

PUBLIC-PRIVATE PARTNERSHIPS (1ST PART)

Tuesday 21 October 2003 (8.30 – 12.00 a.m.)

SESSION AGENDA & INTRODUCTORY REPORT

Session Agenda

SESSION 1:

Session Chairperson:

Mr. Patick JONES (The International Bridge, Tunnel and Turnpike Association/USA)

1. Mission and Strategy of the IBTTA

Mr. Patick JONES (The International Bridge, Tunnel and Turnpike Association/USA)

2. Technology in Transportation: Cause or Effect?

Mr. Harold W. WORRALL

(The International Bridge, Tunnel and Turnpike Association/USA)

3. Fast-tracking to a Nash equilibrium in PPP Loan Negotiations

Mr. David CRUSH (The European Investment Bank)

4. Moving off the gas tax: What it might mean for the toll industry

Mr. Edward J. REGAN (Wilbur Smith Associates/USA)

5. Public Private Partnerships - The Australian Experience

Mr. Paul FORWARD (Roads and Traffic Authority, New South Wales/AUSTRALIA)

6. The Evolution of Toll Road Financing

Mr. José de NOBREGA (Investec Bank/SOUTH AFRICA)

SESSION 2:

Session Chairperson:

Mr. José de NOBREGA (Investec Bank/SOUTH AFRICA)

1. Strategic importance of the Croatian national program of motorway construction and the opportunities for Private Sector involvement

Honorable Minister of Public Works, Reconstruction and Construction/CROATIA

2. The Debt Funding Conundrum – A South African Perspective

Mr. Mike PEO (Nedcor Capital Markets/SOUTH AFRICA)

3. PPP's A legal perspective

Ms. Kantha RATTAY (White & Case/SOUTH AFRICA)

4. Overview of Recent Activity in South Africa in the Road Concession Market

Mr. Leo RÖHRIG (Bakwena Platinum Corridor Concessionaire/SOUTH AFRICA)

5. Structural Evolution of Infrastructure Equity Markets

Mr. Gavin KERR (Macquarie Africa Ltd.)

6. PPP Toolkit and its possibilities and uses

Mr. Anil S. BHANDARI & Mr. Jose L. IRIGOYEN (The World Bank)

7. The role of PPP's in poverty reduction, Asian Development Bank

Mr. Tyrrell DUNCAN (The Asian Development Bank)

8. Panel Discussion: The Future of Toll Road Financing - For Whom the Roads Toll

Moderator: Ms. Marlene HESKETH (Rand Merchant Bank)

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INTRODUCTION

PPP is a « buzz word » but what is behind this expression? Labels used in PPP jargon such as turnkey contracts, BOT (Build, Operate, Transfer), DBFO (Design, Build, Finance and Operate) or performance-based maintenance contracts are useful to describe some of the broad options of PPP projects but have no single, clear definition. In fact, each PPP solution is too complex and too unique to be characterized in one word or acronym. To define clear-cut categories would always result in projects falling between two categories as their characteristics apply to several categories. In other words, there is an almost infinite number of solutions that are better described by a continuum than by categories. Nevertheless to avoid this uncomfortable uncertainty some main issues must be addressed to help the project designer to adjust project parameters harmoniously in order to suit needs. A Public-Private Partnership (PPP) constitutes a sustained collaborative effort between the public sector (government agencies) and private enterprises to achieve a common objective (e.g., the road project) while they pursue their own individual interests. In a PPP each partner:

- shares in the design of a project;
- contributes a portion of the financial, managerial and technical resources needed to execute and sometimes operate the project in accordance with each partner's comparative advantage, and;
- partially shoulders the risks associated with the project and obtains the benefits - those expected by each partner - that the project creates.

Even in a few totally state controlled economies, private firms are always involved in road design, construction maintenance or operation. But the partnership takes on its real sense when a private firm provides a global service with sufficient autonomy and incentives to produce efficiency gains for the benefit of all parties and in particular of road users.

In the first part of the morning session chaired by Gerold Estermann, coordinator of the strategic theme ST4 **M**anagement and administration of the road system, an introductory presentation (by a representative of PIARC technical committee C9, Alain Fayard) will review the terms and concepts utilized when granting funds and guarantees as well in the framework of PPP with or without private financing. Then the World Bank (Anil Bandhari) will set out the toolkit on Public-Private Partnership (PPP) in Highways, which is a multimedia product aimed at assisting policy makers and transport professionals in developing countries to understand and identify alternative options for engaging the private sector in road development, maintenance, operation and/or financing, and the issues involved in their implementation. These presentations will be followed by a panel discussion between the lecturers, representatives of international financial institutions and public and private partners.

In the second part of the morning session, first the focus will be put on the core objective of the poverty alleviation, access to essential services and to economic opportunities; presently 900 millions of people have no such an reliable access. Then the prerequisite of a reasonable technical of the infrastructure before any maintenance, the need for the right maintenance of low traffic roads and the conditions of emergence of local labour-intensive contractors will be presented. Two lecturers (Tyrell Duncan from Asian development bank and Dejene Sahle from International labour organization) will address this topics and a large panel as well.

THE IMPACT OF TRANSPORT ON POVERTY REDUCTION

Tyrrell Duncan, Senior Transport Economist, Asian Development Bank

The role of transport in poverty reduction is sometimes overlooked because it is so integrated within the services and production processes it serves. At first glance we see only the manifestations of transport, such as roads and vehicles, and not its underlying influence on economic and social activities.

Transport contributes to poverty reduction by enabling the productive activities that create pro poor economic growth, and by providing poor people — especially those living in rural areas — with access to economic opportunities and social services, and means of participating fully in society.

The extent of this contribution is affected by the overall economic, social and governance setting in the country or region in question; and by the framework of transport sector policies, institutions and governance arrangements.

With the adoption of poverty reduction as the overarching goal of international development, development institutions such as the Asian Development Bank have been eager to improve their understanding of how transport can best contribute to poverty reduction. The transport sector is among the leading recipients of donor financing. How does it contribute to poverty reduction? How large are the impacts. Which transport activities offer the greatest poverty reduction impacts? And under what conditions?

Past studies have had surprisingly little success in answering such questions. At least there is now greater recognition of the conceptual and empirical difficulties involved. These arise because most of the impacts are indirect — transport makes possible other activities that improve poor people's livelihoods and well-being. The impacts are often widely dispersed among the population, and take place through multiple rounds of effects over many years.

In his presentation to the 2003 World Road Congress, Tyrrell Duncan will discuss the emerging findings of a regional technical assistance (RETA) study by Asian Development Bank on *Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction*. This RETA has been undertaken in collaboration with the World Bank, the Japan Bank for International Cooperation, and the UK Department for International Development. Stage 1, which was completed in late 2001, consisted of a review of current knowledge and identified key gaps to be filled through research. In stage 2, domestic research institutes in three developing countries in Asia — India, People's Republic of China, and Thailand — were commissioned to prepare retrospective case studies of the poverty reduction impact of selected transport and energy interventions. These included a variety of cases of road and road transport improvements. Stage 3, which is due to be finalized in October 2003, will provide overall findings and lessons for future transport operations. Mr Duncan will describe the results of stages 1 and 2, and preview the overall findings of the RETA.

Further details about this RETA are at: http://www.adb.org/projects/Trans_and_Energy/.

EMERGING CONTRACTORS PARTNERS IN DEVELOPMENT

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Key words: contractor development, employment intensive, public private partnership, contracting environment

Increased unemployment and poor access to essential services have contributed to the increase in the level of poverty. Governments with the aim of addressing these two core developmental problems have increasingly inclined in applying local resource-based methods of work that enables governments providing communities with cost effective and affordable transport access and create the much needed employment in the delivery process. Due to continued logistical and organizational problems associated with a direct governmental workforce, governments' ability to deliver reliable and efficient rural roads network in accordance with its own development plan has been weakened. The alternative and that is increasingly being practiced is the creation of public – private partnership aimed at jointly addressing the above mentioned developmental constraints, i.e. poverty and unemployment. This approach will improve governments' ability in providing an acceptable rural roads network in disadvantaged and economically neglected areas and in the process optimising the creation of employment. This will require a significant commitment from government and other major role players in the construction industry.

Policy support

Some governments have already taken the first step, to addressing poor rural accessibility and unemployment, by clearly highlighting these issues as priority in their policy documents and identifying the preferred methods of operations that have a positive impact in their fight against poverty. Poverty Reduction Strategy Papers (PRSP) developed by Governments of Kenya and Namibia are few examples that have clearly indicated government's preference on the increased application of labour-based methods of work in the maintenance and rehabilitation of rural roads as long as the methods remain competitive and efficient. These documents also outline government's intention to see the increased participation of small and medium local entrepreneurs in this sector.

...In areas where labour-intensive technologies are appropriate, especially in rural and minor feeder roads, the Government will sub-contract maintenance to communities which will use labour-intensive methods¹.

...Support and harmonize current efforts in the Ministry of Works, Transport and Communications and Ministry of Agriculture, Water and Rural Development to foster cash-based labour-intensive public works programmes by identifying and removing obstacles to their expansions².

Weak local construction industry has slowed down the partnership sought by governments to tackle poverty. At the same time special skill and competence will be required to apply the methods chosen by governments, i.e. employment intensive approaches. This has resulted in developing a new cadre of local contractors that will partner governments in their fight against poverty through improved access and the creation of employment. In some countries, these new cadres of players have become the foundation for the establishment and growth of the local construction industry. The Lesotho emerging contractor development programme that started in 1994, with a financial assistance from the International Development Association (IDA) and technical support from the ILO, has played a major role in strengthening the local construction industry.

Development strategy

The main objective for developing emerging contractors is the need to increasing government's capacity in the delivery of essential infrastructure and to create employment in the process with the view to improving the livelihoods of the people living in the area. In achieving this important objective and facilitate the successful outcome of the development process, some governments have already made important policy reforms in creating transparent and competitive platform that allows the participation of these new players. Reforms are made in the areas of financial management, procurement systems and procedures, classification of contractors, etc.

Collaboration with other role players

Although governments take lead in the development of emerging contractors, the development process involves various players in the industry and the creation of partnerships between the various players, where roles of each party clearly defined, will be essential. This partnership based on addressing common goals, including poverty reduction and employment creation, will contribute to the achievements of the development objectives. Programmes in Lesotho and South Africa have successfully partnered local financial institutions to secure emerging contractors' access to resources. Local financial institutions in the two countries eased the rigid requirements usually associated with loans to emerging entrepreneurs and agreed to provide loans to the entrepreneurs for the purchase of essential construction equipment and provided an overdraft facility to cover the day-to-day running costs of the contract. Risk sharing and minimizing mechanisms have been successfully negotiated between the partners and was operational during and post development period. The arrangement has enabled the emerging contractors to purchase some essential light construction equipment such as pedestrian rollers, waters tankers, pickup cars, etc. This partnership has successfully removed the high-risk label usually hanged on emerging entrepreneurs.

¹ Interim Poverty Reduction Strategy Paper, Government of Kenya, June 2000

² Poverty Reduction Strategy Paper, Government of Namibia

The National Construction Council in Tanzania has created a new classification for emerging contractors that have special skill, i.e. knowledge on employment intensive approaches. One of the requirements for registration under this class is the presentation of a certificate on successful completion of an accredited training programme on employment intensive approaches. This new classification will protect the client from unqualified service providers and will ensure quality of works produced using employment intensive approaches.

Increasing implementation capacity

In countries where governments have established partnerships with emerging contractors in the maintenance and improvement of rural roads, governments' implementation capacity has shown an upward trend. Experiences from Ghana and Lesotho have shown that the conditions of the rural road network have significantly improved and so have the employment creation potential of the government. As a result the Department of Rural Roads (DRR) Lesotho has now fully contracted out all its maintenance and rehabilitation works and a reasonable proportion of upgrading/construction works. Visual assessment on the conditions of the maintainable rural road network has shown visible improvements.

Improving the contracting environment

It is essential that the playground is levelled, to the extent possible, and encourages the participation of emerging entrepreneurs. It is also important to see the entrepreneurs grow in this competitive industry and be able positively contribute to the development process. A well-structured and organized training programme that covers technical, business and management issues are at the core of this achievement. Experience has shown that government and other role players in the industry have to revisit some of the rules and regulation.

Experiences gained in the development of emerging contractors with a special skill on employment intensive approaches have shown the needs for carrying out various interventions simultaneously. Some of these interventions are listed below.

Policy support	It is important that governments make essential policy decisions that contribute to the successful implementation of the development process by levelling the playground. Some of the policy reforms that are essential include: encouraging the use of pro employment methods of work, establishment of an effective and efficient financial management system, effective procurement system and procedure, contractor classification system that facilitates the participation of the emerging contractors, ... etc.
Training and awareness creation	There is a need to increasing awareness among the policy makers, professionals and communities on governments' poverty reduction strategy, the contribution of employment and the benefit of pro employment methods of work in the delivery process in tackling poverty. It is also important to conduct an accredited training programme to all players covering both technical, financial and business management.
Capacity building	Capacities of the implementing agency, consultant and the emerging contractors have to be strengthened. It is also essential that all players have the same understanding on the methods and specification of the work on hand.
Access to resources	This is an important area for successful integration and growth of emerging contractors in this competitive industry. The intervention may require a joint

effort and support from both the public and private sectors. Emerging contractors lack start up capital to start and continue their business. In this context, access to resource will mean to provide support to the entrepreneurs enabling them fulfil their contractual obligations including the under mentioned.

- *Access to cash* to enable the emerging contractors settles part of their commitments, including wages, material, ... etc., until they receive payments from the client for works already carried out.
- *Bonds and guarantees* as required by the contract document to cover for advance, bid and performance guarantees.
- *Capital investment* for purchases of essential equipment especially those that are not easily available in the open market for hire.

Continuity of work

To grow and make a significant contribution to the development process, it is essential that the emerging contractors be assured of access to continuity of work. Emerging contractors continue improving their competence by each day. Each contract contributes to the practical knowledge gained by the contractors and speeding up the growth of the most committed contractors.

Procurement system

Irrespective of the complexity and value of work, governments apply similar types of contract systems. These contract procedures have a high financial requirement in a form of various guarantees. Due to high bidding requirements, the current widely applied procurement system does not encourage the participation of emerging contractors. The complexity of the contract documents is also beyond the understanding of small contractors. This system will be more complicated if the source of funding for the work is from an external multilateral development partner or financial institution. Usually the funding agency demands the application of its own procurement procedure that is more complex and time consuming.

It is necessary to level the playground and create an even competitiveness in the sector. At the same time it has increasingly become necessary governments to direct their investment to addressing their development plan most importantly to address its poverty reduction strategies. The procurement system that will be practiced has to be appropriate to the work on hand and easily understood by all implementing agents. This approach supplemented by the need to addressing government's development goals has raised the need to developing a progressive procurement document and procedure. In this regard, the government of South Africa has introduced an Affirmative Procurement Policy (APP) that demands contributions towards the government's development and social goals (including employment creation and support to emerging contractors) during the procurement of services and supplies. Targeted Procurement is one such example of APP promoted by the Government. One of the recommendations by the team that carried out the Independent Assessment of Targeted Procurement was that ... *professional service providers become more familiar with "social engineering" and employment friendly technologies, and match this with the capacity of the target group,*³ This recommendation is widely applicable and provides direction for future pro development procurement system.

³ Targeted Procurement In the Republic of South Africa: An Independent Assessment, T. E. Manchidi and I. Harmond, April 2002

At a programme level, different procurement systems are developed. Most of the procurement systems developed have the backing of the local tender board and are reasonably transparent. The contract document developed by the Lesotho programme and was approved by the International Development Association clearly states the government's objective of supporting the emerging contractors and employment creation. This was clearly reflected under the Instruction to Bidders. *The Invitation for Bids is open to all bidders who can demonstrate previous experience of the satisfactory execution by labour-based methods of road works of the same, or very similar, works to those described in the Bidding Documents*⁴.

Conclusions

The participation of small local contractors in the maintenance, rehabilitation and improvement of rural roads is on the increase. Ghana, Lesotho, Tanzania and Uganda are some of the countries where small local contractors are supporting central and local governments in delivering essential services. These contractors are usually applying employment intensive methods of work in the delivery process as required by the government leading to the creation of the much-needed employment.

This positive partnership will be strengthened as the emerging contractors grow and expand their areas of coverage. For this it is essential that the contracting environment has to be conducive, transparent and offers equal opportunities to all players. It is expected that governments and other players in the construction sector may have to make all efforts to removing barriers that stand on the way of the emerging contractors growth.

⁴ Instruction to Bidders; Rehabilitation Works, Labour Construction Unit, Ministry of Works Lesotho
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