

## **Annex A: Case Studies of SME Participation in PPPs**

### Background of case studies

The first part of this annex provides an overview of the case studies of SME/local enterprise participation in energy and water sector PPPs, referenced in the toolkit, including Benin, Somalia, Mali, Cambodia, and Rwanda. Detailed information gleaned from those case studies is integrated into the main body of the Toolkit. The case studies were chosen based on criteria including, but not limited to: (a) extent of fragility in country context, (b) presence of program to enhance SME/local enterprise participation in infrastructure sector, and (c) availability of information. A data comparison snapshot of these countries is provided below. The second part of this Annex, presents information about an initiative in Chad aimed at inclusion of SMEs in the PPP value chain.

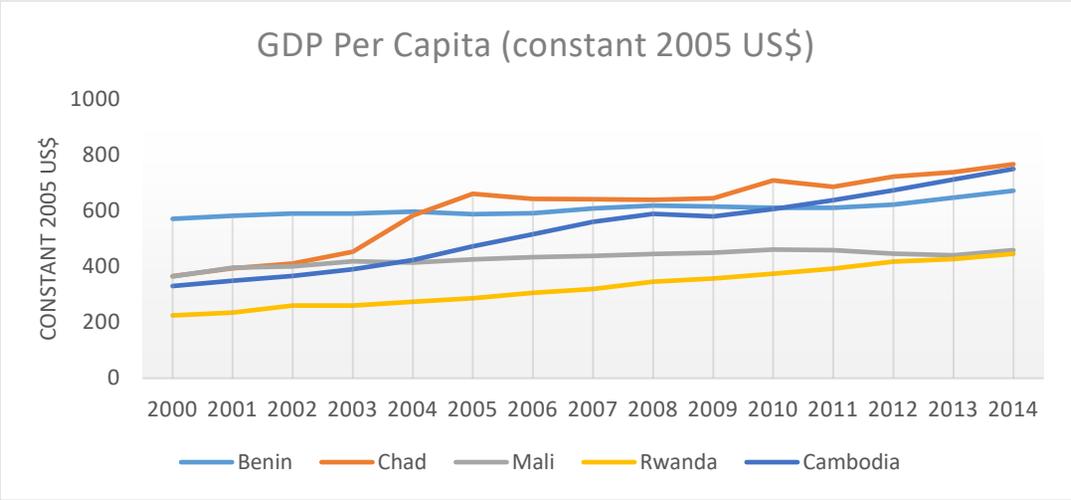
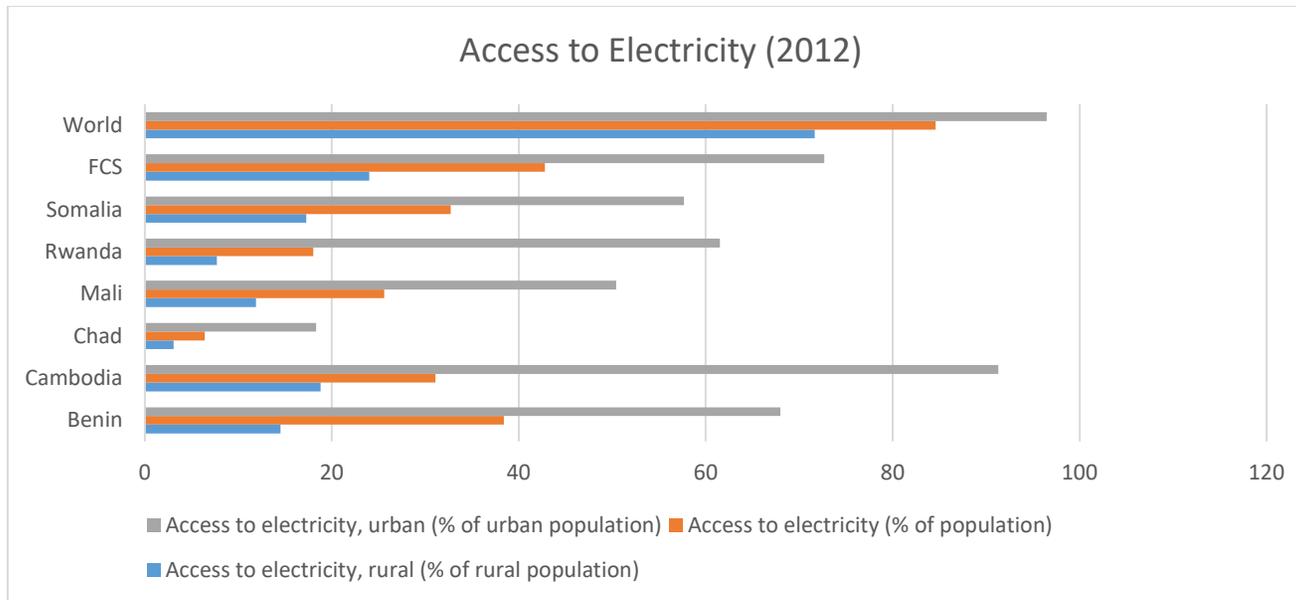
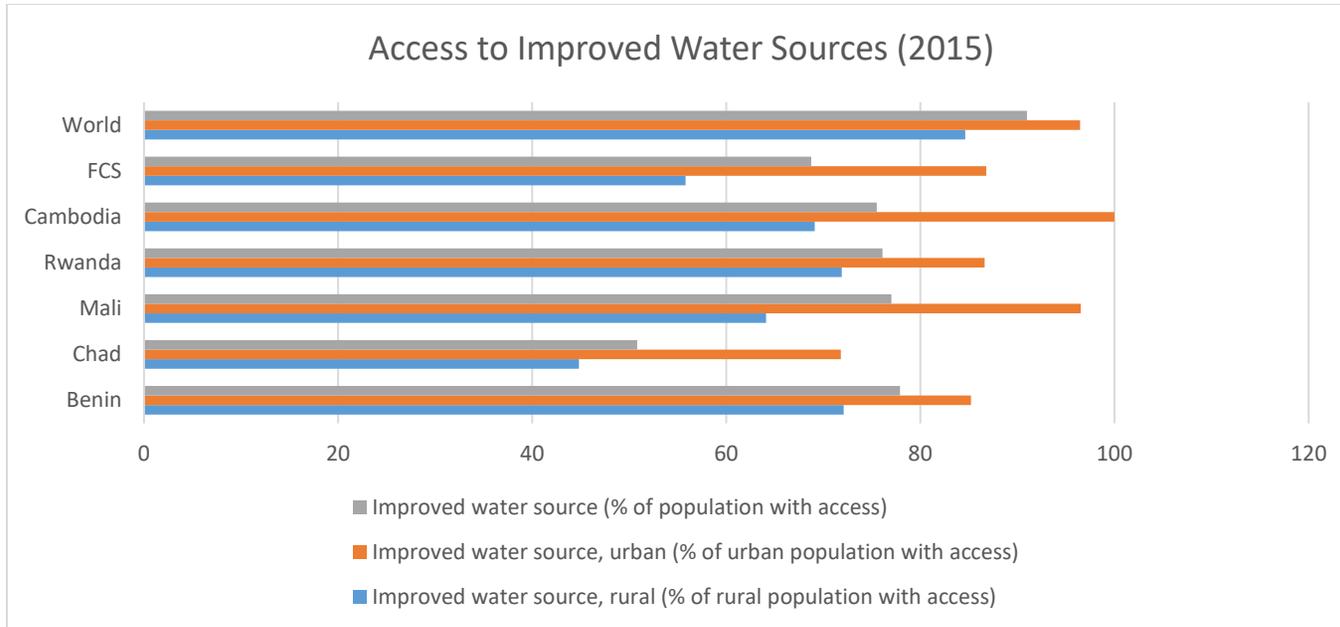


Figure 4 GDP Per Capita, Source: World Bank Group, World Development Indicators



**Figure 5 Access to Electricity (%), Source: World Bank Group, World Development Indicators.**  
**Note: most recent data available used.**



**Figure 6 Access to Improved Water Sources (%), Source: World Bank Group, World Development Indicators.**  
**Note: most recent data available used. Data for Somalia not available for 2015.**

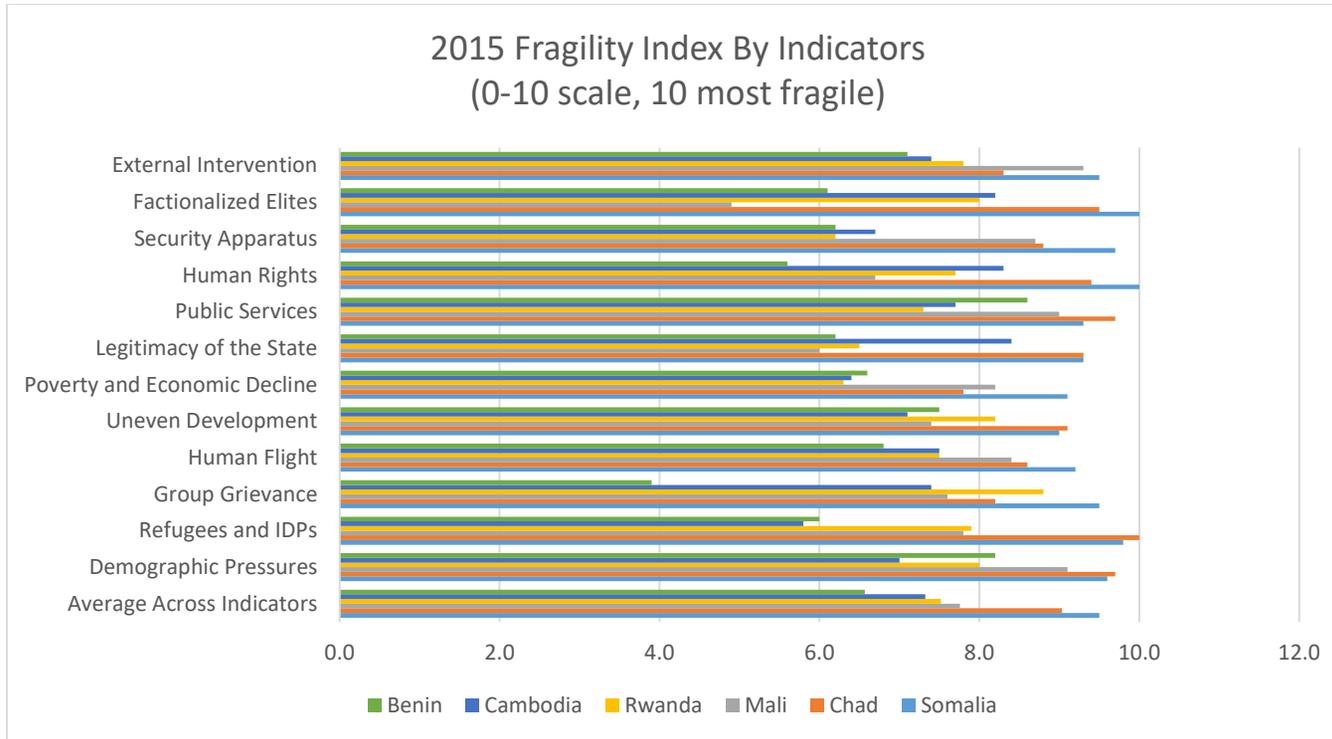


Figure 7 2015 Fragile States Index By Indicators, 0-10 scale, 10 most fragile. Source: Fund for Peace

## Chad – Business Linkages Approach

### 1. Project Overview<sup>147</sup>

The Chad SME Linkages Program was developed in 2002 by IFC and is a key component of the Chad-Cameroon Oil Development and Pipeline Project<sup>148</sup> with the objective to ensure that SMEs' may provide quality and reliable goods and services for pipeline-line consortium and that Chad's people gain greater economic opportunities. The program includes components on entrepreneurship and capacity building and access to finance. The project resulted in the training of 300 SMEs, the awarding of 13 contracts (\$22.5 million) to SMEs, and 107 new jobs created.<sup>149</sup>

### 2. Country Context/Enabling Environment

**Background and Fragility Situation:** Chad is included in the harmonized list of fragile situations for FY15, exhibiting waves of instability and conflict from ethnic and religious factions, as well as interventions from groups of neighboring countries (e.g. Boko Haram from Nigeria). It is on "high alert" status according to the 2015 Fragile States Index, ranked 6<sup>th</sup> most fragile among 178 countries. It became an oil producer in 2003 and since then has economically depended on this resource. In a population of about 13.6 million, 6.4% of the population having access to electricity, 50.8% have access to improved water sources, and 12.1% of the population has access to improved sanitation facilities.

**PPP Context:** Chad has employed PPPs for public social services (e.g. water, education, and electricity to rural populations), such as a foreign donor supported PPP strategy for a water PPP in 2011, in addition to limited private investment in the telecommunications and energy sectors. The Government is reviewing the legal, regulatory, and institutional framework and developing potential projects to ensure an environment enabling PPP projects, inviting to potential investors, and providing guidance and direction to implementing agencies.<sup>150</sup>

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<sup>147</sup> [https://commdev.org/files/2331\\_file\\_Developing\\_a\\_Transparent\\_System\\_for\\_Local\\_Contracting.pdf](https://commdev.org/files/2331_file_Developing_a_Transparent_System_for_Local_Contracting.pdf)

<sup>148</sup> The Chad-Cameroon Oil Development and Pipeline Project involved the construction of a 1070 km pipeline to transport crude oil from southwestern Chad to Cameroon coast. The sponsors included Exxon Mobil (operator with 40 percent of private equity), Petronas (35%), and Chevron (25%) who obtained a 20-year concession from the Government of Chad. See also "The International Finance Corporation (IFC) Played a Leading Role in Facilitating the Oil Pipeline between Chad and Cameroon", available at <http://www.ifc.org/wps/wcm/connect/6f271e00487e8e09844ced51e3a7223f/ChadCamProjectOverview.pdf?MOD=AJPERES>

<sup>149</sup> "Business Linkages: Lessons, Opportunities, and Challenges," 43.

<sup>150</sup> <https://pppknowledgelab.org/countries/chad>

### 3. Major Challenges

- Low capacity of suppliers for the consortium, particularly in regards to safety, quality, and controls
- Ensuring stakeholder buy-in of National Content Strategy shared by stakeholders (government, NGOs, major suppliers, consortium stakeholders, etc.).

### 4. Approach to SME Participation Value Chain

In coordination with IFC, ExxonMobil, and the Chamber of Commerce of Chad, the following components were chosen to ensure that Chad's SMEs are included in the oil pipeline construction value chain:

- **SME mapping:** survey of local SMEs conducted to locate and provide outreach for tender announcements
- **SME rating system:** SMEs rated 0 to 3 stars and tender announcements indicate the prerequisite rating
- **E-platform (e-procurement)** to facilitate business linkages: Chadian companies can participate in electronic bidding process.
- **Information awareness:** public workshops held to provide SMEs with information on bidding opportunities over medium and long terms (6 months to 2 years) and inform of standards required by ExxonMobil from suppliers.
- **Capacity building:** Chad Enterprise Center (EC—where IFC delivers local MSME development efforts trained SMEs on Exxon Mobil's e-Procurement system, how to submit documentation and tender bids and how to deliver contracts effectively.
- **Access to infrastructure:** Chad Enterprise Center provides internet to local SMEs
- **Access to finance:** Working with financial institutions to provide SMEs with necessary finance

### 5. Results<sup>151</sup>

- As of June 2009, 102 local firms assisted in electronic bidding—30 contracts (3-5 years) totaling over \$56 million awarded
- Chad Enterprise Center has provided training for 1300 local companies in its database
- ExxonMobil's public workshops resulted in five-fold increase in bid applications (5 to 25 SMEs)

### 6. Lessons Learned:

- **Business linkage programs should happen before implementation** of investment project
- **Partnerships with development partners** is particularly critical in fragile situations

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<sup>151</sup> <https://commdev.org/userfiles/Chad%20Linkages%20Highlights%20dec2009.pdf>

- **Local resources** are essential for fragile country context
- **Begin with smaller scale projects**
- **Large companies benefit** from enhanced ability to spread benefits of investment to greater share of society and strengthened social license to work in the remote region
- **E-Procurement** is a valuable system to connect local SMEs and large companies because it reduces risk of corruption between SMEs and company staff and streamlines the bidding process.
- **Need to active “lead company” support and active local Chamber of Commerce** that can provide a voice for local businesses, office space, credibility to the gram for government, etc.
- Critical enabling factors:
  - Incentives aligned for internal stakeholders in lead company
  - Enterprise center staff highly motivated
  - SMEs motivation to learn and reform business practices
  - Bid transparency

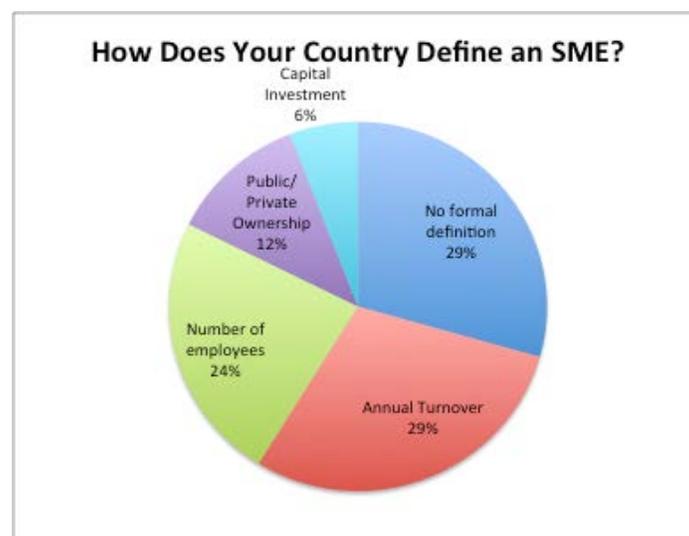
## Annex B. Survey on SME Participation in Public-Private Partnerships

Outlined below are the findings of the survey with respect to the following categories of issues: SME enabling environment, regulatory environment, procedural environment, challenges and solutions, and next steps.

### SME Enabling Environment

**Participants acknowledged a number of ways in which SMEs could help address fragile situations.** SMEs' participation may enhance service delivery when projects are geographically spread, able to address local issues more efficiently (even as subcontractors). SMEs may also replace big scale firms in what otherwise would be un-attractive regions. SMEs may also provide local solutions such as in the provision of key services and infrastructure. If empowered to make unsolicited proposals, SMEs may also help mitigate fragility by ensuring that there are projects that will enhance services in the fragile context. Investment guarantees from the state and multilateral donors and consortiums with experienced big companies is a crucial way to enable SMEs to do so.

**Lack of definition and weak monitoring of SMEs:** Nearly a third of respondents showed that their countries did not have a formal definition. Nearly another third of responses indicated that SMEs were defined by annual turnover, while about 24 percent of responses indicated that SMEs were defined based on the number of employees. 12 percent of responses indicated that they were defined by public or private ownership and 6 percent by capital investment. Some countries, such as Afghanistan, are in the process of implementing a definition. The majority of respondents (62 percent) also attested to their country lacking a data collection mechanism for counting and monitoring SMEs in public procurement or PPPs.



**Low availability of SMEs in infrastructure sectors relative to needs:** The most common sector for SME activity was manufacturing: 62 percent of respondents mentioned that most SMEs in their country are in manufacturing, followed by textiles (54 percent). A small share of respondents

attested to SMEs' prevalence in energy, water, and waste sectors (15 percent for each) where PPPs in infrastructure may be particularly useful, reflecting the challenge of building SME capacity in these areas. Meanwhile, survey respondents revealed that the greatest need for SME participation is in the waste (67 percent), water (75 percent), and energy (58 percent) sectors.

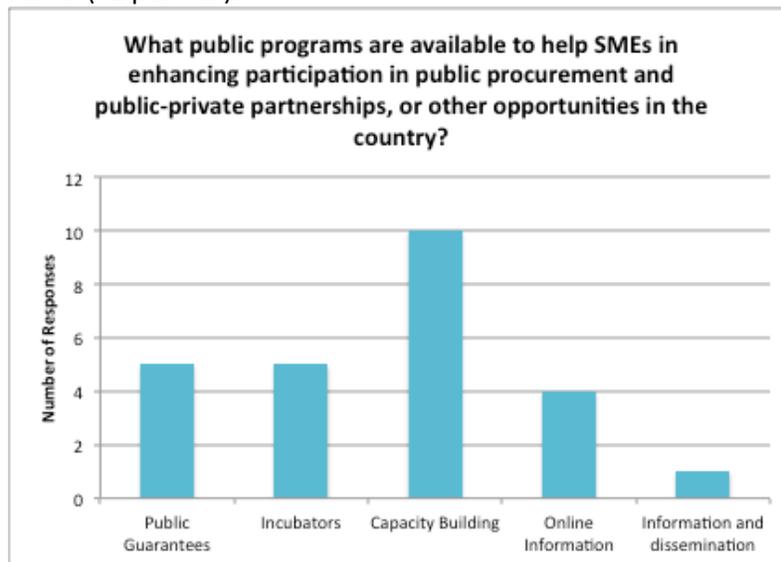


**SMEs are more likely to be subcontractors rather than direct contractors in PPP projects:** Nearly three-fourths of respondents mentioned that either none or under 10 SMEs were involved as direct contractors in PPPs. Nearly half of respondents (45 percent) also indicated that no SMEs had won contracts in their department in the last year. Yet one third of respondents indicated that over 10 SMEs were involved in PPPs as sub-contractors.



**Engagement with private sector is conducted more prevalently through direct contacts rather than online bidding:** Most survey respondents (64 percent) answered that their public procurement system engages private sector through direct contacts, rather than online bidding (36 percent), local engineering/professional associations (36 percent), or contacts from past projects (27 percent). Consistent with the low response rate for online bidding, over half of survey respondents (58 percent) indicated that their country does not use e-procurement.

**Capacity building was the most common form of support provided for SMEs:** Over three-fourths (77 percent) of respondents answered that capacity building is currently provided for SMEs to be involved in public procurement and PPPs. A sizeable portion also indicated the presence of public guarantee programs and financing support (38 percent), incubators (38 percent), and online information resources (31 percent).



**The definition of small-scale PPPs varies across countries.** Survey responses indicated criteria such as contract threshold/investment amounts and rural vs. urban classification. Several responses also indicated that there was no distinction between large and small-scale PPPs.

### Regulatory Environment

**SMEs are involved in policy processes in a variety of ways.** Most respondents (77 percent) indicated that SMEs in their country are involved in PPP and public procurement policy processes, such as through joint meetings and discussion with Social Fund for Development, awareness workshops, chamber of commerce, SME membership in regulatory policy committee, consultation and participation in dialogue or forum, and [open tenders].

**PPP policy frameworks are more prevalent than SME policy frameworks.** While over half of respondents (58 percent) indicated that their country has a policy governing PPP arrangements (such as a Committee led by the Prime Minister in Djibouti) or is implied in sector policies such as in Somalia’s Water Act, only 42 percent indicated that their country has a policy promoting SMEs.

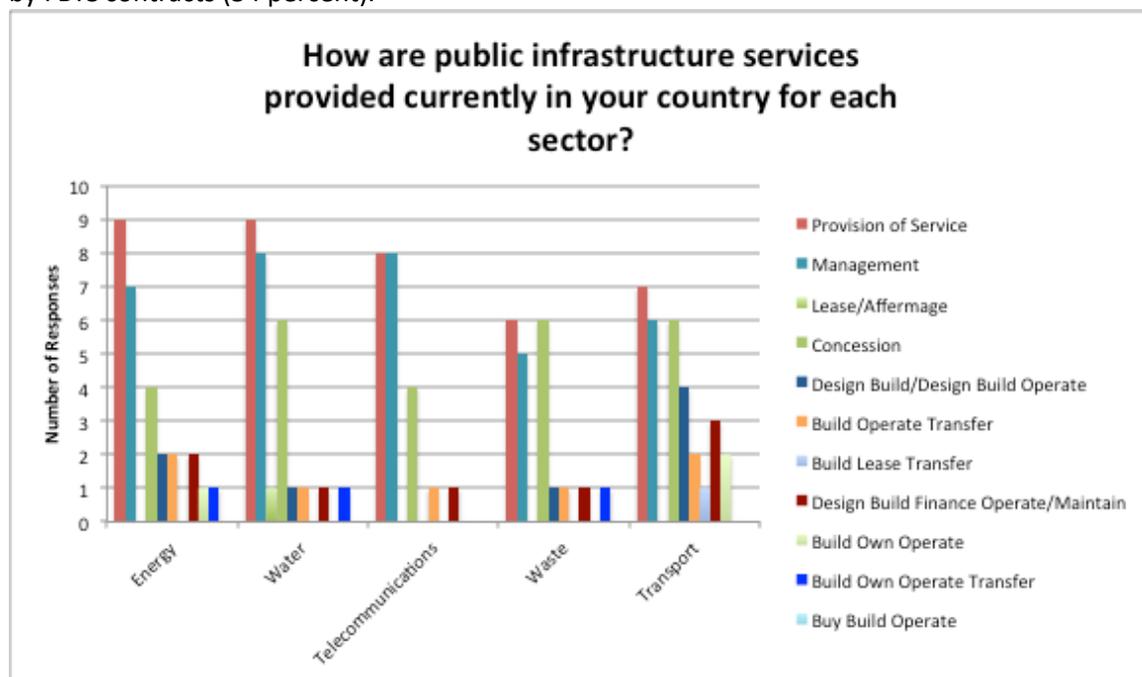
**Almost all countries represented were shown to have an agency to deal with both SME and PPP issues and some participated in inter-regional organizations in this area.** Agencies dealing with SME issues included the Ministry of Trade in Bosnia, the Ministry of Commerce/Chamber of Commerce in Afghanistan, the Social Fund in Yemen, and the Social Fund for Development in

Egypt. Agencies that addressed PPP issues included the PPP central unit in Egypt, the Ministry of Investment in Djibouti, the Ministry of Finance in Morocco, the PPP Unit in Tunisia, the Higher Council for Privatization in Lebanon, and the Commission for Concessions in Bosnia. Inter-regional organizations included the International North - Africa PPP hub in Egypt (in progress), IGAD Business Forum, COMESA in Djibouti, and MENA Network in Djibouti, Morocco, and Tunisia.

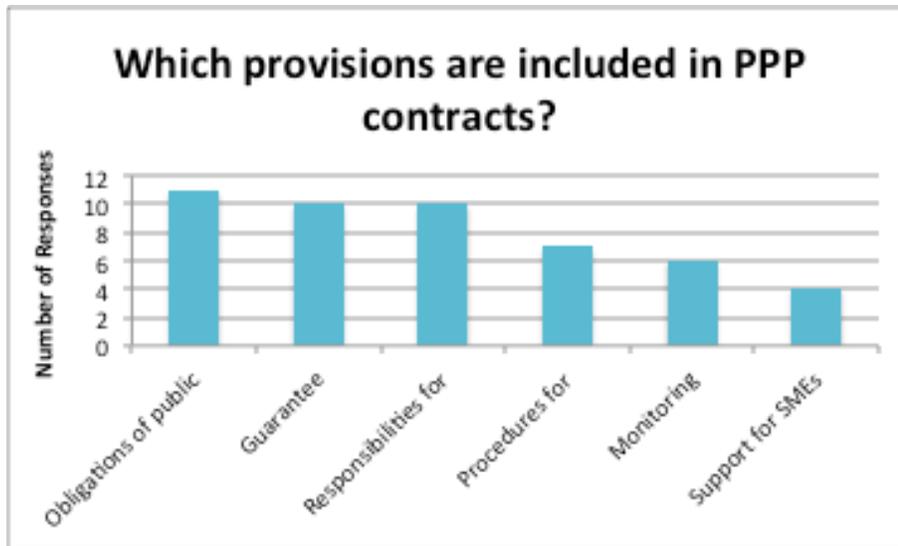
**Resistance to change and administrative burdens were the most common constraints to implementing PPP laws:** About half of respondents indicated that resistance to change and administrative burdens posed the biggest constraint to implementing PPP laws, though some also mentioned the risk of privatization, lack of awareness, and conflict of interest as constraints. Less than half of respondents (42 percent) indicated that their country has a PPP law.

### Procedural Environment

**Provision of service were the most common contracts across sectors and local form/donor-sponsored were the most common contract forms for construction projects.** Management contracts were most attributed to water and telecommunications sectors. Lease/affermage contracts were most attributed to the waste and transport sectors. Most responses (69 percent) indicated the use of local form contracts and donor sponsored contracts (62 percent), followed by FDIC contracts (54 percent).

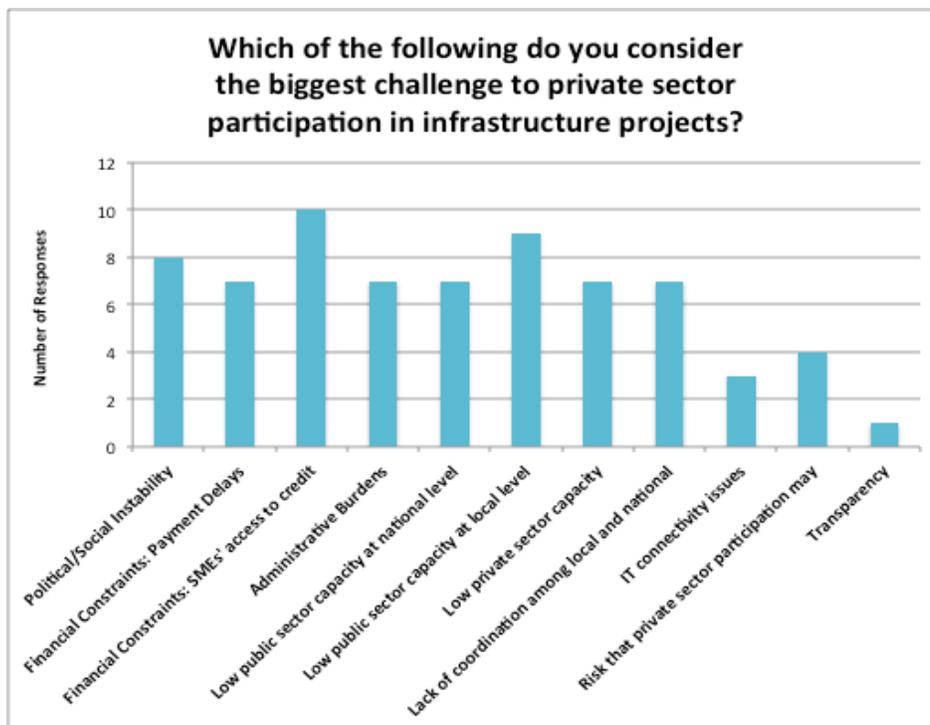


**Concessions were the common contract type and obligations of public and private sector were the most common provisions.** 69 percent of responses indicated that concessions are used in their country, and a slightly lower but significant 62 percent indicated the use of provision of service. The least common contract among survey respondents was the “build lease transfer” (8 percent). All survey responses indicated that contracts included obligations of public and private sector, while 91 percent indicated that they included guarantee requirements and responsibilities for investment. 36 percent indicated that PPP contracts provided support for SMEs.



### Challenges and Solutions

**Financial constraints, low public sector capacity, and political/social instability are the biggest obstacles for SME participation in infrastructure projects.** 77 percent of responses indicated that financial issues (SMEs’ access to credit) were the biggest constraints for SME participation in infrastructure. 69 percent indicated that low public sector capacity at the local level and 62 percent indicated that political/social instability were the biggest constraints. Only 23 percent of respondents indicated that IT connectivity issues were constraints.



Participants highlighted a number of capacity, financial, and political risks associated with SMEs’ participation in PPPs that essential to address when designing a program. These included the

technical, human resource, technical (engineering), and financial capacity of SMEs, lack of contract management techniques, payment delays, corruption (e.g. if big private companies disguise as SMEs), monopoly risk, and operational risk if projects are not delivered.

### Next Steps

**Participants recommended a variety of ways that donors could improve assistance in SME development in PPPs.** These include capacity building, ensuring financial guarantees, allowing SMEs to apply for small contracts financed by donors, advocating and raising awareness, strengthening management models, facilitating twinning arrangements, and providing key resources such as a SME database.

**Participants came away with several lessons from the conference, emphasizing partnerships and adapting solutions to the local context.** Participants acknowledged the importance of SME-based PPPs in alleviating some of the root causes fueling conflict and fragility in a given country and the importance of learning from experiences of other countries. They highlighted learning about the significance of classifying SMEs and PPPs, properly structuring a PPP project, ensuring a clear legislative framework, and facilitating consortiums between SMEs. Participants also noted gaining awareness of IHEP (International Humanitarian Engineering Partnership).

**Key actions may be taken in the short term to enhance SMEs' situation in PPPs in the short-term (6-12 months).** These include capacity building of SMEs and the government, facilitating access to finance, increasing awareness for SMEs of the importance of PPPs, publishing and disseminating the toolkit (in respective countries), classifying businesses, preparing for PPP projects (such as through a pre-feasibility examination), and introducing PPPs at the municipal level.

**Participants recommended diversifying and adding to the case studies.** They suggested that further case studies could address other sectors, include case studies presented in the conference (e.g. Afghanistan, Kiribati, Borama PPP) as well as highlight those that used FIDIC contracts and showed good governance.

## ANNEX C Selection Methods in World Bank Procurement Regulations

| Goods, Works, and Non-consulting Services | Market approach options                            |         |        |                |          |          |          |              |             |      |             |                |
|---|--|---------|--------|----------------|----------|----------|----------|--------------|-------------|------|-------------|----------------|
|   | Open   | Limited | Direct | Inter-national | National | PQ       | IS       | Single-stage | Multi-stage | BAFO | Negotiation | Rated criteria |
| Selection methods                         |  |         |        |                |          |          |          |              |             |      |             |                |
| Request for Proposals                     | ✓  | ✓       | x      | ✓              | ✓        | x        | normally | ✓            | ✓           | ✓    | ✓*          | normally       |
| Request for Bids                          | ✓  | ✓       | x      | ✓              | ✓        | optional | x        | ✓            | x           | ✓    | ✓*          | not normally   |
| Request for Quotations                    | ✓  | ✓       | x      | ✓              | ✓        | x        | x        | ✓            | x           | x    | x           | x              |
| Direct Selection                          | x  | x       | ✓      | x              | x        | x        | x        | ✓            | x           | x    | ✓           | x              |
| Selection arrangements                    |  |         |        |                |          |          |          |              |             |      |             |                |
| Competitive Dialogue                      | ✓  | ✓       | x      | ✓              | ✓        | x        | required | x            | ✓           | x    | x           | ✓              |
| Public-Private Partnerships               | ✓  | ✓       | ✓      | ✓              | ✓        | ✓        | x        | ✓            | ✓           | ✓    | ✓           | ✓              |
| Commercial Practices                      | As per acceptable commercial procurement practices |         |        |                |          |          |          |              |             |      |             |                |
| UN Agencies                               | As per Paragraphs 6.47 and 6.48                    |         |        |                |          |          |          |              |             |      |             |                |
| E-Auctions                                | ✓  | ✓       | x      | ✓              | ✓        | ✓        | x        | ✓            | x           | x    | x           | x              |
| Imports                                   | ✓  | ✓       | x      | ✓              | x        | x        | x        | ✓            | x           | ✓    | x           | x              |
| Commodities                               | ✓  | ✓       | x      | ✓              | ✓        | ✓        | x        | ✓            | x           | x    | x           | x              |
| Community-driven Development              | ✓  | ✓       | ✓      | x              | ✓        | x        | x        | ✓            | x           | x    | x           | x              |
| Force Accounts                            | x  | x       | ✓      | x              | ✓        | x        | x        | x            | x           | x    | x           | x              |

- ✓ This market approach option is available
- x This market approach option is not available
- PQ = Prequalification
- IS = Initial Selection