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Building Trade-Related Infrastructure: What Can the Private Sector Do?
Breakout Series 2: Building Competitive Business Environments

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More and more companies around the world are finding that they cannot depend on governments to provide the infrastructure they need to develop successful export strategies. So the question is: what they can do about it?

One answer, said R.C.M Reddy of the Cluster Development Initiative in India at the second series of breakout discussions, is for the private sector to work in partnership with governments and financial institutions in production-related development programmes.

Such programmes are not directed at big infrastructure projects such as roads and bridges, but focus on specific industry needs. In the case of the textile sector, which he took as an example, these can include testing plants and water supply systems.

They are things that the private sector cannot do alone, particularly in the textile sector, where 75% of output comes from small producers. The basic model is a private-public partnership, facilitated by a financial institution, such as the Cluster Development Initiative which he directs.

Partnerships, clusters and hubs

So far there are 30 such three-way partnerships, known as clusters, operating in the sector. The costs are split, with industry providing 30%, the government 40% and financial institutions the remaining 30%. Each costs some US \$18-24 million. The benefits to industry are reduced lead times and lower costs.

Such clusters also form hubs, with common compliance standards, which make them more attractive to foreign buyers. "You can compete in the market, while cooperating in infrastructure and creating economies of scale," said Reddy. Similar ventures – known as Special Purpose Vehicles – can be employed to provide and train the needed workforce. He said his organization is intending to retrain and place half-a-million rural workers in the 18-30 age group who are currently living below the poverty line.

Smoothing the pipeline

Atul Padalkar, Project Manager, Durban Investment Promotion Agency, South Africa, outlined the work of his organization, which is a 50-50 partnership between the public and the private sector. It aims to bring investment to Durban, a port city and gateway to much of southern Africa.

Getting goods from the "shop floor to the ship and then to the shelf" requires a smooth pipeline, which would normally be the role of governments to provide, he said. But governments are increasingly under pressure over spending and often have other priorities. However, the money for such projects is available in the global market and the way to mobilize it is through public-private partnerships.

The government can provide long-term concessions, while the private sector mobilises the capital and ensures effective implementation. “There is plenty, getting it working for people is the trick,” he said. But it is clear that the projects need to be well presented, spelling out the gains and benefits for both the private and the public sector. “For a successful marriage, both partners need to work,” he said. Reddy said that the financial role of the government is often to fill the “viability gap”, providing funds when there is no immediate commercial payback.

‘Soft’ infrastructure

Costin Lianu, General Director of the General Division for Export Promotion at the Romanian Ministry for Small and Medium Size Enterprises, stressed that infrastructure does not just mean physical installations. Legal frameworks, regulations, the business climate and services are also vital. “I would suggest that ‘soft’ infrastructure is just as essential,” he said. The key role of the private sector here is advocacy, helping shape regulations and the business environment. He pointed to a number of examples of successful ventures in Romania, including a private-public council which is looking at legislation regarding the internet and e-commerce. Strong local business associations are also important to help build up systems of quality control, he said.

The importance of publicity

Moderator Siphana Sok, director of the ITC’s division of technical cooperation coordination, said that it is important to get the media involved in publicizing successful public-private partnerships. “People need to know the benefits,” he said.

Atul added that it is important to develop trust between all parties because it is not enough to attract investment. That investment needs to be maintained. Reddy said that his company had spent a year going around explaining proposed projects.

But a Nigerian participant cautioned that interests within the private sector differ widely, even within the same industry, which complicates partnerships. Even if everyone says that the private sector can be the engine for infrastructure projects, governments are still needed to do the kick-starting.

Another African strategist wanted to know whether the public-private partnership idea can reach across borders to embrace regional cooperation in areas such as satellite development. But a delegate from Cote d’Ivoire worried that West Africa might not have the industrial, human and financial resources even for local private-public partnerships.