

# Providing Essential Infrastructure in Fragility, Conflict and Violence-Affected States:

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A toolkit for enabling SME participation

EXECUTIVE SUMMARY



## **PROVIDING ESSENTIAL INFRASTRUCTURE IN FRAGILITY, CONFLICT, AND VIOLENCE-AFFECTED STATES: A TOOLKIT FOR ENABLING SME PARTICIPATION**

The Toolkit seeks to assist key stakeholders (including policymakers, non-governmental organizations, local community members, the donor community, and private sector) to enable SMEs' engagement in private sector participation-based infrastructure initiatives (e.g., public private partnerships (PPPs)) in countries affected by FCV. Such initiatives generate benefits for delivery of essential services, recovery and reconstruction, regional job creation, SME growth and competitiveness, and shared prosperity. The Toolkit highlights possible approaches to empowering SME participation in public-private initiatives in meeting FCV infrastructure needs, showing that fragility is not necessarily a bar to private sector participation (PSP)/PPP projects (in a range of possible private sector participation variants/combinations, adapted to country-specific environments).

Funding for this publication was provided by PPIAF. PPIAF, a multi-donor trust fund housed in the World Bank Group, provides technical assistance to governments in developing countries. PPIAF's main goal is to create enabling environments through high-impact partnerships that facilitate private investment in infrastructure. For more information, visit [www.ppiaf.org](http://www.ppiaf.org). The Toolkit was prepared by a team led by Nazaneen Ali under the direction of Yolanda Tayler. Members of the core team included Simeon A. Sahaydachny and Nataliya Langburd.

**For the full report, visit:**

[https://library.pppknowledgelab.org/documents/5399?otp=b3RwIzE1MjQzMzI0OTk=&ref\\_site=ppiaf](https://library.pppknowledgelab.org/documents/5399?otp=b3RwIzE1MjQzMzI0OTk=&ref_site=ppiaf)

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## Why focus on SMEs?

Infrastructure needs are substantial in fragility, conflict and violence affected (FCV) contexts — especially for recovery and reconstruction in war-torn areas; yet often there is insufficient funding from the public sector side to address such needs, compounded by lack of interest on the part of large private sector firms, who may not even be on the scene. In such FCV contexts, small and medium enterprises (SMEs), making up a substantial share of private sector, may be critical to filling the infrastructure services gap.

SMEs also contribute to improving FCV conditions in the area through local solutions, generating economic multiplier effects of small infrastructure services projects. Thus, inclusive SME-based approaches not only deliver essential infrastructure services but may help address economic instability and exclusion factors fueling fragility and conflict. The Toolkit may also secondarily open opportunities for the World Bank’s Maximizing Finance for Development (MFD) approach.

## Who should use the Toolkit and how?

The Toolkit is targeted at a variety of stakeholders, including:

- **Government policymakers/implementing agencies, nongovernment organizations (NGOs), and local communities:** The Toolkit builds awareness of the policy, legal, institutional, and procedural frameworks to consider in order to facilitate SME participation in providing infrastructure in FCV contexts. Policymakers, NGOs, and local communities may also coordinate the customization of the Toolkit for country-specific settings.
- **World Bank Staff:** The Toolkit provides valuable guidance on infrastructure projects in the project development, implementation, evaluation, and government dialogue phases.
- **Donor Community:** The Toolkit enhances understanding of how to provide critical support for enabling SME participation in public-private infrastructure initiatives in FCV environments, given the importance of sustained donor engagement in the fragility context.
- **Private Sector:** The Toolkit highlights sustainable ways for SMEs to take the lead in providing essential infrastructure services, or to be included as sub-contractors or partners (e.g. Chad “business linkages” case study in Annex of the Toolkit).

## Main Sections of the Toolkit

The Toolkit draws from case studies in a number of FCV contexts to highlight various challenges to SME participation in public-private initiatives in infrastructure and possible solutions for enabling SME participation in infrastructure services delivery in the water and electricity sectors. At the same time, the Toolkit recognizes that not all enabling factors and solutions may be feasible or priorities in a particular FCV environment.

### Challenges to SME Participation in Infrastructure

- **SME challenges:** Various challenges constrain the ability of SMEs to be adequate partners in public-private initiatives in infrastructure. These include: their limited technical skills and contractor capacity, lack of experience in procurement processes, limited access to finance, and operations burdened by fragile context.
- **Public sector challenges:** There are also several obstacles to public sector demand for SME participation in public-private initiatives. These include: the low capacity of public sector, particularly at the local level, breakdown of rule of law/legal frameworks, institutional weakness, lack of dedicated PPP framework, inadequacies in investment planning, weakness in contract drafting, diminished quality control, and corruption.

### Solutions: Enabling SME Participation in Infrastructure

- **Policy Framework**  
A comprehensive policy framework is a valuable component of the enabling environment. Such a framework generally requires a policy or set of principles on private sector participation. It may also include sectorial policies and programs that may be linked to decentralization and delegated management approaches.
- **Legal Framework**  
A strong, transparent legal framework coordinated with the policy framework is critical for this approach. This framework includes: PPP legislation, sectorial legislation, decentralization legislation, a general legal framework, procurement procedures (adapted to PPP/FCV contexts), and a contractual framework.
- **Institutional Framework and Roles**  
To enforce the policy and legal frameworks, clear institutional arrangements are important. Sectorial regulatory bodies may serve both regulatory and promotional functions. Local government and community bodies may serve management, representation, and regulatory functions, as well as provide outlets for public grievances and user associations. Inclusive policymaking

involving stakeholder engagement—including with donors— is essential across all stages.

- **Capacity Building**

Enhancing the capacity of both public and private sectors is necessary for effective SME participation in public-private initiatives in infrastructure. For the public sector, such capacity building should be provided on functions throughout the project cycle on a sectorial and sub-central level, including managing the procurement cycle, mobilizing communities, and using implementation tools. For the private sector, capacity building may take the form of consultancy and technical support services for SMEs, facilitation of access to finance/subsidization options, and provision of tools and equipment.

Larger forms of capacity building may involve establishment of special purpose companies and collaborative arrangements (such as with utilities). Ultimately, the funding for such support may be linked to donor financing. There could also be a focus on women-led SMEs, given the potentially special entrepreneurial role of women in FCV contexts.

### What are the main sources of evidence?

The guidance provided in the Toolkit is distilled from a combination of data, existing reference tools, case studies of SME participation in FCV public-private infrastructure initiatives, and a survey.

#### **Case Studies**

Six main case studies are assessed in the Toolkit: four in water projects (in Rwanda, Somalia, Benin, and Mozambique) and two in energy (in Mali and Cambodia). The case studies present diverse approaches to enabling SME participation in fragile situations based on country-specific factors.

The cases thus range from scenarios where SMEs emerged from the local community to fill in gaps in critical water service provisions such as war-torn Somalia to cases where SMEs were empowered as financial partners in water services, such as in Benin. In other cases, such as Mali and Rwanda, SMEs were critical in ensuring electricity and water access was extended to rural areas. In Cambodia, SMEs provided electricity generation to state-run utilities in urban and rural areas as independent power producers.

The case studies, therefore, highlight experiences that may be hidden in the data. For example, the Private Participation in Infrastructure (PPI) database notes that data on small scale providers, particularly in water and electricity services, are limited because such initiatives are usually not reported in major news sources, databases, government

sites or other sources used by the database. The practical lessons drawn from the case studies are illustrated below.

Lesson Learned	Country Case Study
<b>Legal Framework</b>	
Benefits of a <b>strong legal framework</b> coordinated with institutional arrangements	Cambodia→ Energy
Need for <b>consumer-responsive and clearly-defined responsibilities</b> of each party in contracts	Rwanda→ Water
Need for a <b>flexible approach</b> , such as through tailored contracts (or adaptation/customization of standard templates) to address uncertain operational and demand conditions	Various
<b>Institutional, Oversight Framework and Policy</b>	
Need for <b>strong political will</b> with financial support	Mali→ Energy
Adoption of clear <b>institutional framework defining roles</b> (e.g. of a regulator)	Mali→ Energy
Essential to ensure sufficient <b>monitoring and regulation</b>	Benin→ Energy
<b>Capacity Building</b>	
Use of <b>innovative technology</b> to facilitate capacity building, planning, and monitoring of performance	Benin→ Water (mWater technology)
Importance of <b>capacity building, particularly in rural areas</b> , with proper monitoring of results by central government and accountability among local authorities	Rwanda→ Water
Essential role of <b>sustained donor engagement</b> to empower SMEs and government representatives, such as through trainings, knowledge exchanges, financial support, and dissemination events	Mali→ Energy Rwanda→ Water
<b>Empowerment of Private Sector Participation</b>	
Value of <b>consortia</b> to enable local companies to overcome individual capacity constraints; possibility in some cases of establishing “home-grown” SMEs for specific projects	Somalia→ Water
Need to address <b>access to finance issues</b> and provide financial options to enable operations of local providers	Benin→ Water; Cambodia→ Energy
Ensure that pricing policies provide for <b>financial capability</b> of operators, without compromising affordability for end-users	Mali→ Energy

Need to provide back-up <b>technical services</b> and <b>technical assistance</b> to local operators, which may be maintained through sustainable resources (e.g. user fees or subsidies)	Somalia → Water; Mali → Energy
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### Survey

A survey was also disseminated to respondents from Bosnia and Herzegovina, Egypt, Republic of Congo, Republic of Djibouti, Morocco, Tunisia, Yemen, Lebanon, Afghanistan, Somalia, and Gambia in a workshop held in Beirut, Lebanon.



Workshop in Beirut

In particular, the survey respondents noted the essential role of SMEs in mitigating fragility, the need to overcome resistance to change and administrative burdens to create an effective SME/PPP policy framework, financial constraints as the biggest obstacle for SME participation, and the need for donor support in enhancing the enabling environment for SME participation in public-private initiatives.

### What's next?

Moving forward, the practical contribution of the Toolkit will be realized by operationalizing it in specific FCV country settings in World Bank projects, as well as in projects supported by other donors. In that way, the Toolkit will facilitate access to critical infrastructure services essential for sustainable recovery and inclusive development.



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