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### **Draft Proposal for Guidelines on Transformative PPP Implementation and Sustainable Development**

Conference room paper submitted by the secretariat

*Summary*

This paper was prepared by Mr. Kaimeng Li, Senior PPP Expert at NDRC, China, and is circulated by the secretariat as received. It contains a draft proposal for guidelines on the implementation of transformative PPPs in support of the SDGs.

The Working Party is requested to take note of the draft guidelines and recommend the setting up of a project team to develop it into recommendations for implementation in countries.

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The most recent Public-Private Partnerships (PPP) programmes originated in Europe where the market economy and legislative systems are in maturity. Advocated by the United Nations and other international and multilateral organizations, including China as well as many other developing countries, global entities are attaching great value to the PPP model and are promoting across the board an expansive PPP programme. These countries and international organizations, however, take varying stands on PPP.

**The U.K. Infrastructure and Projects Authority (IPA)** proposes that PPP models such as PFI ('Private Finance Initiative') and PF2 entail a long-term contract entered with the private sector on the design, construction, financing and operation of infrastructure projects. Specifically, such projects may include new schools, hospitals, roads, residential housing, prison, and military equipment and barrack buildings. The models are predominantly implemented in projects involving government payments.

**France** adopts the 'Concession' model, i.e. 'user pays' model that had been long implemented in history. In the second half of the 20th century the concession model made significant development.

The **World Bank** takes the view that PPP models differ in three dimensions of features: first, the type of assets involved, second, the specific duties and functions that the private sector undertakes, and third, the means of return on investment for the private sector parties.

The **European Union** proposes that the focus in PPP is procurement of public services rather than assets. Emphasis is placed on the clarification that it is the output rather than input of projects that is being procured and outcome of the full project lifecycle is taken into account. Payment in PPP projects may be made by the user (e.g. expressway tolls) or government (e.g. availability pricing and shadow pricing), or a combination of both (e.g. a relatively low user charge topped up with government treasury subsidy on operations).

The **Organization for Economic Cooperation and Development (OECD)** adopts the view that PPPs are capable of providing public services including both infrastructure assets (such as bridge and road) and social assets (such as hospital, public causes and prison).

*UNECE proposes the people first PPP model which requires that 'people' are placed in the foremost priority among the stakeholders, and focuses on enhancing the quality of life of various communities, in particular those fighting against poverty by creating local and sustainable employment opportunities, those fighting against hunger to improve living standard, increase gender equality, and provide water, energy, transport and education for all, and those working towards enhancing cohesion and equity in the society and against all forms of discriminations on the basis of race, ethnic group, religion and culture. A people first PPP project must serve to increase scale, speed, and access to people to better services at affordable price.*

These differences, and a lack of unified guidelines or coordination, is an obstacle to the development of the PPP model.

These Guidelines aim to promote the healthy development of PPP models, propose a classification of PPP models across three dimensions, and presents detailed recommendations for promoting sustainable development of the PPP model in a time of transformational practices and promotion of PPPs around the world and within the UN system.

## **I. Rationally defining the applicable scope of PPP model**

### **1. PPPs are predominantly adopted in the provision of infrastructure and public services**

Infrastructure facilities such as transport (e.g. port, railway, expressway, airport and pipelines etc.), information technology infrastructure, environmental systems, energy infrastructure (including clean energy) and utilities infrastructure facilitate are the material foundation for a productive society and for the livelihood of citizens. These facilities indeed form the material foundation for a society to survive and grow. The users of infrastructure are the general public and the objective of infrastructure is to provide indispensable public services to the people.

It should be recalled, in most cases, infrastructure and public service projects involve large investments, long construction periods, take account of the interests of a plurality of stakeholders, and place a tax on the public authority charged to develop the public interest, collaboration in operational management, and overall present a great difficulty in

consolidating and planning the key elements throughout the project lifecycle. For purposes of meeting and safeguarding the public interest needs, in particular when faced with financial constraints, lack of technical know-how, governments often adopt Public-private partnerships (PPP). Government may take forward the demands of the general public and propose projects that require the PPP model and propose financial and operational cooperation arrangements with private sector entities. While the private sector plays an important role in PPPs, successful PPP programmes require in-depth participation of the government in PPP policy making and operations in specific projects.

## **2. Methods of and approaches to the provision of infrastructure and public services**

There are three basic approaches to the provision of infrastructure and public services, as follows:

- (i) The first approach is for the government to directly invest in and manage the operations of the infrastructure or public service. This is the traditional means of providing infrastructure and public services. For some of the developed countries that have in place mature, modern, market economies, this traditional approach remains the predominant approach. In the traditional model, government provides the funding required for infrastructure and related services, backed by tax revenues, and raise funds, e.g. finance the endeavor, with the backing of government guarantees. With a good governance system, governments can achieve operational and cost efficiency, transparency and openness, and in turn optimize the allocation of funds. However, when the government leads the investment and operation, problems of inefficiency and unattainability of goals can also emerge. This is what is sometimes referred to as 'government dysfunction'. Government dysfunction may be resolved by system reform and systematic innovation, but in some areas the problems are difficult to tackle. One example would be the limitation on the scope of public services that the government is able to provide, due to the lack of specialist technology and/or project management expertise.
- (ii) The second approach is 'privatization'. In areas where government finds it difficult to provide public service in an efficient manner, it is a feasible to privatize the service. The provision of public service by the private sectors is an important element in market economies. In fact, an important means of enhancing the quality and efficiency of public services is to promote the market motivations and allocation of resources. Under this model, the government's role is more limited to formulate legislation, plan and provide guidance on entry criteria, improve regulatory supervision, and take various other measures to protect the public interest. However, sometimes private sector provision of public services results in conflicts between the public welfare and the interest of business, thus leading again to market dysfunction. Therefore, the applicable scope of privatization is limited and works best when the sector or project(s) is particularly well suited to market based disciplines.
- (iii) The third approach is provision of infrastructure and public services through partnerships between public and private sectors. Acknowledging the problem of government dysfunction under the traditional model of public service delivery, and the problem of market dysfunction under a purely private sector service provision, governments around the world have been exploring partnerships that leverage the respective advantages of the public sector and private sector. These partnerships aim to both reform and innovate systems, while enhancing the quality and efficiency of public service. This development of public-private partnerships (PPPs), has played a crucial role in promoting reform and innovation in the investment, financing, and construction of infrastructure systems.

Adoption of the PPP model for provision of public services must be based on the premise that it will entail higher efficiency compared to the traditional approach of public services provided by the public sector and the fully market-oriented approach. To engage in an effective PPP project, comprehensive considerations should be given to the allocation of funds in the contemplated construction, benefit for regional economic development, sustainable development of resources and the environment, among other dimensions.

### 3. Basic requirements for effective PPP implementation

PPPs are an innovative approach to the provision of infrastructure and public services. It is, at the same time, a highly complex project operation model that requires an advanced level of expertise and involves sophisticated operating processes. The following factors are observed as key to successful PPP implementation:

- (i) An emphasis on reasonable profitability. Projects operated under the PPP model should allow a reasonable rate of return by the private sector. If the financing cost is high, efforts are required to consolidate elements throughout the lifecycle, improve operational management efficiency through continuous technological innovations, and minimize full-lifecycle costs to compensate for higher financing costs.
- (ii) An emphasis on customization. Development plans for infrastructure and public services should be formulated based on the practical, regional circumstances of countries and governments. If a country has sound conditions for privatization and is able to effectively resolve the problem of market dysfunction, privatization may be preferable to the PPP model as so long as it will involve an overall lower general cost to society.
- (iii) Reasonable expectations can be developed. PPPs often rely on non-recourse or limited recourse models. These are long term partnership relationship where the emphasis is on compliance with contractual terms. Once the contract is signed, revision thereof is cumbersome and this can often result in the lack of flexibility and ability to change in response to the externalities. PPPs are therefore not recommended for complex projects that involve significant investment as implementation requires constant adjustment to the external environment and/or future results are difficult to forecast with some certainty.
- (iv) Sound market economy system. PPPs have traditionally been an infrastructure project operation model based on experiences of countries in Europe – markets that enjoy: maturity, well-developed capital markets; sound infrastructure investment; highly-developed legal systems; strong compliance awareness in the local country; efficient legal remedy mechanisms; a rule of law culture that respects contractual obligations; and systems that punishes misconduct. Many argue that only in such an environment would the role of PPP model in perfecting the project government structure by consolidating various specialist resources through high-quality special purpose vehicles (SPVs) be fulfilled. In countries where the legislative and legal systems as well as market economy system are yet to be developed, the emphasis should be to strengthen capacity building in the government and enterprises, improve legal system, and progressively promote PPP implementation.
- (v) Fully grown private sectors. Emphasis of PPPs is to bring in the private sector through partnerships with the public sector, thereby breaking the traditional monopoly of public sector, promoting reform and innovation of public sector systems, and releasing the inherent vitality of the public sector. In economies where the private sectors are not sufficiently grown, in adopting PPP model, a better choice would be to introduce the top international private enterprises through joint venture and cooperation so that they can lead reform and innovation.
- (vi) Complete and sound fiscal budgeting system. PPP project financing has been often taken off the government balance sheet with the complete project liabilities not directly accounted for in governmental national accounts. This has made PPP a means for governments to evade budgetary constraints and may stimulate irrational investments by government in the short term, which increases the future fiscal burden on government in the long term. Therefore, in countries that have not yet developed a sound system of medium and long-term fiscal budgets, large-scale implementation of government funded PPP models should occur only where there is a comprehensive and sound fiscal budgeting system.
- (vii) Complete and sound public governance system. PPP projects provide public services and the risk of project failure in most cases would ultimately be borne by the government. The implication is that the risk while transferred under a contract cannot

be truly transferred away. In environments where the service-oriented government system is not developed and defects exist in the public governance system, large-scale promotion and implementation of PPP models should occur only where there is a comprehensive and sound public governance system.

#### **4. Blind expansion of the scope of PPP model implementation should be avoided**

The core objective of public-private partnerships through the PPP models is to realize the respective advantages of the public and private sector, thereby enhancing the quality and efficiency of provision of public services. PPPs are not necessary in areas where the public sector is able to provide the public service efficiently or where fully market-based approaches are able to ensure the quality and efficiency of provision of public service.

The provision of infrastructure and public services through public-private cooperation has been in place for thousands of years. But the recent recognition of the PPP concept and emergence of PPP principles have only been seen for less than two decades. Over this time, continuous improvement and innovations have been made to the PPP system, operating models, operating guidelines and evaluation methods. Yet the boundaries of areas that PPP models can be effective are still constrained by various factors.

Effective promotion of PPP models requires governments to rationally plan and use the PPP models based on their own economic and capacity conditions and through public consulting, rather than full-scale implementation of the PPP models with the government's administrative powers. Promotion of innovative PPP financing models unsuited for the economic development stage of the local community and blind expansion of the scope of PPP implementations should be avoided to prevent risks from privatization and attrition of state-owned assets to the sustainable social and economic development.

## **II. Three pillars of the transformative PPP model**

The PPP model has been drawn from practice. This model of PPP was founded on the basis of the practice of concession in France for over a century and the PFI model that the U.K. has implemented since 1992. The concept was developed among international bodies around 2000 based on these practices and experiences, and soon received widespread acknowledgement. It has since been widely promoted and implemented as an infrastructure project philosophy. The UNECE now advocates 'people first PPPs' that potentially produces a transformative new model with significant impact. This further diversifies the contents and scope of modern PPP models. The PFI approach, the concession approach and the sustainable development goals (SDGs) driven approach, together constitute the three pillars of a transformative PPP model. The three-generational dimensions of PPP as in allocation of tax payer's money, regional economic development and sustainable social development are playing a major role in their respective areas.

### **1. PPP as a tool of public service procurement by government**

The adoption of PPP as a tool for government procurement of public services derives most recently from the PFI model in the U.K. The UK PFI model emerged earlier than that of recent terminology of PPP. The British social public service sectors adopted the private financing initiative (PFI) back in 1992. And the model has been implemented in areas spanning from medical and healthcare, to national defence facilities, basic education, transport, and environmental protection and cultural and sports facilities.

Essentially, the British PFI model is a delayed payment model for government public expenditures. The primary function is to resolve problems of funding shortages and to achieve better efficiency. By adopting the PFI model in infrastructure developments, the British central and local governments have been able to fully utilize market expertise, enhance quality of provision of infrastructure and public services, and transform the mindset and approaches of governance by the government, making U.K. a global leader in practices of PFI model.

Initially, the PPP concept was proposed as an experience drawn from practices of the British PFI models. The PPP model developed on the basis of the British PFI model was the initial

understanding of the PPP model among international communities. This is the reason why PFI model is sometimes referred to as the PPP in the narrower sense or ‘pure PPP’. The PPP operational framework developed based on the British PFI concept is referred to as the first-generation PPP and is mostly implemented in social infrastructure. It is positioned to enhance the quality and efficiency of government in using fiscal funds to procure public services.

The PFI model is a tool in government procurement of public services. For this reason, in its promotion and implementation, the government is most concerned with whether the PFI model is able to reduce the procurement cost of public service and whether it offers increased efficiency compared to the conventional government procurement of public service. The U.K. government’s policies and operating processes for the PFI model have inspired PPP models throughout the international community.

The key contribution of PFI to the emergence of the modern PPP concept lies in its core principles of interest sharing, risk sharing, long-term cooperation and partnership, as well as the methodology and process of comparing procurement costs under the conventional government procurement model and PFI model. These include instances such as a clear definition of the output specifications of PFI projects to regulate project implementation and delivery, calculating government procurement cost under the conventional government procurement model based on assumptions, i.e. the public sector comparators (PSCs), and comparing the PSCs with cost burden of the government in adopting PFI model to decide whether to adopt the PFI model and to ensure value for money (VfM) of the PFI model.

With the British PFI model as an exemplary precedent, Australia, Canada and other Commonwealth countries as well as other countries around the world such as Japan and Singapore have worked to promote their own PPP models on the same premise of PPPs being a ‘government procurement tool’. The PPP models are widely promoted and implemented around the world and sound systems have been developed.

## **2. PPP as a tool for enhancing the quality and efficiency of economic development**

The emergence of modern PPP concepts induced deeper-level thinking on how countries and international organizations unlock the market mechanism in infrastructure investment and financing. Many believed that the scope of PPP implementation should not be limited to public infrastructure for which the government treasury has the payment obligation, but instead should play a greater role and in more expansive areas. These views can be seen in the concession model which is often based on ‘user pay’ schemes as an important part of the modern PPP model.

The concession concept emerged even earlier than PFI and PPP and has to date a history of over a century. Starting as early as the 19<sup>th</sup> century, the French government proposed to transfer construction and operation of infrastructure projects for which ‘user pay’ was feasible to the private sector. The ‘concession’ model emerged. Entering the 1980s, the concession model was widely promoted and implemented in many developing countries. This later evolved to BOOT, ROT, DBFO and many other methods of concession.

The international community drew experience and lessons from the concession models adopted in France and other countries and took into consideration the need of many developing countries of achieving leap-forward economic and social development to further expand and innovate the contents of PPP model. The operational framework of the second-generation PPP model was thus developed. It is designed to stimulate private capital to participate in investment and construction of infrastructure projects by establishing partnerships between public and private sector, improving charging and pricing mechanisms of public products by promoting market-oriented reforms, building market-oriented project investment and return mechanisms, promoting the establishment and improvement of market mechanisms in the local country and promoting development of the regional economy.

The second-generation PPP emphasizes market-oriented returns on investment gained by private capital and is therefore no longer under the constraint of governmental fiscal capacity. Instead, the government is more concerned with the role of PPP projects in driving regional economic development and the maturity of market mechanism on the macroscopic level, and the role of public service pricing mechanism. The government’s objective is also to minimize the use of fiscal funds. The emphasis is instead on the private sector bearing market demand

risk and business risks in operating the PPP project, and the government offers little to no guarantee for fiscal support for return on investment. The key contribution of the concession model to the development of modern PPP concepts is that it offers BOT-based project implementation methods and further widened channels of return on private investments in PPP projects, which greatly expanded the scope of PPP implementations.

### **3. PPP as the tool of achieving people-first sustainable development goals**

The PPP model currently promoted and implemented among countries around the world is mostly concerned with the problem of allocation of fiscal funds. There is a lack of concern for people first, sustainable development and other related agendas. Therefore, the objectives of the PPP model needs to be enriched from the perspectives of economic value of investment (Prosperity), sustainable use of resources and the environment (Planet) and welfare of humankind (People); all in order to adapt to the 17 sustainable development goals proposed by the UN 2030 agenda, and promote innovations in the philosophy of the PPP model.

The PPP model that is SDG compliant is a new form of PPP model, referred to here as the third-generation PPP. These new PPPs are positioned to achieve sustainable economic and social development through PPP programs with an emphasis on its function of promoting social equity and sustainable development.

Similar to the first-generation and second-generation PPP models, the third-generation PPP also has its own significance. PPP is no longer merely a tool of government procurement of public services or promoting regional economic development, instead the emphasis is on the ultimate goal of development, which is to meet the needs of people. The priority of people elevates the operational principles and objectives of the PPP model to a new level.

## **III. Focus on the innate drivers for development and restraint factors of PPP model**

The three pillars of PPP model are closely associated. All three types of PPP model have developed to meet higher goals, for implementation in more extensive scopes, and to greater inclusiveness of the concept. But the fundamental objectives remain to be the consolidation of various specialist forces and achievement of optimized allocation of project resources by establishing partnerships. Active efforts therefore should be made to cultivate the innate drivers for healthy development of various types of PPP model to overcome restraints on sustainable development.

### **1. Focus on the innate drivers for development of different types of PPP model**

The PFI model emphasizes cooperation on equal basis, sharing of interest and risk, and partnership. These core principles of PFI model not only promote the market-based operation of the infrastructure sector, but also enhance the focus on establishment of sustainable partnerships, thereby incubating the first-generation PPP model that served to improve the efficiency of allocation of fiscal funds, reduce costs paid by the public sector for public service procurement through PFI model, promote the reform of public fiscal governance system, and resolve the problems of system mechanisms and efficiency of the public sector in providing public services. The advantages exemplified in the first-generation PPP model can be highly appealing to government fiscal departments. Supported by international organizations and governments, principles and systems of the first-generation PPP model have been extensively promoted across the world.

The second-generation PPP model places emphasis on the business return mechanism to exploit market potential in constructing infrastructure projects and that return on investment should not solely rely on fiscal funding. It was therefore positively received among the less developed regions and many developing countries who had the urgent wish to promote economic development in the local regions by establishing extensive partnerships and consolidating advantageous resources, thereby greatly expanding the scope of PPP implementation and drove the understanding and application of PPP models in more extensive areas. These have endorsed the second-generation PPP model robust innate momentum.



The third-generation PPPs are a major innovation of the modern PPP philosophy. Based on the first-generation PPP that emphasizes on the efficiency of fiscal fund allocation and the second-generation PPP that emphasizes on the efficiency of regional economic development, it is more inclined towards the issue of equity in economic and social development, including intra-generational equity and inter-generational equity. The driving force for its development is the concern for social responsibility and sustainable development goals. For government departments that suffer from a shortage of fiscal funds or regions with a less developed economy, the greater concerns are on the efficiency of fiscal fund allocation and the leap-forward development of regional economy, where the innate motivation for people-first and sustainable development may be inadequate. However, observed from the perspective of long-term strategy, people first sustainable development and fiscal fund allocation and promotion of regional economic development do not contradict with one another. We should therefore continuously enhance the innate driving force for development of the third-generation PPP model through transformation of mindset and innovation of principles and ideas to serve the achievement of the sustainable development goals proposed in the UN 2030 agenda.

## 2. Focus on the restraints on development of different types of PPP model

The PFI model remains one of the most extensive applications and best perceived around today's world. The PPPs discussed by a majority of government departments, international organizations and experts around the world today are essentially the PFI model.

There are three major restraints on the development of PFI model. First, the **system environment**. The PFI model achieved market-based operations in areas that were traditionally dominated by government fiscal fund, and required government to make payment based on operational performance of project. This entails the needs for well-developed public fiscal governance systems, policy and legislation environment, public participation mechanisms and information disclosure. For many developing countries, there is a need to carry out system reform to create a reasonable systemic environment for PFI implementation. Second, the **budgetary system**. PFI requires a sound, medium to long-term, governmental fiscal budgeting and planning system, developed public financial management systems, and a relatively mature and stable level of social and economic development, so that reasonable expectations can be formed as to the future fiscal revenue and payments. Third, the **scope of implementation**. These first-generation PPPs are applicable mainly to government funded infrastructure. The PFI model is not well suited for infrastructure projects paid by a large number of users or those based on user pay generally. All types of PPP projects therefore do not fit into the rigidity of the PFI model and blind usage of the model will seriously harm the healthy development of the PPP model.

The second-generation PPP model based on the concession model adopted in France and other countries has received great acknowledgement and implementation in practice in many developing countries, in particular, China, but they are not as widespread as the first-generation PFI approach. This second-generation PPP focuses on introducing market-based mechanisms into projects such as returns on private investments, and emphasizing more the inherent economic value of the contemplated project. It therefore poses higher requirements on the establishment of diversified mechanisms for returns on project investment and greater expertise in project operation. In the future, we should strengthen the fundamental theoretical system of the second-generation PPP, including legal system development, public service pricing and payment mechanisms, deepen investment and financing systems, and improve project feasibility and governmental capacity for project preparation.

The third-generation PPP is promoted by UNECE and is now receiving increasing recognition and support from countries around the world. Currently, the model is still a concept and UNECE is working to identify and build a base of practical experiences. It is evident however that the supporting legislation and systems are inadequate. This new PPP model emphasizes the promotion of green development, environmental protection, economic prosperity and social advancement, fosters transformational and inclusive development, resource conservation, environmental protection and social harmony of the contemplated projects. In terms of technical and economic evaluation projects, this third generation PPP is different from the first- and second-generation and there is an uncertainty in the evaluation criteria of the third-generation PPP projects. No longer can governments rely on evaluating projects

simply from the perspective of efficiency of fiscal fund allocation and economic development potential. Perceptions and judgments as to whether the contemplated project meets the requirements of people first sustainable development will be required. This will increase the difficulty of evaluating performance and regulating these PPP initiatives. In the future, the UNECE and other international organizations will have to play a more active role in fully utilizing the advantages of the public and private sector, consolidate advantageous resources and promote implementation of the third-generation PPP model.

#### **IV. Facilitating sustainable development of PPP model**

The PPP model evolution should follow a basic path whereby the introduction of the first-generation PPP brings the modern PPP principles of interest and risk sharing, cooperation on equal basis and partnership into the market-oriented system reforms in the regional infrastructure sectors, the introduction and continuous improvement of the second-generation PPP is enabled by reforming pricing and payment systems and promoting user pay-based market operations of infrastructure, and building of the third-generation PPP systems are gradually transited and promoted based on the continuous improvement of PPP-related systems and under the guidance of people first sustainable development goals, to achieve the UN 2030 sustainable development goals.

##### **1. Promote the healthy development of the first-generation PPP model**

Success of the first-generation PPPs is of crucial importance to the introduction of the modern PPP philosophy into the regional society and promoting the PPP model to transform to higher levels. The introduction of the first-generation PPP model and establishment of a PPP system based on the framework of government procurement of services using fiscal funding are significant to the promotion of fiscal system reform, establishment of an open and transparent fiscal fund procurement mechanism and optimization of the efficiency of allocating fiscal funds invested in projects. The introduction of the first-generation PPP enables a country to first bring in the core principles and systems of modern PPP model on the level of government system building, and is therefore significant in fostering the introduction and promotion of modern PPP project operation systems.

In establishing the first-generation PPP systems, attention should be given to:

- (i) The first-generation PPP is suitable only for public infrastructure projects that are government-procured services. Government fiscal funding should be predominantly used in healthcare, education, public security and other basic public services and public infrastructure projects. The scope of allocation of these funds should not be randomly expanded without justification. This will improve the allocation of fiscal funds;
- (ii) The first-generation PPP places the improvement of efficiency of fiscal fund allocation with the foremost importance. However, PPP projects must meet mandates in terms of economic feasibility, public acceptance and environmental protection etc.;
- (iii) Promote government budgetary system reform, improve medium to long-term budget management system to create conditions for public service procurement system that meets the PFI requirements;
- (iv) Strengthen transparent evaluation and supervision of government procurement of public services, and improve the procurement and payment processes of public services of availability-based payment;
- (v) Improve procurement standards or output specification, procurement pricing, payment capacity of fiscal funds and other evaluation criteria of government public service procurement, and strengthen PSC analysis of fiscal payment and analysis of fiscal capacity;
- (vi) Strengthen legislation and related system building for the first-generation PPP.

## 2. Greatly foster development of the second-generation PPP model

Many countries around the world, in particular developing countries, have within them enormous inherent motivation to seek transformational economic and social development. They urgently need the introduction and development of the second-generation PPPs to consolidate advantageous resources, form partnerships and promote the transformational development of regional economies. We should therefore take into view the objective needs with reference to the core principles of modern PPPs (developed through the first-generation PPP model), promote the transformation and upgrading of the conventional concession model, and greatly develop the second-generation PPP.

In establishing the second-generation PPP systems, priority should be given to:

- (i) Expand the scope of PPP implementation. Different from the first-generation PPP, the second-generation PPP is suited for user-pay and government-procured services, gap financing and infrastructure projects based on returns on investment;
- (ii) The second-generation PPP was not an iteration over the first-generation PPP, but an important transformation of its principles. In addition to observing the requirements of the first-generation PPP, these second-generation PPPs should enable the reasonable commitment of fiscal funds and realize the role of funding in fostering regional economic development;
- (iii) Improve the pricing mechanisms of infrastructure public services, and formulate supportive policies for diversified investment return mechanism in PPP projects;
- (iv) Improve asset circulation in PPPs by securitization of assets and other means to liquidizing inventory assets;
- (v) Promote reform of investment and financing systems of infrastructure sectors and promote substantial transformation of government functions.

## 3. Lead transformation to the third-generation PPP model

Currently, the UNECE is leading the implementation of the third-generation PPP around the globe, backed by the unique platform of strengths of the UN. The hope is that more projects meet the third-generation PPP criteria and will emerge based on the first and second-generation PPP. In designing for the third-generation PPP model, we need to understand and perfect the PPP system on a heightened level and improve the overall architecture of PPP system from a holistic perspective. Members states of the UN should aim for wider consensus in the promotion and implementation of third-generation PPP programmes, impose requirements for sustainable development goals on PPP projects so as to facilitate the transition to and implementation of the 'people first' concept by the UN.

Specific measures for promoting the third-generation PPP are to draw experiences and lessons from typical PPP project cases, and analyse and formulate international PPP standards that align with the people first sustainable development goals. The following principles should be observed in developing the PPP standards system:

- (i) Equity in entitlement, i.e. equity and universality should be presented in the public services provided by PPP projects; concern for the less privileged should be prioritized and focus should be made on helping to eliminate inequality;
- (ii) Economic values, i.e. that the PPP projects should have sufficient economic value that benefit the fostering of regional economic development and overall fiscal health of the jurisdiction;
- (iii) Replicable, i.e. that the operating models adopted in the PPP projects can be replicated to drive success of similar projects, and to provide education and training and talent development;
- (iv) Environmental protection, including response to climate change, and achieving green, low-carbon and sustainable development of resources and the environment;

- (v) Public participation by fully soliciting opinions of stakeholders, improving mechanisms for stakeholders to participate in project design and decision making, protecting public interest and improving welfare for the humankind.

In today's world, society is stepping into a time of drastic transformation, and is facing various opportunities and challenges. A proven response to these changes is to adopt the operating principles of PPP model and establish public-private partnerships so that their advantages are leveraged to resolve the problems in the efficient provision of infrastructure and public services. Efforts should be made to promote the healthy development of the first-generation PPP to fulfill its strengths of enhancing efficiency of fiscal fund allocations on one hand, and to develop the second-generation PPPs on the other hand so that PPPs play a larger role in societal infrastructure, economic infrastructure development and public services to promote healthy economic and social development in the regional context. Based on the healthy development of the first and second-generation PPP models, and adopting the people first mandate, implementation of third-generation PPP projects should be fostered.

The United Nations Economic Commission for Europe as the leader of the Regional Commissions in the field of PPP development should i) promote the principle of "One UN", ii) coordinate within the UN system and amongst other international and multilateral organizations to strengthen collaboration to tackle the practical hurdles to implementing PPPs in developing countries, iii) standardize and unify PPP definitions and scope, and iv), lead PPPs to a practical, sustainable future while laying the foundation for cooperation and achievement of the UN 2030 goals.

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