CDC- Trade Forging Strategic Alliances

‘CDC has a very clear mandate the creation of long term self sustainable businesses in the world’s less developed countries. It’s a mandate that means we work closely with local governments but invest on a commercial basis in the private sector. The approach is very much one of seeking partnerships and adding value, whether this is by introducing or catalyzing otherwise unavailable capital, assisting in the structuring of the business or where necessary, providing management.’ (Chief Executive’s Report, CDC Report & Accounts, 1996).

Ajita Kadirgamar

T he Commonwealth Development Corporation (CDC), is one of the world’s leading development finance institutions, operating in emerging economies through 24 overseas offices. At the end of 1996, CDC had an investment of £1.56 billion in 393 enterprises in 54 countries.

In addition to providing long term finance to the private sector, CDC assists in structuring business proposals. providing management for industrial companies and managing funds for third party investors.

CDC’s current investments in Sri Lanka amount to $57 million, the largest investment being with the National Development Bank where CDC has a 5% equity stake. Further investments under consideration for 1997/98 total £55 million.

On August 21st Roy Reynolds, the CEO of the Commonwealth Development Corporation signed an operating conditions agreement with the Treasury of the Government of Sri Lanka. He described the move as being very much ‘a sign of confidence that the government on their side was welcoming what CDC was doing and CDC on the other hand were indicating that they saw themselves doing a lot more investment in Sri Lanka.’

Reynolds was also hopeful of CDC playing a major role in encouraging investment by others as well in Sri Lanka.

Historically, CDC as an organization is 50-years-old. It was set up after the second world war to invest in the British colonies which later became the Commonwealth.

At the end of the 1960's there was a demand for investments outside of the Commonwealth though 70% of all investments still remain in this region.

Says Reynolds, 'Sri Lanka was an obvious place for us to be making investments. In those days it was a question of how much CDC was wanted and what opportunity there was for us to invest. At the end of the 80's CDC was beginning to invest with the private sector and not with government corporations, and it was about then we started working with countries moving towards the private sector. We made an initial investment with Pelwatte, and in 1987 we put money into NDB. In the 90's as we have seen, the private sector became more active in Sri Lanka, we have become more active."

CDC's presence in Sri Lanka is currently in the following ventures:

- **Pelwatte Sugar Industries Limited**-initial loan and equity investment of £11.6 million
- **Ceylon Electricity Board** – Samanalawewa Hydro-electric Project $18 million loan
- **Asia Power (Pvt.) Limited** (10% equity)- for construction of a power plant at Sapugaskanda, US$10 million loan |
- **Vanik Incorporation** – 8.8% shareholder with representation on the board of directors
- **National Development Bank** – 5% of equity, £25 million total investment, with further commitments of $2.5 million
- **Ayojana/NDB Venture Investments (Pvt.) Limited** – Rs 200 million loan
- **Keells Plantation Management Services Limited** – 51% stake in Namunukula Plantation
- **Taj Lanka Resorts Limited** – Loan approved for a five-star resort in Bentota

Further projects are under consideration by CDC. These include the South Asia Gateway Terminals, which will provide increased container handling and major expansion at Queen Elizabeth Quay; Lanka Bell in the field of telecommunications and Lanka Glass, the first glass tableware and block manufacturer in Sri Lanka.

While CDC's primary areas of investment are in large scale infrastructure and industry, according to Reynolds, CDC is equally happy to invest in small to medium

size enterprises, commercial businesses, manufacturing and retail and the hotel industry. The Ayojana Fund which CDC manages with NDB works with small/medium businesses.

Reynolds explains that CDC's increased presence in the country is the result of their perseverance and desire to be here as well as being approached by local businessmen to invest here. 'We work in partnership very much with the local businessmen. For a partnership to work you've got to have a commonality of interests and shared values and when you've found that, they approach you and you approach them.'

Reynolds reiterates the importance CDC places on working with local businessmen, naming John Keells and NDB as important local partners. CDC also looks to add value to its relationships with its investments around the world. The CDC country manager sits on the board of all major investments and therefore is in touch with the ground situation and can add his worldwide experience and expertise to that particular organization. Reynolds has an encouragingly positive outlook for Sri Lanka, despite uncertain factors such as the war which are generally seen as obstacles to progress. 'I think one feels that some of the issues are being positively tackled and that gives confidence and confidence is terribly important and that is helping investment,' he states.

He sees the country's size as being an advantage compared to its neighbors India and Pakistan who have their share of domestic problems to contend with as well, and in addition are geographically vast.

But most of all he is concerned that Sri Lanka must look outward and not inward. For a country of 18 million people in this part of the world you must be looking outward to do business,' he says. "You must be competitive in the way you do things and not just look like a centralist controlled sort of country. It has to be one that looks to be competitive with the outside world and that must be the main driver. I think Sri Lanka is going to have to do that more than India perhaps because of its size.'

Reynolds, making his first visit to this country, has a good 'feeling' for the place. "There's no point in my coming to a country if we don't see ourselves making investments. Wherever we look to be making significant progress, then I would come and visit and talk to people and get a feel of the business opportunities." He goes on to add, 'I think the significance of my visit is that we have seen over the

last few years that there are opportunities for making sensible commercial investments with the private sector and we are optimistic about the future.' To Reynolds the positive steps being taken by the government in areas such as resolving the war and developing the economy far outweigh the negative impacts of a conflict situation such as portrayed in the media. 'We are long term investors. If there is a bomb we don't take our money out. We have confidence in the country,' he frankly states.

As part of the Commonwealth Private Investment Initiative, CDC has recently implemented an innovative scheme known as the South Asia Regional Fund. The idea came about as a result of a request by the secretary general of the Commonwealth to bring in a more commercial environment to developing countries of the Commonwealth. Explains Reynolds, 'what we did was put together an umbrella of funds where richer members of the Commonwealth would invest in poorer members. The first fund we put together was for Sub-Sahara Africa and that fund is now US$64 million. We put in a large investment ourselves and we've got investments from Singapore, Brunei, Malaysia, South Africa and Botswana. We now manage that fund through our twelve offices in Africa."

This fund was followed by one for the South Pacific region and now the South Asia Fund, which will take in all of the SAARC countries, is next in line. Says Reynolds, 'we are looking to raise at the first closing US$100 million and at the second closing US$150 million. We at CDC are happy to put in US$50 million and we will manage the fund through our various offices in the region.'

Sri Lanka stands to benefit from this fund in terms of significant investments being made here. It is hoped the South Asia Fund will be officially announced at the Commonwealth Heads of Government Meeting in Edinburgh in October.

For the moment CDC investments in Sri Lanka are managed through their Pakistan office though as the volume of investment builds up they hope to open an office here in the near future.

Roy Reynolds has 28 years of experience with Shell (Brunei, Singapore, UK) under his belt and has also worked as a consultant for the World Bank. His visit to Sri Lanka and his first impressions of the potential of the country augur well for future investment. But he stresses the importance of using the country's strength to its advantage. It's very important to look outward, to be an open economy, to actually see that you are competing against everyone else in the world. Therefore you

should see that you are open to foreign investment and foreign trade and that way you become more competitive and your economy will grow.”

Ajita Kadirgamar has been a television producer, presenter and interviewer for the past 15 years. She coproduces and presents “Business Matters”, the pioneer TV business program now in its 6th year. She also lectures in Radio and Television and is a freelance writer.