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Developing private sector capacity

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Developing private sector capacity

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THE AFFORDABILITY OF water supply and sanitation largely depends upon the choice of appropriate technology and its delivery through a network of efficient and cost-conscious providers. Uncertainties regarding long term funding, coupled with a growing appreciation of the inflexibility and declining productivity which can adversely affect the performance of large public sector organizations, have led to an increasing interest in reliance on private sector provision. However, many countries lack an experienced and resourceful private sector. So simple privatization is doomed to failure unless it is accompanied by a deliberate and well managed effort to select and train motivated entrepreneurs and ensure that they operate within a favourable and supportive business environment.

The paper explains the need for integrated technical and business training and draws upon the experience of the International Labour Organization (ILO) in developing its Improve Your Business (IYB) and Improve Your Construction Business (IYCB) programmes. It also draws upon the principle of franchising to examine the scope for guaranteeing quality and providing training and other forms of support through an enabling institution.

The six S's

There are few countries which have not, reluctantly or otherwise, accepted the need for a greater reliance on private sector involvement in the provision of basic infrastructure. This is a trend which can be beneficial in increasing community involvement, generating local employment and securing improved efficiency and lower costs, providing that government retains a defined core role as promoter, facilitator and regulator so as to retain essential democratic control. The transition itself also needs careful management. In his paper to the 19th WEDC Conference, Duncan Morris¹ suggested three linked processes:

- decentralizing and delegating decision-making and local resource mobilization to the appropriate level of government but allocating financial support on the basis of national guidelines and criteria;
- making as much use as possible of the private sector (consultants and contractors) to prepare and implement public works projects, and also to manage, maintain and where necessary operate the assets created; and
- simplifying and streamlining the regulations and procedures relating to the provision and maintenance of basic public infrastructure.

This paper will argue that the success of the transition depends upon the application of six principles – the six S's:

- Subsidiarity
- Split responsibility
- System support
- Small enterprise focus
- Self help through developing business skills
- Sub-sectoral franchising

Subsidiarity

The principle of subsidiarity helps us to deal with the first of these issues, the appropriate level of government to which decision-making and local resource mobilization should be decentralized and delegated. In general, these actions should take place as close as possible to the level of the clients or ultimate beneficiaries. In the words of management writer Charles Handy² “stealing people's responsibilities is wrong”, a translation of the more formal definition of subsidiarity contained in a papal encyclical, *Quadragesimo Anno*, in 1941: “It is an injustice, a grave evil and a disturbance of right order for a large and higher organization to arrogate to itself functions which can be performed efficiently by smaller and lower bodies...’.

Subsidiarity is easiest to achieve in what Duncan Morris describes as *community works*, defined as works “initiated by clearly identifiable communities or common-interest groups (or even individual households) for the mutual benefit of their members”. The degree of effective subsidiarity in such circumstances depends upon mutual confidence, that is confidence by the client agency in the managerial capacity of local communities and confidence by those communities in the good intentions of the agency. The process of confidence building always takes time, and an ILO booklet “From Want to Work”³ suggests that:

- the community itself must “own” the project - not the authority or agency. *This means that the community takes all important decisions, while the role of the authority is to define the options to choose between, and give technical support;*
- agreements between community-based organizations (CBOs) and public authorities must be based on negotiation between equal parties. *This means that oral or (preferably) written contracts should be established spelling out rights and obligations of both sides, including the flow of funds, and the planned construction and maintenance arrangements. Public officials must refrain from being bossy and emphasize their role as civil servants.*

Split responsibility

As decision-making and responsibility for implementation is devolved to levels closer to local communities, the comprehensive role of government in delivering projects and services will have to be reallocated. Central governments' residual role is likely to be limited to the allocations of financial support on the basis of national guidelines and criteria, thereby setting the rules of the game and safeguarding legitimate national objectives. The remaining elements will include project identification and promotion, project design, implementation and operational management (including revenue generation, cost recovery and maintenance). An indication of the number of organizations and groups who can be involved in urban development is provided in Table 1.

Some work can be carried out by individuals and their families, and there may also be a role for community-based organizations and non-governmental organizations (NGOs). However "From Want to Work" cautions that:

Some of these do not have great capacity or experience, and those which do easily become overburdened with work. Great care must therefore be exercised when commissioning community development work to an NGO to ensure that it is able to carry out its expected tasks.

System support

Table 1 emphasizes the complexity and variety of relationships that are involved in the infrastructure development process. Thus there is a case for establishing some form of intermediate "system support" agency which will help communities to focus on practical objectives and will foster the emergence of capable and well motivated SSEs to provide the necessary products and services.

Table 1: Major and minor works: Actors

Source: ILO 'From Want to Work'

Actors	Major Works	Minor Works
Individuals	<ul style="list-style-type: none"> take paid employment pay taxes 	<ul style="list-style-type: none"> contribute labour + cash take paid employment improve own house
Community	<ul style="list-style-type: none"> execute sub-contract locally 	<ul style="list-style-type: none"> form development committee decide priorities collect local contribution sign contracts execute works
Small-scale contractors	<ul style="list-style-type: none"> execute sub-contract 	<ul style="list-style-type: none"> specialist jobs
Large-scale contractors	<ul style="list-style-type: none"> execute larger contracts give out sub-contracts 	<ul style="list-style-type: none"> no role
Local government	<ul style="list-style-type: none"> organize tendering technical control support contractor training 	<ul style="list-style-type: none"> technical support issue contract to community adapt building standards

**Box 1. The AGETIP
(Agence d'exécution des travaux d'intérêt public contre le sous-emploi) in Senegal.**

The AGETIP in Sénégal was established in 1989 as a not-for-profit non-governmental organisation with the following objectives:

- a) to create employment, particularly in urban areas;
- b) to provide vocational training, to improve the operational efficiency of the local construction industry and the effectiveness of public institutions;
- c) to demonstrate the scope for increased application of employment-intensive construction technologies, and
- d) to execute public works that are worthwhile in both economic and social terms.

It has been given a mission of "owner's delegate" for a programme of small- and medium size labour-based public works and services. AGETIP contracts out all engineer's duties for preparation and supervision to local consultants. Works and services are contracted out to artisans and small- and medium-size contractors. The agency carries out the whole management of the project, including inspection tasks. In 1990 AGETIP managed a program of about 130 contracts for works (average value US\$ 80,000) and the same number of contracts for consulting services. Standard and computer aided procedures allow the agency to pay for works and services within a week.

Source: Lantran, J-M, and Egger, Phillipe

The World Bank and other influential donors/financing agencies have been attracted to channelling funds through autonomous agencies in recent years. The model for these agencies is the AGETIP (Agence d'exécution des travaux d'intérêt public contre le sous-emploi), which work largely with and through the private sector including preparation of bidding documents and inspection in the broad sense of "owner's delegate" (in French "mission de maîtrise d'ouvrage déléguée").⁴ A good example is the AGETIP in Sénégal, which arose in 1989 in the wake of concerns related to the social effects of the structural adjustment programmes⁵ (see Box 1).

The AGETIP approach depends for its success on bypassing cumbersome and bureaucratic government procedures, paying competitive salaries to a comparatively small number of well motivated national staff of high calibre and making extensive use of the private sector so as to achieve a greater degree of "responsiveness", "flexibility" and "efficiency" than conventional government structures. These agencies are mostly relatively new, and their performance in the longer term is yet to be tested. They may be tempted to emphasize "efficiency" at the cost of "responsiveness", unless they bear in mind Duncan Morris's advice that "the beneficiaries (should) become the clients, with donors and governments placing more reliance on their innate common sense than they have in the past".

AGETIP-type agencies have been replicated in a number of countries (notably Benin, Burkina Faso, Mali, Mauretania and Niger), and are likely to continue to demonstrate success while they benefit from a significant flow of external resources. It is, however, difficult for a single organisation to combine development activities with project execution imperatives, and conflicting pressures may emerge. If the objective is to enable firms to become self-reliant, it may be better to concentrate on training, enterprise development and fostering a corporate approach among the contractors themselves. These were the priorities mentioned by Kirmani and Blaxall in their 1988 World Bank Discussion Paper⁶, where they proposed the following areas for action in World Bank-financed projects:

- (a) improving contracting and contract administration policies and practices;
- (b) improving the business environment of the industry;
- (c) improving the efficiency of contractors;
- (d) developing the institutions of the construction industry; and
- (e) research and development related to the construction industry.

Small enterprise focus

Small-scale enterprises (SSE) offer a variety of advantages by⁷:

- making use of materials and resources that may otherwise not be drawn into the development process;
- creating jobs at relatively low capital cost (small-scale contractors are more liable to choose employment-intensive solutions than large contractors);
- providing a vehicle for introducing a more equitable income distribution;
- employing workers with limited formal training, who then learn skills on the job and provide a pool of local skills that will favour future economic development;
- improving forward and backward linkages between economically, socially and geographically diverse sectors of the economy;
- providing opportunities for developing and adapting appropriate technological and managerial approaches;
- promoting special subcontracting arrangements and acting as ancillaries to large-scale enterprises; and (last but far from least in a turbulent environment)
- adapting flexibly to market changes.

Self-help through developing business skills

In developing countries most small contractors are practical people, who may have experienced trade or vocational training but have rarely been introduced to basic management and business training in a form that is relevant to their practical needs. The result is that their businesses are fragile and frequently fail, resulting in a

loss of scarce national resources and embarrassment for their clients. The construction industry development problem is thus predominantly a management development problem, since most of the difficulties which beset the industry could be overcome if managers within it could engender greater trust in their skills among clients and resource providers.

In its search for a means to assist this target group, the ILO Construction Management Programme drew upon the experience of another ILO programme - IYB or "Improve Your Business." IYB was based on a Swedish training package "Look after your firm", which consisted of self-teaching material that introduces the user to basic management techniques such as business analysis, financial analysis (accounting, key ratios and so on) and activity and financial planning. The material is packaged neatly in the form of a "handbook" and a companion "workbook", and includes checklists and a reference guide, together with advice on how to prepare an action plan and practical suggestions on how to bring the plan to fruition. Thus the obvious solution was to develop a system based on the IYB approach but taking into account the special operating conditions in the construction sector. An equally obvious title for the system was IYCB or "Improve Your Construction Business".

For small contractors, estimating and tendering are crucial activities. Construction is a fiercely competitive industry; profit margins are often low and a small mistake on pricing a tender document can make all the difference between a worthwhile profit and a serious loss. Furthermore each individual project is taken on at a fixed price and represents a significant proportion of the contractor's annual turnover, so one serious error in pricing a single project can undermine the stability of the enterprise as a whole. Yet many small contractors lack even the most elementary grasp of cost accounting, and estimates could frequently be more accurately described as "guesstimates". Thus the first IYCB handbook and workbook deal with the topic of *Pricing and Bidding*⁸. The two priority topics of project planning and productivity are essentially site activities, so the second handbook and workbook cover *Site Management*.⁹ This leaves the range of activities concerned with managing the enterprise as a commercial entity, including ensuring a reasonable balance between workload and resources, which comes under the general heading of *Business Management*.¹⁰ These six business-related books form a basic framework for small contractor training, permitting the trainer to concentrate on the preparation of local case studies and exercises.

Sub-sectoral franchising

Although the IYCB package is suitable in its present format for building and general contractors, there is scope for supplementing it with complementary technical training packages directed at specialist sub-sectors which present potential market opportunities for construction-related small-scale enterprises. These opportunities can

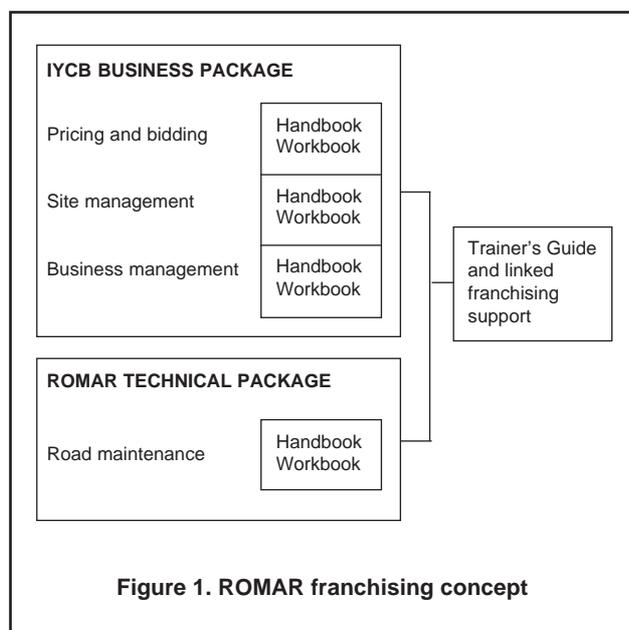


Figure 1. ROMAR franchising concept

occur either through new developments or through the growing emphasis on involving the private sector in activities that were previously the exclusive preserve of direct labour or force account, such as road or building maintenance (or many aspects of work related to water supply and sanitation). A project to apply the concept to the development of labour-based road maintenance contractors is now underway in Lesotho, and this will lead to the development of a complementary technical training package consisting of a *road maintenance and regravelling (ROMAR) handbook* and *workbook*. This approach could readily be extended into other specialist areas, including water supply and sanitation. Together the general and specific handbooks/workbooks could be combined with an outreach consultancy and advisory service to provide the basis for a franchising approach to sub-sectoral small business development (Figure 1).

The scope for replication

Many countries appreciate the potential for achieving savings through greater involvement of private enterprises in infrastructure construction and maintenance. Unfortunately too many interventions in this field have been piecemeal and uncoordinated, with the result that resources have repeatedly been spent on duplicating previous experience rather than advancing the state of the art. It is therefore worth emphasising that the need for these activities is going to persist and that there is real scope for achieving economies and improved results through the widespread application of a system such as IYCB, since:

- the target group of small contractors is numerous in most countries, and is growing rapidly with the impact of privatisation in those countries which used to emphasise central planning and control;

- the management problems faced by the target group do not differ significantly from country to country;
- the IYCB material has benefited from the earlier experience of its two parent programmes, and seems to be neither too complex nor too simplistic for the needs of the target group;
- many of the problems faced by contractors stem from a lack of commercial and financial knowledge and experience, so the emphasis of the IYCB material on these aspects is very relevant.

In all cases IYCB projects will continue to feature a strong institution building dimension, and will seek to tackle the policy constraints resulting from an inadequate regulatory and contractual framework as well as providing direct assistance in the form of training, coaching and consultancy.

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