

**LIC INVESTMENTS IN BUSINESS FACILITIES AND INFRASTRUCTURE**

Local Investment Climate (LIC) is a private sector development Programme supported by Danida. LIC addresses critical constraints to business development and economic growth at district level in the two regions of Dodoma and Kigoma in Tanzania. The Programme invests in Public-Private Dialogue (PPD), business service facilities such as One-Stop-Business Centres and Public-Private-Partnership infrastructure in support of business development. The implementing partner agencies of LIC are; the President’s Office – Regional Administration and Local Government (PO-RALG), the Regional Secretariats in Kigoma and Dodoma, Tanzania National Business Council (TNBC), Association of Local Authorities in Tanzania (ALAT), Tanzania Private Sector Foundation (TPSF) and Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA).

The aim of LIC is to achieve practical reforms that alter the dynamics of the local business environment. Since LIC came into operation in 2014 the Programme has generated considerable experience and knowledge of challenges and constraints to business development. Close collaboration with designated partners enables LIC to contribute to the formulation of revised and new private sector development policies and strategies. In addition, LIC supports such reforms with concrete investments that improve private sector performance and public sector business support.

**LIC Investments in Business Facilities**

LIC has supported rehabilitation of market places, auction yards, slaughter houses, fish landing sites, irrigation schemes, agricultural training centres, water supply systems and small- scale processing facilities. All of these investments aim at addressing business constraints as identified through Public – Private dialogues.

LIC support to public investments in business infrastructure requires a 20 % co-financing from Local Governments and for private investments LIC requires a 50 % co-financing. Prior to investing, LIC conducts business viability analyses and support to the development of business plans.



Mwanga night market, Kigoma Ujiji, managed by the Local Government

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**Challenges in Public Management of LIC Investments**

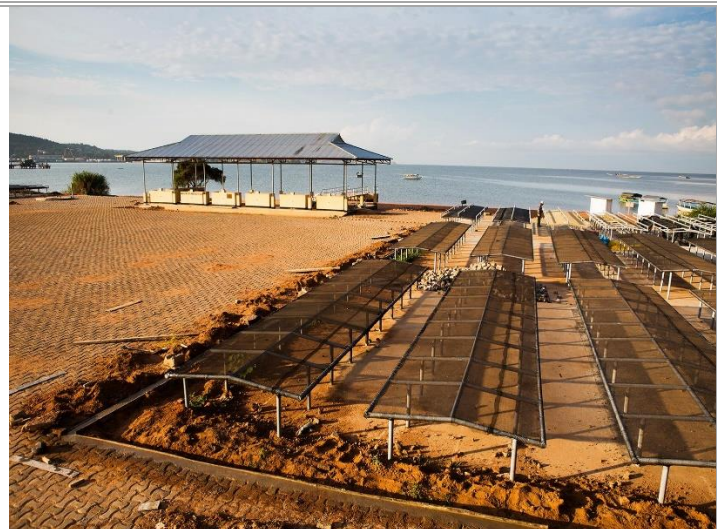
If business facilities are managed by Local Government Authorities (LGAs), the following key challenges bringing investment into risk have been identified:

1. LGAs have limited understanding of business requirements and dynamics
2. Limited understanding of PPP principles and scope
3. Low capacity to formulate and implement investment projects
4. Low capacity to manage PPP facilities
5. Great difficulties in raising the 20 % co-financing

As a consequence of these challenges LIC investments are generally faced with very long delays in both formulation, execution and completion of projects. Furthermore, requests for return of allocated funds due to non-performance of agreed investments have

been issued and the 20 % co-financing obligation have in some cases been taken over by LIC to safeguard the 80 % investment.

LIC fully acknowledges the very tight budgets of LGAs and the human resource constraints. Considering the importance of PPP investments in support of business development and anticipating that neither the funding capacity nor the human resource constraints of LGAs will change dramatically over the coming few years, LIC encourages increased private sector participation in managing PPP investments. This can be done through a **Special Purpose Vehicle (SPV) Instrument** which is recommended to be more widely applied.



Kibirizi Landing Site, managed by an SPV



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### **The SPV Management Instrument**

The so-called Special Purpose Vehicle (SPV) has effectively been applied to manage PPP projects. A private company limited by guarantee is established to manage the investment and collect revenues as per regulation or LGA by-law. The company undertakes all responsibilities related to operation and maintenance and is answerable to a Board of Directors composed of relevant stake holders from both public and private sector. The said installation will remain the property of the LGA and the SPV company will be guided by a lease/user agreement with the LGA.

Apart from drawing on private sector expertise in management, the SPV Board can bring in a wider group of stake holders and thereby ensure broader support to both the investment and to revenue collection as service provision will improve.

Furthermore, the SPV set-up can become bankable as the SPV company is expected to adhere to the agreed business plan.

### **Options for a Way Forward**

1. The SPV model to be developed as a pre-approved legal instrument with statutes and operational guidelines ready for quick application and registration.
2. The Board of Directors to include LGA, Regional Government and representatives from village level, farmers/producers, youth, women, special interest groups as relevant for any given PPP investment.
3. The application of the SPV instrument shall be the first step in PPP investments and all subsequent investment activities incl. planning, preparing BoQ, tendering, contracting, supervision of construction and operation of the investment shall be managed by the SPV. LGA technical staff to oversee the SPV on behalf of the Board of Directors.
4. As the SPV is perceived to be bankable, the 20 % LGA co-financing for LIC projects to be provided as a bank/LIC loan to be repaid into a support fund for cluster development. The Fund to be managed by the SPV following strategies and guidelines set by the SPV Board.

Until October 2018, LIC has invested approx. TZS 5,7 billion in business facilities and business infrastructure projects. The Programme will continue to support private sector development projects in the regions of Kigoma and Dodoma until February 2020.

For further information, please visit [www.lic.or.tz](http://www.lic.or.tz) and see Brief No. 6: Special Purpose Vehicle (SPV)