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Working Party on Public-Private Partnerships**Third session**

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Item 4 of the provisional agenda

**Review of the work since the second session of the Working Party on Public-Private Partnerships
on 20-21 November 2018****People-first Project Facilitation Hub****Note by the Secretariat***Background*

This document contains a proposal to establish a People-first Project Facilitation Hub to promote the development of pipelines of People-first PPP projects in low- and middle-income countries.

This proposal will be presented and discussed at the third session of the Working Party on Public-Private Partnerships, under item 3 of the provisional agenda. Under agenda 4, the Working Party is requested to take note of this proposal and, under agenda item 5 is requested to:

- (i) Request the secretariat to explore the possibility of the setting up of the People-first Project Facilitation Hub in cooperation with the Multilateral Development Banks and the possible role of the UNECE as facilitator vis-à-vis government users; and
- (ii) Set up an informal group of experts under the leadership of Jean-Patrick Marquet to work closer with the Bureau, the secretariat and core experts with a view of formulating a proposal with the Bureau on a way forward for consideration by member States.

The secretariat wishes to express its gratitude to Jean-Patrick Marquet, Alexander Bazhenov and Anand Chikplunkar for their comments on an earlier version of this concept note.

I. Introduction

The adoption in 2015 of the 2030 Agenda for Sustainable Development requires a radically new and effective project delivery system within low-income countries to achieve the Sustainable Development Goals (SDGs). Yet the Governments' own capacity to deliver effective projects in infrastructure and public services, is rather weak. Public-Private Partnership (PPP) has been identified in SDG 17 as a preferred vehicle for implementation given the lack of resources of Governments; yet the PPP model is complicated and time consuming - and experiences as many failures as successes.

The following sets out the rationale and initial reflections on the setting up of a 'People-first' Project Facilitation hub to address this weakness within Governments. It is done both to encourage discussion and comments as well as sponsors and supporters of the Hub. It is hoped that the Hub will eventually become a major platform that can attract members from different stakeholder communities (e.g. Governments, private sector etc.) and with a global spread.

The United Nations Economic Commission for Europe (UNECE) has fully understood the weakness of traditional PPP and pioneered a new model – people-first – arguing that for this to become mainstream, there is a need for wider communities such as the multilateral development banks to become involved. The UNECE is not a bank but it can be instrumental in persuading Governments and other stakeholders to design projects in accordance with global standards to shape infrastructure in line with the world's pressing need for environmental, social and governance improvements. The UNECE moreover, is eager to use the Hub to help implement its standards for People-first PPP including its Standard on a Zero Tolerance Approach to Corruption in PPP Procurement (2018) and a European Bank for Reconstruction and Development (EBRD) – UNECE People-first PPP Model law (2019).

While it is ambitious, there is a real urgency – given the time determinate nature of the 2030 Agenda for Sustainable Development – to enable Governments to develop a pipeline of high-quality infrastructure projects at the level of governments, especially from low income countries and to ensure that such projects are consistent with the SDGs. The following is a preliminary concept note, prior to the submission of a more detailed proposal, for the initiative and is organised as follows:

- i. Proposal
- ii. Challenges
- iii. Guiding principles
- iv. Objectives
- v. Role
- vi. Managers
- vii. Funding
- viii. Governance
- ix. Conclusion
- x. Next steps

II. Proposal

Need for a new initiative to keep the SDGs on track

The SDGs require a step change in project development: the hugely ambitious programme requires massive new investments in infrastructure and public services, especially in low income countries and to a very ambitious timeline: namely to achieve universal access to power and electricity; to health care, to water and sanitation, to education and to Information Technologies by 2030. Given the public sector's own lack of resources, Public-Private Partnerships are high on the agenda of many Governments.

And almost five years into the 2030 Agenda for Sustainable Development there is an urgent need to step up the pace. The United Nations Secretary-General will shortly announce the UN Decade of Action to get the SDGs over the line and has called for new forms of inclusive partnerships with different stakeholders, the private sector, civil society etc. In the area of PPP, it is very important for both sides – the UN and the Multilateral Development Banks (MDBs) – to develop a strong partnership: the UN working upstream in the planning of 'fit for purpose' projects contributing to the SDGs and the MDBs working downstream in the due diligence and in the execution of projects and their financing.

The Hub should address head on the perennial challenge in PPP development, namely that Governments lack the capability to identify and procure priority projects in order to meet the SDGs. In parallel to this weakness, there are often inadequate enabling environments in many low-income countries – indeed in precisely the countries most in need of high-quality 'People-first' PPPs.

In addition, by making the UNECE PPP standards as a benchmark for the beneficiary countries to follow, the Hub, as mentioned above, can play a very useful role in the implementation of UNECE standards as well as the guidance and best practice of participating MDBs. Furthermore, UNECE has established strong partnerships with other agencies who are ready to help: For example, the Sustainable Infrastructure Foundation (SIF) – an MDB funded programme on capacity building in PPP – is cooperating with UNECE on the development of an evaluation methodology for People-first PPPs and in this regard will have a role to play in the proposed Hub. Accordingly, it is proposed that the Project should itself be based on strong partnerships with experts from other international bodies.

The proposal in a nutshell

It is proposed to establish a Project Facilitation Hub (called People-first Project Facilitation Hub) that will consist of both a Fund – located possibly at an MDB – and a facilitation entity. It should be demand-driven: Governments would submit their project to the Hub and support would be given first to make the project bankable and then to offer finance for the project. Enabling environments within the countries would be checked in order to remove obstacles and Governments would be expected to take serious steps to implement best practices standards of both the UNECE and the MDBs.

The Hub would supplement the UNECE Working Party on Public-Private Partnerships providing a platform and a role for its different activities, its standards, its capacity building and the various UNECE-affiliated International PPP Specialist Centres of Excellence, in Policies, Laws and Institutions, Smart and Sustainable Cities and others.

Box 1. The People-first approach to PPP

There is a critical need for a new approach to Public-Private Partnerships (PPPs) which is more compliant with the Sustainable Development Goals (SDGs). PPP traditionally has been used by developed countries as a tool for achieving 'value for money' for taxpayers versus traditional public procurement. This is useful of course but is not part of the transformative agenda of the SDGs with its focus on *inter alia*, poverty eradication, climate change, women's empowerment etc.

The People-first approach to PPPs is a broader concept that covers not just for ‘value for money’ but also ‘value for people’ and ‘value for the planet’.¹ Accordingly, the Hub would focus its attention on delivering People-first PPPs.

III. Challenges

Of course, even if there is a strong rationale for the creation of such a Hub, its setting up presents a lot of challenges. The **first challenge** is defining the nature of the Hub: Is it a Special Fund or something else? For example, a Special Fund offering technical assistance funding to help prepare ‘fit for purpose’ projects (i.e. complimentary to the MDBs own Project Preparation Facilities) or taking on more operational responsibilities preparing projects on behalf of stakeholders?

The second **challenge** when dealing with the finance invested in the Hub’s fund – if the Hub sets up as well a Fund – is to make projects economically viable. It should be recalled as stated that some MDBs have set up their PPP project preparation facilities (PPFs) with an objective to recover costs with a view to making the PPFs “revolving” (the money invested upfront from budget and donor funds ought to be repaid by successful PPPs including success fees so as to offset money sunk in those PPPs that fail along the way). It is often difficult to operationalise as governments are rarely able to repay preparation costs even where tender succeeds and it is also challenging to get the winning bidder to repay the preparation costs and success fees.

The third **challenge** is to find a professional manager of the Fund or Hub. One issue here is making sure that the managers really are ‘on board’ with the concept of ‘people-first’ and the SGDs. Professional managers are usually partnering with industrial sponsors or construction companies that need to manage conflicting agendas in their sustainability thinking than fund managers who rely on Environmental Social and Governance (ESG) conscious investors such as pension funds or insurance companies.²

The fourth **challenge** is the governance of the entity. Here there are many issues, one of which is to avoid a conflict of interest and making sure that in managing projects those who are doing so have no commercial or other interest in the project they are supporting or if they are managing other funds, use the capital from these and invest in the projects that are developing in the Hub.

Finally, the last **challenge** is the risk that the People-first PPP model will not be integrated into the various interregional initiative thereby missing the opportunity. While the UNECE has signed a memorandum of understanding (MoU) with the National Development and Reform Commission (NDRC) of China to develop ten flagship projects, an international policy dialogue to develop the ‘rules of the game’ and national capacity building for People-first PPPs, after almost three years the project which would fit very well with the Hub has failed to receive the necessary resources (two staff).

The following sets out a concept that seeks to address these challenges and put in place a Hub that will support, with key stakeholders notably the MDBs, the 2030 Agenda for Sustainable Development.

¹ Indeed, projects which are “people-first” have five outcomes: access and equity, economic effectiveness including women’s empowerment; environmental sustainability and resilience; replicability and skills enhancement of hosting government authorities; and stakeholder engagement. People-first PPP requires a step change in projects development and the Hub will be charged to follow this approach in its strategic actions.

² It would be interesting to sound out some Fund managers on the idea.

IV. Guiding principles

People-first PPP is the right model to advance the SDGs...

It has been discussed for several years at UNECE where a consensus has emerged that People-first PPP should be used widely to transform societies in the spirit of the 2030 Agenda for Sustainable Development. Such a model has five outcomes: (i) improving access to critical services and achieving equity; (ii) environmental sustainability and resilience; (iii) economic effectiveness; (iv) replicability (training of host country officials); and (v) stakeholder engagement.

...and the projects the Hub will select to support will be People-first, addressing key SDG challenges and be transformative in nature.

The projects it will select and fund will have a programmatic dimension aiming at the 2030 Agenda for Sustainable Development. There is a need, for example, of successful projects that are going to address climate change and make infrastructure more resilient; focusing on the promotion of the circular economy and the rational use of natural resources and avoidance of waste. There is a need for projects moreover that can help food security and stop at the same time the wasteful throwing away of food in the supply chain

There is a need for cities where people can live in, affordable housing and green walk ways, and as car free as possible and with electric vehicles so that pollution stops to have the enormous toll on people's health. There is a need secure places where people also are not afraid to walk and where immigrants and refugees have peace and freedom to live their lives.

It will develop 10 projects per year and thus 50 People-first projects over a five-year period. Governments will be encouraged to submit project proposals to the Hub as well as representatives from the private sector.

The Hub will mainstream the People-first PPP model in Government policies in the business strategies of private companies and in cooperation with civil society and the MDBs...

It is important that the Hub works inclusively, recognizing that People-first PPPs are, by definition, also projects that should be delivered in an inclusive fashion, consulting with and engaging with all stakeholders. Concretely, the Hub will seek support from the following organizations and bodies and based on the principle that each contributes to the Hub what they are best at doing:

- The MDBs can play a critical role in project development because of their expertise and knowledge in good project selection and due diligence.
- The UN liaising/informing role vis a vis government and organizing the inter-governmental process of reporting.
- The private sector can contribute with case studies of People-first PPPs, resources, and bring considerable experience with projects.
- Civil society with special understanding of citizens' needs and the better modalities for having citizens' voices heard.

...following UNECE and MDBs' best practices and standards...

In designing the projects and in implementing these in specific countries, the Hub will rely on the MDBs' best practices and standards in project preparation and due diligence as well as UNECE standards. These will be used in drafting Request for Proposals (RFPs) for project preparatory works/designing governance structure for the Special Purpose Vehicle (SPV). There will be efforts to dialogue with the international rating agencies to consider People-

first PPP compliance as a driver to decrease project political risk /make the project at par with sovereign rating. There should be training/awareness raising events and discussions by the UNECE in recruiting project sponsors/consultants on People-first PPP compliance requirements.

...and with a focus on low income countries.

The low-income countries tend to have the most difficulties in undertaking PPP while they are also the ones that most needs People-first PPP impacts in their economies. Like ‘climbing on the shoulders’ of Giants, the Hub will enable such countries to get a better view of the way forward. Working with the Hub, they will be able to see more clearly the path ahead, their policy actions to achieve the SDGs and to arrive at a better place where the ‘promised land’ of People, Planet and Prosperity adopted by the UN can become a reality.

This also means taking account of the experiences and knowledge of the participating countries themselves and learning from them. This contribution can make the Hub grow bigger and more effective. Learning should be a two-way process.

Moreover, the Hub will assist the countries to learn and grow so that they can operate by themselves on their own two feet. The Hub does not take the place of Governments in the project design and delivery; rather it works with Governments so that the latter can learn better, and next time undertake People-first projects themselves.

The Hub will support only projects that meet the stress/evaluation test for People-first ...

Each project would need to state their intention to pass the People-first test as a prerequisite to access funding. the funding would be used to design the projects in keeping with the People-first PPP principles and would ultimately be rated with a score. Achieving a score that qualifies as being People-first means satisfactorily meeting the following desired outcomes (i) access and equity; (ii) environmental sustainability and resilience; (iii) economic effectiveness; (iv) replicability (training of host country officials); and (v) stakeholder engagement.

...focusing on projects both *ex facto* and *ex ante*...

This test will be done through a Project Impact Assessment Tool currently being finalized by the UNECE. Such a tool not only acts as a filter for selection purposes, it also performs the goal of rehabilitation: projects not making the grade can still be re-evaluated once the weaknesses noted in its evaluation have been rectified.

...creating a data base of People-first PPP projects and new People-first indicators to measure the performance of the member States in using PPP to achieve the SDGs...

The goal will be to replace the current quantum of investment capital generated in PPP as an indicator with the number of People-first PPP model undertaken, to become the indicator for the performance of Governments in implementing the PPP recommendation in SDG 17.

...and even eventually becoming a Body to monitor compliance with SDG 17 and PPP and...

With the support from member States and the MDBs and especially the World Bank, the Hub could take the responsibility for the monitoring of compliance with SDG 17 and PPP. This process could become more valuable by using People-first models as an indicator of success and performance. The Hub would therefore take on the responsibility for keeping a database of projects and report annually on the number of projects, their geographical spread and their sectoral allocation.

Box 2. Has the UNECE PPP programme a mandate to set up a Project facilitation Hub that may involve the creation of a People-first PPP Fund?

The UNECE has a clear mandate to prepare international standards on People-first PPP and to encourage their implementation by Governments and other stakeholders.

To benefit from the Hub' services, countries would need to demonstrate willingness to implement some standards, e.g. the UNECE Standard on a Zero Tolerance Approach to Corruption in Public-Private Partnerships Procurement. So far as the Hub would make such best practices a condition for supporting projects, then the UNECE in its role to encourage the use of its standards, does have a mandate.

The UNECE would have no role in the Fund; this would be the responsibility of the partnering MDB.

V. Objectives

The Hub will have the following main objectives:

- (i) Create (and participate in) pilot People-first PPP projects in the participating countries.
- (ii) Increase affordability of People-first PPPs so that they can properly comply with the above-mentioned People-first outcomes.
- (iii) Build the capacity of governments to develop a pipeline of People-first projects.
- (iv) Ensure People-first PPP compliance is reflected in project risk assessment guidelines of international/national rating agencies.
- (v) Learn lessons, draw up policy recommendations on the necessary actions to improve the performance of national development policy achieving the SDGs.
- (vi) Help coordinate the policies/objectives of international development institutions for the country/cross border cooperation and inter regional development programmes.

VI. Role

The Hub will have a twofold and related role:

(i) Facilitation entity

The entity would respond to Governments and help them road test and design the project to make it bankable. It would have an advisory and project finance role explaining the requirements for project delivery and the changes in the enabling environment that would have to take place. An overview of the enabling environment may have to be done by a UNECE-affiliated International PPP Specialist Centres of Excellence for example.

The entity's key challenge will be to make the project People-first and still affordable to citizens.

One option is that the Hub would have both an advisory role and a proactive project development financing-seeking role. Such a venture capital type Hub would be restricted to finance project preparation and do the marketing of the projects to potential sponsors and financiers: it would not be a fully-fledged private equity PPP fund intended to invest in projects as shareholder for 20-30 years

A People-first PPP venture fund - private management company could be formed in cooperation with the UNECE Working Party on Public-Private Partnerships and professional an asset management company Partner. The Partner could assist in raising funds from private sources interested in developing infrastructure in the countries of operation/developing pipeline of projects in People-first PPP related industries, and to engage professional fund-raising agents.

(ii) A Fund

A specific People-first Infrastructure Fund would be established in line with models used by MDBs (funds contributed by donor community):

- (i) Its purpose would be to support the development of a pipeline of People-first PPPs contributing to the SDGs.
- (ii) Its focus would be emerging economies in the UNECE area (it might be best to start with a limited area and expand later) as well as countries suggested by the other UN Regional Commissions.
- (iii) Project origination: by UNECE, or the MDBs, or the donors.
- (iv) The use of proceeds could fund technical assistance for capacity building at beneficiary governments as well as project preparation for People-first PPPs.
- (v) The Fund could help project facilitation and implementation by the participating MDBs which could draw on the Hub Fund to provide technical assistance to countries with a view to creating a pipeline of projects.
- (vi) There would also be the commitment of participating MDBs to co-finance projects once prepared and tendered, subject to their policies and criteria.

VII. Managers

It is important that the Hub is a genuine multilateral partnership and in this spirit the project facilitation entity should not be staffed from a single country. Its staff can of course be selected using UN hiring practices for such purposes. One innovative suggestion – given the need that the staff should be of the highest quality with experience in project development – could be that the Hub is managed by an international consortium of international project management companies – with experts well versed in project design, development and delivery – from different countries. These officials that would work in the Hub could be selected by the companies themselves and the participating companies could initially be nominated by Governments on the basis that such nominated companies would meet the specifications set out in the work of the facilitation entity/Hub operating according to the Guiding principle mentioned above.

The MDBs participating in the Project Facilitation Hub could contribute to this selection process. The MDBs would also select the managers of the Fund in line with their own rules and procedures.

VIII. Governance

The Hub should operate under the umbrella of the UNECE Working Party on PPPs. The Bureau of the Working Party on PPPs along with the MDBs and the sponsors and supporters of the private sector and two representatives from civil society, will form the Governing Board of the Hub. The following other groups could also be established:

- (i) **Investment team** consisting of a central administration team dealing with asset management issues and connecting with local partners/sponsors for project origination.
- (ii) **Investment committee** made of PPP professionals (with involvement and recommendation from the UNECE Business Advisory Board) and investors into the Fund. Investment committee assembles for investment/divestment decisions. The Fund to cover administrative costs of assembling the investment committee.
- (iii) **Advisory committee** made of UNECE Working Party Public-Private Partnerships specialists with ad hoc involvement of the UNECE-affiliated International PPP Specialist Centres of Excellence. Advisory committee assembles for project policy reviews, recommendations, amendments to existing manuals. The Fund to cover administrative costs of assembling advisory committee

As stated, it is critical that the private sector is closely involved in the work of the Hub, contributing with its expertise and project knowledge to the design and development of People-first PPPs. The Hub however cannot work on behalf of any single company. The key is the creation of a level playing field with no favour to any one company. Only after there has been a competitive tender will the project be allowed to go forward.

IX. Funding

One of the main challenges facing this proposal, is finding the required funding for both the Fund (that will be operated under the auspices of the MDBs) and the Project Facilitation entity.

Such funding can come from donors to cover the seed money needed to get the Hub off the ground.

Then the Hub will facilitate the development of projects which in turn can add to the project portfolio of the private sector. Thus, the private sector with such an interest can also be approached to contribute with funding to this initiative with the provision that the Hub should:

- (i) ultimately be a multilateral undertaking – so funding from different countries' private sector should be sought;
- (ii) the core funding (beyond the seed money) will be sourced from multiple governments or other donors; and
- (iii) the operating principles will be in line with MDB standards (which would be obvious if the Hub is designed to leverage the effort of the MDBs).

X. Conclusion

In summary, the Hub, if successful, will be able to develop concrete transformative projects that will directly contribute to the SDGs and to significant inter regional programmes such as the G20, European Union Neighbourhood Programme or the Belt and Road Initiative. Its focus on project delivery will build the capacity of Governments especially low-income ones. While the number of projects envisaged is modest, there is considerable potential to scale up and add value. One way of doing this would be for the Hub to be affiliated to the various national PPP Units around the world. They can act as a conveyor belts to disseminate the projects that will be designed by the Hub.

Good governance is critical for the Hub and it is proposed that the Hub will be placed under the authority of the UNECE intergovernmental process, i.e. the Working Party on Public-Private Partnerships, whose Bureau becoming the members of the Board.³

The acid test of whether the Hub will be successful is the extent to which it is able to mobilise the private sector. They latter has the scope and scale of actions and experiences that can be a vital input into the development of the best practice models. And happily, there is every indication that they would like to adopt People-first PPP strategies and projects and bring their models to the attention of the Hub.

XI. Next steps

The UNECE will gather a select, geographically representative and inclusive group of experts under the leadership of Jean-Patrick Marquet to brainstorm around the concept of a Project Facilitation Hub and Fund designed to promote People-first PPPs in furtherance of the 2030 Agenda for Sustainable Development. The Hub and Fund will be initially discussed by a panel during session 2 of the third session of the UNECE Working Party on Public-Private Partnerships (3 December 2019, 15:00-16:30), and the brainstorming among the select group of experts would build on that panel discussion.

Key topics for discussion will be:

- (i) What institutions are currently doing to promote the Sustainable Development Goals in infrastructure?
- (ii) How could the UN-sponsored Hub and Fund complement existing efforts and leverage more investment behind People-first PPPs?
- (iii) Should the Fund be a grant-funded technical assistance fund accessible by governments and MDBs (Grant Fund) or take an operational role by investing in projects at design stage with a view to selling fully prepared projects at a profit to commercial sponsors (Venture Fund)?
- (iv) Could institutions envisage playing a role in the governance (as member), administration (as trustee or managing partner as the case may be) and/or funding (as donor or investor) of the Hub and Fund?

For reference, the panel discussion in session 2 of the Working Party will consider the following questions:

- (i) How would the two entities – a Fund and a Facilitating entity - work together?
- (ii) Where would the financing come from?
- (iii) How would key stakeholders partner with the Hub?
- (iv) How would the Hub manage to mitigate the risks of investing in low-income countries?
- (v) If making projects People-first entails such projects being more expensive, how can the Hub manage to still make the projects affordable in such high-risk countries?

³ The Bureau of the Working Party on PPPs is composed of representatives from the following countries: Belgium, Canada, China, France, Japan, Lebanon, Morocco, the Russian Federation, Switzerland, Tajikistan, Turkey, Uganda and the United States of America.