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Guiding Principles[1] on Public-Private Partnerships in support of the United Nations Sustainable Development Goals

Revised note by the secretariat

Summary

The following document contains 10 guiding principles on Public-Private Partnerships for the Sustainable Development Goals (PPPs for the SDGs) in response to paragraph 48 of the Addis Ababa Action Agenda on Financing for Development.[2]

The guiding principles were originally published on 21 January 2019 in document ECE/CECI/2019/5, and adopted by the Committee on Innovation, Competitiveness and Public-Private Partnerships (the Committee) at its thirteenth session on 25-27 March 2019.

The document is being reissued pursuant to a decision by the Committee at its fifteenth session on 25-27 May 2022.[3]

[1] The UNECE PPP standards, guiding principles, best practices, declarations and recommendations are adopted by acclamation by the UNECE intergovernmental bodies – the Working Party on Public-Private Partnerships and the Committee on Innovation, Competitiveness and Public-Private Partnerships – and do not impose any obligations on member States as their implementation is entirely voluntary.
[2] The Addis Ababa Action Agenda on Financing for Development is available at: https://sustainabledevelopment.un.org/frameworks/addisababaactionagenda.
[3] Decision 2022 – 4b.2 (ECE/CECI/2022/2): Regarding the continued use of the name "People-first PPPs for the SDGs", the Committee took note of the results of the information consultations

The secretariat is grateful for the valuable comments of the following experts in the preparation of this document (in alphabetical order): Frédéric Bobay, Bruno de Cazalet, Anand Chiplunkar, Felix Dodds, David Dombkins, Christopher Finck, Marc Frilet, Beatrice Florah Ikilai, Kaimeng Li, Dietrich Lingenthal, Raymond Saner, Prashant Sharma, Steven Van Garsse, Scott Walchak and Sedef Yavuz Noyan.

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conducted with interested delegations on the matter since the fifth session of the Working Party on PPPs in November 2021, and decided to:

i. Change the name to "PPPs for the SDGs"; and
ii. Progressively reissue the documents endorsed and adopted by the Committee and the Working Party on PPPs to reflect i. above within the document quota allocated to the ECI subprogramme and without incurring additional costs.

The Committee requested the secretariat to reissue three core documents within twelve months, and the rest of the documents within three years. The Committee requested the Bureau of the Working Party on PPPs to decide on which non-core documents should be prioritised during this period.

Note: the three core documents are: Guiding Principles on People-first PPP in support of the UN SDGs (ECE/CECI/2019/5); Introduction to People-first PPPs in support of the UN SDGs (ECE/CECI/2019/6); and the People-first PPP Evaluation Methodology for the SDGs (ECE/CECI/WP/PPP/2021/3).

I. Introduction

The Sustainable Development Goals (SDGs) are an opportunity to transform our world, mainstreaming economic development that is multifaceted and:

- **Transformational**, in an international, global, game-changing sense;
- **Inclusive**, "leaving no one behind";
- **Fosters resilience**, to adapt to and mitigate the multiple challenges presented by climate change;
- **Socially and environmentally-oriented**, as opposed to only economically-oriented; and
- **Circular**, moving from a linear to a circular economy to foster more responsible and sustainable production and consumption patterns that will save energy and natural resources based on the "Reduce, Reuse, and Recycle" rule.

Achieving such broad economic development objectives will require huge increases in infrastructure spending. The public sector alone will not be able to meet the required *quantum*; hence the need for partnerships especially with the private sector. As the SDG 17 states, "effective public, public-private and civil society partnerships" will be required to strengthen the means of implementing the SDGs.

A new PPP model

"PPPs for the SDGs" can be perceived as a type of Public-Private Partnerships (PPPs) designed to implement the SDGs and thereby to be "fit for purpose". It is defined as an enhanced approach for PPPs that overcomes some of the weaknesses in the way the traditional PPP model has been implemented.[4] PPPs are contract delivery tools for public infrastructure provision involving initial private financing. They include two types: "*government-pay PPPs"* which are primarily funded by taxpayers and "*concessions"* which are primarily funded by the users of the infrastructure.[5]

The PPP model proposed is consistent with the SDGs so that PPPs would be made "fit for purpose" and oriented towards meeting the needs of the people. The concept is critically important to focus PPPs on delivering desirable and necessary outcomes from infrastructure investment that focus PPPs on delivering "value for people".

Moreover, while roads, rail, bridges, power plants are important for the achievement of many of the SDGs, it is even more important to set the impact of these infrastructure assets in the context of a wider sustainable development agenda and a set of specific project outcomes. While PPP project preparation may sometimes ignore externalities, the new approach shall focus on core criteria which could be categorized according to the following five broad desirable outcomes (further elaborated in Box 1):

(i). Access and equality

[4] A number of countries already take into account the PPPs for the SDGs model in both their regulatory framework and in implementing PPPs.

[5] A detailed framework on the scope and boundaries of PPPs and concessions for statistical and economic purposes is provided by the European System of Accounts (ESA) based on the United Nations System of National Accounts (SNA). This framework is independent of any national institutional and legal framework for PPPs. ESA 2010 (see in particular Chapter 15) is available at: https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334.

(ii). Economic effectiveness including fiscal sustainability

(iii). Environmental sustainability

(iv). Replicability, and

(v).Stakeholder engagement.

The five outcomes of PPPs for the SDGs

PPPs for the SDGs are PPPs designed to:

(i). **Increase access to essential services and lessen social inequality and injustice**

This implies increasing access to water and sanitation, energy, etc. focusing on projects that consider the needs of the socially and economically vulnerable and contribute to eliminating inequalities.

(ii). **Improve economic effectiveness and fiscal sustainability**

This implies successfully delivering projects that achieve value for money and fiscal sustainability and are transformative meaning that they have a sustainable measurable impact.

(iii). **Enhance resilience and responsibility towards environmental sustainability**

This implies developing resilient infrastructure and improving environmental sustainability by cutting greenhouse gas emissions and developing “circular” rather than linear projects.

(iv). **Promote replicability and the development of further projects; and**

This implies that projects be replicable and scalable so that they can be repeated and/or scaled up to have the transformational impact required by the 2030 Agenda for Sustainable Development. This criterion also needs to consider whether the local staff and the governments have the capacity or receive the necessary training and knowledge to do similar projects.

(v).**Fully involve all stakeholders in the projects**

Engaging all stakeholders that are either directly involved in the PPP project or directly or indirectly affected in the short and/or long run and creating new means for integrating special groups who have played a limited role to date.

People at the core of the PPP model

It is not easy – but very important – that this new model of PPP should directly support and benefit the people and specifically the following groups of people:

- The socially and economically vulnerable;
- Marginalized groups or communities (the unemployed, people with disabilities, the elderly, minorities, etc.);
- Citizens whose lives depend on public infrastructure, which needs to be resilient and safe; and
- Women and girls.

PPPs for the SDGs should have both short and long-term benefits for such groups. In the short term, by:

- Enhancing their access to critical services (water, energy, transport, health, education, etc.) and resilient infrastructure;
- Providing affordable services;
- Reducing discrimination, increasing access to services for the most vulnerable, and taking their needs into consideration in the design phase of the projects; and
- Empowering these groups to become the real decision takers within projects, thereby making projects more inclusive.

In the long term, by:

- Contributing to achieving the level of development required to initiate a “virtuous cycle”, creating jobs, reducing the proportion of people living in poverty, boosting economic growth, reducing inequalities, and ultimately improving the lives of millions of people; and
- Helping people take ownership of PPP processes and strengthening their capacities through training and mentoring and becoming themselves key players in implementing successful and more readily replicable projects.

Feasibility of the PPPs for the SDGs Model

Of course, PPPs are already complex and by adding what have been termed by critics as “bells and whistles”, this new model is encumbering policy makers with further layers of complexity, which might seem to make PPPs for the SDGs unfeasible. Indeed, some argue this approach could have the unwelcome effect of increasing costs for the private sector thereby deterring private investment, especially in low-income countries where the needs for better infrastructure are already huge and the challenges pronounced.

However, the PPPs for the SDGs model appears to be feasible. First, the private sector is increasingly seeking opportunities to contribute to the SDGs in concrete and effective ways. Moreover, many existing PPPs are already complying with some of the five outcomes. Finally, it is perfectly feasible to add to the procurement specifications for a project or utilize the five outcomes mentioned above with suitable key performance indicators. The long-term benefits for the economy and for the people are expected to compensate for the short-term possible higher cost, making the PPPs for the SDGs model feasible.

Landscape of PPP guidance

There is already good guidance on how PPPs can deliver through the value for money approach when selecting projects. For example:

- The International Monetary Fund issued some early guidance on PPPs with its 2006 publication entitled “Public-Private Partnerships, Government Guarantees and Fiscal Risk”;
- The World Bank issued their “Public-Private Partnerships Reference Guide” (with rolling revisions reflected in the latest 2017 Version 3.0), “Report on Recommended PPP Contractual Provisions” (2015), and “A Framework for Disclosure in Public-Private Partnership Projects” (2016);
- The European Investment Bank through its European PPP Expertise Centre (EPEC) issued “The Guide to Guidance, How to Prepare, Procure, and Deliver PPP Projects” (2011);

- The Asian Development Bank (ADB) issued its "Public-Private Partnership Handbook" (2014);
- The "European Commission's Guidelines for Successful PPPs" (2003), United Nations Economic and Social Commission for Asia and the Pacific's (ESCAP) "A Guidebook on Public-Private Partnership in Infrastructure" (2011);
- The Organisation for Economic Co-operation and Development's (OECD) "Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money" (2008) and "Principles for Public Governance of Public-Private Partnerships" (2012); and
- The multilateral development banks also jointly created the "SOURCE" platform for project preparation to make available to governments and project teams guidelines, standards, and good practices developed by the multilateral institutions to assist governments in infrastructure project preparation and management.[6]

This landscape of current guidance was surveyed in 2017 with a "Scoping Study on Public-Private Partnerships" (2017) for the Inter-Agency Task Force on Financing for Development under the United Nations Department of Economic and Social Affairs.[7] It reached some interesting conclusions, finding that while extensive guidance has been produced, existing PPP materials tend to be largely:

- Informative rather than normative;
- Divergent rather than convergent, noting for example that multiple definitions of PPPs are used across the various resources;
- Lacking the sustainable development dimension, instead focusing heavily on commercial viability of PPPs with sporadic insight into how PPPs can generate public benefit and public good;
- Too focused on ex ante success factors and inconclusive about whether they have resulted in real outcomes and impact on the ground; and
- Not aligned with the 2030 Agenda for Sustainable Development.

How to bring forward the PPPs for the SDGs agenda?

Moreover, based on an analysis of the existing PPP model, Paragraph 48 of the Addis Ababa Action Agenda echoes the need to move towards a new approach and calls for the promulgation of guidelines for the appropriate structure and use of PPPs, which should:

- Share risks and rewards fairly;
- Meet social and environmental standards;
- Align with sustainable development, to ensure "sustainable, accessible, affordable and resilient quality infrastructure";
- Ensure clear accountability mechanisms;
- Ensure transparency, including in public procurement frameworks and contracts;
- Ensure participation, particularly of local communities in decisions affecting their lives;

[6] The SOURCE platform is found at https://public.sif-source.org.

[7] Scoping Study on Public-Private Partnerships (February 2017), Aizawa, Motoko, Inter-Agency Task Force on Financing for Development, Working Paper Series.

- Ensure effective management, accounting, and budgeting for contingent liabilities, and debt sustainability;
- Align with national priorities and relevant principles of effective development cooperation; and
- Use blended finance instruments.

In view of the existing guidance material mentioned above, the challenge is to move away from the existing PPP models to enlarge the scope to partnership models and develop a new set of guiding principles that will deliver enhanced projects. This will involve designing new approaches to PPPs with more 2030 Agenda-oriented approaches than those that have been presented to date. New standards or guidance material issued by this or the various other competent bodies should not of course contradict nor neglect existing standard approaches and the work of other bodies and international organizations as has been referred to above. Therefore, these Guiding Principles should be viewed as building upon the achievements of existing works on PPPs.

What then is the nature of the path that should be followed if a serious effort is to be made to make PPPs work for the SDGs? What guidance is needed to prompt the implementation of a vast number of transformative projects that will make countries, especially low-income ones, more prosperous and set out a new agenda to include the sustainability of infrastructure and the commitment of all stakeholders to the public good and social welfare?

The answer lies essentially in reforming the principles that underpin PPPs and rewriting the “tool box” that PPPs rely upon addressing the SDGs’ challenges head-on. A list of comprehensive principles for action needs to be defined to help governments and other stakeholders navigate the transition:

10 Guiding Principles of PPPs for the SDGs

Principle 1:	**Build into infrastructure strategies the PPPs for the SDGs transformative agenda, making sure that peoples’ needs are listened to**
Principle 2:	**Deliver more, better, simpler projects by joining up government and allowing cities and other local levels to develop projects themselves.**
Principle 3:	**Increase officials’ skills in delivering projects in line with the PPPs for the SDGs outcomes, particularly ensuring that governments know how to better empower women in projects as well as encouraging the private sector to contribute to the necessary transfer of skills**.
Principle 4:	**Make more inclusive policy and legal frameworks that allow for active engagement of communities and focus as well on a zero-tolerance approach to corruption**.
Principle 5:	**Disclose more information[8] about projects to society especially on the commitments made to various partners in the project.**
Principle 6:	**De-risk projects by providing more predictability in the enabling environment.**
Principle 7:	**Set out clearly the projects’ selection criteria to promote “Value for People” so that the best projects aligned with the SDGs can be selected.**

[8] Excluding proprietary information.

Principle 8:	**Make environmental sustainability a key component of evaluating, awarding and implementing PPPs for the SDGs.**
Principle 9:	**Ensure that blended financing catalyses private partners to invest in PPPs for the SDGs.**
Principle 10:	**Avoid debt traps by ensuring the fiscal sustainability of PPPs for the SDGs and the transparency of fiscal policies.**

Each of these principles constitutes a response to a key challenge to PPPs for the SDGs and should be implemented by undertaking a series of actions. The next sections present each of the principles, the challenges they address and describe key actions that could be undertaken to implement them.

This is not the final word. There is a need to "maintain" the guiding principles and take on board key learnings, ongoing developments and policy experience, as well as discussions by the international community in multiple fora to exchange views and suggestions.

II. The Guiding Principles for Public-Private Partnerships for the United Nations Sustainable Development Goals

Principle 1: Build into infrastructure strategies the PPPs for the SDGs transformative agenda, making sure that peoples' needs are listened to

Myth: Since PPPs are very complex financial and contractual arrangements, it is much too difficult for ordinary people to understand so no point in consulting them.

However, people should be at the core of PPPs for the SDGs and therefore governments must consult them and make the necessary effort to explain how they may benefit from these projects.

Challenge 1.1 – Increasing demand for services

Greater demand for services from people driven by an ever-increasing population. There is growing global population and migration putting a huge strain on cities to provide services. In addition, the internal displacement of people following structural economic transformations (i.e. from rural to urban) or, in some countries, conflict, has added to the pressure on city authorities. In many cities the need for clean and safe water, sanitation, waste management, health services, electricity, housing, transport, and other public services are pressing.[9]

Recommendation

The development of domestic infrastructure for the SDGs calls for investments of such magnitude that it is impossible for Governments to undertake them alone. For instance, the move to the green economy often necessitates introducing expensive technologies and services. Because PPPs can be a key driver of economic growth and often contribute to the build-up of productive capacity, PPPs need to be an integrated part of national development strategies. This will involve undertaking not only a clear assessment of what can be achieved and at what cost, but also a comprehensive understanding of the complex technicalities

[9] Underpinning the need for increased spending is an expected rise in the global population by 2 billion people by 2040 and 46 percent increase in the urban population, driven by Asia, which needs $52 trillion in investment by 2040 to meet that demand (GIH, 2017).

involved in infrastructure investments and their long-term implications in terms of cost, quality, availability and affordability of services.[10] Ultimately, the provision of critical services should be delivered in compliance with international human rights standards.

Challenge 1.2 – Sustainable development

Sustainable development is not sufficiently identified as the goal of PPPs. The SDGs require a new type and higher quality of PPPs and infrastructure investments: it is not just about building tangible assets, it is also about ensuring that these assets contribute to sustainable development. It is not, for example, only about building a bridge or a road or a railway line; rather it is positioning them in ways that will benefit local communities, vulnerable groups, and those living in regions that are located far from markets or the main conurbations.

Recommendation

PPPs need to be framed in broader development strategies and investment policies geared towards the realization of the SDGs. Conversely, the achievement of sustainable development outcomes should be a core objective of individual PPP projects.

In such a strategy, the goal of PPPs should be the achievement of sustainable development outcomes. However, PPP models have often not been used to meaningfully target poverty eradication, green growth, inclusive communities, urban regeneration, and other targets of the SDGs. By incorporating these issues into the “output specifications” of long-term PPP contracts, adjustments can be made so that an SDG dimension for PPPs can be introduced. These adjustments are needed even if demands on the private partner in the output specifications of contracts may raise projects costs.

Challenge 1.3 – Meeting “real needs”

Too many projects proposals for infrastructure are not “really needed” from a development perspective: the reasons and motivations are often of a political character rather than based on “real needs”. For example, it may be “popular” to propose the building or re-development of a large, expensive football or sports stadium, but such assets may not be sufficiently utilized after the event is over.

Recommendation

Consult with all key stakeholders on the merits and demerits of specific projects. Use the internet and social media to listen better to people’s needs and preferences for infrastructure and public services: communities need to be involved in PPP projects. This could take place through public consultations at appropriate stages of the process, the results of which should be made available to the larger public. Policy makers must consult the impacted communities and people on the following:

- Discussions on project selection and prioritization;
- Ensuring a balance between social versus economic value of infrastructure, so that policies are aimed at developing projects that are truly sustainable;
- At the project level assessing inclusiveness, equality, gender sensitivity, environment and other socially impactful aspect; and
- Feasibility studies and impact assessment must incorporate the above concerns and be made public in a timely manner.

[10] UNCTAD (2015), Investment policy framework for sustainable Development, p. 43.

All these opportunities for citizens to be a given a “voice” in the project(s) needs to be mainstreamed. This would ensure the right prioritization of infrastructure projects to ensure a balance between social and economic infrastructure; to focus projects that consider the needs of women and contribute to eliminating gender inequalities; and to help in de-risking projects from a social perspective.

Challenge 1.4 – Demonstrating impact

Governments must show to their peoples that the projects that are constructing have major development impacts, and new sets of indicators are needed to capture the sustainable outcomes for PPPs for the SDGs. New assessment systems and evaluation methodologies will enable governments and the private sector to assess the extent to which their projects are consistent with the SDGs. This will enable the evaluation of proposed projects to determine impact on the achievement of the SDGs and facilitate project prioritization: there is a need to move beyond financially-focused justifications, find new indicators that evaluate the five outcomes of PPPs for the SDGs and communicate clearly on these outcomes to the people.

Recommendation

A “Project Impact Investment Tool” could be developed to assess the extent to which projects are aligned with the five outcomes of PPPs for the SDGs.

Individual projects should be benchmarked according to three sets of factors:

(i). **Intent**: Projects that can be termed “PPPs for the SDGs” should have as one of the characteristics that the parties to the project clearly and explicitly state that the project’s aim is to have social and environmental impacts to achieve the SDGs. This intent can be found (e.g. in the annual report of the company, or the policy of the government, or be articulated in marketing and communication materials surrounding the project).

(ii). **Impact**: (measuring the five outcomes identified for PPPs for the SDGs):

- *Increase access to essential services and improve social equity*

Showing increased access to essential services especially for the socially and economically vulnerable can be done through *e.g. the total number of citizens now with access to clean water, which were previously underserved, etc*.

- *Economic effectiveness including fiscal sustainability*

Showing economic effectiveness and fiscal sustainability of projects can be done through indicators that capture value for money and fiscal transparency and demonstrate that projects are transformative meaning that they have a sustainable measurable impact *(e.g. decent/green jobs created, annual growth of local income, increase of women economic empowerment, etc).*

- *Environmental sustainability and resilience*

Demonstrating that an infrastructure project meets environmental sustainability and resilience might be done, for example by using indicators such as *the magnitude of* CO_2 *emissions cut / reduction of loss or waste / decrease in use of water and energy, etc.*

- *Replicability*

Demonstrating replicable and scalable projects to have the transformational impact required by the 2030 Agenda for Sustainable Development can be done for example by showing how many officials etc were trained by the project at the local/regional/country level).

- *Stakeholder* engagement

Showing stakeholder engagement might be achieved through various indicators such as the number of consultations held with communities impacted on projects etc.

(iii). **Verification:** Showing verifiable proof that impacts have been achieved is very important, and here are needed indicators such as independently audited positive outcomes, feedback from the beneficiaries confirming that they did in fact receive the enhanced service etc.

- *Measurement*

The Project Impact Investment Tool will set out to score or rate the extent to which a project has impact thereby acting as a compass.[11] Each of the outcomes could be scored on a scale, say, of between 0 to 3. The higher the score, the better the project is aligned with the PPPs for the SDGs outcomes. Such an alignment could also be presented diagrammatically as a spider's web with a project graded according to the following:

- High alignment where the projects are close to three on the six factors;
- Average alignment where the project is scored between 1 and 2 on the factors and;
- Low alignment where the project scores either 1 or 0 on the factors.

Commentary

1. Trade-offs between the indicators

The above-mentioned outcomes and associated indicators, it is argued that not all can be achieved simultaneously. Specifically, it is argued that there is a potential non-alignment between projects which aspire to economic effectiveness and outcomes related to sustainability and resilience. In other words, it is argued that governments will have to face choices along a spectrum of different options, with them must face a precarious balance between economic growth and prosperity on the one hand and environmental sustainability on the other.

But this is arguably a false dichotomy. For example, data on greenhouse gas emissions in cities suggest that trade-offs are not as apparent as might be supposed and work on the green and circular economy has shown that benefits far outweigh the costs. For example, job growth can be achieved while fighting climate change. Strong mass transit connects people to jobs and business opportunities and, at the same time, can reduce traffic and air pollution. Energy efficiency measures save consumers' money and clean the air while also shrinking the city's carbon footprint. Most of the traits that make cities better, cleaner, healthier and more economically productive can also reduce carbon emissions.[12]

Thus, changes induced by sustainable development strategies will have positive effects on economic growth and prosperity and, consequently, on the performance of businesses, which will ultimately be encouraged to mainstream sustainable development outcomes into corporate policies. This trend can already be observed in an increasing number of economic sectors where companies, seeking to raise their market shares, seek out business opportunities related to sustainable development, thereby turning Corporate Social and Environmental Responsibility into a comparative advantage.[13]

[11] Source UNECE. Compass is built under a similar structure developed by UBS on Impact Investment Banking

[12] Climate of Hope P 28 Michael Bloomberg, Carl Pope, St. Martin's Press 2017.

[13] For example, Iberdrola Sustainability Report 2017.

2. New indicators and methodologies need validation by real stakeholders including civil society

Coming up with the new indicators is only half the battle. There also needs to be an extensive validation exercise involving society, academia, the business community and the project lenders, i.e. international banks, the multilateral development banks etc. For example, at the end of the day, it will be the lenders of projects who will determine whether the project outcomes can be achievable. They will have to be consulted on whether the outcomes and indicators can be integrated into their lending strategies.

Fortunately, experience with the Equator Principles has shown that banks' readiness to adjust their lending so that it has no adverse environmental impacts.[14]

Principle 2: Deliver more, better, simpler projects by joining up government and allowing cities and other local levels to develop projects themselves

Myth: Projects are not being undertaken because of lack of financial resources.

However, often the problem is not the lack of money but rather the lack of good projects.

Challenge 2.1 – Project delivery

Not enough projects are being delivered: actions are urgently needed to develop pipelines of priority projects. At current levels of investment in SDGs-relevant sectors, developing countries alone face an annual gap of $2.5 trillion.[15] Investment in social infrastructure (health, education, electricity, water, waste management and sanitation) needs a step change, in line with country national priorities.

Recommendation

When undertaking PPPs, governments need to move from a project-oriented, *ad hoc* approach to integrating projects aligned with the SDGs under a consistent plan that yield a project pipeline along with an investment programme where delivery options are considered and analysed. Thus, if governments use the PPP model, they should prioritize bold infrastructure plans that forefronts projects that are linked link to the implementation of the SDGsgiven the cardinal role of infrastructure in achieving many of the Goals. Sectoral policies that can develop and advance such projects to maximum effect will also be needed.

There is a need to mobilize new actors to increase the supply of PPPs for the SDGs. Governments should seek to encourage involving other stakeholders in the design of projects, notably at the municipal level. Cities can play an important role in meeting the challenge of social and economic transformation by innovating and developing partnerships that provide essential services. Thus, cities need to be given greater powers by central governments to be able to wage such campaigns effectively. For instance, they could be granted greater authority in the delivery of transport and energy services.

In the face of climate change many cities have already taken strong action to mobilize bottom-up actions to address the threat. Municipalities themselves have become major actors in adaptation and mitigation initiatives. Action in cities at the municipal level can be meaningful. Because of their population density, city-level initiatives can instigate carbon emission reductions of a large swathe of people.

[14] See: http://equator-principles.com/

[15] UNCTAD World Investment Report 2017.

In addition, cities are at the frontline of where climate change problems are emerging – they account for about 80 per cent of greenhouse gas emissions and their inhabitants tend to suffer most from emissions.[16] As a result, they are prone to facilitate the adoption of solutions, such as new climate resilient housing, parks, schools and health clinics.

The needs of rural and urban economies should also be balanced (the SDGs call for equitable development that overcomes income disparities within countries) and the strategic focus of projects weighed. Investment in rural areas should be stimulated to enable the development of rural communities. This could entail the provision of agriculture-related infrastructure facilities, such as irrigation, and roads to link farms to markets. At the same time such infrastructure could enable rural communities themselves to increase production, create new jobs and enhance incomes. E-Commerce and other technologies can also enhance the productive capacity of rural entrepreneurs and small businesses.[17]

Challenge 2.2 – Improving the investment climate

Accelerating the delivery of projects will inevitably face the challenge of poor, unsatisfactory enabling conditions in the business environment.

Recommendation

Developing adequate policies to improve the business environment is a pre-requisite for the successful delivery of projects. Investment policies, including on PPPs, are influenced by a series of other policy areas that affect the general business climate of countries. Whereas investment-related policies could encompass many areas in which government legislates (e.g. access to land, competition, environmental policy, taxation, trade entrepreneurship, intellectual property) some areas may be of more significance, depending on the national context, level of development, and the type of PPPs that are being developed. However, in many low and middle-income countries, legal and institutional capacities still need to be developed to ensure coherence between the legal and institutional frameworks of PPPs and related policies needed to attract and benefit from PPPs for the SDGs.

Challenge 2.3 – Coordination within governments

One of the critical challenges in delivering PPPs for the SDGs is the need to bring together different ministries so that projects have integrated and sustainable impacts.

Recommendation

Successful implementation of PPPs relies on the coherence and effectiveness of coordination mechanisms. This requires cooperation between different ministries and the involvement of national PPP Units. In addition, addressing the SDGs effectively requires the sustainability outcomes sought to be determined across different sectors, hence the need for governments to develop their capacity to collaborate effectively across departments. The appointment of a coordinator possibly inside the PPP Unit, to promote coordination and PPPs for the SDGs could advance such outcomes.

Challenge 2.4 – Bottom-up - Top-down

There is a pressing need to break with the previous top-down approach to project development that is inimical to sustainable development and a PPPs for the SDGs

[16] UNECE, 2011, *Climate Neutral Cities: How to make cities less energy and carbon intensive and more resilient to climatic challenges,* p.12.
[17] UNCTAD 2009, *World Investment Report: Transnational Corporations, Agricultural Production and Development*.

approach. Generally, the authorities do not have sufficient knowledge and understanding of local conditions and needs based on which projects should be designed and operated for sustainable development.

Recommendation

The converse of a top-down approach is a bottom-up one but by itself a bottom-up approach will also not work. Municipalities do have a better knowledge of the specific needs of the local communities and the challenges they face. However, they also often lack resources and capacity to develop sizeable projects. This is especially the case with transportation, digital technology, and other sectors that can facilitate urban-rural connections, increase access to markets, and facilitate employment creation, education and health.

Local projects should therefore be developed within a wider and coordinated infrastructure planning strategy emanating from regional and/or national government. A mixed bottom-up/top-down approach could therefore advance sustainable development projects as cities advance projects initiated by local communities under broader frameworks. This will allow for greater participation of citizens and ensure a greater commitment and support for the project in the long term.

Taking the theme of better coordination between different government departments forward, infrastructure challenges and their solutions are often interconnected. For example:

(i). Poor water quality increases the incidence of disease and puts a strain on health services;

(ii). Inadequate transport systems are an added cost burden on commuting workers or goods brought to market, lowering overall economic productivity; and

(iii). Low exposure of children to education prevents their full participation in economic, political and social life, thereby stifling both their potential and their interaction with innovation and their contribution in the society of the future.

PPP Units within government administrations need to play a new role encouraging more bottom-up solutions from local people, while at the same time better coordinating the cross-sectoral solutions and collaboration between various departments that implement projects. Cross-sectoral collaboration needs to also create an innovation and partnership culture in government and local communities. Ad-hoc teams of the various affected stakeholder groups should be at the table to find solutions to the myriad problems facing local communities – jobs, transport, safety and security, pollution, amongst others.

Challenge 2.5 – Importance of social infrastructure

The critical path to achieve the SDGs is one that emphasizes social infrastructure.

Investment in social infrastructure, such as education and health, is a prerequisite for effective sustainable development, and therefore key to advance the SDGs. Annual investment in education in developing countries was estimated at about $80 billion at the time of the launch of the 2030Agenda for Sustainable Development. To achieve the SDGs in this sector, annual investment requirements are estimated at $330 billion. Health investment needs are of a similar scope – current investment in health is about $70 billion, while the total need is estimated at $210 billion per year.[18] PPPs for the SDGs have the potential to narrow the investment gap in both sectors.

[18] UNCTAD 2014, World Investment Report: Investing in the SDGs: An Action Plan for promoting private sector contributions, p. 143.

However, health and education are generally considered sensitive sectors that require engagement with stakeholders and buy-in from local communities. Investment in these sectors may not always be commercially viable in developing countries.[19] Whereas the private sector investment contribution to healthcare in developing countries can be significant, the private corporate contribution in both developed and developing countries in education is still small to negligible.[20]

Recommendation

Emphasizing the social should imply also focusing policy on smaller scale projects. Projects should be prioritized in line with sustainable development objectives, aiming for a diverse mix of project scales, and not solely prioritizing large-scale, complex infrastructure projects. Megaprojects are often plagued by budget and schedule overrun while the advantages of megaprojects sometimes underperform pre-project projections. By contrast, smaller, more people-focused models with lower risk profiles, greater efficiency gains, where commercial gains are easier to realize for investors, and where the socio-economic gains are clearly measurable, will help reduce public-sector risk and exposure. Above all, these will allow for scalable and replicable solutions. This type of projects can be clustered together to lower the costs of individual development.

Challenge 2.6 – Prioritizing projects for impact

There is a need to focus on infrastructure projects that can unlock productive capacities and boost manufacturing and services – again ensuring maximum development impact.

Recommendation

Projects pipelines should prioritize basic infrastructure areas that can unlock productive capacities such as utilities, transport and other sectors. They should support the development of green infrastructure such as sustainable transport infrastructure, renewable energy, and climate-resilient and resource-efficient infrastructure. Project pipeline planners should be cognisant of the interlinkages between the SDGsto ensure that a solution in one area does not cause a problem in another. They should explicitly define available resources and potential PPP arrangements, including templates, methodologies of delivery, timelines, etc.

Because of limited local and national capability, a ranking of projects might be needed. Following a needs assessment, governments should design technical and contracting frameworks which rank and prioritize investments according to need, based on the five outcomes, effective return on investment, and affordability. This approach will help them to select the projects within infrastructure sectors, and to assess benefits with costs and budget accordingly.

Commentary

Private financing

The SDGswill have vast resource implications worldwide. Total investment needs in developing countries alone could average $3.9 trillion per year. Current investment levels leave a gap of some $2.5 trillion. At the global level, total investment needs are in the order of $5 trillion to $7 trillion per year.[21] Governments will need to explore innovative financing schemes to meet these needs including the mobilization of financing from the private sector.

[19] Ibid., p. 176.
[20] See Achieving a Sustainable Future, Government of Canada 2016-2019.
[21] UNCTAD (2014), *World Investment Report. Investing in the SDGs. An Action Plan for promoting private sector contributions*, p. 145.

The potential for increasing private sector participation is greater in some sectors than in others. Infrastructure sectors, such as power and renewable energy, transport and water and sanitation, are natural candidates for greater private sector participation, but other SDGsectors are less likely to generate significantly higher amounts of private sector interest, either because it is difficult to design risk-return models attractive to investors, or because they are in the realm of public sector responsibility and consequently highly sensitive to private sector involvement (e.g. education and healthcare).[22]

Looking for new financing schemes one should bear in mind that private financing for certain types of PPPs necessarily means public debt as private financing will always have to be repaid. Thus, even benefiting from private financing and expanded capacity, governments may still face the challenge of the "funding gap". Establishing and clarifying the funding sources that will satisfy the required repayments to the private partner financing a PPP is a critical step to ensuring viable PPPs. It is also a critical factor in the sustainability of public finance and requires from governments special attention in order to prevent creating unintended and hidden public debt and obligations (e.g. off-balance sheet treatment).

Principle 3: Increase officials' skills in delivering projects in line with the PPPs for the SDGs outcomes, particularly ensuring that governments know how to better empower women in projects as well as encouraging the private sector to contribute to the necessary transfer of skills

Myth: PPPs need skills found in the private sector and governments can acquire the necessary skills by hiring from the private sector to fill government jobs.

However, delivering PPPs for the SDGs requires multiple skills, in negotiating contracts, undertaking project finance arrangements etc., but must be grounded first and foremost in protecting the public interest and achieving the SDGs. This must be done by full time public sector officials grounded in the public-sector ethos.

Challenge 3.1 – Lack of capacity within governments

Insufficient capacity to deliver PPPs for the SDGs is probably the single most important barrier that needs to be overcome to deliver the necessary pipeline of projects. A step change is needed for the delivery of PPPs for the SDGs. While a huge number of projects will be needed to meet the SDGs, not just quantitatively but also qualitatively as well, governments have generally no real track record of delivering the pipelines of projects on the scale needed.

The real barrier arguably to achieving the SDGs and overcoming the infrastructure gap is not simply the lack of funds or finance; it is also the governments' need for skills in identifying and delivering the right projects and ability to attract those investments. Of course, the situation is not the same for all countries and many have been improving in recent years, but the lack of delivery capability is a concern, especially in most low-income countries.

Recommendation

Not enough support is given by the international community to PPP capacity building nor by the international finance institutions. The international finance institutions have until now played an important role in PPP capacity building, but resources spent have simply not provided as much support as would be needed to properly meet developing country needs.

[22] Ibid.

Good capacity building does not come cheap, thus there is a need for new approaches to ensure effective capacity building for delivery on the various fronts related to the SDGs.

There is a growing consensus that of all the things needed in countries for a PPP capacity building programme to be successful, the following basic requirements need to be met in advance:[23]

- First, there needs to be a PPP Unit with overall responsibility for building PPP capacity and implementing PPP policy, programmes, and projects; and
- Second, there needs to be high-level political will and long-term, consistent - not *ad hoc* - support to undertake PPP.

In order to implement PPPs for the SDGs, additional resources and training should be allocated to the PPP Units so they stay operational and contribute more effectively to achieve the SDGs through the implementation of better projects.

Challenge 3.2 – Standardization

When governments start projects, their first goal is to accumulate all the necessary information and existing experiences around the world with similar projects – a long and often expensive process. At a global level, there is far too much "reinventing of the wheel" and a waste of resources that could be saved for essential actual development of PPPs for the SDGs.

Recommendation

Huge savings and enhanced capacity development can be achieved by the development of national practices and standards often based on international standards on PPPs for the SDGs. Governments should therefore develop standardized processes and procedures to implement PPPs for the SDGs. There is ample evidence that those countries which standardize such processes, involving such things as common contract provisions, or the development of guidance for different government departments are much more likely to develop pipelines of projects.

To develop such procedures and to avoid new costs each time they legislate on PPPs, Governments should use international best practices and standards to further enhance their PPP initiatives. The UNECE has begun this process of developing international PPP standards and recommendations aligned with the SDGs to assist in this regard, including:

- International practices on PPP policy, law and institutions; and
- International sectoral standards (water and sanitation, health, railways, roads, etc.).

The sectoral standards identify the steps and processes relative to the delivery of an actual PPP and rely on recent examples of such projects around the world. These are simple documents discussing the experiences and trends, the technology, the type of models used, the social and environmental impacts, the typical financing arrangements and the legal and contractual issues pertaining to the projects, all with an overlay of the SDGs and how certain models may best achieve SDGs' outcomes in the sector. They are designed as open-ended recommendations: the standards can in fact advise against the use of a certain model where the evidence suggests that it could have negative impacts or where the risks are too high.

[23] UNECE Guidebook on Promoting Good Governance in PPPs (2008); UNCTAD (2009) Best Practices in Investment for Development: How to Utilize FDI to Improve Transport Infrastructure – Roads, Lessons from Australia and Peru; UNCTAD (2014). Investment Policy Review: Guatemala.

These standards have helped governments access information without having to do the research themselves, thereby accelerating their development efforts while saving time and money.

Challenge 3.3 – Training steps

Many countries are very new to all forms of PPPs, including PPPs for the SDGs, and with such limited experience, getting started and moving forwards developing a pipeline of projects is immensely difficult.

Recommendation

It is a mistake to think that it is a “mission impossible” for countries with very limited expertise to achieve a pipeline of projects. On the contrary, with focus and due intent, it can be achieved with success in a relatively short period of time and can directly lead to the delivery of actual projects.

Such capacity building has involved several basic steps:

- Initial readiness assessment;
- Institutional capacity building, involving the creation of an inter-ministerial infrastructure board and a PPP Unit;
- Training of policy makers and legislators in PPPs for the SDGs, including revising legislation, if required;
- Training of key stakeholders, with a focus on the local business community capabilities and on citizens’ groups;
- Training of the regions;
- Project identification; and
- Project delivery.

At the end, the government, once these steps have been taken, is able to deliver a pipeline of effective PPPs for the SDGs.

Challenge 3.4 – Underrepresentation of women and lack of gender perspective

Women are poorly represented within the infrastructure industry and typically in the delivery of critical projects. Their absence, as is increasingly proved by empirical research, has negative impacts on the quality and quantity of projects and on the lack of gender perspective on infrastructure design and delivery.

Recommendation

Governments and the private sector can do much in the way of improving the participation of women in infrastructure and in PPPs for the SDGs. Governments should provide more places to women in secondary and tertiary education: they should in cases, remove the legislative barriers to the involvement of women.

The private sector can and should also play a critical role in women’s empowerment covering the following four points:

(i). Improve the representation of women inside the companies undertaking PPPs and in the PPP projects themselves, ensuring their full participation with equal opportunities;

(ii). Help women led companies in the supply chain compete in tenders for projects and eliminate gender discriminations in the award process;

(iii). Make a difference in the communities where they do business - help women, and train them to become the business leaders of the future, enhancing the use of new technologies to promote women's empowerment; and

(iv). Help to design infrastructure projects mindful of the special challenges faced by women in their daily lives, evaluating the differentiated impacts of projects on women.

Commentary

1.Improving the international support and cooperation for PPP capacity building

It is critically important that the United Nations system and the multilateral development banks work closer in capacity building when there are clear synergies. The United Nations system has a very clear appreciation of the importance of the SDGs and the need to adopt projects aligned with the PPPs for the SDGs approach, while the multilateral development banks and especially the World Bank through its multi-donor facility - the Public-Private Partnerships Infrastructure Advisory Facility – helps with low-income countries.

However, most international finance institutions do not play much of a role in systemic PPP capacity building and instead are more project focused. It is important to mobilize them to provide more support for comprehensive PPP capacity building, contributing to the skills development within Governments, thus having more projects to facilitate.

Looking forward, the PPP Infrastructure Advisory Facility and similar units in other international finance institutions could embrace a PPP for the SDGs approach and more aggressively promote the SDGs. In a spirit of inclusiveness, they could also broaden their best practice of promoting value for money and take on the concept of value for people and consider the interests of the beneficiaries and civil society and bodies such as the United Nations.

2.UNECE International PPP Centre of Excellence

The absence of concentrated knowledge and expertise on PPP inside the United Nations system as referred above requires greater efforts and cooperation amongst existing United Nations agencies. For several years, in this regard, it has been recommended that the five United Nations Regional Commissions should cooperate more in PPP. This has led to the creation in 2012 of the International PPP Centre of Excellence that was created as an outcome of a cooperation in PPP capacity building between the Economic Commission for Africa (ECA), the Economic and Social Commission for Asia and the Pacific (ESCAP), and the UNECE.

The Centre should be broadened to include all the United Nations Regional Commissions wishing to work together on PPP infrastructure and service projects, and on sharing tools and instruments for PPP capacity building such as a PPP Business Advisory Board.

This body should work with other United Nations agencies to ensure the overall impact of PPP work is increased, notably the following:

- The United Nations Conference on Trade and Development (UNCTAD);
- The United Nations Industrial Development Organization (UNIDO);
- United Nations Department of Economic and Social Affairs (UN DESA);
- The United Nations Development Programme (UNDP); and
- The United Nations Commission on International Trade Law (UNCITRAL)

The UNECE International PPP Centre of Excellence established seven international specialist centres under its umbrella to provide high-quality policy advisory services, namely in drafting project specific tender documents and marketing along with training in their respective areas, namely:

- Policy, Law and Institutions (France);
- Smart Cities (Spain);
- Water and Sanitation (Portugal);
- Resilience (United States);
- Local Government (Japan);
- Public Transport Logistics (China); and
- Ports (Lebanon).

Principle 4: Make more inclusive policy and legal frameworks that allow for active engagement of communities and focus as well on a zero-tolerance approach to corruption

Myth: Projects can be based on a secure contract and ring-fenced from government and other external challenges.

However, PPPs for the SDGs require a robust policy and legal framework that not only give private sector adequate protection and reassurances on the safety of their investments but also protects and safeguards the people's interests.

Challenge 4.1 – Prioritizing policy and legislation for PPPs for the SDGs

The challenge here is to ensure that the PPPs for the SDGs approach is fully incorporated into the PPP policy and legal frameworks. How do governments – especially in low income countries – establish the required policy and legal frameworks, incorporating the five outcomes, namely:

- Increase access to essential services and lessen social inequality and injustice;
- Improve economic effectiveness and fiscal sustainability;
- Enhance resilience and responsibility towards environmental sustainability;
- Promote replicability and the development of further projects; and
- Fully involve all stakeholders in the projects.

Do governments know which aspects of policy and legislation to target? This task can in truth be a truly daunting challenge.

The design of PPP legal frameworks varies across countries depending on legal traditions and existing laws. A proper PPP legal framework should include:

- Provisions that make a PPP project possible and facilitate its functioning (e.g. the legal right to establish a PPP company, the terms and conditions under which public assets may be transferred to non-public entities, the power of the PPP company to choose sub-contractors on its own terms, etc.); and

- Provisions that enable governments to provide financing, where relevant (for example to provide subsidies or to make long-term commitments of public expenditure for the life of the PPP contract).[24]

There is already considerable literature existing on guidance concerning legal frameworks on PPPs. However, many of these materials are out of date and no longer capture the reality. They should therefore be updated systematically, comprehensively and as quickly as possible to help governments design effective legal framework for their PPP programmes.

Recommendation

Governments wishing to implement a PPP programme that puts people at its core need to consider early on in the programme development all relevant elements of the enabling environment including the policy and legal frameworks. To this effect, they need to integrate the five outcomes of PPPs for the SDGs into the following vehicles and at different levels within the government:

1.National policy and legislation

Governments should, inter alia:

(i). Set up a clear PPPs for the SDGs policy before developing an actual pipeline of projects. This includes fixing clear economic objectives and strong social and environmental outcomes aligned with the SDGs, setting realistic targets and the means of achieving them, establishing clear procedures for consultation with stakeholders, and identifying the sectors and projects that are compliant with the PPPs for the SDGs approach;

(ii). Where applicable, include clear references to the SDGs and targets in all policy statements, sectoral strategies, national plans and programmes of action;

(iii). Design a legal framework that will enable the effective development of PPPs, elaborating adequate legislation at all levels to achieve comprehensiveness, which is an absolute necessity for PPPs for the SDGs. This legal framework should comply with the five outcomes as well as with international human rights standards, and should also include accountability mechanisms to ensure compliance of private companies with PPPs for the SDGs outcomes;

(iv). Empower new groups of people, especially women in the infrastructure sector to promote and advance their economic development; and

(v). Ensure economic effectiveness and fiscal rectitude.

2.Local government

As part of the mixed bottom-up/top-down approach recommended for advancing sustainable development, the national policy and legislation frameworks should be reflected at local level in a way that enables local authorities to address the specific needs of their communities with regards to infrastructure and social services. Local governments should develop bottom-up approaches to ensure the delivery of PPPs for the SDGs that will mostly benefit local

[24] Source: EPEC PPP Guide – A Note on Legal Frameworks for PPPs

communities, vulnerable groups, and those living in remote regions.[25] These approaches should be designed in coherence with the national framework to, *inter alia*:

- Increase access to essential services, create decent jobs and support local sustainable employment, especially in rural and remote areas;
- Consult local communities, ensure their participation at all stages of project delivery, and get their buy-in especially for projects affecting their lives and future (accessible and safe transport, healthy environment, high-quality education, etc.);
- Train local officials to enable replication of projects that proved to be successful; and
- Empower local business communities, economically marginalized communities, vulnerable groups, women entrepreneurs, etc.

3.Administrative guidelines for civil servants on implementing PPPs for the SDGs into the PPP programmes

Considerable guidance was already provided to civil servants on how to do traditional PPPs.[26] All these materials have to be revised to include the PPPs for the SDGs approach, and civil servants need to be given this new guidance on how to integrate the five outcomes into projects.

In addition, new emphasis should be placed on certain aspects of laws and practices which are particularly relevant to the protection of ordinary citizens and socially and economically vulnerable members in societies. These specific laws and practices can vary but the following are particularly important to set out and enforce:

(i) A Zero Tolerance to Corruption approach

Poor people suffer most from corruption. Corruption actually militates against people's interest. Indeed, when favours are given so that projects can start, the actual impact is that many projects have no economic justification nor effectiveness, resulting in the loss of vital resources for the people. None of the SDGs are achievable unless corruption is brought under control.

Governments should therefore implement the UNECE Standard on a Zero Tolerance approach to Corruption in PPP Procurement and map the provisions as close as possible into their own legislation, procedures and practices. Anti-corruption procedures are described under Principle 7.

Governments can also demonstrate their commitment to a zero tolerance to corruption approach in PPP procurement by sending an endorsement of their commitment to the UNECE, providing evidence of change in policy and procedures, and on where the risks take place and methods for addressing these. The latter information can be put into a typology of corruption risks in PPP, based on actual experiences, and used for the training of the government officials involved in procurement.

[25] One example of a policy that is compliant with the PPPs for the SDGs approach is the Welsh experience. The Welsh Government has incorporated the PPPs for the SDGs approach into its legislation through community and social programmes in the transport sector. Companies now must comply with a number of requirements, including the recruitment and training of unemployed and economically inactive people; the creation of apprenticeships and graduate placements; the delivery of educational initiatives and professional services; the delivery of community initiatives to support community engagement; the opening of opportunities for small organizations, etc.

[26] Examples: The Partnerships Victoria framework for implementing *PPPs,* Her Majesty's Treasury: Standardized contracts for PFI projects; etc.

(ii) Level playing field and sustainable procurement

Economic effectiveness requires open markets so that the people can get access to the best services, and the more open a procurement system, the more likely the best partner will be selected, the more likely it will comply with the PPP for the SDGs approach.

UNCTAD's guidance on concessions goes in the same direction: wherever possible, concessions to private investors should aim to introduce competition so as not to replace a public monopoly with a private one. Placing natural monopolies under private concession should be limited to cases where it increases efficiency and the delivery of services.

Public procurement policies could also be weighted towards giving preference to the purchase of goods that have been produced in an environmentally and socially-friendly manner. Many cities are adopting procurement programmes that include the purchase of renewable power, the upgrading of mass transportation systems, green city buildings or recycling systems.[27]

*(*iii) *Repatriation* of profits

Guaranteeing the freedom to repatriate capital is vital to incentivize the private sector to invest in projects. One of the key challenges investors face is the ways and means governments use legislation to place restrictions on the repatriation of their profits and other payments. Good practice summarized by UNCTAD indicates that countries should guarantee the freedom to transfer and repatriate capital related to investments in productive assets, subject to reporting requirements (including to fight money laundering) and prior compliance with tax obligations, and subject to potential temporary restrictions due to balance of payment crises and in compliance with international law. Any controls that may be imposed should be periodically reviewed for efficacy. In addition, countries should guarantee the free convertibility of their currency for current account transactions, including investment related earnings and dividends, interests, royalties and others. Any restriction to convertibility for current account transactions should be in accordance with existing international obligations and flexibilities, in particular the International Monetary Fund Articles of Agreement.

(iv) Dispute resolution

Courts need to protect the public interest and be available to intervene in dispute resolution to this effect. Indeed, the most vulnerable members of societies when projects are stooped because of a dispute arising between the public and private entities are the poor. Therefore, their interest for the continuation of the critical services despite the dispute should be of paramount importance.

UNCTAD's guidance on the treatment and protection of investments should help countries build solid legal frameworks that minimize the need of dispute resolution. Accordingly, all investors should be entitled to equal treatment in the enforcement of contracts. Mechanisms and proceedings for the enforcement of contracts should be transparent, objective, efficient and effective, and available to all investors. States should honour their obligations deriving from investment contracts with investors –unless they can invoke a fundamental change of circumstances or other legitimate reasons in accordance with the law.

(v) The people's right of redress and being heard

PPPs for the SDGs require direct action by the people to protect their rights and interests. Therefore, the rule of law should be extended to those who do not have access to justice to protect their rights. One method of legal empowerment is to better inform the people of their

[27] UNCTAD, 2010, *World Investment Report: Investing in a Low-Carbon Economy.*

rights to access good services and enable them to participate in decision-making, preferably while the project is still in the planning stage. Governments should create mechanisms for early public participation and build up the constituencies who will use them.

For instance, the UNECE Aarhus Convention is a clear example of acknowledging public rights in decision-making processes made by governments. It stresses the need for citizens' participation in environmental issues and for access to information on the environment held by public authorities. As such, it is the most ambitious venture on environmental democracy so far undertaken under the auspices of the United Nations.[28]

Principle 5: Disclose more information[29] about projects to society especially on the commitments made to various partners in the project

Myth: PPPs are less transparent than other delivery models.

However, restrictions to information disclosure are common to all delivery models. Non-proprietary information on all PPP projects should be open to the maximum to citizens in a form that is understandable and usable.

Challenge 5.1 – Information on project agreements

The implementation of PPPs has often been affected by opacity in contract provisions and insufficient accountability to the public. PPPs are frequently kept too much under the veil of commercial secrecy and as a result, citizens remain ignorant of what the projects are supposed to do. Their ability to take decisions or make judgements is seriously impaired. Attempts to date to make information more available to the public have often failed because the information has not been put in a form that is readily understandable to the ordinary citizen.

General awareness about PPP projects remains very low, not to mention limited public involvement in the PPP life cycle, particularly in the project identification and performance monitoring stages. Apart from legislative requirements, accountability in PPPs are important for several other reasons, both in terms of "public concerns", as well as "private" ones.

Recommendation

If PPPs for the SDGs are to become a reality accountability at all stages of the PPP project life cycle are critical elements to achieve this goal.

Regular information should therefore be provided to all stakeholders, especially the socially and economically disadvantaged, on the selection, design, and impact of projects.

This includes for example providing details on the environmental impact and the amount of carbon emissions that a project will emit. Public and private partners can use the comments of stakeholders to make their projects more effective. Cooperation of this kind needs to be encouraged and governments should consider establishing requirements for the dissemination of information to the people as a legal right.

Challenge 5.2 – Enhancing investor confidence

There is a tendency by some to fail to see any correlation between disclosing information about projects and the mobilization of sufficient private finance to achieve the SDGs.

[28] Please see more information at https://www.unece.org/env/pp/introduction.html.
[29] Excluding proprietary information.

Indeed, the same thinking seems to prevail that the more information is disclosed to people, the less likely investors will place their monies into projects.

Recommendation

Improving transparency brings several benefits to private investors and consequently encourages them to invest. Ensuring that all potential private participants have access to the same information at the same time leads to the creation of a level playing field. For such a process to be effective, objective criteria (i.e. for eligibility, bid evaluation, etc.) must be disclosed publicly. This in turn will lead to greater predictability of the process and reassure potential investors in the fairness of the process.

In addition, more transparent tendering processes reduce the need for renegotiations at a later stage in the project life cycle. When potential investors have faith in the fairness and objectivity of the process, there is a greater likelihood for increased participation, which in turn allows the process to become more competitive. Working to achieve publicly declared performance indicators can also be highly beneficial for private entities to maintain standards and deliver on agreed outcomes.

The protection of trade and business secrets and intellectual property of the private partner is a legitimate reason to keep some information confidential. In some countries trade and business secrets as well as intellectual property are even protected by the constitution as elements of fundamental rights. However, this reason shall not serve as an excuse for a complete refusal of disclosure. Confidentiality shall not go further than legally required.

Challenge 5.3 – Check list for enhancing accountability

PPP projects need to reassure that they are wholly accountable to and serve the citizens' interests.

Recommendation

PPP contracts can incorporate accountability directly into agreements, such as a PPP contract with accountability principles. A true social contract for PPPs for the SDGs might contain, *inter alia*, the following commitments:

(i). Engage with all relevant stakeholders in projects;

(ii). Promote local job creation;

(iii). Protect the interests of communities affected, by allowing them to voice their concerns;

(iv). Minimize negative social and environmental impacts of projects;

(v). Act with integrity and in an open and transparent manner;

(vi). Use legitimate dispute resolution mechanisms; and

(vii). Adhere to agreed transparency and disclosure guidelines.

Commentary

The last three decades have seen a global surge in making government functioning and public expenditure more transparent and accountable. For example, there were just 13 countries with any kind of national access to information legislation in 1988. This has increased to 117 countries to date.[30] Most freedom of information legislations either directly or indirectly apply to PPPs, as PPPs typically commit public resources either directly or indirectly.

Improving transparency and accountability at all stages of the PPP life cycle could improve the general awareness and understanding about PPPs, especially in terms of differentiating it from regular procurement or contracting. For instance, transparency of information through the PPP life cycle can result in visible long-term benefits, such as greater accountability in expenditure, higher level of confidence in the fairness of the process, better quality of bids, and the potential for the formulation of improved policies on PPPs.[31]

Proactive disclosure of relevant information in a timely manner can help immensely in public expectations, especially in terms of project identification and performance monitoring. In addition, being transparent about the rationale for choosing the PPP route (especially with respect to value for money assessments) also improves public trust in PPPs and allows projects to deliver on their promises more effectively and substantially.

Further, the relationship between improved transparency and reduction in corruption is well-known. The more transparent, predictable and objective the procurement process is, the less likely is the process prone to be captured by vested interests. In addition, this may also lead to reduced litigation when all relevant information is consistently made public at each stage of the PPP project life cycle. Because litigation can slow down the whole process (i.e. may lead to unnecessary delays, and possibly even result in making the project unfeasible), improving access to information also improves the efficiency of project implementation.

Finally, improving transparency and accountability of PPPs has a particularly positive impact in terms of improving PPP performance. If key performance indicators, performance reports and financial audits are consistently made public throughout the life of the project, governments and end-users can hold the PPP entity and/or the contracting authority to account.

Principle 6: De-risk projects by providing more predictability in the enabling environment

Myth: PPPs are projects where governments receive infrastructure assets at no cost and can transfer all the risks to the private partners.

However, governments must play a role and share costs and risks with the private sector.

Challenge 6.1 – Balanced sharing of risks

Generally, PPP theory states that project risks should be borne by the party best able to manage them.[32] However, the risk profile of projects can substantially change over the

[30] World Bank 2013, Financial Management Information Systems and Open Budget Data, p.46.

[31] World Bank, http://pubdocs.worldbank.org/en/773541448296707678/Disclosure-in-PPPs-Framework.pdf

[32] Although risk allocation strategies in the real world may vary from project to project and from country to country, in general risks that are related to the overall environment within which the project is implemented are borne by governments. These include political risk (change in Government policy etc.); financial risk (inflation and currency risk, etc.) and legal or regulatory (changes in law, inefficient legal processes and slow bureaucratic procedures). On the other hand, project specific risks (e.g. project design, construction, operation and performance risks) that are directly related to the project are in theory allocated to the private sector. Some risks that are beyond the control of both the private and public partners (demand and supply risks) should be shared by both parties. Regardless of these typical lines of risk demarcation, appropriate, fair, and balanced risk apportionment will always remain critical to having PPP projects that can stand the test of time and changing conditions.

project life cycle. Consequently, governments and private sector typically find themselves in negotiations to transfer as much risk as possible to the other party. When the private sector is given too many risks to bear, it can become increasingly unwilling to assume them for certain projects and pass them on to the government or act opportunistic by taking too much risk even though they cannot handle it. In consequence, governments may end up dealing with project failures and facing huge risk exposure, as they are in the end responsible for providing public infrastructure and public services in compliance with international human rights standards. Ultimately, the end beneficiaries may also be affected by having to pay a higher price for services.

Recommendation

Governments should expect to bear some degree of risk and cost for the project and achieve some balance in terms of risk and cost sharing in all forms of PPPs: overall, commercial risks in projects are taken by private sector and political risks (changes in legislation, event approval procedures, etc.) are borne by the public sector. Problems occur when one or both parties have too high expectations on the rewards to achieve: overall, there needs to be more realistic expectations on both sides in terms of the allocation of risks and rewards in projects.

Governments will also need to provide some types of guarantee and support especially those which shield the private sector from risks that it cannot anticipate or control. Indeed, some PPP contracts provide for minimum revenue guarantees that limit the private sector's exposure to demand risks. Care however must be taken in the provisions of such supports by the public sector. After all, one of the whole points of the PPP is to improve the performance of the project, which is done by using its risk to its investments as an incentive to the private sector to perform well.

In addition, governments, in taking on such a burden of support, may be at the same time taking on too many liabilities which have important fiscal implications (see principle 10 below) and may also affect their credit rating and their ability to borrow.

Challenge 6.2 – High risk countries

Where companies must enter high risk, low income countries, they often require higher expected rewards in compensation. But this cost would be passed on to the end customer or tax payer and these higher prices will generally be unaffordable for poor customers in low income countries and/or those afflicted by conflict. These markets are less attractive to the private sector because the country and its government typically do not have the experience and knowledge to deal with complicated and complex PPP projects. In some particularly fragile and conflict-affected regions, the private sector entities typically do not enter these markets at all.

Recommendations

1. Governments might try and simply persuade the private company to accept a different risk-reward ratio and keep their rewards at similar levels to those in industrialized economies. They can argue that the companies might adopt a longer-term perspective in investing, looking to future returns only after several years. Companies may think also that being present in the market can, if not making large returns, be strategically important, and thereby justify their investment for the "long haul".

2. Governments faced with the challenge of attracting private finance have sometimes attempted to put projects into "special zones" or even more to *ring fence* them so that they are somewhat insulated from the risk or other negative consequences of prevailing business conditions. Some of these initiatives have worked. However, ring fencing is not sustainable though, as inevitably, when the general business conditions (e.g. affecting the transport of

components supply, borders and custom clearance, etc.) will eventually intrude and damage the project.

3. A new term for a more radical approach by Governments is emerging – known as “de-risking” – which conveys what may be needed to occur for the private sector to partner in projects. Namely, it consists of de-risking the country overall and its PPP programme. They want to see governments demonstrating commitments to reform, establishing sound institutions, promoting and supporting the rule of law, implementing a more open, “for business”, economy etc.

4. Governments also *in extremis* may wish to consider other types of partnerships to deliver essential services, especially in the healthcare sector. Such projects might involve partnerships with Non-Governmental Organizations (NGO) to set up critical healthcare for those who have been affected by war or for special vulnerable groups. Often, these schemes will be funded by international charities or religious or national country foundations. These public-NGO partnerships may overtime give way to more typical PPPs.

5. Beyond properly balanced risks between partners, de-risking and other strategies, it is important to understand that some SDG sectors may be particularly risk sensitive. In addition to PPPs, there are other risk sharing tools that could be used to promote investment in the SDGs. Typical instruments will vary depending on specific project requirements across sectors. Although not necessarily part of a PPP arrangement, they can contribute to diminishing risk-aversion in certain type of projects.

Principle 7: Set out clearly the projects’ selection criteria to promote “Value for People” so that the best projects aligned with the SDGs can be selected

Myth: A PPP solution should only focus on the lowest possible price.

However, PPPs for the SDGs require a wider set of outcomes that go beyond the lowest price.

Challenge 7.1 – Adding features to the selection criteria

Often countries when selecting the PPP option, focus too much on achieving the lowest possible price, which can overshadow the project’s actual purpose including the achievement of the SDGs. Different methodologies and metrics are used to ensure that the value for money criteria are genuinely and accurately assessed. It also has been argued though that such methodologies contain some inherent biases and remains insufficient to be applied to projects that seek to help achieve the SDGs. However, the value for money concept can be consistent with the PPPs for the SDGs approach. To this effect, a PPP should be considered a “value for money” transaction – relative to a traditionally procured public alternative – if it generates a net economic benefit for the public in terms of quantity, quality of the service or facility, cost and risk transfer over the project life, and achievement of the various SDGs. Hence, the “value for money” assessment of a PPP should be based on traditional notions of “value for money” in PPPs, but also outcome-based performance that brings the greatest benefit to the people the project aims to serve. The PPPs for the SDGs approach shall ensure that the traditional “value for money” rationale integrates the factor of an effective and efficient achievement of the SDGs in a more extensive way.

Recommendation

Governments should introduce the five outcomes of PPPs for the SDGs in organizing their competitive tenders. Irrespective of the intended delivery form, tenders should be organized so that the "winners" are those that demonstrate their ability to successfully meet procurement evaluation specifications like:

- Improve access to services;
- Overcome social inequalities;
- Deliver "Fit for purpose" design and services;[33]
- Foster economic transformation;
- Build facilities resilient against climate change threats;
- Contribute to cutting carbon emissions;
- Improve operational efficiency and reduce costs;
- Increase the quality of service;
- Advance women's economic empowerment fostering the position of women as entrepreneurs in society and promoting women's full and equal participation in the labour market;
- Provide training to local workforces for the transfer of skills; and
- Support local decent and sustainable employment.

A final value for money assessment based on the received bids should be carried out to determine if the intended delivery form is the most effective and efficient way to meet these specifications. Only in that case, the initial choice, e.g. the realization as PPP, should be implemented.

Challenge 7.2 – Costs of competitive tenders

Tenders can be expensive for companies to compete for and this high cost can discriminate against the smaller companies which have fewer resources.

Recommendation

Governments should endeavour in setting up procurement systems to keep down the costs for entering tenders as far as possible: overall, achieving PPPs for the SDGs and having corresponding tenders should not be at the expense of creating over-complicated procedures or excessively high bidding costs. Procurement must be efficiently designed to create sufficient competition. For instance, an "interactive tendering process"[34] conducted with integrity and the goal of maintaining a competitive environment can reduce uncertainty and lead to significant savings in cost and long term operational success.

The contractual model and stakeholder engagement for PPP procurement are both important components to project success and should be carefully considered. Good governance and transparent pre-qualification, bid negotiation and partner selection processes should also be implemented, to mitigate transaction costs.

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[33] Fit for purpose means that services and projects should contribute to make progress towards the SDGs and be compliant with the five PPPs for the SDGs outcomes. Please see more information on UN fit for purpose governance recommendations at: https://sustainabledevelopment.un.org/content/documents/2101Fit_for_whose_purpose_online.pdf

[34] Some countries in the European Union, Australia and New Zealand use the dialogue or interactive tender process. First, the request for quotation is issued, with the intention to pre-select a short list of qualified bidders. Basic business terms and project structure is customary. Then, dialogue or interaction takes place in conjunction with the request for proposal process. Retrieved from: https://ppp-certification.com/ppp-certification-guide/2-main-types-ppp-tender-processes

Challenge 7.3 – Output specifications

For all types of PPPs, it is critical that the specifications in projects should be focused on achieving “outputs” not “inputs” as in traditional procurement. Inputs set out specific tasks and contract requirements on how to build infrastructure assets and services, which are put in place and simply expected to be delivered at the desired level of public assets or services. However, input-based specifications that do not leave the responsibility with the service provider on what should be done to achieve a project and cause the desired outputs can result in procurement and performance inefficiencies.[35]

Recommendation

Instead of specifying inputs in a PPP contract, the public authority should specify its requirements in terms of “outputs”, or even further, in terms of “outcomes”, since PPPs for the SDGs by themselves do not mean much if they do not lead to the desirable outcomes. Hence, the PPP contracts should specify measurable outcomes (i.e. while not specifying the pipes and pumps and treatment systems to be used in a water supply project, the contract would specify the outputs in terms of the quality of potable water delivered at the tap of a consumer along with other technical requirements).

In this reformulation of contract outcomes and outputs, governments must incorporate the sustainable development criteria in their key performance indicators to make their PPPs truly compliant with the SDGs and international human rights standards. The achievement of outcomes in PPPs can be dependent on conditions beyond the project boundaries and governments should be aware of this at the time of negotiating incentives and penalties. Thus, while non-achievement of outputs can be penalized, achievement of outcomes can be better accounted for as incentive payments in a contract.[36]

Challenge 7.4 – Technological changes during the contractual term

PPP contracts can be lasting for 30 years and infrastructure, unlike most commercial products, is intended to last many decades. Because of its long-term nature, forming a contract that accommodates such a long life is a considerable challenge for governments. In the case of some assets (e.g. hospitals), the external environment will likely change during their service life, which may require that the government writes new legislation and regulation.

Recommendation

Contractual PPPs of all types need to support changes without having to go through contract re-negotiation. PPP arrangements should not bind details of a project beyond a reasonable horizon of certainty. Governments should therefore test the PPP scope and contract design for the known level of certainty and otherwise build flexibility for the project to adapt to changes.

Challenge 7.5 – Involving the stakeholders

Procurement is about open competitive selection and that challenge is to include as many stakeholders as decision takers in this process, to ensure “ownership” by the

[35] For instance, in an electricity project, instead of specifying the type and number of lights, the lux levels required to be achieved for the facility could be specified instead, leaving the choice of inputs to the service provider. This means that performance and quality should be met with the best possible input delivered by the service provider.

[36] In some cases, outcomes can best be monitored by the Governments at the time of defining the sector development plan strategies.

people, more chances to have projects which achieve "value for people", and of course, zero tolerance to corruption in PPP procurement.

Recommendation

Governments can achieve the above-mentioned challenge by fostering greater trust by citizens in the procurement by the following actions:

- Stakeholder organizations should have a seat at the selecting table. They indeed are playing an increasing role in procurement with good results. For instance, by engaging key stakeholders (i.e. project beneficiaries), it is easier to demonstrate whether value is achieved or not, and procurement processes are improved, including less costs and public acceptance of solutions and services.37 These trends should be reinforced. Such roles for the stakeholders can also involve monitoring the performance of the PPP after implementation and once operational;
- Legal tools may be needed to promote consultation with community stakeholders. In Switzerland, referenda are used to consult citizens on large-scale infrastructure projects like sports stadiums or transport projects. There are many other methods, which can be used to increase trust; and
- Governments take actions to show that open and transparent procedures are in place and projects have been won on clear, fair criteria. Otherwise, citizens may think that that there has been a cover up or some other deceitful action in procurement when they are not provided with clear information.

Challenge 7.6 – Anti corruption procedures

Corruption as mentioned above is one of the biggest challenges to the achievement of PPPs and the challenge for governments is that they must put procedures and processes in place to lower the risk of corruption taking place.

Recommendation

Governments have increasingly more information and experiences open to them when designing their anti-corruption practices and the following checklist of good practice measures could be undertaken based on the UNECE experiences:

- ***Oversight:*** when the contract is awarded to a project partner, a governance and quality review system should be established and adhered to, ensuring that the contract performance was managed effectively and meeting with the pre-determined investment criteria. An oversight committee involving independent private sectors and accounting bodies can help to ensure adherence to proper tender procedures, contract requirements, and fund disbursements.
- ***Payment:*** payment can be made only after due diligence has been done satisfactorily. An independent audit office can work to ensure that the public receives value for money and value for people.
- ***Whistle blower:*** governments should establish effective complaints mechanism, including whistle blower practices. Everyone should have the right of redress if they feel that the process has in any way been unfair.

[37] Examples of stakeholder engagement of hospitals in the UK can be accessed at: http://www.commonwealthgovernance.org/assets/uploads/2014/03/14-stakeholder-engagement-John-Seed.pdf

- ***Digitalisation:*** digitalization and electronic payment systems aid substantially to reduce corruption. All files should be available as public records on the Internet. Furthermore, digitalization does not only support governance, but also, monitoring the impact of projects.
- ***No to corruption:*** there should be a zero-tolerance approach to corruption. In this regard, governments can map their process and procedures against the recommendations of the UNECE Standard, along with fully participating in the suggested mechanisms for implementation which include the declaration governments may make in furtherance of the zero-tolerance to corruption approach. Overall, for PPP procurement to have far reaching benefits, the public entities involved must take a zero-tolerance approach to corruption and build systems and a culture of integrity to support their PPP initiatives.

Principle 8: Make environmental sustainability a key component of evaluating, awarding and implementing PPPs for the SDGs

Myth: Environmental objectives in PPPs will always be achieved at the expense of economic benefits.

However, PPPs for the SDGs should achieve both economic benefits as well as social and environmental goals.

Challenge 8.1 – Environmental sustainability

Environmental sustainability needs to become a key component of evaluating, scoring, awarding and implementing PPP projects, based, *inter alia*, on full life cycle impact assessments. To date, in some projects, environmental sustainability is treated as almost an optional add-on, based on concerns that understanding the necessary measures to ensure projects are environmentally sustainable may add to the costs of the project.

Recommendation

Governments should integrate the principles of environmental sustainability into PPP projects by reflecting environmental considerations in the objectives of the project, setting specifications and awarding projects to those bidders who fully match the green criteria.

Before making the decision to undertake a project or programme, the public authorities need to evaluate and consider the environmental and health factors. In some cases, at the project level, they will undertake Environmental Impact Assessments (EIAs) as part of the preparation of plans, programmes and legislation that are likely to have significant environmental effects.

As the contracting authority, the burden for ensuring compliance of PPPs with green criteria rests with the governments which must fix clear objectives and specifications in contracts. They should identify some environmental factors as the key performance indicators, as well as environmental risks and the party that should manage them.

Challenge 8.2 – "Value for people"

It is a major challenge for governments to resist the temptation of selecting projects on a cheapest-bid-win scenario. The challenge is essentially to see investment in the projects not in terms of just getting the project started but rather in making the country environmentally sustainable as well as the future of the planet secure.

Recommendation

Governments must insist on interpretations of “value for people” in selecting projects are based on whole life costing, and whether the project itself is sustainable. For example, home working may be a more cost effective, environmentally preferable and socially beneficial alternative to building a large office in a prime inner-city location. Also, exploring opportunities to reduce unused space and maximize the use of brownfield land across the public sector’s land could be a solution for some projects. If new buildings or relocations are planned, preference should be given to sites which are already well served by public transport to reduce car emissions.

Governments can build into contracts environmentally preferable products, such as avoiding ozone depleting chemicals, choosing low maintenance materials with low embodied energy and made from recycled materials when possible. They should also specify types of buildings, which can be designed from the outset for disassembly and recycling. They can also favour use of brownfield as opposed to greenfield sites that minimize car dependency.

Furthermore, initiatives to maximize impacts of sustainable-development investments often are conducted in one place through the creation of special economic zones (SEZs) or industrial parks, often managed through PPPs arrangements. Efforts could be increased to accelerate the conversion of existing ones into sustainability-focused entities, with a positive impact arising from: cluster and networks of closely associated firms and activities supporting the development of inclusive spill-overs and linkages; incubator facilities and processes designed into zones’ sustainable development support services and infrastructure to nurture local business and social firms/entrepreneurs; and zones acting as mechanisms to disseminate responsible investment, including in terms of labour practices, environmental sustainability, health and safety, and good governance.

Challenge 8.3 – Assessing environmental impact

Ensuring the environmental sustainability of projects will be critical for delivering effective PPPs for the SDGs.

Recommendation

Governments will need to set up adequate environmental authorities to facilitate the implementation of environmental impact assessments, which should be transparent, non-discriminatory vis-à-vis foreign investors, predictable and stable; and that environmental licensing procedures are conducted without undue delays and in full technical objectivity.

Commentary

PPPs can offer enhanced solutions that address some of the challenges of environmental sustainability:

- First, technological innovation is required to make the significant shift to a low carbon economy and to bring about the necessary technological breakthrough. PPPs can be used to mobilize the necessary resources in an effective way and to share risk efficiently in a situation where significant financial outlays under uncertain conditions are required.
- Secondly, the actual PPP projects themselves can directly contribute to climate change adaptation and mitigation. For example, in the waste to energy sector, disposing of waste in some countries is still often done on dumpsites or landfill - the decomposition process leading to the emission of methane which has a major effect on global warming. PPP waste-to-energy projects capture this gas and turn it into electricity

using the private sector's access to latest technologies. Such projects are becoming standard in European Union countries because of specific legislation.

- Thirdly, integrating PPP approaches into public procurement through the life-cycle approach can further contribute to climate change mitigation. By combining the various elements of the project such as design and construction into a single integrated project, the PPP model adopts a whole life-cycle approach and this assists in selecting the most efficient and sustainable solution for the long term rather than the cheapest solution in the short term.

Principle 9: Ensure that blended financing catalyses private partners to invest in PPPs for the SDGs

Myth: PPPs put profit before people.

However, Innovating financing mechanisms are key to achieve the SDGs and blended finance is a form of financing that can play a significant role in promoting PPPs for the SDGs.

Challenge 9.1 – Blended finance

The idea is not to put blended financing into projects where the private sector would have gone already but precisely when the blending of public or philanthropic capital with private capital can become truly catalytic and/or when it is programmed in such a way as to catalyse private investors to invest their capital in something they otherwise would not do.

Recommendation

Governments can work to ensure that blended finance[38] can be truly catalytic and does not subsidize projects that would have already taken place.

Challenge 9.2 – Scaling up

The scale of the finance needed to meet the SDGs – trillions not billions of US dollars – demonstrate the importance of scaling up blended financing instruments and funds.

Recommendation

Public and philanthropic funds are needed to "crowd in" significantly more private capital for every dollar to fund the SDGs. Accordingly, there should be a focus on achieving scale by increasing the public to private leverage.

Challenge 9.3 – Focusing impact on development

To date, the blended finance/impact investing industry has huge potential and it is growing prodigiously. The challenge is to encourage even faster growth especially with a focus on low income countries (with infrastructure identified as a priority). For example, financing a road in a developed country may have a marginal impact on commuting times, but rather little material effect on the livelihoods of the poor: but building a road in a developing country can have major impacts for many villages that are previously cut off from

[38] Blended finance is mentioned in Para 48 of the Addis Ababa Action Agenda (2015). Blended finance is defined as a mechanism which combines concessional public finance with non-concessional private finance.

the national and regional economy, and are now empowered. They can now, for example, sell their farm produce and their manufactured goods to the capital city and beyond.

Recommendation

The blended finance industry could receive a boost by integrating the five PPPs for the SDGs outcomes into the metrics for projects. This could conceivably allow investors based in financial capitals, like New York City, United States of America, to make investments into projects with appropriate metrics without having to visit the project onsite and do due diligence. Such metrics offer the scalability to increase the blended finance industry and increase even more the positive impact it has already having. The Project impact Investment Tool can be put at the disposal of the blended finance industry to measure impact of projects.

Commentary

Mobilizing private finance in an unprecedented scale is the critical *sine qua non* of the SDGs era. This finance is needed to ensure that the infrastructure gap can be closed. In the above discussion on risk, it has been noted that countries where there are high risks for private investment, one option is simply to encourage the private sector to adopt a different risk-reward ratio. The key challenge remains to persuade investors to accept limited rewards while the markets are being developed, with the prospect that as these economies grow, they will be able to receive higher returns later.

A more immediate mechanism which has the potential to overcome the high risks associated with investing in middle and low-income countries is so-called “blended finance” mechanisms. This involves the strategic use of development finance including philanthropic sources to mobilize private capital flows to middle and low-income countries. Development sources already provide supporting mechanisms in projects in countries to attract and support private sector investors by managing their risks and reducing the project's transaction costs.

Thus, blended finance can overcome the various barriers existing in such countries that significantly add to risks and can achieve real development impact. It can provide parties engaged in promoting development with significant benefits:

- Leverage: Use of development finance and philanthropic funds to attract private capital;
- Impact: Increase the number of investments that drive social, environmental and economic progress; and
- Returns: for private investors in line with market expectations based on perceived risk.

Impact investing reflects investor’s desire to generate new values (i.e. social, environmental, cultural) as well as achieve financial return. Impact investment can be a valuable funding source to finance the needs of low and middle-income countries or for products and services aimed at vulnerable communities. So-called impact investment financial instruments which raise funds for investment in social or environmental programmes are proliferating (e.g. Social Impact Bonds, Green Bonds). They target investors that are worried about integrating social and environmental concerns into their investment decisions. While they ensure a safe return to investors (many are backed by donors or multilateral banks), they can also help investors identify sustainable projects or products.

The fact that impact investing is growing and has the potential of becoming a new industry bears witness to the fact that not just governments and philanthropic organizations should contribute to solving to global challenges, but also the private sector and private individuals have a role to play. To date, specific sectors are benefiting, such as for example affordable housing, education services, and sustainable energy. As a source of capital, the supply is estimated to grow.[39] Considerable growth in funds around the world has occurred even in traditional financial centres, fuelled by a desire by clients to use their investments to create sustainable development impact.

Principle 10: Avoid debt traps by ensuring the fiscal sustainability of PPPs for the SDGs and the transparency of fiscal policies

Myth: PPPs lead to "debt traps" especially in low-income countries.

However, a prudent and informed use of the PPP model as well as transparent fiscal policies are the ways to avoid the undesirable consequences of long-term lending in projects.

Challenge 10.1 – Lending to low and middle-income countries

Private financing necessarily means debt for the concerned government as such financing will always have to be repaid. Thus, even benefiting from private financing, governments still face the challenge of the "funding gap". They still need to establish and clarify the funding and budgetary sources of the required repayments to the private partner financing a PPP. Mobilizing private financing for public infrastructure investments requires governments to give attention to the sustainability of their budgets. This is to prevent creating unintended and hidden public debt (off-balance sheet).

If the funding and/or financing of the projects involves a subsidy from the state, the size of the subsidy, support, and guarantees should be known to the citizens, prior to commercial close. PPP transactions create obligations of payment and contingent liabilities by a public-sector body over projects sums that are often significant, which considerably exceeds the duration of any political cycle. It can also involve the distribution and pledging of support of public funds, and the full faith and credit of the government to a private sector partner that can have a significant impact on not just the current generation but the future financial obligations of taxpayers.

Funding and financial transparency includes exposing the assumptions upon which project assessments are based upon and the level of certainty of those assumptions. This includes clearly stating the assumptions for demand and increases in user charges over the life of the project. Most importantly funding and financial transparency includes transparency for the contingency provisions and processes included for change and contract renegotiation.

Recommendation

PPPs must therefore be structured in a way making sure that guarantees, subsidies, profits, contingent liabilities or payment obligations do not unduly overwhelm the sectoral or national budgets concerned;[40] and that they do not overburden public resources with excessive repayments over the life of the project(s).[41]

[39] In the next 20 years, 460 billionaires will hand down $2.1 trillion to their heirs - the size of India's GDP.

[40] Where for example one project is involved and which fails to cover a sufficient large percentage of the population with the services.

[41] PPPs are unlike traditional public projects where the financial burden is typically spread across the overall budget and debt capacity of the government, instead PPPs are individualized obligations and recurrent for the duration of the project. Some argue "user pay" projects, where financing is based on revenues from usage, are a safer approach because the financial underpinning is based on those who use the project rather than taxpayers. However, it has to be kept in mind that if the business model of the private partner fails the public partner will have to bear the responsibility for the continuation of the service provision.

Since PPPs are contractual arrangements, contractual provisions that foster funding and financing responsibility and accountability can easily be incorporated into agreements and made minimum requirements of bidding and partnering with the government. Such a contract might contain, among other things, the following commitments to:

(i). Engage with all relevant stakeholders in projects with respect to funding and financial impacts;

(ii). Clearly identify funding and financing assumptions early in the process and monitor their performance, accuracy, and viability over time;

(iii). Protect the public budget and public interests of communities affected or users;

(iv). Minimize negative funding or financing impacts of projects;

(v). Act with fiscal and financial integrity and in an open and transparent manner; and

(vi). Adhere to agreed transparency and disclosure guidelines.

Commentary

Minimize public debt and hidden liabilities.

The shift to PPPs for the SDGs requires that PPP projects and programmes shall not give rise to unintended and hidden public debt and liabilities, especially in developing countries and emerging markets. Furthermore, the huge needs of achieving the SDGs and the related effort to generate private financing to fill that gap through PPPs, will increase the long-term funding and fiscal obligations of governments and could burden future generations further. Care must therefore be taken to ensure PPP funding is sustainable and not stressing public budgets.

Disclosing relevant information on projects

One of the critical challenges concerns the degree to which governments have taken on funding responsibilities and burdens in terms of debt repayments as well as the contingent liabilities surrounding the guarantees which governments are often required to make to the private partner. Obscurity with regards to the impact of PPP finance on State finance has led to accusations that governments may be using PPP to "conceal public borrowing".[42] Lack of transparency may increase the chances of corruption, as many projects have suffered because the private entity pays extra fees to governments to win the contract.

Fiscal sustainability also involves informing the citizens about budgetary impact of PPPs

It is important that the public has access to information concerning to what extent the government will be forced to make repayments on the loans and financial commitments of PPPs, which often involve disbursements over many years, sometimes as many as 20 or 30 years. Some critics have suggested that such relationships and long-standing obligations heightens the obligation of governments to disclose the impact of these deals (over and above what would normally be disclosed) and take care in assessing the budgetary impact and fiscal implications. This calls for raising the level of care, assessment, disclosure, and accountability that a government would typically have for the welfare of its own citizens.

[42] This lack of transparency over the funding and debt obligations has fuelled the campaign of NGOs to raise alarm bells on the inherent risks contained in such arrangements, as well as to argue that PPP is in fact a very expensive and ineffective way of delivering infrastructures. Please see an example: https://www.world-psi.org/sites/default/files/rapport_eng_56pages_a4_lr.pdf.