Role of Governments in CVC

Full Description

Governments play a critical role in maximizing CVC opportunities in public infrastructure projects. Government engages in planning, designs rights to be concessioned, provides financial support (subsidies and guarantees), provides regulatory approvals, and designs procurement processes which can allow and encourage innovative revenues through in-built procurement mechanisms (e.g. bid criteria and scoring).

By planning for spaces and places that create commercial opportunities and tap into private sector expertise, governments can be in a far better position to explore and maximise the revenue generating potential of the assets. Exploring innovative revenue generating sources (LVC, CVC etc.) is not a typical key performance indicator (KPI) of planning authorities, nor are these typical areas of expertise of line ministries/executing agencies and Project Owners. Governments often consider these additional revenue generating opportunities to be non-core activities, or worse to be relevant only to private investors and not something for consideration by government authorities. In doing so, these activities tend to be poorly or inadequately designed, unable to realise their full potential, with the likely revenue loss to both the private sector and the government. However, proactive planning for these commercial opportunities can mobilize more funding for infrastructure and deliver better economic advantages than from user fees (from core services) and government contributions alone.

Proactive planning will benefit from a good understanding of CVC amongst government and Project Owner staff, and institutional capacity for government oversight. Bringing together stakeholders, facilitating market sounding and cultivating knowledge exchange are all essential in developing a robust CVC framework.

Governments should ensure a conducive legal and regulatory framework to drive CVC initiatives. Some of the likely legal and regulatory issues that might impede such a framework include: lack of clear legal mandate of Project Owners to implement CVC, legal restrictions related to use of public land for commercial activities, and budgeting and fiscal rules limiting flexibility on management of CVC revenue. The institutional framework, for example the roles and mandates of various government entities, or program specific/project specific laws/ordinances, can empower Project Owners to take up more CVC or can significantly curtail opportunities.

The private sector (including professionally run state owned enterprises) is typically better placed to explore and deliver commercial activities, core as well as non-core, and especially in areas which converge around public infrastructure, like transport hubs, education hubs, healthcare hubs, innovation hubs, etc. The private sector is often engaged in later stages of the project cycle, e.g. at bidding stage (where private sector can include innovative revenues as part of their bids if incentivised or allowed to do so) or during operations stage. However, there is more value in engaging with the private sector in the earlier stages to get input on CVC potential in project design. Market feedback is critical to ensure demand for the identified CVC potential and to leverage the know-how and innovation of the private sector.

Communities/stakeholders can play an active role in identifying and implementing CVC opportunities. The roles of communities/stakeholders are traditionally limited to users of the infrastructure or persons affected by the infrastructure investment. For CVC, communities play an important role at the planning stage by voicing their needs to be incorporated in the project design or participating in providing commercial activities (shops and restaurants) in the project area. Communities and other stakeholders can also be a key source of demand (e.g. home buyers). Community feedback is critical to ensure demand for the identified potential CVC.

Box 3: Community played an integral role in creating commercial value from community-based tourism

To attract investment and ensure that tourism investment benefits local communities, protects natural resources, and fts with government strategy, PPPs can help create a clear agreement and partnership between the public and private sector with incentives in-built to protect investors, enable local staff and skill development, benefit local communities, and protect natural resources. The Jozini Tiger Lodge in South Africa is a partnership between the community, the government, and the private sector, which is responsible for the day-to-day management of the lodge. The community made land available and the government funded part of the initial working capital to ensure additional benefits for the local community, including a requirement that 80 percent of staff would be hired locally. Mobilization of community partnerships is key to rural tourism .[1]

Footnote 1: See Case 62. Jozini Tiger Lodge, Jozini Municipality of KwaZulu-Natal, South Africa from Project Summaries Part 2 Municipal Public-Private Partnership Framework.

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