes are usually not the major objective of private players and are also difficult to measure. In a review of the IFC by the Independent Evaluation Group (IEG), it was noted that very few of its projects clearly incorporate poverty reduction objectives during project design. Therefore, such financial support does not necessarily respond to the strategic development priorities of recipient countries, let alone meet the needs of the poor people in these countries.

The study found out that in both countries (Rwanda and Zambia) there has been PSPF development reforms as well as regulatory and institutional reforms over the period with a number of policies and laws being passed. The study also found out that the same donors have made varying investments in both countries and the same instruments have been used to deliver PSPF. Major instruments used are loans, equity, grants and financial intermediaries. It was noted that both countries do not have a PSPF framework or principles and guidelines that govern PSPF investments.

Between 2000 and 2013, Rwanda received PSPF investments worth USD175.8 million from the African Development Bank (AfDB), USD141 million from the IFC whilst the European Investment Bank (EIB) made €42 million worth of investments. Other bilateral donors also made PSPF investments and they include Japan and United States of America (USA). Major sectors that received PSPF investments are infrastructure, financial services, energy, transport and manufacturing sectors. Rwanda's economy grew by an average of 8% over the period, with poverty levels falling from 59% in 2001 to 45% in 2011.

Zambia has managed to attract substantial PSPF investments over the same period with the AfDB having USD1.4 billion of investments, EIB with over €528 million and IFC's commitments reaching USD267 million. Other investments were done by bilateral donors that include Japan, Norway and Finland. The sectors that received PSPF investments are mining, financial, manufacturing and energy. Zambia's economy grew by an average of 6% over the period and poverty levels marginally declined from 62.8% in 2006 to 60.5% in 2010.

The rest of this report is organised as follows; Section 1 gives an introduction and reviews the scope and role of PSPF in development. Section 2 presents the Rwandan and Zambian case studies which give an economic overview of the two countries, discusses the PSPF development programmes as well as the legal and regulatory framework governing PSPF investments. The section also discusses the flows, role, scope and impact of PSPF in the two countries. Section 3 gives recommendations and a conclusion of the study.

INTRODUCTION

In recent years, there has been an increase in the level of investments flowing from public lenders to the private sector. These increased Publicly Supported Private Finance (PSPF) investments are reportedly combining Official Development Assistance (ODA) with commercial loans to make them concessional. This is also known as blending by proponents such as the European Union (EU). Development Finance Institutions (DFIs) are reportedly increasingly using equity as a financing instrument in development cooperation and there has been increased support to these blending facilities and other mechanisms designed to leverage private investments. Proponents argue that the private sector is an engine for economic growth, they believe that a strong and vibrant private sector is ideal for development through investment, employment as well as generating revenue for government.

Since 2000, the scale of this support to private financing in developing countries by both donor governments and International Financial Institutions (IFIs) has increased dramatically. Since 2003, the EU, through the African Caribbean and Pacific (ACP) Investment Facility has invested €3.4 billion with 85% of the investments going to the private sector.[1] The EU's lending activities have significantly increased to an average of €450 million per year and are expected to reach a total of €9 billion by 2020.[2] Private finance funding by the World Bank Group has also significantly increased with the International Finance Corporation (IFC) accounting for 35% of the group's commitments in 2013 compared with 13% in 2000.[3] According to EURODAD, the amount flowing from bilateral and multilateral banks to the private sector is expected to reach USD100

1 *European Investment Bank (2013), Tailored funding and complementary partnerships: 10 years of the ACP Investment Facility*

2 *EIB Press release, BEI/13/107, European Investment Bank welcomes new 7 year mandate for supporting investment in Africa, Caribbean and Pacific countries, 10 July 2013*

3 *The Ford Foundation (2014), Briefing note: Some evolving trends at the World Bank; Lending, funding, staffing*

billion by 2015, making up almost a third of external public finance to developing countries (Kwakkenbos, 2012).

At the same time ODA has been in decline in recent years. Although ODA to developing countries rebounded by 6.1% in 2013, flows to the African continent fell by 5.6%.[4] In addition, aid flows to LDCs has been decreasing in recent years whilst allocations to middle income countries has increased.[5] Development aid fell by 4% in real terms in 2012, following a 2% fall in 2011 and on average, rich countries' contribution fell from 0.32% of their gross national income in 2010, to 0.29% in 2012.[6] Since 2010, the year it reached its peak, ODA has fallen by 6.0% in real terms. Of major concern to the civil society is the use of aid for private sector investments detracting from much needed public sector investments in developing countries. Some of the PSPF investments have not been able to deliver positive development outcomes in the past because private investments respond to profit seeking and have limited mandate to directly tackle poverty reduction. Social outcomes are usually not the major objective of private players and are also difficult to measure. In a review of the IFC by the IEG, it was noted that very few of its projects clearly incorporate poverty reduction objectives during project design (IEG, 2011). Therefore, such financial support does not necessarily respond to the strategic development priorities of recipient countries, let alone meet the needs of the poor people in these countries.

Increased levels of PSPF investments in developing countries have the potential to detract ODA to the public sector that is still facing huge financing gaps. In addition, most developing countries have limited or inadequate public control mechanisms over foreign finance and private investments resulting in financial outflows in the

4 *OECD (2014)*
5 *Ibid.*
6 *Ibid.*

form of unpaid taxes and profit repatriation or debt service in the developing countries where they operate from (EURODAD, 2012). Evidence also shows that PSPF investments in Africa are heavily concentrated in resource rich countries particularly in the extractives sectors,[7] where there is a lot of illicit financial flows.[8] Further, growing leveraging of these debt based instruments have potential debt risk for developing countries and this element has not been considered enough in decision making. This can result in increased debt levels for developing countries to unsustainable levels.

The purpose of this study is to investigate the scope, role and impact of PSPF in development and poverty reduction in Rwanda and Zambia between 2000 and 2013. The broad objective of the study is to find out if PSPF investments in Rwanda and Zambia have been able to transform the economic and social sectors of the country. Specifically the study intends to investigate the trends, instruments and impact of PSPF investments in Rwanda and Zambia. In addition, the country studies discuss the PSPF development as well as legal and institutional frameworks governing PSPF investments in these two countries. The study analyses PSPF investments and instruments by DFIs that include AfDB, IFC, EIB, Britain's Commonwealth Development Corporation (CDC) and Germany's Deutsche Elas-mobranchier Gesellschaft (DEG) as well as bilateral donors such as Japan and USA. The study was primarily limited to secondary sources that included DFIs reports, related studies, country reports and post project evaluation reports. Other data sources included interviews with private sector, government officials, development partners and CSOs. The outcome of this study informs national policy debates and discussions on the role of PSPF in delivering development, and serves as an anchor to advocacy for change in

7 *United Nations Economic and Social Council, (2014), Coherence, coordination and cooperation in the context of financing for sustainable development and the post-2015 development agenda, Note by the Secretary-General*

8 *http://www.oecd.org/dev/41302068.pdf*

development effectiveness approaches at national, regional and international levels.

What is Publicly Supported Private Finance and its role in development?

PSPF refers to financial or non-financial aid given by DFIs and bilateral donors to the private sector in form of either direct investments or indirectly by means of financial intermediaries to developing countries. These private finance flows have been channelled by DFIs and bilateral donors from developed countries as well as Multilateral Development Banks (MDBs) private sector arms. PSPF support can be in the form of grants, loans, equity, guarantees, interest rate subsidies and technical assistance. However, the nature of private capital flows is changing, with bond flows, international lending and portfolio flows becoming an increasingly important part of private capital flows across Sub-Sahara Africa (SSA).[9]

PSPF comes from the perception that private sector development and in particular deepening developing countries' financial sectors is a key engine for inclusive growth. Moreover, public development finance is increasingly using private financial intermediaries to reach out to poor and small businesses, and to leverage additional financial resources from private investors and financial markets in general.

PSPF has mainly been driven by the drying up of credit markets in developing countries, where provision of finance is risky, companies are too small to access finance or interest rates are too high making credit finance scarce or costly. PSPF investors also take the risk in investments because of the desire to earn profits. PSPF investments

9 *Overseas Development Institute, (2013), Working Paper No. 376, Shockwatch bulletin: the changing nature of private capital flows to sub-Saharan Africa*

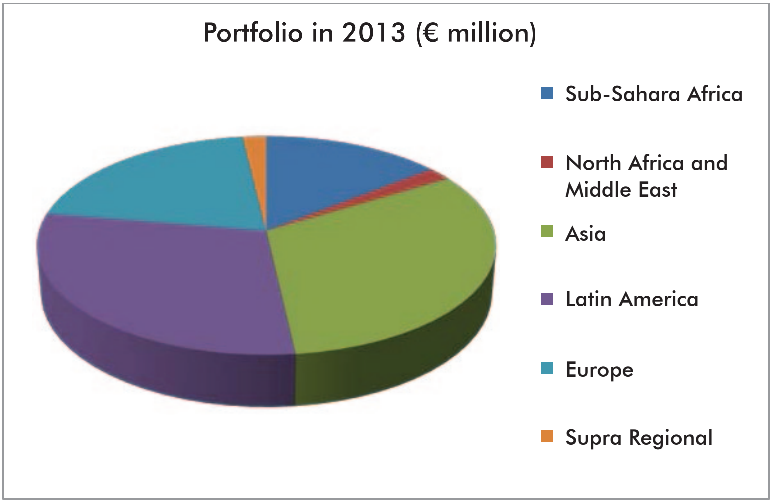
have reached over USD40 billion a year, a substantial increase over the years as many developing countries are now focusing on a private sector led economy. This level of financial support represents between 10-11% of capital flows to SSA and about 18% of all long term syndicated loans to developing countries have an IFI participation.[10] The increase in PSPF investments therefore means the private sector has a bigger role to play in development.

Africa is rapidly growing as an important investment destination for PSPF investments. IFC commitments have increased from USD2.7 billion in 2001 to over USD20 billion in 2013. Of the total commitments, SSA's share of investments has increased significantly from USD700 million in 2006[11] to USD5.3 billion in 2013.[12] Since 2004, CDC of the United Kingdom has committed USD2.5 billion in Africa to support private equity growth with annual investments increasing from USD123.2 million in 2012 to USD262 million in 2013.[13] AfDB's private finance investments have increased tenfold from USD250 million in 2000 to USD2 billion in 2012.[14] In 2013 AfDB's annual private investments operations reached USD1.6 billion, 27% increase from the 2012 levels.[15] The EIB cumulative private investments in the ACP and Overseas Territories region between 2000 and 2013 amounted to €8.5 billion.[16] EIB's main activity is lending which accounts for 90% of its PSPF commitments and is targeted at all firm sizes to support job creation and growth.[17] DEG's private finance investments have grown over the years with

10 *European Centre for Development Policy Management (2013), Briefing note, Blending loans and grants for development: An effective mix for the EU?*
11 *IFC (2013), Advisory Services in Sub-Saharan Africa Development Impact Report*
12 *IFC (2013), Industries in Africa, available on http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/sub-saharan+africa/investments/investments*
13 *CDC, (2013), Funds for Africa available on http://www.cdcgroup.com/How-we-do-it/Types-of-capital/Funds-Africa/*
14 *AfDB, (2012), Private Sector Development Strategy (2013-2017)*
15 *AfDB, (2013) Private Sector Growth Opportunities available on http://www.afdb.org/en/topics-and-sectors/sectors/private-sector/private-sector-operations-growth/*
16 *EIB (2013), Annual Report*
17 *EIB Lending, available on http://www.eib.org/products/lending/index.htm*

annual commitments rising from €1 billion in 2009 to €1.45 billion in 2013 with Africa receiving about 21% of the investments on average over the period.[18] DEG's investments in Africa have been concentrated mainly in the SSA region where its portfolio stood at €890 million in 2013 as shown in Figure 1 below. It provides direct loans and venture capital for long term financing of companies that include banks and investment vehicles in Africa. Its focus sectors include manufacturing, service industries, agribusiness and infra-structure.[19]

Figure 1: DEG's portfolio by region in 2013



Source: DEG

The role of PSPF in development varies amongst donors and depends on the type and extent of constraints faced by the private sector in developing countries. The private sector constraints range

18 DEG (2013), *Annual Report*

19 *https://www.deginvest.de/International-financing/DEG/Unsere-Investitionen/Regionen/Afrika/*

from access to affordable finance, lack of bankable projects, regulatory and institutional environment and infrastructure among the most critical ones. Therefore, PSPF investments help to address some of these constraints through the provision of finance, technical assistance or advisory services and networking amongst other roles.

Provision of finance by IFIs to leverage private finance in developing countries is mainly for investments that lacks sufficient access to private sources of capital but can be successful if adequate finance is provided. Increased private sector financing by DFIs has a crowding in effect, which is then used to attract other players from both the public and private sectors. DFIs crowd in new funding through the levying of market rates. The financial resources are provided using a number of instruments that include debt, equity, guarantees, local currency loans and political risk insurance. PSPF providers also provide advisory services or technical assistance through provision of specialised knowledge so that investments made are successful. The technical assistance can be meant to improve performance of the project, conformity of projects to environmental standards or human rights as well as improving the investment climate.

PSPF also plays the role of risk sharing through its leveraging and blending mechanisms. The risks include currency convertibility, expropriation and other challenges that companies face during their operations. In addition, through working together, PSPF investments play the role of networking amongst various stakeholders that include companies, banks, governments and the DFIs. This is important for company growth, implementation of policies, maintaining sound relationship and building trust amongst the various stakeholders.

However, the role of PSPF in development has raised questions and concerns on its effectiveness and development impact. The questions and concerns include the fact that private finance seems to be biased towards certain economic sectors such as finance and extractives. These sectors are risk averse and offer better returns as compared to other sectors such as agriculture. The financial sector in the middle income countries are well developed hence they attract more PSPF flows. Another concern is the lack of clarity on the developmental aspects of PSPF investments undertaken given that they give more emphasis on return on investment which may lead to profit incentives outweighing development objectives.

Rather than crowd in private finance, PSPF investments may also crowd out private finance in other circumstances where it could have been viable for commercial loans. This includes competition among donors themselves in capturing new markets for loans which can lead to inefficient loans or over concessionality of loans (too high grant to loan ratio). Further, and more importantly, leveraging private finance raises the concern on accountability and transparency. This concerns the lack of public information on project design, selection of projects, and funding mechanisms such as transparency on the grant component of blended funds.

Leveraging the private sector with public funds may not necessarily result in positive development impacts since the role of PSPF in development is not very clear. Therefore the role of PSPF in development needs to be measured in its impact to development and poverty reduction in developing countries rather than the return on the investments carried out.

Incidence and impact of PSPF investments

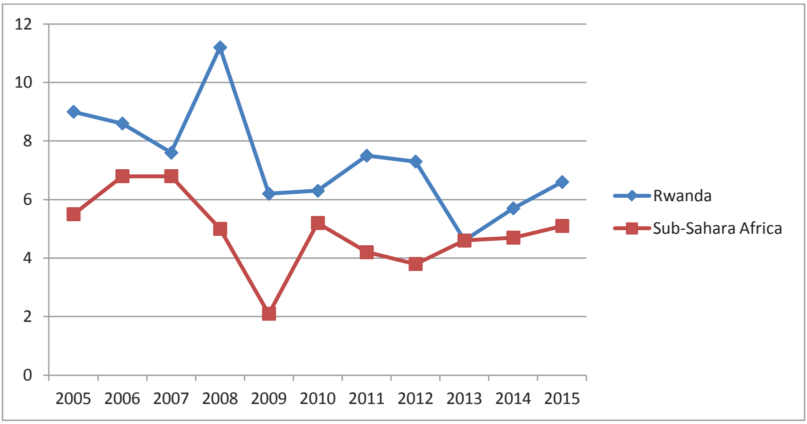
Zambia and Rwanda have received PSPF investments over the last decade and these two countries have been recording sustainable economic growth rates well above the average African rates. This chapter will look into flows of PSPF investments made in two countries and explore the possible economic and social impacts the investments have made. It will also look into the instruments and sectoral coverage of the investments.

THE RWANDAN CASE

ECONOMIC OVERVIEW

Since the 1994 genocide and civil war, Rwanda has had remarkable economic development with a Gross Domestic Product (GDP) growth averaging 8% annually between 2001 and 2013.[20] Rwanda's GDP growth rate was above the SSA from 2005 to 2013 as depicted in Figure 2 below. The growth has been premised on the growth of the agricultural sector, increased exports due to rising commodity prices, and high domestic demand.

Figure 2: Real GDP Growth in Rwanda, 2005 - 2015



Source: World Bank, figures for 2014 and 2015 are projections

However, in 2013, GDP growth went down to 4.6% from 7.3% in 2012 due to poor performance of the agricultural sector and the lagged effects of the suspension of budget support disbursements in 2012.[21] Real GDP is projected to surge to 7% and 7.4% in 2014 and 2015 respectively anchored on recovery in services, agriculture

20 *World Bank*
21 *African Economic Outlook*

and sustained implementation of the public investment programme. Inflation in Rwanda has been maintained at a single digit level over the last decade except for 2008 (15.4%) and 2009 (10.4%) but dropped to 4.2% in 2013. Although inflation is low, there are pressures from exchange rate depreciation due to widening trade deficit and high energy share of imports.[22] Table 1 below gives a synopsis of the macroeconomic indicators in Rwanda between 2005 and 2013.

Table 1: Rwanda's macroeconomic indicators (2005-2013)

Indicator/ Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	9.0	8.6	7.6	11.2	6.2	6.3	7.5	7.3	4.6
Real GDP per capita growth (%)	7.0	6.0	4.7	8.0	3.2	3.3	4.5	4.4	1.7
Annual inflation (%)	9.0	8.9	9.1	15.4	10.4	2.3	5.7	6.3	4.2
Current account % GDP	-2.5	-4.5	-2.3	-5.1	-7.1	-7.3	-7.5	-11.4	-7.5

Source: World Bank

PSPF Development

Rwanda has been at the forefront in promoting a private sector led economy, fostering both local and foreign investment by undertaking reforms to make the country an attractive investment destination. The current Vision 2020 also shows the important role that private investments can play in economic development. With regards to

22 National Bank of Rwanda

PSPF development, Rwanda has been pursuing a reform agenda and removing barriers to entry and growth of private investments. With Rwanda being considered a high risk, small country and unattractive investment destination it was inevitable for the country to have a conducive environment for investors. The country has steadily reformed its commercial laws and institutions over the past decade.

In 2001, with support from the World Bank, the Competitiveness and Enterprise Development Project (CEDP) was implemented in order to establish an enabling environment for private sector investments. CEDP focused on developing and updating commercial laws, supporting the government's privatisation programme and restructuring of the financial sector. This project was also complemented by the Rwanda Investment Climate Reform Programme (RICRP) in 2007 whose focus was on supporting facilitation of business entry, business operations, taxation and public private dialogue. These two projects provided technical assistance to produce a favourable and conducive business environment.

Impressive results of the reforms have been achieved and this include a doing business ranking of 67 out of 183 in 2010, 76 places better than the 2009 rank.[23] Reforms have been adopted in 7 of the 10 doing business topics. A Doing Business Unit and a one stop centre have been established under the Rwanda Development Board (RDB) to lead the implementation of the reforms.

In terms of starting a business in Rwanda, the time has been reduced from 14 days to 3 days and the number of procedures have also been tremendously reduced from 8 to 2. Between 2008 and 2009,

23 World Bank (2013), Improving the Investment Climate for Private Sector Development, Rwanda, available on http://go.worldbank.org/2U51FR33M0 the cost of starting a business also dropped from 109% to 10% of income per capita. Investments have increased over time with USD1.11 billion of investments in 2009 compared with USD800 million in 2008.[24] Rwanda's Doing Business rank increased from 143 in 2009 to 45 in 2012.[25]

Even though considerable improvements have been registered in reforms for an enabling environment, they are yet to translate into more private sector growth. Private investments in Rwanda actually declined from 2.2% of GDP in 2007 to 1.4% in 2013[26].

Legal and institutional framework governing PSPF investments

The Rwanda Development Board (RDB) is the main institution responsible for the regulation of PSPF investments in Rwanda. RDB was established in 2008 following the merger of the Rwanda Investment Promotion Agency (RIPA) and 7 other agencies. RIPA was responsible for improving the business environment and implementing the reform programmes prior to the creation of the RDB. The RDB therefore, was established to fast track development projects and facilitate new investment.

There are quite a number of other laws that affect or govern PSPF investments in Rwanda and they include the Investment Law, the Privatisation and Public Investment Law, the Labour Law, the Land Law and the Protection and Conservation of the Environment Law among others. In addition, Rwanda has treaties with other countries and organisations including the African Trade Insurance Agency, the International Centre for the Settlement of Investment Disputes and the World Intellectual Property Organisation.

24 *World Bank (2013), Improving the Investment Climate for Private Sector Development, Rwanda, available on http://go.worldbank.org/2U51FR33M0*

25 *World Bank (2012), Doing Business Report,, Washington DC*

26 *World Bank*

In order to improve the flow of private investments, Rwanda instituted legal and regulatory reforms which introduced new laws and business regulations between 2000 and 2013. The new laws include a company law, a secured transactions law, an insolvency law, a labour law, a law establishing the commercial courts, and another establishing the commercial registration agency. The investment law also provides guarantees for repatriation of capital and profits, which in a way favours PSPF investors.

PSPF flows, its role and impact

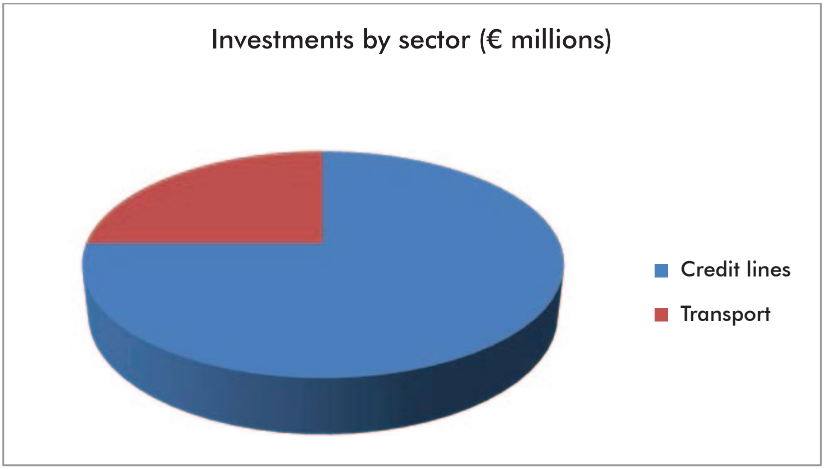
DFIs and bilateral donors have been making PSPF investments in Rwanda for the past decade and the scale of intervention differs from one donor to the other. The sectors that have received the larger part of the investments are the, financial, infrastructure and energy sectors. The investments in the financial sector have been for onward lending to various small, medium and even large scale businesses in the country. Various instruments have been used by the investors and they include loans, equity, financial intermediaries, guarantees and grants.

PSPF investments have played a major role in providing finance to the private sector in the economy and offer advisory or technical assistance to a number of private players mainly by the IFC and AfDB. Beneficiaries include the Rwanda Private Sector Forum and banks who have participated as intermediaries. The PSPF investments have been able to provide jobs for the people improving their welfare in the process. This will be discussed in more detail in this section. Further, PSPF investments have also been instrumental in improving the investments climate in Rwanda. The World Bank, AfDB and IFC have supported and financed policy, regulatory and institutional reforms by the Rwandese government. AfDB was also responsible for funding the establishment and operations of four commercial courts and financing for 19 judges and registrars for Masters Degrees[27] so that private sector court issues can be speeded and competently dealt with. The World Bank also financed private sector reforms notably the CEDP in 2001 and the RICRP in 2007.

The EIB has been providing long term private finance in Rwanda with investments reaching €42 million between 2000 and 2013.[28] The private finance investments were targeted only in two sectors namely transport infrastructure and financial. The financial sector received the bulk of the investments accounting for 74% which were meant for credit lines to finance long-term loans in euro and local currency for investment projects operating in industrial and service sectors in Rwanda. The local banks that have participated in the investments include the Development Bank of Rwanda, Bank of Kigali and I and M Bank.[29] These credit lines managed to develop more than 100 SMEs and created more than 1 250 jobs in the private sector as a result.[30] As shown by Figure 3 below, the other 26% (€11 million) of investments were loans that went to the construction of the Kigali airport.[31]

27 *AfDB (2012), Rwanda Development Effectiveness Review*
28 *AFRODAD calculations*
29 *Rwanda Ministry of Trade and Industry eNewsletter, March to April 2014*
30 *EIB Press Release, 2014-015-EN, 29 January 2014, EUR 8 million for small businesses in Rwanda.*
31 *http://www.eib.org/projects/loans/regions/acp/rw.htm?start=2000&end=2014&sector=*

Figure 3: EIB investments in Rwanda by sector (2000-2013)



Source: EIB

IFC's focus in Rwanda aims to improve the investment climate, building capacity for SMEs and support institutions as well as providing support to projects in a number of sectors. Cumulative PSPF investments in Rwanda have risen from USD2.3 million to USD141 million between 2000 and 2014.[32] Instruments used by the IFC in delivering investments in Rwanda include loans, guarantees, bonds and financial intermediaries. Investments have been spread across a number of sectors that include education, financial, tourism and ICT. Table 2 shows investments by the IFC in Rwanda between 2000 and 2013. These investments resulted in additional USD160 million in investments by new businesses in 2013 generating 29 000 jobs as well as local currency loans to support microfinance programmes.[33] IFC's investment in Business Partners Rwanda SME

32 IFC
33 IFC (2013), *Annual Report*

fund provided financing and management support for 70 SMEs, thereby increasing employment in SMEs in Rwanda.[34] Another USD1.6 million project grant in the insurance sector by MicroEnsure was able to provide 15 000 farmers with micro insurance over three years.[35]

Table 2: IFC investments in Rwanda from 2006 - 2013 (USD million)

Year	Beneficiary	Sector	Guarantee	Loan	Equity	Total Investment
2013	AB Bank Rwanda Ltd	Banking - Microfinance		2.37	0.91	3.28
2011	Business Partners International Rwanda SME Fund Ltd	Private Equity/ Venture Cap Fund			1.6	1.6
2011	Market Shopping Center Limited	Construction and Real Estate		10	3	13
2010	Magerwa Limited	Other Support Activities for Transportation		11		11
2010	Urwego Opportunity Bank SA	Commercial Banking - Microfinance and Small Business		3.9		3.9
2008	Banque Rwandaise De Developpment	Elementary and Secondary Schools	4.78			4.78
2007	Tourism Promotion Services Rwanda Limited	City and Business Hotel		5.4	2.7	8.1
2007	Compagnie Rwandaise d'Hotellerie et de Tourisme - Hotel des Milles Collines	City and Business Hotel		2.5		2.5
2006	Intraspeed S.A.R.L.	Other (Including General Freight Trucking)		7.5		7.5

Source: IFC

34 *Ibid*
35 *http://www.microensure.com/news.asp?id=77*

IFC also launched the Umuganda bond worth USD22 million in Rwanda which was oversubscribed.[36] The bond will also result in loans being issued in local currency in Rwanda. In the education sector, IFC made investments in private schools amounting to USD4.8 million in order to improve the business environment for private education in the country.

This investment is expected to support about 500 schools and over 100 000 students across the country with loans ranging between USD1 000 to USD500 000 in local currency.[37]

The AfDB has made major contributions to the private sector in Rwanda. Its interventions has been in the form of loans, equity and guarantees in key growth sectors of the economy including financial, energy, transport, agribusiness, manufacturing and infrastructure sectors. Loans and equity have been disbursed through beneficiary banks that include the Bank of Kigali (USD12 million), Development Bank of Rwanda (USD8 million), KIVU watt project (USD25 million) and Rwanda private sector federation (0.67 million) among others as shown by Table 3 below. An estimated 600 000 jobs were created between 2000 and 2006.[38]

36 IFC
37 Ibid
38 African Economic Outlook (2012), Rwanda Country Note

Table 3: AfDB private investments in Rwanda from 2000 – 2013 (USD million)

Beneficiary	Status	Sector	Start Year	Completion year	Netloan (USD)	Project Cost (USD)
Bank of Kigali	Ongoing	Finance -Bank	2010	2020	8,047,696	12,000,000
Bank of Kigali FAPA TA	Ongoing	Finance -Bank	2011	2015	366,975	547,200
Banque Rwandaise de Developpement	Ongoing	Finance -Bank	2010	2022	5,365,131	8,000,000
Kivu Watt	Ongoing	Energy -thermal	2011	2026	25 000 000	142,230,000
Rwanda Private Sector Federation	Completed	Private sector	2008	2013	670,606	1,000,000
Troisieme Ligne de Credit a la BRD	Ongoing	Finance -Bank	2000	2015	5,994,692	6,000,000
Troisieme Ligne de Credit a la BRD	Ongoing	Finance -Bank	2000	2015	4,256,394	6,000,000

Source: AfDB

The USD25 million KIVU Watt project which is due for completion in 2014, is expected to add 25MW to the national grid as well as reduce the high cost of energy in Rwanda.[39] The investments by the bank have also been instrumental in road construction and repairs that include funding 97 kilometres of the Kicukiro to Kirundo highways contributing to improved movement of goods for business and 2.7 million ordinary people. All in all, the AfDB's operations in Rwanda have resulted in support of 5 250 SMEs[40] and creation of 3 978 jobs (1 160 were for women) as well as an additional USD10 million in annual turnover to the private sector.[41]

39 AfDB (2014), *The AfDB and Rwanda four decades of partnership, Improving economic competitiveness to bring about shared growth*
40 Ibid
41 AfDB (2012), *Rwanda Development Effectiveness Review*

CDC committed USD20 million to the Phatisa Pan African Housing Fund (PAHF) with the aim of catalysing finance for the construction of up to 7,500 new homes over ten years in 2012. The investments are being made in Rwanda, Zambia, Kenya, Tanzania, Uganda and Mozambique; and are expected to produce an estimated 22 500 jobs.[42] The PAHF projects will work with some local SMEs developers. In 2014 alone CDC provided three African fund commitments for private investments. These three investments include the USD10 million in the Progression Eastern African Microfinance Equity Fund, which backs microfinance institutions in Kenya, Rwanda, Tanzania, Uganda and Zambia. Other investments are the €25 million to AfricInvest Fund III (AFIII) and up to USD15m to Synergy Private Equity Fund.[43]

Japan and other donors that include Austria, the Development Bank of Austria and the AfDB have also provided funding to Rwanda under the Fund for African Private Sector Assistance (FAPA). FAPA has provided grant funding for technical assistance and capacity building. The USD1 million investments under FAPA in Rwanda were meant to enhance the Rwanda Private Sector Forum's (RPSF) capacity and governance and institutional support that include SMEs competitiveness and special entrepreneurship programmes for women and youth.[44] Targeted priority SME sectors include agribusiness, manufacturing, micro-finance, information and communication technology, energy and water among others.

The USA through USAID has been supporting Rwanda's private sector through a number of projects focusing on enhancing private sector competitiveness. Every year it invests approximately USD33

42 *CDC, available on http://www.cdcgroup.com/The-difference-we-make/Case-Studies/Pan-African-Housing-Fund/*

43 *The Guardian (2012), CDC invests £50m in private equity fund with Africa focus,12 April 2012, available on: http://www.theguardian.com/global-development/2012/apr/04/cdc-private-equity-africa-focus*

44 *AfDB*

million in the agricultural sector to improve nutrition, strengthen food security as well as engaging the private sector in economic development. Between 2000 and 2010 it helped farmers in dairy, cotton and pyrethrum production sectors increase their productivity and expand their market access in the region. Further support has been provided to the private sector in the fertiliser supply chain. Currently it has the USD24.6 million project for the private sector driven agriculture development programme which aims to increase farmers' incomes by stimulating private sector investment.[45] USAID funded the USD10 million Partnership for Enhancing Agriculture in Rwanda through Linkages (PEARL) between 2000 and 2010 (Oehmke etal, 2011). The project was anchored on increasing the development of value chain of coffee thereby increasing incomes of smallholder farmers and reducing poverty. This support continued in 2006 with the USD6.1 million Sustaining Partnership to Enhance Rural Enterprise and Agribusiness Development (SPREAD) Project.[46] SPREAD also formed two partnerships with two private companies to increase sales of pyrethrum and chilli peppers. In 2009, USAID launched the Post-Harvest Handling and Storage (PHHS) project that was implemented through a USD4.5 million partnerships with a private company to improve food security by linking surpluses of smallholder staple crops to markets. The PHHS project worked with private sector agribusinesses to reduce losses through investment in storage infrastructure and improvements in postharvest conditioning.

The projects have had a significant and cost-effective impact on smallholder income increase and poverty reduction. The number of coffee washing stations increased from 2 in 2000 to 187 in 2010 and the fully washed coffee value chain grew from exporting 32

45 USAID
46 USAID (2011), Leo report No.8, Public -Private Partnerships in Global Value Chains: Can they actually benefit the poor?

tonnes of coffee in 2002 to 5 800 tonnes in 2010 (Oehmke etal, 2011). An audit by the USAID in 2011 revealed that the PEARL and SPREAD programmes also resulted in poverty reduction amongst participants. Between 2000 and 2010, participants' income increased by 82% compared to non participants and poverty also declined to 65% for participants compared to 82% for non participants over the same period (Oehmke etal, 2011).

It can be noted that Rwanda has received PSPF investments in various sectors of the economy, contributing to economic and social development in Rwanda, both directly and indirectly. However, it is not easy to measure the impact of some PSPF projects because it may not be possible to ascertain whether certain outcomes directly result from the project or from other factors such as government interventions. During the same period, Rwanda received significant donor budget support as well which has made a major impact on the economy. In addition, the DFIs have different reporting standards and formats making it difficult to make comparisons and some of the activities and initiatives by donors are not publicly accessible.

Most of these projects created employment in the various sectors of the economy, hence rising income levels for the people. As a result, Rwanda has managed to have a sustainable GDP growth averaging 8% for the last decade. The economic growth has seen rapid poverty reduction with the poverty rate significantly declining by 14% from 58.9% in 2001 to 44.9% (22.1% urban and 48.7% rural) of the population in 2011. This means about a million people were able to lift themselves out of poverty. Extreme poverty levels had similar trends, dropping by 16% from 40% in 2001 to 24.1% (10.4% urban and 26.4% rural) of the population in 2011.[47]

47 *Rwanda National Institute of Statistics*

Despite PSPF investments creating employment in Rwanda, the rate of employment creation has been low and of particular concern is youth employment with over 42%[48] of young Rwandans either unemployed or underemployed in subsistence agriculture. A number of PSPF investments were made in the SMEs mainly through loans, technical advice and management training for business leaders but the SMEs has contributed less to tax revenue.

Even though there has been increased participation of SMEs in PSPF investments, Rwanda has not been able to effectively implement its SMEs policy due to capacity and resource constraints. The current policy is skewed in favour of large companies but unlike the large companies that have resources to invest in capacity building SMEs have little ability to take advantage of the local economies of scale. SMES participation in PSPF investments may be able to make a huge impact if their concerns are addressed.

The RDB has priority sectors of investment that include mining, ICT and telecoms, tourism and construction and development but during the period investments were made across all sectors of the economy and of note was the financial and energy sectors. Rwanda does not have a PSPF framework or a set of principles or guidelines that govern such investments given the role and importance of PSPF in development. At the moment such investments are guided by the general foreign investments regulations though there are differences in the delivery of PSPF and other private foreign investments. At the same time neither does the EAC nor COMESA region where Rwanda belongs to (regionally), has a framework for PSPF investments in place.

48 AfDB (2012), *Rwanda Development Effectiveness Review*

THE ZAMBIAN CASE

ECONOMIC OVERVIEW

Over the past decade, Zambia's economic growth has been impressive, maintaining an upward trend with an average growth rate of 6%, making it among the 10 fastest growing economies in SSA in 2012.[49] GDP has increased from USD4.3 billion in 2003 to more than USD29 billion in 2008.[50] These successive years of economic growth has resulted in an increase of GDP per capita from USD330 in 2002 to USD1 469 in 2012.[51] In addition, inflation has been lowered from as high as 26.6% in 2002 to a single digit of 7% in 2013 as shown in Table 4 below.

Table 4: Zambia's macroeconomic indicators, (2005-2013)

Indicator/Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	7.2	7.9	8.4	7.8	9.2	10.3	6.7	6.7	6.7
Real GDP per capita growth (%)	4.4	5.0	5.4	4.8	6.1	7.0	3.1	3.4	3.3
Inflation (%)	18.3	9.0	10.7	12.4	13.4	8.5	6.4	6.6	7.0
Current account (% GDP)	-7.2	1.1	-5.0	-5.7	3.8	5.9	2.9	3.1	0.7

Source: World Bank

This growth has been premised on a combination of factors that include improved macroeconomic management, economic liberalisation, the resurgence of mining investment and output with higher copper prices as well as tight control over inflation. Other sectors that have significantly contributed to the GDP growth include manufacturing, construction and the public sector.

49 IMF (May 2013), *Regional economic outlook of the Sub-Sahara Africa,*
50 *African Economic Outlook*
51 AfDB (2013), *Zambia Development effectiveness report*

PSPF Development

In order to improve the investment climate for private investments, Zambia has been carrying out policy reforms since the mid 1990s. In 2004, Zambia launched the Private Sector Development Reform Programme I (PSDRP I). The programme focused on addressing a number of bottlenecks affecting private sector performance that include; access to finance, business licensing and procedures, Micro, Small and Medium Enterprises (MSMEs) development, poor investment climate, high cost of doing business, poor state of infrastructure and PPPs development. The reforms were meant to address regulations, laws, policies and institutions. The first phase, PSDRP I, was implemented between 2006 and 2009 and PSDRP II between 2010 and 2014. Private Sector Development (PSD) is one of the pillars anchoring Zambia's Vision 2030.

To date the PSDRP has recorded a number of achievements that include enactment of eight laws that include the Public-Private Partnerships (PPPs) Act, a review of 51 laws and the establishment of the Zambia Development Agency (ZDA), among others. In addition the government has approved 4 policies that directly affect PSPF investments namely: ICT, PPPs, Energy and SMEs policies. To further enhance the role of the PSPF, the government continues to engage in dialogue with private sector stakeholders. Since the PPPs Act was enacted in 2009, there has only been a single PPP project signed in 2011 which has not yet been implemented due to gaps in the agreement and largely to do with financial provisions. The delay may also be attributed to lack of capacity by government to implement PPPs projects even though the legislation is there.

Though there have been policy reforms to attract private investments in Zambia, there are some policy inconsistencies which affect the operations of PSPF investors. The most recent concern is the introduction of Statutory Instrument (SI) 33 of 2012 and SI 55 of 2013 without proper consultations.[52] SI 33 was introduced to prohibit the use of any other currency except the Kwacha, locally for goods and services.[53] SI 55 was intended to monitor balance of payments transactions and regulate charges in the financial sector.[54] The use of the SIs resulted in continued depreciation of the Kwacha, and structural economic challenge. The Zambian economy had large budget overrun and increased uncertainty about economic policies and direction. This also affected some PSPF investments such as the Itezhi-Tezhi Power project financed by the AfDB.[55] After wide consultations, pressure from the private sector, continued depreciation of the kwacha and structural economic challenges, the Government revoked both SI 33 and SI 55 in March 2014.[56] Development partners and the private sector welcomed the decision by the government which signaled the value that the government places on consultations with the private sector.[57]

Legal and institutional framework governing PSPF investments

Zambia has been carrying out legislative reforms to promote and stimulate private investment. Legislative reforms saw the enactment, revision and amendment of pieces of legislation that include the ZDA Act, Companies Act, Employment Act, the Customs and Excise Act and the Tourism Act. The reforms also saw the elimination of 113 of 180 licenses to improve the participation of both local and foreign investments. Through these and other interventions, more PSPF investments have been made into the Zambian private sector

52 *Zambian Economist, 25 March 2014*

53 *Government of Zambia, Statutory Instrument 33 of 2012, 18 May 2012*

54 *Government of Zambia, Statutory Instrument 55 of 2013, Supplement to the Republic of Zambia, Government Gazette, 25 June 2013*

55 *AfDB (2013), Zambia country office annual report*

56 *The Economist (2014), Saving the Kwacha : Chikwanda Responds, 21 March 2014, available on: http://www.zambian-economist.com/2014/03/government-responds-to-falling-kwacha.html*

57 *Lusaka Times (2014), World Bank and Chamber of Mines happy with the removal of SI 33 and SI 55, , 21 March 2014, available on: http://www.lusakatimes.com/2014/03/21/world-bank-chamber-mines-happy-removal-si-33-si-55/*

since the reforms started. This is discussed in more detail in the section on PSPF flows and impact in Zambia.

The investment climate in Zambia is mainly regulated by the ZDA Act of 2006, which provides a regulatory frame work for various investment opportunities available in Zambia. Before the creation of the ZDA, the Zambia Investment Centre (ZIC), Export Board of Zambia (EBZ), the Zambia Export Processing Zone and the Small Enterprises Board were the major players in regulating investment in Zambia. Other pieces of legislation that affect foreign investments in Zambia include among others the PPPs Act, Companies Act, Immigration and Deportation Act, Multi-Facility Economic Zones (MFEZ) and Competition and Fair Trading Act.

Zambia is a signatory to a number of international agreements on patents and intellectual property, including the World Intellectual Property Organisation, Paris Union, and African Regional Industrial Property Organisation. In 2010, Zambia launched the Intellectual Property Rights Policy in an effort to improve, modernise and align its intellectual property rights to international standards,

Despite the legal and institutional reforms to attract investments, there are still concerns in the regulatory framework. These include regulations to do with licensing that need reforms so that the processes are smooth. Tax regulations also need to be improved so that they curb tax avoidance and illicit financial flows by some PSPF investors. According to the Zambia Chamber of Commerce and Industry (ZACCI) some of the institutions that govern PSPF have been accused of not being fully functional and unable to efficiently deal with a number of issues which increase the cost of doing business. The challenge of red tape within public institutions responsible for PSPF investments has also been of concern and this has been a breeding ground for corrupt activities.

PSPF flows, its role and impact

Zambia has received PSPF investments from various DFIs and bilateral donors such as Norway and Finland. The mining, financial, manufacturing and energy sectors have received the biggest part of PSPF investments in Zambia. The investments in the financial sector have been for onward lending to various small, medium and even large scale businesses in the country. The major instruments used include grants, loans, equity, bonds and financial intermediaries.

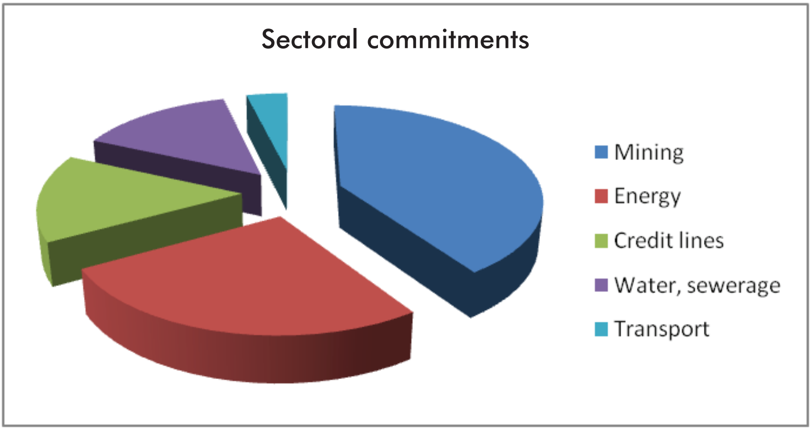
PSPF investors in Zambia have managed to play various and varying roles in the economy. As in the case of Rwanda, they have managed to provide access to private finance for a number of companies resulting in more jobs being created. Provision of advisory and technical advice was also part of the roles they played. Through these investments a number of jobs were created as well as improving the efficiency of a number of participating companies which resulted in value addition to some exports. PSPF investments have also been able to improve the operating investment climate for private investments through engagement and financing some of the reforms programmes. Finland has been financing the PSRDP initiated by the government in 2004. The IFC and AfDB have also been supporting Government and private sector reform initiatives as well as offer advice on some policy issues to do with PSPF investments.

The EIB between 2000 and 2013 committed over €528 million of loans and grants to support mining, energy, credit lines, water and transport projects in Zambia.[58] Figure 4 below shows that most of the investments by the EIB went to the mining sector with 41% of total investments, followed by energy with 26%. Major beneficiaries of the investments include; Kansanshi Copper Mine (€34 million), Mopani Copperbelt (€48 million), Transmission line Kafue-Living-

58 EIB

stone (€80 million), Lumwana Copper Project (€19 million), Great East road rehabilitation project (€20 million), small scale mining loan facility (€16.5 million) and Capital investments line (€44.8 million).[59] Investments were made through loans, grants and financial intermediaries.

Figure 4: EIB investments by sector in Zambia, 2000-2013



Source: EIB

Loans advanced to the financial sector in excess of €76 million created over 7 000 jobs and enabled investments of some €130 million.[60] In total, €76.5 million[61] worth of credit lines have been extended mainly to SMEs in the economy in order to bridge the financing gap faced by many of these enterprises.

59 *Ibid*

60 EIB (2008), *Press Release, BEI/08/111, 26 November 2008, EIB lends EUR 20 million to support small businesses in Zambia.*

61 EIB

EIB and other partners financed the Lumwana copper project in 2001 and by 2009 it was producing 109 000 tonnes of concentrate copper, mostly smelted and refined in Zambia. During the period the project provided over 3 000 direct and indirect employment and training facilities in Zambia mainly from the local community. In addition, the project resulted in the construction of a new town with 1 000 houses and other infrastructure that include commercial and retail shops, health and school facilities.[62] These jobs created have directly benefited the surrounding communities and the generality of Zambians as well as creating social infrastructure.

Regionally, the AfDB is one of the biggest development finance providers having to date, committed more than USD1.4 billion to Zambia. The predominant financing modalities are project loans and grants. As of March 2013, its portfolio consisted of 13 approved projects with a total commitment of USD380 million which include three private sector operations and a capacity building program.[63]

Lines of credit provided include Zambia National Commercial Bank (Zanaco) USD10 million, Investrust bank USD3.5 million and partial credit guarantee facility of USD10 million to Zanaco financed by AfDB and USAID.[64] The AfDB also implemented the FAPA technical assistance programme which included capacity building support to financial institutions, business development services providers and SMEs associations. The programme benefited 65 SMEs, thereby creating 1 000 jobs (400 were created by women). Commercial banks were trained in SME credit risk management and an SME credit scoring tool was created. One thousand and eighty (1080) SMEs were also trained on management and financial skills. All in all

62 EIB, available on http://www.eib.org/infocentre/press/news/stories/2010-august-02/lumwana-stimulates-economic-growth-in-zambia.htm

63 AfDB, (2013), Zambia development effectiveness report

64 AfDB, (2013) Zambia country office annual report

between 2008 and 2012, AfDB's projects resulted in USD47 million in government revenue from investee projects and sub-projects and created 2 510 jobs of which 40% of the jobs represented female employment. During the same period, USD50 million foreign currency was saved.[65]

The IFC has been active in the Zambian private sector with cumulative commitments increasing from USD167.6 million in 2001 to USD262.7 million in 2012.[66] A number of investments have been committed to Zambia over the decade in the form of loans, equity and some through intermediaries. Loans have also been issued in local currency to support microfinance programme clients, and hedge products for infrastructure clients.[67] In 2013, the IFC supported the domestic capital market and issued its debut Zambezi bond in Zambia. The Zambezi bond worth, USD28.4 million will support domestic capital markets and increase access to local currency finance.[68] Companies that have benefited from PSPF investments made by the IFC between 2000 and 2013 include: Zambeef (USD40 million), Chingola Hotel project (USD1 million), Africa Plantations (USD2.5 million), Zambia National Commercial Bank (USD25 million), Access Bank Zambia (USD1 million) and Kiwara mining (USD15 million).[69] Table 5 shows some IFC investments in Zambia between 2000 and 2013.

65 *AfDB (2013), Zambia country report*

66 *IFC annual reports 2000 - 2013*

67 *IFC, available on: http://ifcext.ifc.org/ifcext/pressroom/IFCPressRoom.nsf/0/089C9E64501F2B1142257D5800484B92?opendocument*

68 *World Bank (2013), Press release: IFC Zambezi Bond Marks First International Issuance in Zambia's Domestic Capital Markets, 19 September 2013*

69 *IFC*

Table 5: IFC investments in Zambia, 2000 – 2013 (USD millions)

Year	Company name	Sector	Status	IFC loan	IFC equity	Total IFC loan
2012	Zambeef Products PLC	Agribusiness	Active	30	10	40
2010	Access Bank Zambia	Financial - Microfinance and Small Business	Active		0.96	0.96
2010	Zambeef Products PLC	Agribusiness	Active	10		10
2009	Zambia National Commercial Bank	Financial - banking	Active	25		25
2009	Kiwara plc	Mining	Completed		15	15
2007	Protea Hotel Arcades Ltd	Tourism-Hotels	Completed	1.8		1.8
2006	Madison Financial Services Ltd	Financial - insurance	Active	5	2	7
2001	Konkola Copper Mines Plc	Mining	Completed	25.1	5.3	30.4
2001	Chingola Hotel	Tourism - hotels	Completed	0.96		0.96

Source: IFC

These projects have managed to create employment, increased availability of credit lines to SMEs and large companies, increase availability of goods and services and improved revenue to the government. The Chingola Hotel project created about 100 direct jobs hence improving the lives of over 1 000 people in the area as well as reduce the business infrastructure gaps in the Copperbelt region.

In 2009, the IFC worked with a number of partners that included banks and farmers under the USD4.8 million, Zambia Emergent Farmers Programme. The programme was a response to low productivity and lack of access to finance for emerging farmers and the realisation that the support will have a multiplier effect on employment and economic growth. The programme resulted in 181 farmers participating and 61 loans were extended to 59 individuals and 2 cooperatives.[70] Participating farmers significantly increased productivity because of improved skills, better fertilisers, and other services. Dairy farmers increased productivity by an average of 70% and the Zambia National Farmers Union negotiated for a 50 000 million metric tonnes of maize from the Food Reserve Agency as a way of market access.[71]

Bilateral donors such as Finland mix traditional development aid and trade with the aim to reduce poverty and increase pro-poor infrastructure development in its private sector intervention in Zambia. Its support to the PSDRP has been the first broad Aid-for-Trade intervention in a long term partner country. Finland also aims to reduce poverty and increase pro-poor infrastructure development through supporting the extension of financial services to SMEs. Further, Finland is involved in linking Finnish and Zambian companies. Below are the private finance projects that they have supported in Zambia;

- €8 million for the PSDRP II between 2009 and 2011
- €1.4 million for the BDS Voucher scheme between 2008 and 2010
- €1.2 million for the ILO-coordinated program for supporting MSMEs: Board Based Wealth and Job Creation Programme between 2008 and 2010
- €3.5 million towards Financial Sector Development Programme between 2010 and 2012[72]

70 *IFC (2013), SSA development impact report*

71 *Ibid*

72 *Embassy of Finland, Lusaka, available on: http://www.finland.org.zm/public/default.aspx?nodeid=43358&contentlan=2&culture=en-US*

Norway, through the Norfund has a number of PSPF investments in companies operating in Zambia as well as regional ones with Zambia included. The instruments used include loans, equity and guarantees in various institutions as shown by Table 6 below.

Table 6: Norfund current investments in Zambia (USD millions)[73]

Company Name	Sector	Amount Invested	Instrument Used
Chayton	Agriculture	7.8	Equity investment
BancABC Zambia	Financial	3	Loan
Agua Imara	Energy	22.3	Equity and guarantees
Focus Financial Services	Financial	8.9	Loan
Norsad	Financial	6.6	Equity
Aureos Southern Africa Fund	Financial	4.6	Fund
Alios Finance	Financial	7.3	Loan
Africa Century Food	Agriculture	6.1	Equity investment

Source: Norfund

These investments cover the following sectors; financial (transacting, savings and lending facilities, SME and corporate lending products), energy (55MW Lunsemfwa Hydro Power Company)[74] and agriculture. Focus Financial Services (FFS) is a non-banking financial institution that provides working capital only to SMEs who cannot access finance from traditional banks. FFS is the channel through which Norfund support SMEs towards job creation and poverty alleviation. To date it has supported more than 1 000 SMEs in Zambia, thereby supporting 4 500 jobs.[75]

73 Exchange rate of 1NOK = 0.126496 USD in December 2014

74 Norway official site in Zambia (2014), Norway invests in energy and business growth in Zambia, available on: http://www.norway.org.zm/News_and_events/Norwegian-Companies-in-Zambia1/Norway-invests-in-energy-and-business-growth-in-Zambia/#.VT9kqJOud8p

75 Ibid

The World Bank has provided USD113 million to Zambia to improve the business environment as well as supporting businesses and revitalising the mining sector. The aim is to create jobs by facilitating private finance. As a result of the interventions, copper ore production rose from 300 000 to 523 000 tonnes between 1999 and 2007 creating 19 000 jobs during the same period. Together with the EU, the World Bank provided USD28 million funding for the Support for Economic Expansion and Diversification Project (SEED). The project was meant to improve the business environment for the tourism and gemstones sectors including SMEs in the sector.

Zambia's agricultural sector has also received PSPF investments from a number of donors. The projects have worked to improve rural infrastructure, smallholders' access to credit and institutional capacity building among others. Active donors providing private finance in agriculture during the period include, the European Community, World Bank, Netherlands, UN Systems, Finland, Japan, USA and Norway. These projects and reforms carried out have resulted in shifts in the Zambian agricultural policy. Since the early 2000s, there has been much focus on promoting private investments and the National Agricultural Policy (2004-2015) gives a central role to the private sector in agricultural development. Table 7 below shows some of the donor private finance projects that have been undertaken between 2000 and 2010 in the agriculture sector.

Table 7: Major donor private finance projects in agriculture, 2000-2010

Donor	Project	Commitment	Objectives
Finland	Programme for Luapula Agricultural and Rural Development, (PLARD) (2007-2010)	USD10 million	Promote sustainable commercialisation and development of fisheries, agriculture and agribusiness and foster a supportive policy, regulatory and institutional environment.
Sweden	Agriculture Support Programme, (ASP) (2003-2008)	USD43 million Including USD2.4 million contribution from Norway	Promote smallholder commercialisation through entrepreneurship and business development, improved land, seed, crops and livestock productivity and improved service delivery of support entities
USA	Production, Finance and Improved Technologies, (PROFIT) (2005-2010)	USD15 million	Improve the competitiveness of selected agro-industries with large numbers of micro and small enterprises through: i) better inter-firm co-operation iii)building credibility and confidence in market mechanisms
IFAD	Smallholder Enterprise and Marketing Programme, (SHEMP) (2000-2008)	IFAD loan: USD15.9 million (Total cost: USD18.4 million)	Strengthen smallholder enterprise groups, improve access to suppliers and markets, including rehabilitation of feeder roads, and support the development of the agribusiness sector and trading enterprises serving small-scale farmers
World Bank	Agricultural Development Support Project (ADSP) (2006-2010)	$37.2 million (IDA loan)	Promote sustainable smallholders' commercialisation, through improved productivity, quality and efficiency of export-oriented value chains where they Participate

Source: OECD

Most of these projects from the early 2000s focused on re-orienting smallholder farmers to take a business minded approach. Major achievements of these interventions in the agricultural sector were an increase in food production hence increases in income for participating entities and households. A review of the ASP project in 2006 revealed a difference for participants with 68% of them earning enough income to cover total food costs.[76] It was also estimated that the need for food relief was reduced by USD0.4 million in 2006 alone (ASP, 2007).

Despite these encouraging results, incomes of the beneficiaries were still low. It was observed that some of the projects were not able to alleviate beneficiaries out of poverty especially in the long term. The challenge has been exacerbated in some quarters by an unsupportive policy framework as well as short comings in project design and implementation. Most of the projects focused on production and food security but did not consider behaviour of target groups and prevailing socio-economic conditions.

There have been significant and substantial PSPF investments in Zambia in various sectors of the economy which have directly and indirectly contributed to social and economic development. However, it is not easy to attribute some of the impact of PSPF projects to development because some outcomes or impacts may be not directly be a result of such investments. Some private sectors did not get funding from DFIs but contributed to economic and social growth. In addition, the DFIs have different reporting standards and formats and some of the activities and initiatives by donors are not publicly accessible making it difficult to make comparisons.

Most of the PSPF investments in Zambia created employment in various sectors of the economy, hence rising income levels for the people. The projects have played a part in the growth of the Zambian economy as seen by the rise in economic indicators in the last decade such as GDP growth, GDP per capita and employment

76 OECD

rates. Zambia has recorded phenomenal and sustained GDP growth averaging 6% in the last decade and is among the fastest growing economies in the world. However, despite having received substantial amounts of PSPF and having high economic growth in the last decade, Zambia is yet to make major impact in poverty reduction. The population living below the poverty line marginally declined from 62.8% in 2006 to 60.5% in 2010 with 77.9% of these in the rural areas.[77] This implies there is low growth elasticity of poverty, meaning there is a weak connection between growth sectors and those that employ the poor population. Despite the marginal decrease in poverty levels, having about two thirds of the population in poverty is unacceptably high.

PSPF investors have also been involved in Corporate Social Responsibility (CSR) projects in the communities that they have operated in. The CSR projects undertaken have cut across a number of sectors that include health (construction of clinics and provision of health care services), education (school construction and provision of educational materials), domestic water supply, road construction and support to various sporting disciplines. Mopani mine spends an average of USD15 million a year on CSR on a number of projects in the communities it operates from.[78] These activities have helped to improve access to a number of social services for local communities. However, some of the services especially for health are levied at commercial rates for non employees, which limit access to the general population. Even though PSPF investments have created employment and engaged in CSR projects the negative effects of their operations have outweighed the benefits that these communities get from some of the projects.

77 *Zambia Central Statistics Office*
78 *Caritas Norway, 2011*

There have been incidences of tax avoidance and environmental hazards by some of the PSPF projects in Zambia. One of the EIB's €48 million loan beneficiary in 2005, Mopani Copper Mines (MCM) has been accused of dodging taxes and causing environmental harm in Zambia. MCM got a loan to rebuild and mordenise its Mufulira copper smelter but studies by Centre for Trade Policy and Development (CTPD),[79] Counter Balance[80] and other CSOs in 2011 found that the objectives were not fulfilled. A leaked audit report of MCM in 2011 revealed that it was avoiding tax through transferring its profit outside Zambia by inflating costs and exporting its products at low prices to a mother company, Glencore, based in Switzerland, a low tax country. In addition, the above studies by CTPD, Caritas Norway[81] and Counter Balance shows that MCM's Mufulira mine operations have resulted in environmental hazards through emissions of sulphur dioxide gases above legal limits. In 2008, MCM polluted the surrounding Mufulira water basin through its acid leaching copper extraction technique resulting in hundreds of people being hospitalised. After pressure from CSOs, the Press[82] and European Parliament, the EIB[83] then froze future loans to Glencore.

There have been reports of land grabbing by some of the PSPF investors as well as displacement of affected people without enough compensation. According to a report by Caritas Norway in 2013, an investment by Kalumbila Minerals limited as a way of expanding its operations in Zambia resulted in displacement of a number of people and disruption in their farming activities. In addition it also threatened food security for the local communities.

79 CTPD, (2012), Pollution In Copperbelt Province Of Zambia: Case Study Of Kankoyo
80 http://www.counter-balance.org/counterbalance-eib.org/?p=34
81 Caritas Norway (2013), Who benefits? Norwegian Investments in the Zambian Mining Industry
82 http://www.counter-balance.org/counterbalance-eib.org/?p=792
83 EIB

NGOs in Germany and Zambia have also accused DEG of promoting land grabs by large agricultural corporations in Zambia hence the destruction of smallholder farmers.[84] DEG has provided Zambeef with a USD25 million loan for its agricultural and food production activities in Zambia. According to FIAN, a human rights organisation, Zambeef currently owns about 100 000 hectares of land and intends to expand its operations. The rapid expansion of agricultural business make land conflicts more acute, particularly in areas with fertile soils, good access to water and functioning transportation connections. Other PSPF investments in the mining and agriculture sectors have also been fingered in some land grabbing concerns though such reports have been refuted.

The majority of the PSPF investments from IFC and EIB went to the mining sector even though Zambia has a deliberate diversification policy where mining is not one of the priority sectors. Zambia has priority investment areas that include manufacturing, tourism and agriculture. Further, the mining sector is dominated by MNCs with low participation from locals. Although there have been lines of credit extended to some SMEs in the mining sector, they have not enjoyed the benefits from exploitation of natural resources. Despite most PSPF investments going to mining, it does not create as many jobs as other sectors such as manufacturing and tourism because of reliance on machinery. Mining employs around 50 000 people and contributed less than 1% to GDP in tax revenue over the last decade, therefore having little impact on rural livelihoods.[85] Consequently, the increased PSPF investments in the mining sector will mean nothing unless they are matched by a corresponding increase in job creation and reduced poverty levels.

84 *Farmlandgrab, 17 June 2014, NGOs blame Berlin for feeding big business land grabs, available on http://farmlandgrab.org/23633*

85 *DFID Zambia (2012), Access to finance programme, business case*

More importantly, increased PSPF investments have not benefited the majority of Zambians, partly because of illicit financial flows (IFFs). A report by Global Financial Integrity in 2012 notes that Zambia has lost USD8.8 billion through IFFs between 2001 and 2010 and USD4.9 billion of that is attributed to trade misinvoicing. In addition the country also loses about USD2 billion a year through legal corporate tax avoidance by MNCs.[86] It is argued that the high levels of IFFs are driven by high tax levels and a complicated tax regime such that some mining companies are able to manipulate transactions through revenue underestimation and costs inflation among other tactics.

Like Rwanda, Zambia does not have a PSPF framework or a set of principles and guidelines that govern such investments. PSPF investments are classified under the general FDI categories and treated the same in terms of policy and regulations. Regionally the SADC region does not have a common PSPF framework or guidelines for its member countries or its regional investments.

These are just but an example of the negative developmental effects of some of the PSPF investments especially in the mining sector. Information on some of the activities and operations of some of the investors is not easily accessible to the public domain. These include the environmental impact assessment reports as well as measuring of developmental impacts of some projects.

86 *Financial Transparency Coalition (13 December 2012), What billions in illicit and licit capital flight means for the people of Zambia, available on http://www.financialtransparency.org/2012/12/13/what-billions-in-illicit-and-licit-capital-flight-means-for-the-people-of-zambia/*

RECOMMENDATIONS

The private sector is an engine for economic growth and an important player for poverty reduction and eradication. The following are recommendations and key messages for PSPF to effectively contribute to development and poverty reduction in Rwanda;

- In order for PSPF's investments to make major impacts and effectively contribute to development and poverty reduction, Zambia and Rwanda need to create an enabling investment climate. This includes addressing three key factors namely supply side constraints, improved local raw materials and infrastructure challenges mainly energy and transport.

- There is need for policy consistency in Zambia which has affected some PSPF projects in some sectors of the economy hence increasing the risk of undertaking investments. This can be done through the inclusion of all stakeholders in policy making and implementation.

- Rwanda and Zambia needs to develop a PSPF framework that sets the guidelines and principles of PSPF investments so that it fully benefits from the participation of the private sector in economic activities as well as meet its social development goals. These guidelines include ensuring that investments are targeted to address national priorities as set out in its national development plan and proper regulation of private sector operations especially tax avoidance and capital flight.

- There is need for Zambia and Rwanda to ensure PSPF investments are made in their respective priority sectors while there is need for donors to be flexible towards partner countries priority areas.

- The public support to the private sector should not only dwell on increasing the finances available but making sure that they have a positive impact on the underlying socio-economic conditions that keep people trapped in poverty-induced livelihoods especially in agriculture and the informal sector. In this regard, there is need to quantify the quality of development to see to it that they promote inclusive growth that generates opportunities for all.

- Transparency and accountability in the private sector as well as donor communities should be upheld and improved. They should abide by the minimum international accounting standards and guidelines on public governance and information should be publicly and easily accessible.

CONCLUSION

The purpose of this study was to review and analyse the scope, role and impact of PSPF on development and poverty reduction in Rwanda and Zambia. In addition the study also measured if development finance benefited those most in need of it. The study reviewed and analysed various PSPF projects that took place in Rwanda and Zambia between 2000 and 2013 and their possible economic and social impact to development and poverty reduction. Data from major DFIs and bilateral donors such as the AfDB, IFC and EIB, Norway, Finland, Japan and USA were reviewed.

The study has found out that despite Rwanda's troubled past it has managed to attract substantial PSPF investments over the last decade and has achieved a sustainable economic growth. EIB, IFC and AfDB are the major DFIs providing PSPF and bilateral donors include Japan and USA. The major instruments used for PSPF investments included loans, guarantees, grants, equity and bond flows. PSPF investments were most dominant in the energy, financial and infrastructure sectors. Investments were also made in SMEs though they did not contribute much to tax revenue. Major reforms have been undertaken to improve the PSPF operating environment with new regulations, institutions and policies having been put in place. Rwanda's economy grew by an average 8% over the period and has seen rapid poverty reduction, with the poverty rate significantly declining by 14% from 58.9% in 2001 to 44.9% of the population in 2011. The PSPF investments face challenges that include major infrastructure deficits, reliable and affordable power to businesses as well as better transport connections to link producers to markets. Since these challenges are substantial, Rwanda has to address them in order to reap more benefits from PSPF investments.

Zambia received varying but significant amounts of PSPF investments and the majority from EIB, IFC and AfDB as well as Norway and Finland. Major reforms have been undertaken to improve the private sector operating environment with new regulations and policies. A number of laws have been passed such as the ZDA Act and the PPP's Act to attract more PSPF. Thousands of new jobs have been directly and indirectly created in the economy. However, despite high economic growth rates averaging 6% in the last decade, there are still high poverty levels in Zambia. By 2010, 60.5% of the Zambian population lives below the poverty line and 42.3% in extreme poverty. There have been accusations of land grabs and corruption by some of the PSPF investors, which include DEB and EIB. More needs to be done to ensure that Zambians especially the rural population benefit from the PSPF investments. Zambia still faces challenges that include regulatory, structural as well as institutional and there is need to address these challenges so that PSPF investments effectively contribute to economic and social development in Zambia.

In as much as PSPF investments are a tool for development and poverty reduction, there is need for Zambia and Rwanda to develop and adopt a PSPF framework with clear guidelines and principles that govern such investments to arrest some of the shortcomings cited in this study. It is hoped that the outcome of this study will stimulate further debate and discussion on the impact of PSPF investments on development and poverty reduction and concrete steps are taken to make sure that developing countries benefit from such investments in Africa.

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