Brief No. 6

SPECIAL PURPOSE VEHICLE (SPV)

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).

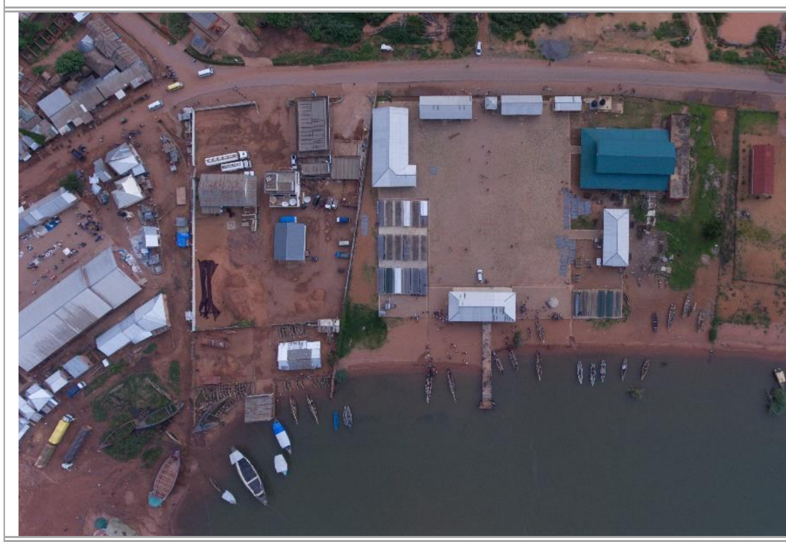
Support to Business Facilities

Since 2014, LIC has supported the rehabilitation of market places, auction yards, slaughter houses, fish landing sites, irrigation schemes, agricultural training centres, business hubs, water supply systems and small- scale processing facilities in Dodoma and Kigoma region. While own financial contribution is required from Local Government Authorities (LGAs), LIC co- finances public and/or private investments by up to 80%. Prior to investing, LIC conducts a business viability analysis for each investment proposal received, and supports the development of business plans. All selected Investments address business constraints that were identified during Public – Private dialogue (PPD) at district and regional levels.

Challenges in the Sustainability of Investments

The management and maintenance of the public business facilities constructed, such as landing sites and market places is a major challenge for most Local Government Authorities (LGAs) due to a number of constraints; local budgets are very tight, qualified staff is in short supply and bureaucratic procedures hinder practice-oriented and dynamic management. Service facilities like market places and fish landing sites are sources of revenue for LGAs, but maintenance and further development of these revenue bases is rarely given priority.

One systemic answer to these challenges can be the **Special Purpose Vehicle (SPV)** that engages the private sector in fulfilling public obligations in service provision and revenue collection on behalf of an LGA.



Aerial picture of Kibirizi Fish Landing Site, supported by LIC and managed by an SPV

Women selling sardines at the Kibirizi Landing Site

The SPV Instrument as a Way forward

The Special Purpose Vehicle (SPV) instrument can effectively be applied to manage PPP projects as demonstrated in the rehabilitation and management of Kibirizi Fish Landing site in Kigoma, supported by LIC. A private, not-for-profit company, limited by guarantee has been established to manage the investment and to collect revenues on behalf of the respective LGA, as per LGA by-laws. The company, also referred to as SPV, undertakes all responsibilities related to the operation and maintenance of the landing site and is held accountable to a Board of Directors composed of relevant stakeholders from both public and private sector.

The LGA remains the owner of the facility and a contract between the SPV and the LGA stipulates the conditions under which the SPV has to conduct its business including an agreement on how collected revenue shall be shared. Since the SPV receives a certain share of the profit it generates, efficiency in both revenue collection and service provision are thought to improve.

An SPV director and required other senior management staff are employed by the Board. The SPV management then employs revenue collectors, security staff and what other personnel might be required. The SPV management prepares operational and investment budgets for board approval.

In the case of Kibirizi the contract stipulates that collected revenue is shared 50:50 between the SPV and the LGA after deduction of operational costs like maintenance, power, water and security. The justification for the 50% share to the SPV is due to high demands for rehabilitation as stipulated in the agreed work plan and budget for the SPV. This share is up for annual re-negotiation as the SPV is registered as a not-for-profit company and thus not subject to profit taxation.
Revenue collectors are employed on a share contract with 20% of collected revenue being retained by the collectors. All collectors use Point of Sales machines centrally monitored by the SPV management and by the Board.

Apart from drawing on private sector expertise in management, the SPV Board can bring in a wider group of stakeholders and thereby ensure broader support to both the investment and to revenue collection as service provision will improve. In the case of a cattle market with a slaughter slap the SPV Board can e.g. in addition to LGA representatives bring in cattle producers, cattle traders and local community representatives. A shared responsibility for the PPP facility spreads risks and increases the likelihood of sustainability of the investment. Furthermore, the SPV set-up can become bankable as the SPV Company is expected to adhere to an agreed business plan.

Office at Kibirizi Fish Landing Site, accommodating an SPV to support the LGA

Revenue Collector at the Kibirizi Fish Landing Site, employed by an SPV

Proposed Steps for Establishing a SPV

Upon the approval of a PPP project the following procedure could be applied by LIC as a condition for LIC support:

1. A MoU between LGAs/beneficiary and LIC on intention of establishing a SPV to run the project to be signed
2. A Board of Directors for the SPV to be selected/elected/appointed
3. The SPV to be registered, management employed and operational agreement with LGA developed and approved by LGA and the Board
4. The SPV management finalises the investment plan following Board directions, calls for tenders, signs contracts and oversees the construction/rehabilitation supported by LGA technical staff
5. Upon commencement of operations the SPV management employs revenue collectors and required support staff
6. The 20 % LGA co-financing requirement stipulated in LIC guidelines could be provided by LIC as a loan to be repaid into a fund in support of cluster/value chain development. This provision is currently not a standard application in SIFF projects.

Until November 2018**, LIC** has invested approx. TZS 5.7 billion in PPP projects for Kigoma and Dodoma Region. 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 and see LIC Brief No. 5: Investments in Business Facilities and Infrastructure

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