

PPPs and Sustainable Development: Issues, Implementation, Principles and Guidelines

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- ▶ Addis Ababa Action Agenda (AAAA) refers to PPPs, especially in paragraph 48:
- ▶ “Projects involving blended finance, including public private partnerships, should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards. We will therefore build capacity to enter into public private partnerships....”
- ▶ “We also commit to holding inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of public–private partnerships, and to build a knowledge base and share lessons learned through regional and global forums”

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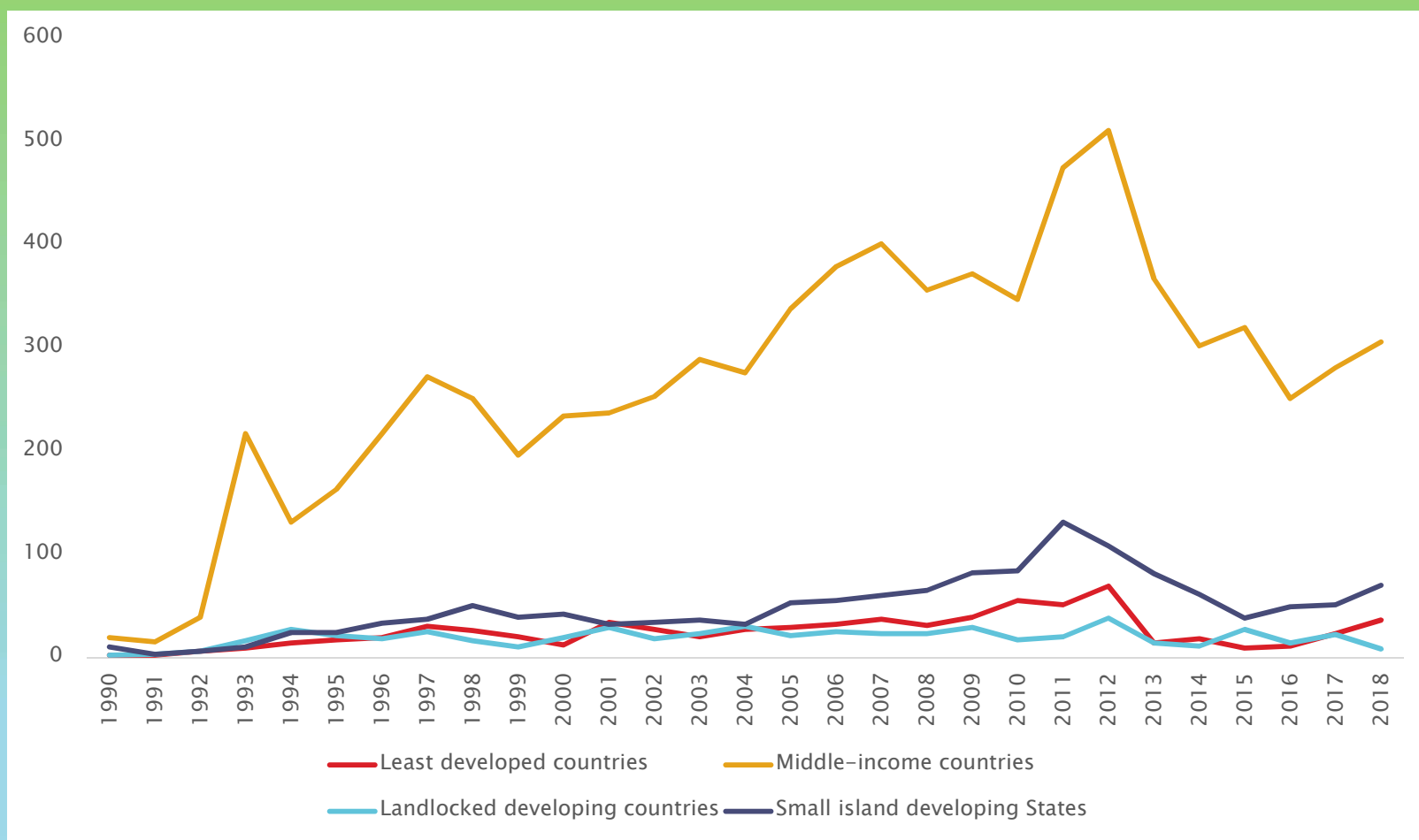
- ▶ Towards Common International Standards and Guidelines

Addressing the Infrastructure Gap: Roles of Public and Private Finance

Roles of public and private finance in financing infrastructure

- ▶ In developed economies an average of two-thirds of infrastructure is financed by the private sector and one-third by the public sector, while the opposite tends to be the case in developing countries.
- ▶ Recent rise in the private sector's participation in infrastructure finance, especially in electricity and telecommunications, is limited to upper middle income countries.
- ▶ Private finance continues to provide just a small portion of aggregate infrastructure investment in the developing world.

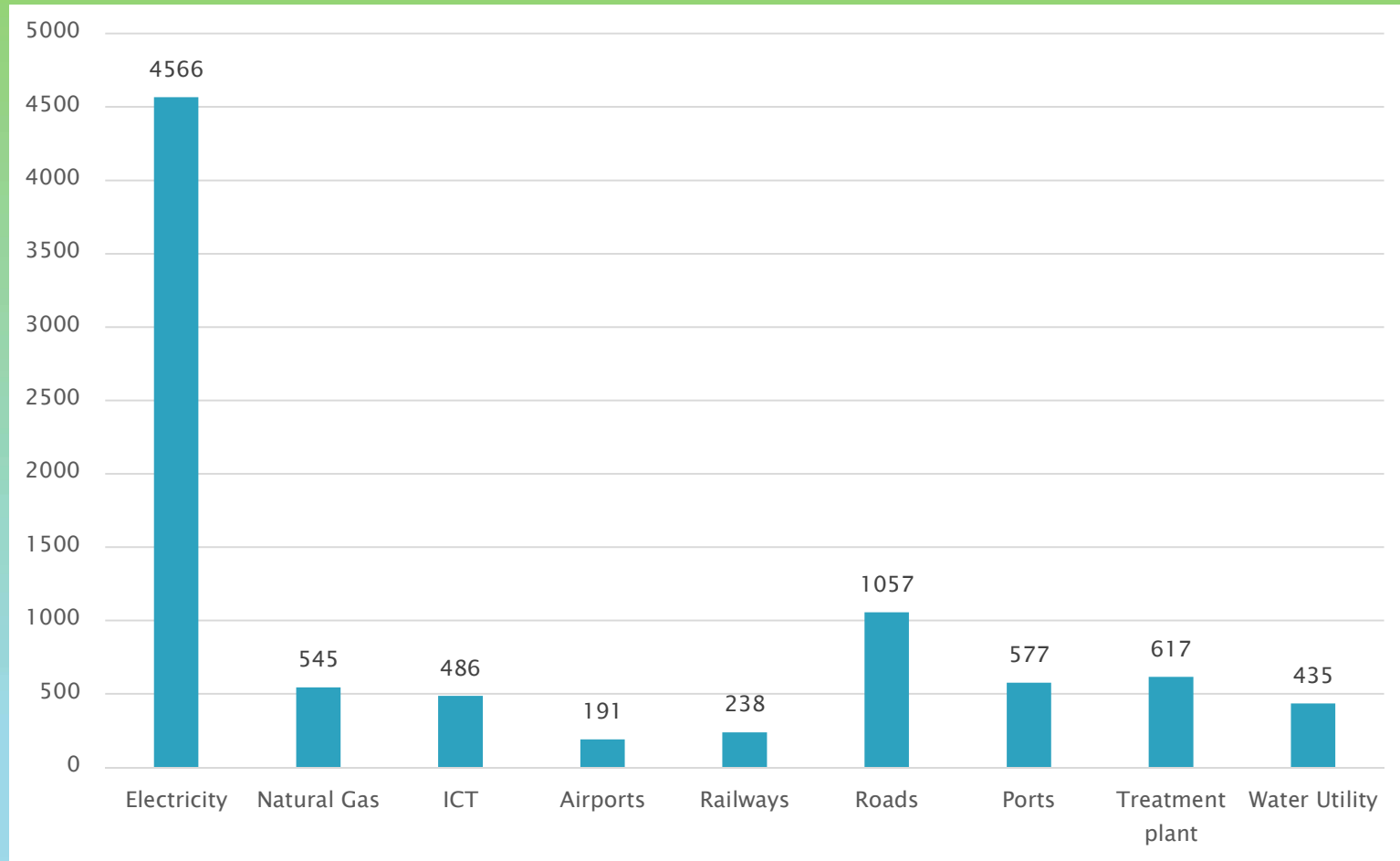
Infrastructure investment with private participation, 1990–2018



Source: Private Participation in Infrastructure database, World Bank (2019)

Note: Data for 2018 only for the first half of the year. Includes the total value of projects, not just the share attributable to the private sector, in current dollars. Infrastructure includes investments in energy, ICT, transport, water and sewerage.

Number of PPI projects by sector, 1990–2018



Source: Private Participation in Infrastructure database, World Bank (2019)

Note: Data for 2018 only for the first half of the year.

Assessing the Sustainable Development Impact of PPPs

Caveats and Facts

- ▶ Literature is focused on developed countries. (63% of the total PPP-related publications are focused on the US and UK with some recent studies focusing on Australia, Netherlands and Germany).
- ▶ Private finance continues to provide just a small portion of aggregate infrastructure investment in the developing world.
- ▶ Recent rise in the private sector's participation in infrastructure finance, especially in electricity and telecommunications, is limited to upper middle income countries

Caveats and Facts

- ▶ Even in developed countries, PPPs have yet to become a major catalyst of investment in key sectors for sustainable development (e.g. account for less than 5 per cent of infrastructure investment in most OECD countries; only 10 per cent in Australia where they are more widespread) (OECD,2019).

Objectives of PPPs

- ▶ From a public policy perspective, the prime objective of a PPP is that it should result in an improvement in the quality and efficiency of a given service to the citizen.
- ▶ PPP must provide 'Value for Money' taking into account cost of PPP, as well as quality of service. Cost and quality of service need to be interpreted in broadest possible terms.
- ▶ For a PPP to be justified, it would need to compare favorably to how public sector provision would have performed on these criteria.

Costs and Benefits

- Evidence suggests that PPPs have often tended to be more expensive than the alternative of public procurement. See studies by Romero (2015), Hall (2015), Helby Petersen (2019), plus evaluations by international organizations.
- Higher costs of PPPs need to be offset by gains in quality of service provision, including its efficiency, coverage and development impact – evidence not entirely favorable.

Overall:

- ▶ Inconclusive evidence on performance of PPPs, especially pertaining to development impact, and paucity of studies in developing countries.
- ▶ Research findings to date indicate that PPPs are better suited for economic infrastructures such as transport and electricity. They are however less likely to deliver efficiency gains in the social sector such as hospitals and schools.
- ▶ Even in more 'viable' sectors, efficacy of PPPs is dependent upon institutional capacity of countries to effectively create, manage and evaluate them.

Enhancing the Implementation of PPPs

Enhancing the implementation of PPPs

- ▶ Principles on PPPs contained in Addis Ababa Action Agenda
- ▶ An enabling institutional framework for PPPs
- ▶ Developing common international standards and guidelines on PPPs

Addis Ababa PPP Principles

1. Careful consideration given to the structure and use of blended finance instruments (para 48);
2. Sharing risks and reward fairly (para 48);
3. Meeting social and environmental standards (para 48);
4. Alignment with sustainable development, to ensure “sustainable, accessible, affordable and resilient quality infrastructure” (para 48);
5. Ensuring clear accountability mechanisms (para 48);
6. Ensuring transparency, including in public procurement frameworks and contracts (paras 30, 25 and 26);
7. Ensuring participation, particularly of local communities in decisions affecting their communities (para 34);
8. Ensuring effective management, accounting, and budgeting for contingent liabilities, and debt sustainability (paras 95 and 48);
9. Alignment with national priorities and relevant principles of effective development cooperation (para 58).

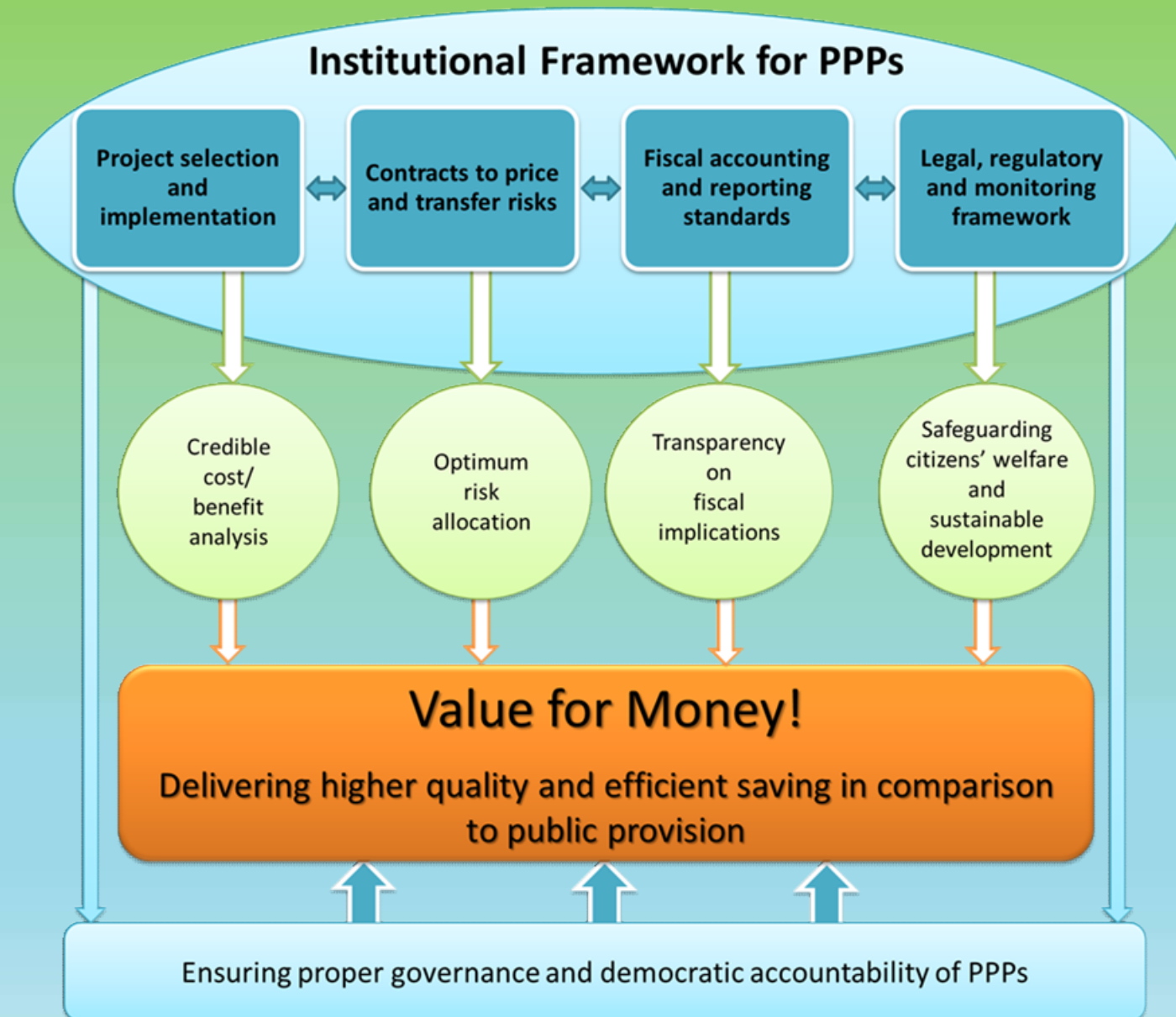
Additional PPP principles: called for in IATF expert meeting (December 2016)

- ▶ Need to ensure affordable services;
- ▶ Governments to report PPPs on the balance sheet;
- ▶ Ensure transparent disclosure of costs and benefits over lifetime of project;
- ▶ Refrain from excessive changes to roadmaps of existing projects.

Key components of an enabling institutional framework for PPPs

- ▶ Necessary to have in place institutional capacity to create, manage, monitor and evaluate PPPs and ensure they are undertaken for the 'right' reason:
 - ❖ Correctly identify and select projects where PPPs would be viable
 - ❖ Structure contracts to ensure an appropriate pricing and transfer of risks to private partners
 - ❖ Establish a comprehensive and transparent fiscal accounting and reporting standard for PPPs
 - ❖ Establish legal, regulatory and monitoring frameworks that ensure appropriately pricing and quality of service

Key components of an enabling institutional framework for PPPs



Implications for the International Community

- ▶ Efforts to establish an enabling institutional framework for PPPs would require technical assistance and capacity building on the part of the international community in all these areas.
- ▶ Need to address knowledge and analytical gaps pertaining to risk allocation, value for money, framework for disclosure, incorporation of climate change into PPP evaluation.
- ▶ Important need to develop international standards and guidelines in all of these and additional areas.

Moving Towards Common International Standards and Guidelines

Moving Towards Common Global Guidelines

- ▶ Establishment of an internationally accepted accounting and reporting standard would be very important in promoting transparency about fiscal consequences of PPPs.
- ▶ Common guidelines are important in areas such as contract structuring, pricing, risk allocation, legal and regulatory frameworks, procurement, project selection and definition and so on.

Moving towards common global guidelines

- ▶ Global PPP guidelines produced by multilateral organizations (WB, OECD, ECE etc).
- ▶ Aizawa (2018) identifies gaps in existing guidelines in following areas:
 - ❖ Incorporation of climate change considerations;
 - ❖ Environmental, social and governance aspects of PPPs;
 - ❖ Perspectives of non-commercial stakeholders;
 - ❖ Need for PPPs to generate public benefit and public good for the country and its people;
 - ❖ Overall evaluation of consistency with principles on PPPs agreed in Addis and with the SDGs.

Moving towards common global guidelines

- ▶ UN–ECE’s initiatives to promote People–first PPPs have been highlighted as exemplary in moving in the direction of ensuring that, out of all stakeholders, ‘people’ are given top priority.
- ▶ Important to pull together various initiatives in a coherent manner and agree on common guidelines.

Overall

- ▶ PPPs should be implemented only in cases where they can be shown to provide value for money in its broadest sense.
- ▶ The implementation of PPPs should be aligned with the Addis Principles.
- ▶ To ensure these conditions, it is necessary to set in place:
 - ❖ At national level, an enabling institutional framework;
 - ❖ At international level, common standards and guidelines.

Hence, high time to respond to Addis mandate

- ▶ “to holding inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of public–private partnerships, and to build a knowledge base and share lessons learned through regional and global forums.”



Thank You