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Promoting People-First Public-Private Partnerships (PPPs) for the Belt and Road Initiative and the United Nations Sustainable Development Goals (SDGs)

Note by the secretariat

On 14 May 2017, the UNECE and the Government of China signed a Memorandum of Understanding to support member States along the Belt and Road initiative with their PPP development. This capacity building initiative is composed of three pillars, namely:

- (i) a policy dialogue to improve cooperation among the participating countries;
- (ii) a comprehensive PPP national capacity building programme; and
- (iii) the identification of transformative projects that can be scaled up and replicated in other countries

The proposed capacity building initiative and the three pillars are further elaborated in this document.

The Committee is requested to take note of:

- (i) the Memorandum of Understanding signed between the UNECE and China in May 2017;
- (ii) the three pillars that form the basis of this capacity building initiative for the benefit of the member States; and
- (iii) the interest signaled by a number of member States – Belarus, Kyrgyzstan, Tajikistan, Ukraine and Uzbekistan – at the first session of the Working Party on PPPs in November 2017 to benefit from the capacity building programme.

I. Introduction

The following sets out the rationale, goals and objectives, actions, milestones and deliverables for a broad based, strongly targeted and high-level capacity building programme that will be carried out by the UNECE, along with other partners, to give effect

to the Memorandum of Understanding concluded between the UNECE and the National Development and Reform Commission of China on 14 May 2017.

Close links between the UN 2030 Development Agenda and the B&R initiative

Already the B&R initiative is having a strong impact.¹ The total trade between China and other B&R countries has already increased to more than USD 3 trillion from 2014 to 2016, and China's investment in those countries has surpassed USD 50 billion. However, the goals of recreating the Old Silk Road and a new maritime road from scratch are very ambitious and wide ranging and more investment and many more infrastructure projects will have to be mobilized. In particular, the B&R calls for the building of 'a community of shared future for mankind' and is designed with some concrete priorities, such as on infrastructure, that have attracted a lot of attention from international stakeholders, including international organizations, development banks, governments, enterprises and investors, including those from private sector.

While the Belt and Road Initiative and the 2030 Agenda are different in their nature and scope, both have sustainable development as the overarching objective. Both strive to create opportunities, global public goods and win-win cooperation. And both aim to deepen "connectivity" across countries and regions: connectivity in infrastructure, trade, finance, policies and, perhaps most important of all, among peoples.

Antonio Guterres
United Nations Secretary General
Belt and Road Forum, Beijing, China, 14 May 2017

At the same time, the UN has announced the 2030 Development Agenda, a major programme of transformation with a huge price tag to close the infrastructure gap and achieve the UN SDGs. According to the OECD, USD 6.3 trillions of investment in infrastructure will be required annually on average between 2016 and 2030 to meet the development needs globally. An additional USD 0.6 trillion a year over the same period is required to make these investments climate compatible. Finance will thus be a key factor; capital must be mobilized from both public and private sectors (governments simply do not have the funding required for the scale of these ambitions) supported by new innovative financing schemes tuned to the UN 2030 Development agenda – People, Planet and Prosperity.

In this context, PPPs have been called for explicitly in SDG 17 as a mechanism for achieving success. PPPs have been quite successful in delivering projects on time and to budget. They are typically aimed at achieving value for money to the taxpayer. However, the UN 2030 Development Agenda calls for the elimination of poverty and a future for the planet that is safe and sustainable. These have not been figured largely amongst the objectives to date for PPP. Thus, there is a gathering consensus that something of a rebranding and reworking of the PPP model will be required to make PPP 'fit for purpose' for the UN SDGs. Specifically, social and environmental standards and debt sustainability will need to be incorporated into a broadening of the PPP model.

The UNECE has termed the type of projects needed as 'people first' – transformative, inclusive, improving access to essential services, fully engaged with the communities it

¹ It aims to rebuild the Silk Road Economic Belt, linking China with Europe through Central and Western Asia, and the 21st Century Maritime Silk Road, which connects China with Southeast Asian countries, Africa, and Europe. The B&R initiative currently encompasses:

- 65 countries
- 63% of the world's population (4.6 billion people)
- 55% of world's GNP

The SDGs highlight a People, Planet and Prosperity Agenda: the eradication of extreme poverty, the protection of the environment and the saving of the planet from the effects of climate change, and the building of dynamic prosperous economies for all - leaving no one behind.

seeks to serve throughout the life cycle of the project. It has furthermore launched a campaign to achieve 500 people first PPPs to sensitize both governments and the business community on these needs.

In both their different ways, the UN SDGs and the B&R touch on many common things: PPP and a focus on people first as well as a strong desire to make a better world for future generations and to initiate change which is impactful – trailblazing, ground breaking and world changing. Indeed, the UN Secretary General himself referred to the similarities between the two in his speech to the Belt and Road Forum in Beijing on 14 May 2017.

Achieving a ‘win win’ for all participating countries

In the UNECE region and beyond, many countries have now signed bilateral agreements with China on their B&R initiative. These countries need new infrastructure and better services and are looking to do this rapidly avoiding long delays and piecemeal approaches. Indeed indisputably, the B&R initiative is huge and the investment generated for the accomplishment of the initiative can lead to a ‘win-win’ both for the originators of the initiative, which will increase its trade and investment, as well as the beneficiary countries in Europe, Asia, Africa and South America. It is a ‘win’ in another sense as well: it can bring together the financial strength of China on the one hand and Europe’s and others’ commitment to strong social and environmental values in the ways infrastructure projects are developed and implemented.

Yet it is easy to state the ‘win – win’ mantra, far more difficult in practice to bring it to fruition. Several challenges will need to be addressed to achieve the results on the ground. Countries will have to come together to discuss implementation and removing barriers especially to the cross-border projects that will be needed; non-state actors’ needs will also have to be addressed. Accordingly, the proposed project both seeks to identify these challenges and overcome them.

Some challenges

The B&R initiative **however** also needs to address several challenges if this ‘win-win’ is to materialise:

- There has been to date a lack of discussion on what might be termed the common ‘rules of the game’ under which projects will be implemented. What are the principles under which projects will be designed, partners selected and projects managed? Such rules refer to, for example, the procurement arrangements, the environmental standards to follow, the social practices of the project and its engagement with local communities etc. and so on. It is important that such practices are based on best practices and good governance – transparency, level playing fields and a zero tolerance approach to corruption.

Risk and Challenge for China

The B&R is the inevitable logic of all-round opening to the outside world; it is also the inevitable trend of civilized renaissance, and also it is the inevitable requirement of inclusive globalization, which indicates the positional change of China from participating globalization to shaping globalization. The B&R is China proposed a great initiative and international cooperation in public goods, both facing a full range of open opportunities, peripheral diplomatic opportunities, regional cooperation opportunities, global development opportunities, but also faced with geopolitical risk, security risks, economic risks, Moral Hazard and legal risk.²

² Wang yiwei 王义桅, <“Belt and Road”: Opportunities and Challenges>, edit on April 2015

- There is a need in these and other respects to promote to the greatest extent possible, **the promotion, standardization and harmonization of such practices** amongst participating countries in the B&R initiative and thus avoid the high transaction costs and higher risks of undertaking transnational infrastructure projects.³
- A second challenge concerns the participating **countries' lack of capacities to develop a pipeline of projects**. The infrastructure gap is also a knowledge gap. These skills are also lacking in middle and low income countries at the project level. Should companies undertaking an infrastructure project in B&R participating countries be expected to undertake the training of the employees within the project?
- A third challenge concerns the **connection** between the infrastructure projects planned, especially in transport, and the existing transport corridors that have been already approved by the pan European process. How to avoid any displacement that might be caused, even in the short term? How to connect these different corridors /routes projects to become even more transformational and impactful?
- Finally, many countries lack **suitable legal, regulatory and governance frameworks for PPPs**. In some cases, governments are distrustful of PPPs and there is a consequent lack of political will for PPPs. Moreover, the assumption that increased flows of investment in infrastructure will lead automatically to positive economic growth and economic integration, can be challenged; indeed, on the contrary the opposite can take place: instead of integration and economic growth, such flows could conceivably exacerbate the existing situation, leading to instability, rent seeking and corruption.

II. Goals and Objectives

Common Goals of the UN SDGs and the B&R initiative

The goals of the B&R Initiative are highly consistent with that of the Goal 17 of the UN SDGs: “Countries along the Belt and Road have their own resource advantages and their economies are mutually complementary. Therefore, there is a great potential and space for cooperation. They should promote **policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds** as their five major goals.”⁴

Similarly, SDG 17, “Revitalize the global partnership for sustainable development”, sets targets in the fields of finance, technology, capacity building and trade, as well as systemic issues, including policy and institutional coherence.

UNECE's Comparative Advantage

Most of UNECE countries are involved in the B&R initiative. UNECE's experience on trans-boundary cooperation and regulation on many important fields could be meaningful for B&R Initiative. For example, in the area of “Unimpeded Trade”, UNECE has standards and regulation on Agricultural Quality, Trade Facilitation and Electronic Business, Regulatory Cooperation and Public-Private Partnerships.

³ For example, a rail project that crosses six countries, will involve six separate and different jurisdictions with their own laws not to mention six very different land acquisition procedures.

⁴ Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (2015/03/28)

Three pillars: a multilateral strategic framework

The strategy surrounding the three pillars is to create a multilateral framework, consisting of: cooperation around developing common guidelines and agreements; commitments to improve transparency and good governance; the creation of a project support to participating governments to enable them to bring their projects forward; and also a mechanism to increase their capacity to identify and deliver a pipeline of projects and in all aspects ensuring the involvement of civil society. This work will involve inter alia removing barriers to trade and to PPP projects, creating the right enabling conditions, including common regulatory standards, and developing innovative people first and People-to-People PPP projects.

Pillar 1 is the Policy Dialogue. This will be a regular meeting and platform for all B&R participating countries to address the specific challenges for B&R and success in achieving the UN SDGs.

Pillar 2 is a comprehensive PPP National Capacity Building programme focusing on building the governments' capacities in selected UNECE member States to deliver the right projects for success.

Pillar 3 is the identification of transformative projects in countries, and provide them with support to undertake the due diligence on the projects and act as the link with the organizations that will provide the funding for the projects.

Mobilizing the expertise and involving civil society

For each of these pillars to be successful, top-level expertise from various sectors and bodies will be needed. These would include financial specialists, PPP practitioners, representatives from academia, public and private sectors, civil society and consumer groups, will be invited to play an active part in the dialogue and the national capacity building programme.

Accordingly, it is proposed that the UNECE will reach out to some important partners with such expertise, including experts notably from the EBRD, the EIB, the AIIB, the ADB, the Global Infrastructure Hub of the G20, the World Economic Forum and the OECD.

Of course, there is no need to reinvent the wheel. Already a considerable degree of PPP knowledge and expertise has been gathered. There exists already for example PPP best practices in many fields housed in the World Bank's PPP Knowledge Lab (to which UNECE is a partner) and the UNECE-affiliated PPP Centres of Excellence (e.g. the one in France on Law, Policy and Institutions) to develop agreed new standards of knowledge for policymakers at both national and local levels in pursuit of the UN SDGs.

III. Actions

Pillar 1: Policy Dialogue

Generally speaking, the B&R Initiative has captured global attention and has generated high expectations. At the same time, there is often:

- A degree of misunderstanding over the precise 'rules of the game' under which projects will be selected and implemented;
- A need to adopt a clear commitment to a high level of transparency and good governance by all countries to avoid corruption and rent seeking as these projects start to come on stream;
- A need for agreement by countries to harmonize practices around best practices in trade and transport facilitation;

- A need by which governments will also improve their negotiation skills and understanding given, typically, the size and expertise of the private sector in such discussions; and
- Finally and critically, the environment needs to be protected in the projects, how existing UNECE environmental conventions can be applied to these new projects; and how all stakeholders can fully participate in the design of such projects.

These issues, and others to come, will be discussed in a Policy Dialogue – a mechanism by which experts from both public and private sectors, governments, international organizations and the multilateral banks can come together and discuss frankly these issues, resulting in a common understanding on the ways forward. The Policy Dialogue will become integrated in existing annual initiatives, such as the UNECE International PPP Forum. The following tentatively are the proposed work streams for the Policy Dialogue:

Work Stream 1 - Promoting open, fair, transparent and sustainable procurement practices

- Creating a level playing field;
- Implementing a zero tolerance approach to corruption in procurement;
- Promoting ‘sustainable procurement’ in terms of supporting bids for local entities, SMEs etc.;
- Providing clear legal regulatory regimes; and
- Setting common standards for procuring projects

Work Stream 2 - Encouraging common standards and harmonized approaches to project development and implementation

- Trade facilitation measures that speed up customs and overcome bureaucracy;
- Land acquisition procedures;
- Cross border trade rules; and
- Cutting transaction costs through better converging practices.

Work Stream 3 - Negotiating good deals and fair risk allocation

- Good contractual provisions and standardized templates;
- Bridging asymmetries of information between the parties;
- Balanced-risk shared by both parties;
- Fiscal sustainability: ensuring that the debt burden is supported by the revenues generated by the project; and
- Common contractual provisions that build trust between parties.

Work Stream 4 – Increasing the Sustainability of Projects

- Environmental impact assessments;
- Ensuring civil society involvement and all stakeholders in the design and rollout of projects; and
- Protecting the environment as key project outputs.

Work Stream 5 - Empowering women in transformative people-first PPP

- Setting up practical programmes to empower women;
- Promoting women-led companies as suppliers to PPP projects;

- Achieving greater women's leadership within the construction sector;
- Establish Centres of Excellence on women's empowerment in PPP; and
- Responsibilities of the private sector.

Format of discussion/ dialogue over two days:

The Forum will be organized in the following format:

- Discussion will be 'Davos style' (discourage the use of long Power Points, stress on interaction etc.);
- Participants will be encouraged not to make prepared statements or long presentations;
- Every participant is invited to play their role both as a holder of knowledge and as a learner of new knowledge;
- Discussions take place under the independence and neutrality of the United Nations;
- Discussions are designed to achieve consensus and convergence on recommendations, tools and collective knowledge for advancing the UN SDGs and other major infrastructure initiatives, such as the B&R; and
- Each work stream will be co-chaired: the overall policy dialogue will be chaired by a small steering committee made up of four countries that will invite experts to participate as appropriate.

Impact

Enhanced cooperation and commitment of participating countries to accomplish the UN SDGs and advance major infrastructure initiatives, such as the B&R.

Pillar 2: PPP National Capacity Building programmes

The goal is to continually develop the skills within governments, especially their PPP units, to deliver pipelines of projects. There is currently an asymmetry of information and expertise between the public and private sectors in PPP and this has to be addressed by using innovative capacity building approaches. Following a successful PPP capacity building project in Belarus, it is suggested to use a 'learning', project-focused approach which involves only the direct participants in the project within governments and who have the incentives to deliver. The idea furthermore is to use one or several 'people first' transformative projects as the basis (see below) for the capacity building to be undertaken.

Accordingly, the goals are to improve their legal and regulatory framework to be better prepared to attract investment into public services and infrastructure; and to identify the actual projects that could be developed as PPPs.

Eligibility

It is proposed to undertake the capacity building in those countries which:

- Express a demand to participate in the capacity building
- Commit to the UNECE guiding principles on PPP in good governance and Zero Tolerance to Corruption
- Demonstrate readiness to cooperate and provide full information e.g. on PPP legislation and regulation

Pillar 3: Implementing infrastructure projects

Projects identified during the capacity building and policy advisory work in countries must be transformative and **'people first'**. Yes, it is important to build roads; but these roads should also help communities by-passed by the large infrastructure projects to be inserted into the global supply chains. Moreover, the scale and scope of the programme is tremendous and needed. At the same time there needs to be a focus not just on the mega projects but also on the SMEs and on groups who need to be empowered within such projects such as women.

Initially, the goal should be to develop some flagship projects which have the transformational impacts, are targeting essential services for the economically and socially vulnerable in low and middle income countries and can provide local jobs and empower women. Later on, the challenge will be for governments to take such projects forward. In such circumstances, the UNECE will assist participating countries to, inter alia:

- Prepare due diligence and test market interest;
- Identify appropriate funders for the feasibility studies; and
- Identify long term financing for the project to go ahead.

It should of course be noted that the UNECE is not mandated to seek funding for projects but its international partners are. As it has done in the past, the UNECE can pass on the projects it identified in its capacity building and policy advisory work to the multilateral development banks, such as the EBRD and the AIIB: the cooperation arrangement has worked well between the UNECE and for example the EBRD and the IFC (World Bank Group) in the recent past.

Impact

- The development and launching of concrete transformative projects that can deliver on the UN SDGs;
- The identification of funding sources for the feasibility studies and the projects themselves.

IV. Sustainability

How to ensure the sustainability of the project beyond the funding period (2018-2022) within the three pillars?

Pillar 1 – policy dialogue: the project will ensure that the policy dialogue is fully integrated into existing UNECE PPP activities (such as the International PPP Forums) in order to ensure its sustainability beyond the duration of the project.

Pillar 2 – capacity building programme: the project will ensure that the training to public sector officials involved in the PPP process (PPP units, focal points in line ministries and regional/municipal offices etc.) throughout the project will ensure that the institutions are fully functional and endowed with the technical skills and empowerment to take strategic decisions independently. The project will also ensure that any work on the legal and regulatory framework lead to the enactment of new/improved legislation or the coming into force of new/improved PPP administrative provisions.

Pillar 3 – Implementation of infrastructure projects: once infrastructure projects have been identified in countries, there is a need to identify funding sources to do the pre-feasibility and the feasibility studies to ensure that they progress to the procurement stage and financial close. The project will make the link between the 'up stream' UNECE work and the 'down-stream' involvement of the MDBs to ensure the projects' sustainability.