Draft

Guiding Principles on People-First Public-Private Partnerships (PPPs) for the United Nations Sustainable Development Goals (UN SDGs)

(3 May 2018)

Part II[1] - The 8 Guiding Principles for People-First PPPs in Support of the UN SDGs

Note by the Secretariat

1. The UNECE is currently elaborating the Guiding Principles on People-First Public-Private Partnerships (PPPs) for the UN Sustainable Development Goals (SDGs) as mandated by the Committee and the Working Party on Public-Private Partnerships, with the support of experts, Project Team leaders and International Specialist Centres.

2. A draft was submitted to the Working Party at its First Session in November 2017 and a revised version was presented at the Twelfth Session of the Committee on Innovation, Competitiveness and Public-Private Partnerships in 28 March 2018. This is a revised **unedited** version of Part II of the draft incorporating comments made since the Working Party Session and the Committee Session (See Acknowledgements).

3. The secretariat is exploring options for holding a special expert meeting devoted to the discussion on the Guiding Principles in the near future.

[1] Part I, which is an introduction to Part II, is available in a separate document.

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Introduction

The SDGs are a once in a lifetime opportunity for humanity to change the world for good requiring an economic development that is in fact multi-faceted, development that is:

- **Transformational**, in an international, global, game-changing sense
- **Inclusive**, ‘leaving no one behind’
- **Resilient**, adapting and mitigation the multiple challenges presented by climate change
- **Social**, as opposed to just economic infrastructure
- Moving from a linear to a **circular** economy, and fostering more rational and sustainable production and consumption patterns, and to reuse, recycle, and repurpose

Achieving such broad economic development objectives will require high increases in infrastructure spending. The public sector will not be able to meet the required quantum; hence the need for private finance alternatives.

Arguably just as important, the private sector should also be used as a source of innovative technologies, management and organizational skills and enhancing capabilities.

In light of these development objectives, PPPs should in turn be designed to achieve some <u>specific outcomes</u>:

- Increase access to essential services, lessen social inequality and injustice.
- Deliver resilient and sustainable infrastructure
- Be economically effective, bring transformational economic impact
- Be replicable and scalable, to allow the development of further projects
- Bring all stakeholders together in partnership and consult those affected

Defining People-first PPP

Yet, traditionally PPP has been a ‘value for money’ rationale function, the way forward now is to take PPPs from ‘value for money’ to initiatives that deliver “Value for People”.

Accordingly, a new definition of PPP is required:

“A People First Public Private Partnership is a long term contractual relationship between the public and private sector, where delivering value for people is the core objective, there is a commitment to serving and protecting the community, and the project is developed with the real interests of people in mind.”

People-first PPPs Outcomes

People-first PPPs deliver people centred outcomes:

Increase access to essential services and lessen social inequality and injustice;

- **Increasing access and equity**, means that *access* to essential services, such as water and sanitation, energy, etc. should be increased to people, especially to the socially and economically vulnerable.[2];

Enhance resilience and more care with the environment;

- **Developing a resilient infrastructure** and moving to a circular economy improving environmental sustainability, cutting CO2 emissions to move to a green economy and developing 'circular' not linear projects;

Improve economic effectiveness;

- **Demonstrating project economic effectiveness**: projects must be efficient, successful, achieve value for money and be transformative in that they have a measurable impact by removing economic barriers or creating new means for integrating groups into the global market place. Empowering women is a particularly important outcome to achieve here. Accordingly, PPPs should:
  - Enhance the role of women inside the companies undertaking PPPs and in the PPPs themselves;
  - Help women-led companies in the supply chain compete in tenders;
  - Make a difference in the communities where they do business - train young women to become the business leaders of the future;
  - Help women deal with the special challenges they face in their daily lives in the design and operational phase of projects.

Promote replicability and the development of further projects;

- **Be replicable and scalable so the particular projec**t or approach can be repeated and/or scaled up as needed to attract the investment and 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 the training and knowledge to do similar projects going forward; and

Fully involve all stakeholders in the projects.

- **Engaging all stakeholders** that are either directly involved in t PPP project or directly or indirectly affected in the short and/or long run, including in particular women and minorities.

[2] A good example of a pro-Poor PPP was the Pamir power project in East Tajikistan that regularly suffered power outages in a very poor region. Thanks to this project, this essential service was provided over a 24-hour period to all citizens, those who could not pay were subsidized. Furthermore, people-first PPPs should aim to promote social justice and making essential services accessible without restriction on any grounds, e.g. race, creed, etc. to all.

‘Value for People’

This new ‘Value for People’ means projects should address critical challenges facing humanity, fighting hunger, poverty, and promoting human wellbeing by increasing access to essential services, tackling a social agenda promoting social cohesion, overcoming inequalities, achieving gender equality and empowering women; and disavowing all forms of discrimination based on race, ethnicity, creed and culture. Projects should bring resilience into infrastructure and mitigate risks and adapt it for climate change; cut Co 2 emissions and take on the practices for the circular economy developing more sustainable production and consumption patterns.

It is based on a vision of PPP that is about improving the quality of life of communities, particularly those that are fighting poverty, such as by creating local sustainable jobs.

PPPs that are destined to achieve specific SDG outcomes like eliminating poverty (SDG 1); ending hunger (SDG 2); fostering good health and quality education (SDG 3 and 4); creating gender equality (SDG 5); delivering clean water, sanitation, affordable and clean energy (SDG 6 and 7); providing decent work and economic growth (SDG 8); delivering innovation in industry and infrastructure (SDG 9); reducing inequalities (SDG 10); building sustainable communities and responsible consumption and production patterns (SDGs 11 and 12); bringing climate action and improving life below water and on land (SDGs 13, 14, and 15); fostering peaceful, just, and strong institutions (SDG 16), and facilitating partnerships that deliver these outcomes (SDG 17).

Existing Guidance on PPPs

There is already considerable guidance on PPP available and accordingly it might be argued that there is no need for a new definition or a new way forward or a new set of Guiding Principles. But a cursory review of existing resource information will reveal, however, that much of the international guidance and resource material focuses on governments creating legal and regulatory frameworks, establishing institutions such as PPP Units, and understanding PPPs generally. While these remain important contributions to the collective discourse around PPPs, they do not strike a way forward.

For example, the International Monetary Fund issued some early guidance on PPPs with its 2006 publication Public-Private Partnerships, Government Guarantees and Fiscal Risk (2006); the World Bank has issued their Public-Private Partnership 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 EIB through its European PPP Expertise Centre (EPEC) issued The Guide to Guidance, How to Prepare, Procure, and Deliver PPP Projects (2011); and the Asian Development Bank (ADB) issued its Public-Private Partnership Handbook (2014).

Prior to the adoption of the SDGs some governance related guidelines were also promulgated, but again the materials focused largely on understanding PPPs, the concept of value for money, and generally uncovering what is necessary to have a ‘successful’ PPP -- hence there was little guidance on the social and developmental potential of PPPs.

The European Commission's Guidelines for Successful PPPs (2003), UNESCAP's A Guidebook on Public-Private Partnership in Infrastructure (2011), and OECD's Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money (2008) and Principles for Public Governance of Public-Private Partnerships (2012) all take this approach.

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 UN-DESA[3]. It found existing PPP materials were largely:

(i) Informative rather than normative;
(ii) Divergent rather than convergent, noting for example that multiple definitions of PPPs are used across the various resources;
(iii) Lacking in many sustainable development dimensions, instead for example, focusing heavily on commercial viability of PPPs with sporadic insight into how PPPs can generate public benefit and public good;
(iv) Too focused on ex ante success factors and unclear whether they have resulted in real outcomes and impact on the ground; and
(v) Simply not aligned with 2030 Agenda;

Call for new Guidelines

There is therefore a need for a strong, unified UN perspective on PPPs and the SDGs. Unified guidelines will assist policy makers in bringing about PPPs that will put people first and achieve the ambitious outcomes of the SDGs.

Para 48 of the Addis Ababa Action Agenda (AAAA) moreover echoes this need and calls for the promulgation of Guidelines for the appropriate structure and use of PPPs, in particular:

- Careful consideration given to the structure and use of blended finance instruments;
- Sharing risks and rewards fairly;
- Meeting social and environmental standards;
- Alignment with sustainable development, to ensure "sustainable, accessible, affordable and resilient quality infrastructure";
- Ensuring clear accountability mechanisms;
- Ensuring transparency, including in public procurement frameworks and contracts;
- Ensuring participation, particularly of local communities in decisions affecting their communities;
- Ensuring effective management, accounting, and budgeting for contingent liabilities, and debt sustainability;
- Alignment with national priorities and relevant principles of effective development cooperation.

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

The following Guiding Principles in support of People First PPPs are described in a preliminary fashion:

- **Projects and Action Plans**
- **Capacity Building**
- **Improving Legal frameworks for People-first PPPs**
- **Transparency and Accountability**
- **Risk and de-risking**
- **Procurement: Promoting, Value for People**
- **Resilience and Climate Change**
- **Innovative Financing: Impact Investing**

Principle Number 1 - Projects and Action Plans

Governments should develop 'People first 'Projects as part of a comprehensive, scaled-up transformative Programme of Action to help deliver the SDGs and the Paris Climate Agreement. They therefore will need to move from generally a project oriented, ad hoc approach to an integrated programme of people first projects following a strict policy framework (timelines, methods of delivery etc.).

Challenge

The challenge of delivering concrete projects tends Governments to overlook the prior drawing up of a Plan with clear policy objectives. The Sustainable Development Goals (SDGs) are indeed about delivering exceptional high valued projects; but also changing the world!

Solutions

Governments should develop a Policy Framework and an Action Plan: This should start with an overall assessment of needs; the identification of projects and the creation of a high level plan / policy and then the effective delivery of an Action Plan that utilize innovative PPP models and involve citizens at every stage. These plans, like the SDGs will need to recognise the interlinkages between the SDGs to ensure a solution in all areas does not cause a problem in another.

SDGs impacted

SDG 1. Poverty
SDG 2. Zero Hunger
SDG 3. Good health and well-being
SDG 4. Quality education
SDG 6. Clean water and sanitation
SDG 7. Affordable and clean energy
SDG 11. Sustainable cities and communities
SDG 12. Responsible consumption and production
SDG 14. Life below water
SDG 17. Partnerships for the goals

Myths addressed

A PPP is simply a contractual agreement between the public and private sectors; no policy is needed.

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Introduction - Definitions, context and challenges

The SDGs require a step-change in the levels of both public and private investment in all countries. At current levels of investment in SDG-relevant sectors, developing countries alone face an annual gap of $2.5 trillion. In developing countries, especially in Least Developed Countries (LDCs) and other vulnerable economies, public finances are central to investment in SDGs. However, they cannot meet all SDG-implied resource demands. The role of private sector investment will be indispensable. Today, moreover the participation of the private sector in investment in SDG-related sectors is relatively low. Only a fraction of the worldwide invested assets of banks, pension funds, insurers, foundations and endowments, as well as transnational corporations, is in SDG sectors. Their participation is even lower in developing countries, particularly the poorest ones.[4]

A. Needs and Assessment

(i) Infrastructure and economic growth

Economic growth and development critically depends on the quality of infrastructure (Information technology, energy, transport, health, etc…). Each aspect of the economy and its infrastructure are linked systemically. For example:

- Poor water quality increases the incidence of diseases and puts a strain on health services
- Inadequate transport systems puts extra costs on people getting to their jobs or on goods big brought to markets, with impacts on health as well, lowering overall economic productivity
- A low percentage of girls being educated to higher levels prevents girls joining the workforce in sufficient numbers , thereby stifling both their potential and their contribution to economic growth and prosperity

The SDGs look at infrastructure beyond its narrow economic focus, more than ‘bricks and mortar’. It has a huge social impact; it is about the quality of people’s lives, about the quality of water that children drink, the heating and lighting in the homes of the elderly; about the accessibility and affordability of these vital services to the vulnerable and poor, especially in low and medium income countries, land locked countries or in small island states.

(ii) SDGs - Global needs

Governments should undertake an assessment of the needs of their populations using as a starting point the UN SDGs. The latter in a comprehensive manner cover the commitments to close the infrastructure gap and address the massive shortages in services. PPP, including concessions, can be a means to provide infrastructure and improve service delivery and the following infrastructure areas are where PPPs can have a role to play:

- *Agriculture*
- *Food security and nutrition*
- *Education*

[4] UNCTAD World Investment Report 2014

- *Health (maternal and child)*
- *Energy*
- *Water supply and sanitation*
- *Transport*
- *Urban development*
- *Information and communication technologies*
- *Irrigation and drainage*
- *Water resources management*
- *Environment and disaster risk management*

The specific commitments Governments have made as it concerns infrastructure and where PPP might be used are referenced in the Annex to the Chapter.

(iii) SDGs - Sub-national and local needs

Bearing in mind the UN SDGs, the sub-national local needs should then be identified:

- By a detailed analysis of the society, the population (culture and religion, age and family structure, socio professional categories, household incomes etc.), and
- A careful review of the state of the existing infrastructures, and services that are used (traffic volume on the roads for instance, volume of water distribution)

(iv) Sustainable development

Projects impacts are all linked up and will need to be considered as to their overall contribution to sustainable development. Projects need to be transformational: : It is about impacts and outcomes rather than outputs and activities that go in to creation of an assets through policy frameworks and sector plans. It is not building a bridge or a road or a railway line; rather it is positioning them in ways that they will have positive impacts on local communities and vulnerable groups and on those living in regions that are located far from markets or the main conurbations. Equity considerations will have to govern how the decision making process and where projects should be built with sustainable development and climate change as the priority and not because of reasons of fulfilling political agendas, or at the behest of individual sponsors or private interests.

B. Setting the Policy, Developing the Sector Plan and Selecting the Projects

Following the needs assessment, governments now need to formulate their policies, develop sector plans and identify their projects.

(i) Starting a people-first PPP process

- ***Vision***

Governments will need, in keeping with what the UN SDGs and climate change seek to achieve, to set down their vision - thoughts and ideas - for where they wish to take their citizens. There needs to be a focus on the new opportunities for the young, the poor and the elderly and how the action plans will seek to generate these. This may include for example a more expansive and prosperous middle class with greater life chances and options for lifting the poor into this new stratum including providing good quality well paid jobs for all.[5]

- ***Policy***

Such a task should begin with the calculation of countries' available resources, derived from public sources such as taxation and the quantum required to be raised from other sources such as from the private sector as a benchmark, infrastructure services tend to be delivered in mature developed countries by the government, by the private sector where facilities such as water distribution have been privatized, or by a combination of public and private sectors working together in PPP.[6]

The Governments should design an overall policy framework of development that lay down clear principles and establishes a process to manage the emergent journey. The country should progressively review progress and set realistic targets and the means of achieving them that are aligned with progress achieved and changes in the environment. In all policy and planning, the country should make reference to SDGs and targets in all policy statements , sectoral stargazes and national plans and action plans. Such policy should include a bold infrastructure strategy guided by the SDGs, in which People first PPPs will be prominently featured. They should not aim to undermine the public sector but rather to help strengthen it.

(ii) Developing people-first PPP plans

- ***Designing sustainable national sector development plans***

Governments can at the same time prepare sustainable National Sector Development plans that *inter alia* list the infrastructure priority projects across different sectors: this exercise will need to use a systemic analysis and will require cooperation between different Ministries and involvement of national PPP units. Such infrastructure plans should be directly linked to SDG implementation given the pervasive influence of infrastructure in achieving many if not most of the SDGs (see Annex). Such sustainable national sector development plans should also include the elaboration of templates and methodologies used by local bodies that will be required to prioritize and deliver infrastructure services.

Governments will need to use their sustainable national sector development plans integrating the SDGs into a comprehensive action plan which will fix timelines, setting out what must be done based on all public and private funds available, identify innovative means of raising additional resources and define what can be done through different public-private partnership arrangements.

- ***Promoting local solutions***

While PPP units should be in charge of coordinating the overall national PPP policy, governments should have a decentralized approach to people-first PPPs and they should involve local communities to address sub-national and local infrastructure needs.

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[5] See Achieving a Sustainable Future , Government of Canada 2016-2019

[6] In some developing countries a considerable contribution to service delivery is made by NGOs, religious orders and institutions.

Also, while international company specialists and consulting companies produce good technical solutions, they can often come with high maintenance costs. Sub-national and local, easy to implement solutions drawing from local culture and prepared by local businesses and other relevant stakeholders often exist and should be used.

A balance of capital costs and operation and maintenance costs should be ascertained through life cycle costs of infrastructure provision.

Funding agencies and donors need to be careful not to impose technical and design solution that are expensive and that require high levels of specialist maintenance support from developed countries upon developing and fragile countries.

- ***Using cities as key players***

Cities provide an increasingly useful platform for creating new generation projects: cities are already the agents of change to address climate change challenges. They are at the front line as increasing and rapid urbanisation has created the problems of pollution, congestion and access to essential services. And they have an agglomeration effect bringing all the parties together- the business community, academia, consumers national governments in practical partnerships to solve these problems. They can be valuable as transmitters of partnership best practices to other cities as part of increasingly joined up cooperative national and international networks of cities.

- ***Mobilizing the private sector***

Simple maths will demonstrate that a financial shortfall of varying scales of magnitude will exist between the investment needs for infrastructure services to be addressed and the available resources. Accordingly, Governments will need to explore innovative financing schemes to meet these needs, chief of which should be the mobilisation of financing from the private sector. By all calculations, the infrastructure financing gap is enormous, especially in low and medium income countries.

- ***Mobilizing the NGO sector***

While NGOs provide many of the core services to poor and vulnerable people, they have not benefited from PPP. In many developing and fragile countries it will take considerable time for the countries to achieve a level of PPP readiness to attract substantive private sector funding. Government should focus on developing the Fourth Sector through development local NGOs into For-Benefit organisations that can attract funding from Impact Investing. Through developing a local Fourth Sector, countries will develop both capacity and capability in PPP that will attract the private sector to support future PPP projects.

(iii) Selecting people-first projects

- ***Project prioritization and feasibility***

Not everything can be done at once because of resource constraints and because of limited local and national capability: Governments will therefore require selecting the projects on the people first criteria of access and equity, environmental sustainability and resilience, economic effectiveness and transformation, replicability and stakeholder engagement. For larger projects, feasibility studies, environmental/sustainable development impact assessments and staged business cases should be completed.

- ***Small scale projects***

Nor should an emphasis be given to just large-scale , complex, transformational infrastructure projects. Such so called megaprojects have often come out over budget and/or behind schedule and once finished they deliver less than planned. By contrast, smaller, more people focused decentralized models that contain lower risk profiles, more local SME involvement, greater efficiency gains, higher value for money propositions, less public-sector risk and exposure, and most of all, scalable and replicable solutions, will be necessary. These can be clustered together, lowering the costs for their individual development.

C. An Action Plan for the Delivery of Effective Projects[7]

These are the action points to attract investment into infrastructure projects for the UNSDGS. These are critical if the UN SDGs are to be achieved.

(i) Designing projects and comprehensive action plans (principle 1)

- ***A powerful people-first project pipeline***

A new generation of investment projects is required to meet the needs and implement the SDGs. PPP units could develop specific strategies and innovative PPP models that could start projects with high social impacts and sustainable impacts such as in social housing, health, renewable energy and so on. The UNECE programme to create 500 people first PPPs should be the first step in a scaled up programme to raise awareness and achieve real results on the ground.

- ***National Sector Development plans for meeting national infrastructure needs***

Governments will need to use their sector development plans for national infrastructure requirements and integrate the SDGs into a comprehensive action plan which will fix timelines, set out what must be done based on the available resources and what can be done in a complementary manner by different public-private partnership arrangements to implement the sector development plans.

(ii) Mainstreaming/promoting the people-first PPP approach

Governments should integrate the people-first outcomes into their projects in order to make them contribute directly to the SDGs.

[7] Several suggestions in the Action Plan are taken from UNCTAD World Investment Report 2014

(iii) Participating in International regional mega infrastructure schemes

Orientating regional cooperation schemes - such as Belt & Road - towards increasing investments in SDG related sectors can be especially effective for cross border infrastructure development. This infrastructure mix can include economic large-scale transport projects – road and rail – or energy production and inter-connexion projects, but should also include projects to address social needs such as health facilities, social housing and water and sanitation. Governments should participate in consortiums of countries undertaking such regional development projects and formulating together common rules and procedures under which these projects operate.

(iv) Scaling up capacity building and institutional development (principle 2)

Governments will require to upscale the delivery of effective capacity building along with other organizations in other countries and in partnerships with the UN and the World Bank and other IFIs.

Governments need to improve both quantitatively and qualitatively the skills of their public officials and the supporting processes in order to deliver effective public investment including people-first PPPs. Capability development takes time and resources and is most effective when it includes mentoring and experiential learning from pilot PPP projects. This will require also strong institutions to support the funding and development of skills for effective implementation of these projects, including increased cooperation between PPP Units; local and national procurement bodies and investment promotional agencies.

(v) Undertaking legal reforms (principle 3)

Governments need to radically improve their legal frameworks in order to attract the scale of private investment required to meet the UN SDGs .

(vi) Ensuring a new risk/reward balance (principle 5)

Governments in low income and fragile countries will continue to have difficulty in attracting financiers. Government will have difficulty in persuading the private investors to take long-term perspectives in investing in infrastructure and accepting lower profits in the short-term. Achieving a robust level of PPP of Readiness in these countries will take time. Governments in these countries need to focus on pilot PPP projects that are supported by development banks to build capacity and to create confidence in financiers and the private sector in invest in future PPPs.

Also, governments especially in countries where investors are reluctant to go for various reasons, should implement new types of partnerships such as the Inverted Bid Model8 and Public NGO Partnerships9 that do not require a high level of PPP Readiness and that are designed to attract funding from Equity Investors and Impact Investing.

[8] http://www.industrysuperaustralia.com/assets/Reports/The-Inverted-Bid-Model-Final.pdf
[9]https://www.academia.edu/36521511/Complex_Program_Group_Fourth_Sector_Partnerships_Toolkit_Public_NGO_Partnerships_PNP_Toolkit_to_build_Fourth_Sector_Organisations_Effective_Capability_Development_Process

(vii) Establishing up an open procurement and level playing field system (principle 6)

Governments should set up a public procurement system to support public investment including people-first PPPs. That is projects which consider VfM (Value for Money) assessments for informed decision making but do not use it as the do or don't criteria, and also introduce 'Value for People 'and using competitive, fair and transparent procedures to achieve targeted sustainable development objectives, with a zero tolerance to corruption approach.

(viii) Using innovative financing approaches (principle 8)

Enabling innovative financing mechanisms

The interest of private sector is growing to invest in the SDGs: more and more people are wishing to make investments that are "doing good and doing well" - impact investing. Investors, governments and project developers need to continue to work together to utilize people-first infrastructure projects fit for the impact investing community.

While there is significant commercial interest in impact investing, there is equally a significant shortfall in the supply of projects that satisfy the requirement for Impact Investing. Government, particularly in developing and fragile countries can focus on developing the local NGO into For-Benefit organisations to establish a Fourth Sector to attract funding from Impact Investing.

Using investment incentives

Special supports such as investment incentives might be targeted at SDGs related sectors such as the sectors mentioned above. The challenge is to link these projects up in an integrated way to have the transformative impact that is needed.

(ix) Measuring people-first projects

Metrics are needed to measure impact of people-first that will give confidence to investors and governments alike that projects are consistent with the UN SDGs. It is important that the UN, and in particular the UN Statistical Division and Commission, work together to create common metrics on impact, and put this into a gradient system. The World Data Forum could be used to test and mature new metrics before bringing them into use.

Commentary - What people think

Interested parties will be asked for their short comments on the topics covered by each of the eight guiding principles. These comments will be presented in the “Commentary” at the end of each principle.

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

Annex to Principle 1

References in the SDGs to Infrastructure where PPP/concession models might be used

It is an essential starting point for bridging the infrastructure gaps to identify the most appropriate projects for achieving the impacts associated with the following SDGs:

Goal 1. Poverty: End of poverty in all its forms everywhere

- Use enhanced development cooperation, ensure significant mobilization of resources from a variety of sources to provide adequate and predictable means for developing countries.
- Create a sound policy framework at the national, regional and international levels to support accelerated investment in poverty eradication actions.

Goal 2. Zero hunger: End hunger, achieve food security and improved nutrition and promote sustainable agriculture

- Increase investment in rural infrastructure and other means to enhance agricultural productive capacity.
- Develop irrigation network in relation with water management programme

Goal 3. Good health and well-being: Ensure healthy lives and promote well-being for all at all ages

- Substantially increase health financing and the recruitment, development, training and retention of the health workforce.
- Construct the necessary buildings (Medical schools, hospitals, clinics, Medical universities).

Goal 4. Quality education: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

- Build and upgrade education facilities and provide safe and effective learning environments
- Increase the number of teachers and the corresponding capacity building
- Expand substantially the number of scholarships available and develop e learning.

Goal 6. Clean water and sanitation: Ensure availability and sustainable management of water and sanitation for all

- Improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, treating wastewater and substantially increasing recycling and safe reuse globally
- Substantially increase water-use efficiency across all sectors and ensure sustainable supply of freshwater
- Construct the necessary wells, pipes and treatment plants
- Implement integrated water resources management at all levels, including through transboundary cooperation as appropriate

- Construct and maintain equipment for water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies with the participation of local communities.

Goal 7. Affordable and clean energy: Ensure access to affordable, reliable, sustainable and modern energy for all

- Develop access to clean energy technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology
- Promote investment in energy infrastructure and clean energy technology.

Goal 9. Industry, innovation and infrastructure: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

- Develop and upgrade infrastructure
- Retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.

Goal 11. Sustainable cities and communities: Make cities and human settlements inclusive, safe, resilient and sustainable

- Strengthen national and regional development planning for urban, peri-urban and rural areas
- Substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters
- Build sustainable and resilient buildings utilizing local materials.

Goal 12. Responsible consumption and production: Ensure sustainable consumption and production patterns

- Develop resilient infrastructures
- Design ‘circular’ not linear projects based on the principles of circular economy (reuse and recycling of waste
- Improve environmental sustainability by reducing resource and energy use (resource and energy efficiency), degradation, pollution and CO2 emissions throughout the lifecycle of projects
- Engage in sustainable public procurement

Goal 14. Life below water: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

- Construct ports and harbours for providing access for small-scale artisanal fishers to marine resources and markets.
- Treat waste water and solid waste before sending them into the ocean.

Goal 17. Partnerships for the goals: Strengthen the means of implementation and revitalize the global partnership for sustainable development

- Partnership: Public-Public, Public-Private, Public-Civil Society.
- Develop local projects with local partners
- Identify and cooperate with local investors as much as possible.
- Develop the services required to meet these global goals requires undertaking a proper preparatory and identification process before moving ahead with PPP projects

The interlinkage approach is fundamental in achieving the SDGs. It brings into focus the positive synergies and potential negative trade-offs that arise when working to achieve the 2030 Agenda, and it helps to develop more practical solutions to address key issues.

Principle Number 2 - Capacity Building

Governments should use all means to scale up their capacity building based on an action plan at sub-regional, national and international levels all targeting the creation of more effective projects based on people first principles consistent with the UN SDGs.

Challenge

Developing the huge pipelines of effective People-first PPPs needed requires a commensurate step change - both qualitatively and quantitatively - in the supply of public sector officials able to deliver such projects.

Solutions

A joined-up approach/ programme of action gathering high quality, people first project data, stronger scaled up institutions, new effective international cooperation within the UN and a 'one UN' approach, innovative engagement with the private sector alongside the mobilisation of new resources.

Developing robust capabilities in PPP takes both time and resources. The most effective capability development programs extend over several years and involve building foundational competences in project management, finance, systems thinking, business cases, contract management, performance management, and asset management; contextualising PPP models and processes to fit with local culture and practices; using pilot project to deliver experiential learning; and having substantive coaching and mentoring support over several years.

SDGs impacted

SDG. 16
SDG. 17

Myths addressed

Governments only need to acquire the private sector skills in project finance and contracts to deliver projects.

* * *

Introduction - Definitions, context and challenges

Capacity gap

In the overall context of Public Investment Management [10] and more specifically PPP, the perennial challenge has been the need to close the capacity gap in the public sector with

[10] "The Power of Public Investment Management- Transforming Resources into Assets for Growth"- A world Bank Group publication (2014)

respect to knowledge and skills. A study undertaken by the World Bank in 2014 concluded that there is a gap in the capacity of countries to deliver pipeline of PPP projects. Indeed, what has informed this asymmetry of knowledge and expertise between the public and private sector has been highlighted by the World Economic Forum (WEF) as constituting a major barrier to the private sector wishing to undertake PPPs. A Working Party was created by the WEF to come up with practical tools to address this public-sector weakness.

In this work, it is necessary to consider the wide gamut of public sector skills needed for project preparation: developing project framework, project planning, structuring project deal structure, managing procurement and contract award, contract and performance management, post-contract award considerations including ex-post review, issues management, and maintenance and asset management. These include skills 'on the ground' to deliver actual projects at local, city, and community level PPP. Effectiveness of these skills is dependent upon the necessary institutional capacity in countries to effectively create, manage and evaluate them.

UN SDGs

On top of these challenges are those emerging from the UNSDGs which as argued above require a new emphasis on sustainable development as the outcome of People first and the new challenge of translating the five outcomes into appropriate output specifications and appropriate Key Performance Indicators. This is challenging enough in normal PPP; even more so in People first PPPs!

Public sector ethos

Both these types of skills are needed. In addition, it also must be borne in mind that officials are delivering public services, sometimes with taxpayer's money, and there is also needed a strong public-sector ethos which cannot be overlooked particularly in delivering people first PPPs. The PPP spirit must be respected with both partners at the same level. Public sector goals should be respected and developed in the new skills required. Such public-sector goals include: social equity, inclusiveness, accountability and transparency. These are the common goals also of public and private partners of People first PPPs: increasing efficiency and delivery and improving access and at the same time improving access of basic services, especially those who are economically and socially disadvantaged.

A. Building and gathering information on best practices and People-first PPPs

Nothing educates and inspires better than successful, 'People-first' PPP case studies. It is thus necessary as a foundation stone for effective people first capacity building to build an adequate knowledge and information depository on projects, and how they contribute to sustainable development and with people at their core. Several actions are needed in this regard.

(i) Methodology for evaluating the contribution to the SDGs

Clearly today there is considerable attention given to whether infrastructure projects are in alignment with the SDGs. To date, some projects are evaluated according to their impacts on specific SDGs and their interlinkages. If projects are applicable to, say, four SDGs, then this is four out of seventeen. Such a ‘score card ‘is not however robust enough to measure transformational impacts.

Accordingly, it is necessary to use a score card that takes the five criteria of people first and break these down into something which is measurable. Such a quantitative approach in evaluating the results/success of project against these criteria can put into numbers the degree to which projects meet the SDGs. For example, to assess whether the economic effectiveness and transformation criteria has been met we can measure e.g.:

- No. of local jobs created with the salaries (G-1, 2, 8, etc.)
- Number of new residents created by the project with their tax payments
- How many KW of electricity generated by hydro power and provided to people
- How much clean water provided to people who previously were unserved
- Reduction in low nutrition through PPP projects that deliver local grown and produce nutrition products
- Growth of village-based health Insurance products that delivering Primary Health Care Services to poor and disadvantages people
- Development of For-Benefit specialist hospitals that provides essential medical services to poor and disadvantaged people

In the case of replicability criteria this quantification can be done by evaluating the extent to which the projects have been replicated in other parts of the country. In the case of scalability criteria this quantification can be done by evaluating the growth in the scale and reach of projects.

One of the challenges will be to differentiate People first PPPs from other models of PPP based on such criteria.

(ii) 500 People first PPP

The UNECE has begun a programme of awareness raising on the importance of People first PPP that will meet the criteria and challenged both public and private sectors to achieve 500 people first PPPs by the end of 2018. To date there are around 140 cases collected covering all sectors. These have been placed in a Compendium which can be used for capacity building purposes.

Such a programme can lead to extremely valuable outcomes. One such case the Haemodialysis PPP project in Philippines was designed people first:

- **Access**: the use of new modern machines rapidly increased users and generated revenues that can be used to treat patients unable to pay for the service
- **Effectiveness and transformation impact**: the more technologically advanced service become profitable and stopped needing state support, allowing other services to receive such support.

- **Environmentally sustainable**: use of building for the delivery of the service radically improved and patients surveyed talked about a much greater feeling of wellbeing
- **Replicable**: the project was copied inside the country (and outside)
- **Stakeholder engagement:** patients were consulted at every stage and agreed and commented with the changes in treatment announcing that they were wholly satisfied with improvements.

The use of projects themselves showcased through the UN PPP programme has resulted in this model being copied ins several countries, notably Bangladesh which has led to its country wide dissemination and the saving of lives.

(iii) Enlarging the database of people first PPPs

Longer term the cases collected should be placed in an easily accessible data base. Many options can be considered. It is important that such a data bases is easily accessible and becomes a tool for capacity building.

B. Addressing the barriers to more effective People first PPP capacity building

(i) Lack of supply in PPP training services

The UNECE ICoE has established 7 international centres of excellence under its umbrella. Their mission is to provide high quality consultancy 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 (The US)
- Health (The Philippines)
- Local Governments (Japan)
- Public Transport Logistics (China)
- Ports (Lebanon)
- PPP in CIS countries (Russian Federation)
-

Many of the training activities of these Centres are scheduled to come on stream in 2018. Their activities report to the UNECE Working Party on PPP.

(ii) Lack of supply of good quality consultants

There has been a lack of consultants with the sufficient knowledge on PPP to be good advisors particularly on the public side. The World Bank's certification programme seeks to examine consultants with a comprehensive exam and are then provided with a certificate if they pass, thereby ensuring that the standards of advisors are kept high. Such certification of consultants and advisers to governments should also acknowledge the UN SDGs. In the case of ESCAP a test has been provided through e-learning and upon completion, participants receive a ***PPP Awareness Certification*** demonstrating their knowledge in this field. [11]

(iii) Lack of financing for the proper preparation and delivery of PPPs

There has been a lack of consultants with sufficient PPP knowledge to assist the granting authorities particularly in the initial phase of development of pilot people-first PPPs in developing countries that have no sufficient funds to hire such consultants. Various initiatives have recently been undertaken by the World Bank and IFIs to create development funds which will help the granting authorities to get the proper quality consultants including international PPP specialists[12]. Some countries have also issued new legislation allowing the creation of specific funds for the financing of preparatory works and awarding processes. [13]

(iv) Stronger bottom up institutions delivering PPPs

While PPP units deal with policy and chap mop reform there should be more sources especially at local levels to advance PPPs responding to concrete problems faced by communities. One of the most promising developments have been the growth of multi stakeholder bodies at city levels to address problems of waste and in advance of a more rational and sustainable consumption papers as espoused in SDG 12, calling for a more circular economy. Such bodies now operate in many cities with clear annual targets of savings generated from cutting waste and the use partnerships of different kinds to solve local community problems.

(v) Weaknesses at local levels

A major challenge is the lack of capacity in delivering projects at the local levels: UNITAR is to date the only UN body addressing this important public-sector level and more networks are needed and activities are required. Capability development programs such as PROKOM in the Malaysia Public Works and Taqaddum in the Save A Life Initiative (SALI) Sudan are focused on developing a robust local capability that then becomes the Train-the Trainer to diffuse the capabilities into both the local public and private sectors.

(vi) Losing out to the private sector

One of the common challenges is once the officials have been trained, the governments can quickly lose them to the private sector or moving overseas where the salaries are often much higher. It is inevitable that competent individuals will leave governments. It is therefore necessary to continuously develop a large cohort of competent individuals with the expectation that many will join the private sector. Government need to encourage competent individual to stay through offering higher remuneration and benefits and opportunities for further advancement. It is important to ensure that qualified staff and their knowledge remains in the country.

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[11] The test can be accessed and taken via the ESCAP website.

12 For example: the World Bank Project Infrastructure Development Fund or the EBRD' Infrastructure project Preparation Facility (IPPF)

13 1-Project Development Facility, South Africa -2 The Project Development and Monitoring Facility, Philippines; 3 India Infrastructure Project Development Fund (IIPDF), India;4 Financial Support to PPPs in Infrastructure in the Netherlands;.5 Project Development Support Facility, Kyrgyzstan;.6 Project Development Facility in Vietnam

(vii) Training the private sector

In many of the low-income countries, there is lack of private sector partners or the development of co-optative partners with the experience and knowledge to take projects forward and to attract finance. Accordingly, they will have to be trained and developed along with governments. This will be best achieved through a structured capability development program that uses pilot project, mentoring and coaching over several years.

C. Mobilising the support of the private sector

Given the scale of the challenge, the private sector should play a bigger role in training employees in PPPs and demonstrate a commitment to 'investing' in not just projects, but in the jurisdiction in which they will operate and the people and their capabilities. It furthermore cements the private sector's commitment towards the development of their local partners and governments – both national and local.

There are several examples where this is successfully taking place.14 After all, sustainability and long-term project objectives depend on a project being able to be run when the private partner leaves. Both have interest in increasing escapist of the public sector as it constitutes a major obstacle in delivering a pipelines of effective people first PPPs. The WEF has a major programme to address problems.

Many UN agencies work with the private sector in support of the SDGs. UNEP and UNDP have prominent programme with undivided companies. The signing up to the UN Global Compact 10 Principles should be mandatory for companies engaging in PPPs. Delisting of any company should be then flagged to ensure they are not a SDG supporting company. There are also associations which also work with for SDGs, CEO etc. The challenge is to mobiles private sector to assist in capacity building:

(i) Women's empowerment

One suggestion is to utilise the strength of the PPP industry sector to advance the promotion of gender equality and create more women entrepreneurs. Such a scheme would attempt to recruit companies to advance women within their own payrolls and at the same time support women led companies in their supply chains. Companies should be asked about their women's empowerment policies.

(ii) UNECE Business Advisory Board

The UNECE Business Advisory Board is a group of representatives from leading private sector companies with considerable experience of project development. They undertake capacity building mission in countries and this unique resource should be scaled up to meet increased demand. While the UNECE Business Advisory Board capacity building mission

[14] For example, in Ethiopia, the Shenzhen Urban Metro Company of China has built an affordable light rail system which has transformed travel in the city, training everyone in the company in the process.

provide a sound start point, robust local capability development is a project in itself and required substantive funding over several years.

D. Regional mega infrastructure projects

Joined up progress that combine training at the national level, identification and delivery of actual projects and cooperation amongst private and public sectors on some common rules related to procurement and transparency are a most effective way of increasing capacity. The UNECE China MoU on PPP capacity building seeks to provide such a joined-up programme in the following:

(i) Identification, development of 10 flagship projects covering largescale transport and energy; medium scale social infrastructure projects such as in the health; and smaller people to people projects, such as trade fairs.

(ii) Targeted national capacity building that will improve legal and regulatory frameworks and build new institutions amongst the participant countries of the Belt & Road programme.

(iii) Cooperation on reaching agreement on the overall frameworks under which projects will be undertaken. This international policy dialogue will consist *inter alia* of s of creating level playing fields, compliance with (UNECE) environmental standards, women's empowerment, trade facilitation and other standards.

(iv) Such initiatives can lay the ground for the establishment of regional People first PPP Facilitation Units. The creation of such a body (which could be done first in Central Asia and can be replicated elsewhere, will allow better cooperation on developing such international cross border PPPs to come forward. Working with other UN Regional Commissions where there is interest this can then be explored in those regions.

E. Working together and enhancing cooperation

(i) Cooperation as one UN

The absence of concentrated knowledge and expertise on PPP inside the UN system as referred above, requires greater efforts at cooperation amongst existing UN agencies. For several years, in this regard, it has been recommended that the five UN Regional Commissions should cooperate more in PPP. This has led to the creation in 2012 of and International Centre of Excellence that was created as an outcome of a cooperation in PPP capacity building between ECA ESCAP and ECE.

The ICoE should be broadened to include all UN Regional Commissions, wishing to work together on Belt & Road projects and on sharing tools and instruments for PPP capacity building such as the Business Advisory board. This body should work with other UN agencies notably UN Finance for Development Office, UNCTAD, UNIDO, UNDESA, UNDP, UNCITRAL, etc. so that the overall impact of PPP work is increased.

(ii) Cooperation amongst the PPP Units

There is a need to 'professionalise' the officials that worldwide work in public sector PPP units, with the emerging profession itself being responsible for setting international standards and certification schemes that can allow more effective capacity building to take place. UN and the World Bank might increase cooperation in this area to allow more opportunities for the PPP units to meet. The private sector could benefit too from the opportunities to learn of emerging PPP projects in countries though such international cooperation.

(iii) Creating new bodies at the UN

There will be a need to scale up UN training in PPP for Member States – UNITAR within the UN system can act as a catalyst for other UN agencies in this regard and other PPP qualified training bodies.

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

Principle Number 3 - Improving Legal frameworks for People-first PPPs

Governments at all levels need to improve their legal frameworks for people first PPPs as an enabler in order to mobilise the large sums of private investment required to achieve the SDGs , mindful at the same time to protect citizens 'rights in infrastructure projects critical to people's lives.

Challenge

Many legal frameworks do not provide the level of security and predictability to private investors and it will prove costly and time consuming to improve these frameworks systemically especially in those countries where People first PPPs are so urgently needed.

Solutions

Given that countries cannot do everything all at once it is sensible to focus on a few core reforms that Governments should do straightaway, namely to a Zero Tolerance approach to corruption, to support a broad range of innovative PPP models, to sustainable procurement to achieve 'value for the people'; to international arbitration in case of dispute; to provide reliable ongoing contract management, to protection of people's rights to redress where they are harmed and consultation in environmental decision taking and protection of the investors' rights to repatriate their profits. An Earth BOND could be considered at the IFC or World Bank to insure PPPs in LDCs, LLDcs and Countries in Conflict.

SDGs impacted

SDG 16
SDG 17

Myths addressed

All that is needed in a PPP is a contractual agreement between the public and private partner and the project can be reinforced without reference to the overall legal and policy framework

* * *

Introduction - Definitions, context and challenges

The legal frameworks refer to the laws the countries adopt PPP as well as the procedures and processes which are used in the country to procure and deliver projects. The requirements and extent of any PPP law will also depend on the nature of the legal system. Under common law systems, the need for an extensive PPP law is often not nearly as great as in civil code systems. In the UK and Australia for example, PPPs have been successfully implemented with very little actual PPP legislation.

A. Basics - Fewer, Better, Simpler

(i) Long term leadership commitment to people first PPPs

At the apex of the legal framework is the head of the Government who sets down the political road map and the social and economic strategy of the country. But occasionally a new Governments seeks to change the legislation and this can undermine or even overturn the PPP contract agreed between the previous Government with the private entity. This can, in its extreme form, lead to the private company losing all its investment.

One solution is to try and reach political agreement and support of all the main competing political parties of both the SDGs and the principle of private sector participation in infrastructure. Such a common commitment offered by all the parties in a country to this principle can provide a welcome assurance to the private sector and an incentive to invest in the country at the levels that are needed.

(ii) Principles - 'fewer' 'better' 'simpler'

Turning to the overall basic principles of legislative frameworks, these are rather well conveyed in the phrase 'fewer, better and simpler':

Fewer: PPP legislation should not be prescriptive but rather permissive, focusing on achieving outcomes while setting broad parameters in which partners can design and implement projects that they agree on. Dense legislation that seeks to micromanage the PPP process will only deter prospective investors. The emphasis should be on flexibility, the removal of burdensome legislation, amendments sometimes in constitutions disallow private involvement in infrastructure, the shortening of lengthy approval processes thereby allowing investors to plan their investments and to adopt long-term procedures and restrictions on repatriation of profits.

Better: better laws are those that are knowable and secure when allowing investors to plan investment decisions and to adopt longer term perspectives when entering a market which will lead to higher quality investments and commitments to the country. Lenders and investors will require a predictable and reliable framework for people first PPPs on different laws. [15]

Better also mean better quality legislation that clarifies rights and obligation in PPP processes. In such case the public sector's legal ability to grant concessions – is in many jurisdiction's the most critical uncertainty faced by lenders and investors and it is best removed by a fully-fledged concession law.

Better laws mean furthermore, better projects and more well-prepared projects. It is necessary to have laws that support in an efficient and effective way, the crafting of projects that can realize the contracted for 'people first' outcomes. Therefore, governments must focus on the notion of 'well prepared projects 'as defined in the UN Addis Ababa Action Agenda (2015).

[15] Laws relating to commercial contracts, company law, taxation, employment, competition, finance and security, insolvency, specific infrastructure sectors, property, the environmental, foreign investment protection, intellectual property, public procurement, expropriation and compulsory property purchase, and many others, are all important

Simpler: In many PPP project there is a lack of shared understanding. Convergence is a process to help remove confusion in understanding and to align the stakeholders through a structured clarification process.

One common approach to making things simpler in PPPs are the Competitive Dialogue or Interactive Tendering processes. It involves working with bidders to develop technical and commercial solutions. While these approaches lead to solutions that overcome the inherent misunderstanding that can occur in PPPs, the contracting authority must still work to ensure fairness in the tendering process and avoid discrimination (see Principle. sustainable procurement)

(iii) Complicated versus Complex Projects

Different countries are using substantially different approaches to PPP. Some countries have restricted their focus to smaller PPP projects with clearly defined scopes, while other countries such as Australia and China have expanded PPP to include landmark complex programs with emergent scopes.

The selection of the PPP strategy and the contract need to match the level of program complexity. Traditionally PPP strategies and contracts have tried to lock in the clearly defined scope. This has however proven ineffective with multiple contract re-negotiations becoming normative.

With complex programs such as landmark infrastructure and projects that combine health care services delivery/infrastructure the PPP contracts need to be very different from project with relatively simple scopes. PPP contracts for complex programs need to be designed to provide the structure and processes to manage the development and operation of emergent programs[16].

B. The five sine qua none legal/regulatory conditions for People-First PPP

Governments must also be cognizant of the legal and regulatory environment that would enable them to achieve SDGs. Many countries have PPP laws but the rapid move of the PPP environment and practice makes the establishment of a suitable legal and regulatory environment challenging for most countries.

The excellence available such as at UNCITRAL clearly needs to be supported by technical assistance and targeted help as well as by the positive vote of member States representatives at the UNCITRAL Commission on the Secretariat proposed PPP work. Nor do governments know what to target: is it everything in legislation and processes? This is a truly mammoth task. Or is it by focusing on at least what can be termed a ‘core set of legal issues’, the respect of which could make a difference in the quality of legal frameworks over a relatively short period of time? An overall comprehensive list of the building blocks in the legal framework for PPPs /concessions is annexed to this chapter.

[16] The G20/OECD recommend the Inverted Bid Model and Asset recycling for large and complex PPP programs - https://www.oecd.org/g20/topics/financing-for-investment/G20-OECD-Report-Effective-Approaches-LTI-Financing-Sept-2014.pdf

The following are the five most critical aspects, the ‘game changers’ in country’s efforts to promote effective people first PPPs or the core conditions for an effective legal framework. Governments who focus attention on these five can move a considerable way in attracting private sector investment at the speed and scale it is needed. Of course, it takes time to implement these aspects of the law but the following “five sine qua none conditions” provide at least a focus for governments wishing to improve their legal frameworks to pursue people first PPPs:

(i) Zero Tolerance to Corruption approach

Nothing is more of a barrier to PPP especially in medium and low-income countries than corruption. It dramatically lowers investor confidence. None of the SDGs are achievable unless this aspect is brought under control. Governments should use the UNECE standard on a ZTC approach and map the provisions as close as possible into their own legislation, procedures and practices.

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

(ii) Level playing field and sustainable procurement

The more open a procurement system the more likely the best partner will be selected, the better the contribution of the project to the country and the more likely it will be ‘people first’. This time-honoured principle remains true today as it has always been. However increasingly, the argument is made that local interests and partners need to be protected and given priority in selecting partners in projects even if they have not been able to meet the specifications announced in the tender. Arguably some temporary derogation from the above mentioned principles might be considered if the project is taking place in what are to be considered strategic sectors of the economy or where there are security issues involved.

However open and free markets are best for the country and best for the people (see the procurement principle below)

(iii) Repatriation of profits

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. There needs to be a general lifting of all legal restrictions on the investors’ rights to use the benefits of their investment, such as on the ability to dispose of their equity investment in the Project Company at market prices and to repatriate the profits out of the country.

(iv) International Arbitration

Improving legal processes means better arbitration processes. Lawsuits in PPP cases can be expensive and burdensome. Governments can improve the framework in which commercial disputes are solved. Overall, the investor needs to have confidence that the judiciary will enforce the laws and enforce contracts. In addition, the
necessary administrative documents (such as authorizations and licenses) to implement the PPP project must be obtainable.

Judicial enforcement is also a concern in arbitral judgements. Disagreements during the course of a PPP contract are common. Arbitration typically is performed on the basis of an agreement, explicit or tacit, prior to, or after, the dispute arose. Most countries have a law on commercial arbitration, some of which are based on the UNCITRAL Model Law on International Commercial Arbitration. Often, arbitration takes place with an institutional arbitration tribunal. The concern of the investor is that local courts favor the local public partner.

(v) Right of redress and being heard

People first also means extending the rule of law to groups who for various reasons do not have access to laws to protect their rights. Legal empowerment specifically refers to the socially and economically disadvantaged who need to improve their access to basic services. In many societies the perceptions of the legal and law-enforcement systems are not favorable among the economically marginalized communities. This has to be overcome if the benefits from PPPs are to reach a wider constituency.

One method of legal empowerment is to better inform people of their rights to access good services and to 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. Otherwise, this will become a right that is not used or implemented.

Although regional in scope, the significance of the Aarhus Convention is global. It is by far the most impressive elaboration of Principle 10 of the Rio Declaration, which stresses the need for citizen participation in environmental issues and for access to information on the environment held by public authorities. As such it is the most ambitious venture in the area of environmental democracy so far undertaken under the auspices of the United Nations.

C. Standardised, accelerated, people first processes

People first PPPs require that the public sector receive a good deal and there is no taint that the public interest has been undermined. Especially vulnerable are Governments, engaging in PPP for the first time, and making a ‘leap into the dark’. They have no real basis on which to negotiate the terms and conditions of the PPP, nor can they rely on time tested norms and experiences learned from traditional procured contracts.

It is not surprising then that the terms and conditions of some PPP contracts are criticised for being overly favourable to the private entity. Not only have the private entities negotiated (and operated under) the same or similar contracts on multiple occasions, but they often have exclusive access to the greatest amount of project specific details, experienced advisors, and industry expertise. By contrast, the public sector often does not have access to such information, nor the resources, the experience, source of knowledge on similar projects and best practices upon which to rely.

Many PPPs have tremendously long gestation periods and a huge percentage never see the light of day because of inefficient project preparation approaches and failure to use tried and tested standard models. Why should Governments take the risk? But at the end of the day, they must. The SDGs make a strong statement for Government adopting new partnership approaches, in a comprehensive way.

One solution to the asymmetry of knowledge and information between public and private sectors and the consequent reluctance of governments to adopt PPP approaches is to increase the use of standardised laws and model contracts.

Standardized approaches and common contractual provisions:

- (i) Accelerates the process of formulating, soliciting, negotiating, and awarding PPP projects
- (ii) Can lower dramatically the transaction costs related to the project,
- (iii) Accelerate the procurement and delivery of projects, and thereby permit more projects to be done. Experiences demonstrate that those countries where PPP developed well also had standardised approaches, project preparation, contracts and implementation procedures.
- (iv) Ultimately increases the government's capacity to do projects without prior knowledge and experience. They allow governments to focus on negotiating non-conforming elements of the transaction without needing to worry about the standardised parts ***and***
- (v) Lower the fear factor*:* standard approaches can also give assurances to governments and stakeholders that their interests are being protected, that the playing field is level, and that contracts are fair, balanced, and will achieve positive outcomes.

Of course, PPP contracts must also reflect the laws of the location where the deal is taking place and each jurisdiction is unique. Standardisation moreover should not result in rigidity and inflexibility or promoting form over effective substance. But arguably the way forward for countries seeking to implement people first PPPs is to standardise rules and contracts and processes inside the country with clear sustainable development criteria and a more dynamic focus on people and societal impact.

While some aspects of PPP cannot be standardized; many can and accordingly the UNECE has made a big commitment to supporting this process. Currently with the International Centre on Policy, Law and Institutions, it is developing a model PPP laws and standardised clauses in contracts.

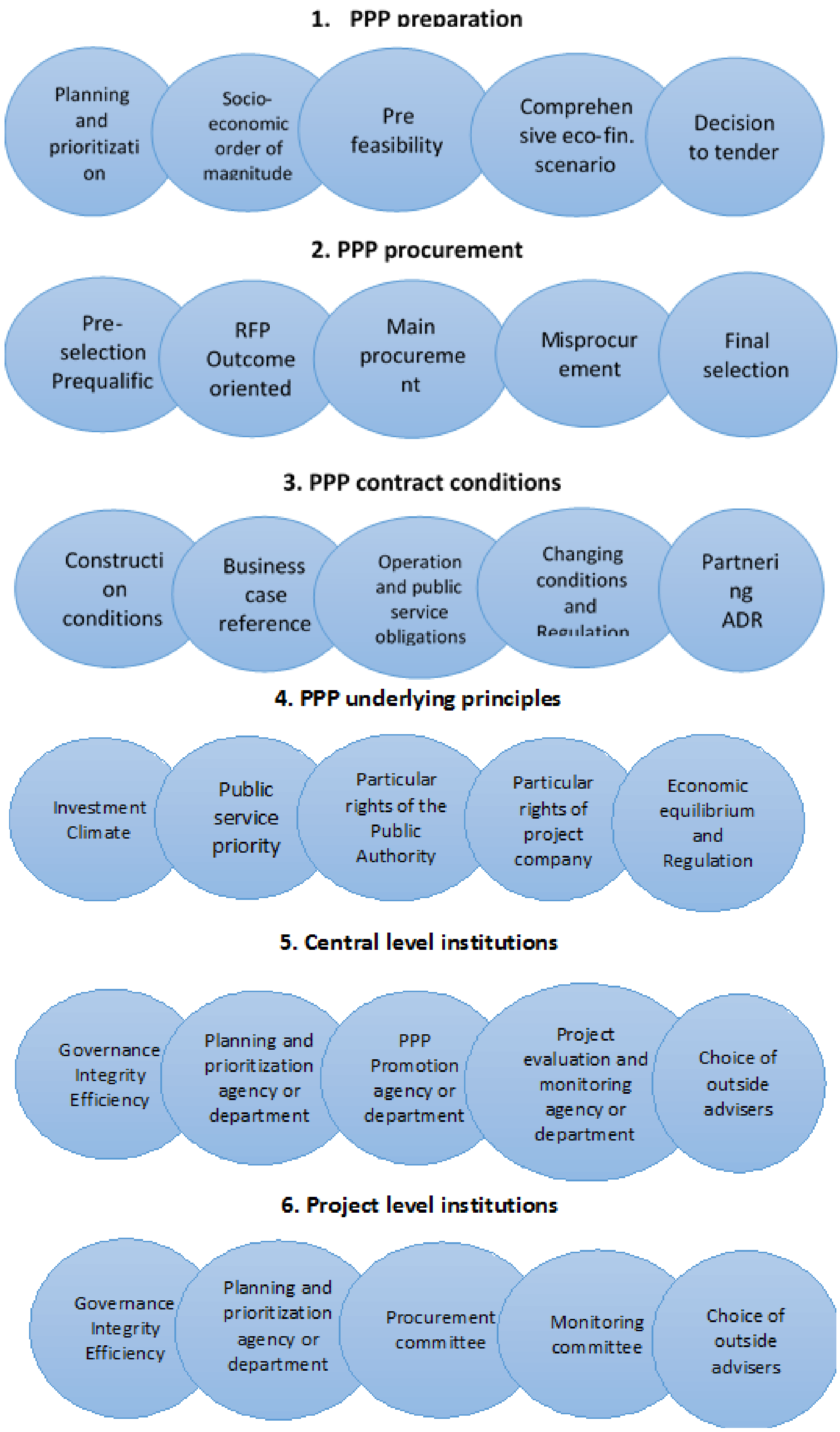
While countries such as Australia have developed robust template PPP contracts for simpler PPP projects, they have equally recognised that Landmark and complex PPP programs require bespoke PPP contracts such as the Inverted Bid Model which unbundles the PPP components, includes a SPV constitution to manage emergence, and includes early finance / contractor involvement.

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

Annex to Principle 3

List of "Portes" in the presentation "Global Construction Contracts and PPP in their Infancy - The North American Situation, a Promising Market for European Companies" (Marc Frilet - 2014)



Principle Number 4 - Transparency and Accountability

Successful and sustainable People first projects require substantial transparency and accountability at all stages of the PPP project implementation.

Challenge

The SDGs set clear targets which in turn require People-first PPPs to achieve a number of critical outcomes. However, public involvement in PPPs remains very low due to lack of awareness and opaque procurement processes. This inhibits people from engaging meaningfully with PPPs at any stage of the project life cycle including project identification, procurement and implementation.

Solutions

Governments must systematically and proactively disclose meaningful information in a timely manner at each stage of the PPP life cycle. This would, inter alia, include information related to project identification, public consultations, environment and social impact assessments, bid evaluation criteria, procurement, implications on public finances (guarantees, risks, contingent liabilities etc.) contracting parties and their obligations, performance indicators, and financial and performance audits.

SDG Impacted

SDG 16. Peace, justice and strong institutions
SDG 17. Partnerships for the goals

Myths addressed

Private investors are averse to transparent processes
Greater transparency leads to less efficiency in the PPP project life cycle
Greater transparency leads to increased litigation

* * *

Introduction - Definitions, context and challenges

Although the term ‘accountability’ has been defined in several ways, it is perhaps most useful to see it as a conceptual term which places responsibility and answerability obligations on individuals and institutions that undertake any activity in the delivery of public goods and services. While the specificity of the context has given rise to diverse interpretations of the term, ‘transparency’, both in terms of processes and information disclosure, has unequivocally been recognized as a key enabling mechanism to improve accountability regardless of context.
Transparency and accountability in public procurement has attracted much attention in recent years. This has led to the development of sophisticated global standards and the enactment of relevant legislation in numerous countries, which in turn has led to more open contracting

processes in general.[17] While this has been a welcome development, the evolution of global transparency and accountability standards that focus on PPPs as a specific and highly complex form of public procurement is a relatively recent phenomenon.[18] Given the need for massive investment in public infrastructure and the substantial role that PPPs are likely to play in it, it is critical that all stakeholders take urgent and concerted action to develop national policies as well as global standards to improve transparency and accountability in PPPs across the world.

This is not an easy task by any means. The most important challenges that are faced by governments in either developing or implementing policies to improve transparency and accountability in PPPs include:

- Lack of awareness and understanding about the PPP process as different from general procurement / contracting
- Absence of or inconsistencies in legislation related to transparency
- Lack of well-defined guidelines or policies related to transparency in the PPP process
- Making information arising from the PPP process meaningful and accessible to the general public

A. Transparency and Accountability in PPPs

Global spending on infrastructure is in the region of US$2.5 trillion per year. Some estimates suggest that this must be increased to US$3.3 trillion per year until 2030 to meet current demands.[19] A significant part of this investment is being (or is likely to be) provided through PPP arrangements, which by their very nature, implies direct or indirect public investment on a mammoth scale. However, 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.

Concurrently, 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 exploded to 117 to date. Most freedom of information legislation either directly or indirectly includes PPPs within its ambit as PPPs typically commit public resources either directly or indirectly in any PPP project.

Apart from legislative requirements, transparency and accountability in PPPs are important for several other reasons, both in terms of 'public concerns', as well as 'private' ones.

(i) Public Concerns

Improving transparency and accountability at all stages of the PPP life cycle improves the general awareness and understanding about PPPs, especially in terms of differentiating it from regular procurement or contracting. Proactive disclosure of relevant information in a

[17] For example, see https://www.open-contracting.org/
[18] One recent example is available here:
http://pubdocs.worldbank.org/en/143671469558797229/FrameworkPPPDisclosure-071416.pdf
[19] See https://www.weforum.org/agenda/2016/06/the-world-has-an-800bn-annual-infrastructure-gap-heres-how-to-close-it

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. Greater opacity leads to greater suspicion, which in turn leads to higher likelihood of litigation. Needless to say, litigation can slow down the process, which may lead to unnecessary delays, and possibly even result in making the project unfeasible.

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, end-users can hold the PPP entity and / or the contracting authority to account.

(ii) Private Concerns

Given that PPPs are, after all, a partnership between the public and the private, improving transparency and accountability brings several benefits to private parties as well. 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, for example 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, and eventually goes a long way in developing the PPP market. In addition, working to achieve publicly declared performance indicators can also be highly beneficial for private entities to maintain standards and deliver on agreed outcomes. Transparency and accountability can therefore be important drivers of change in terms of developing a virtuous circle which benefits all stakeholders in the process, without compromising on serving public interest.

In sum, if people-first PPPs are to become a reality, then transparency and accountability at all stages of the PPP project life cycle are critical elements to achieve this goal.

B. Key government actions

(i) Project level design and prioritization

Communities need to be involved in PPP projects from the project identification stage itself. 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. Their representation can take place to promote the community service obligation of projects. Policy makers must also consult the impacted communities and people on the following:

- Discussions on project selection and prioritization (not all projects can be done at once) which all too often is an internal exercise reserved for a handful of senior officials
- The balance between social versus economic infrastructure and where social and fiscal policy is decided such that projects are determined truly on their sustainability
- At the project level on inclusiveness, equity, gender sensitivity, environment and other socially impactful aspects
- Feasibility studies (or any variation thereof) must incorporate the above concerns and be made public in a timely manner

(ii) Upholding a community obligation

Governments must deliver public services keeping true to the social contract they have been provided, which is to deliver well planned, well executed projects and services for the people, and the people's input is therefore critical.

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 CO2 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.

An opportunity for citizens to be a given a 'voice' in the project(s) needs to be made. Influence and input such as contributing to the prioritisation of infrastructure projects that ensure a balance between social and economic infrastructure; or focusing on projects that take into account the needs of women in the use and location of for example transport systems and have these systems cater for their needs.[20]. Community participation also helps in de-risking projects from a social perspective.[21]

(iii) Transparent Procurement Processes

Procurement of the PPP projects must adhere to essential principles of transparency and accountability. This would include ensuring proactive public disclosure of all procurement information including feasibility studies, RFQ, RFP, bid evaluation criteria, and details of any renegotiations carried out prior to financial close. All potential participants as well as the public must have equal access to this information both in terms of content as well as the timing of disclosure.

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[20] Women prefer bus links where there are more stops as they are often multi tasked and need more regular stops built into the system while the men which gets priority are served by systems which takes them directly to their place of work without regular stops.

[21] Women prefer bus links where there are more stops as they are often multi tasked and need more regular stops built into the system while the men which gets priority are served by systems which takes them directly to their place of work without regular stops.

(iv) Financial Transparency

If the financing of the projects involves a subsidy from the state, the size of the subsidy, support, and guarantees should be known to the citizens, ideally prior to commercial close (financing of PPPs is a complicated exercise and creates real financial and contingent risks for all the parties involved). PPP transactions create obligations of payment and contingent liabilities by a public sector body over the 20-30 or more years of their life, which considerably exceeds the duration of any political cycle. It can also involve the distribution and transfer, pledging of support of public funds, and the full faith and credit of the government to a private sector partner and therefore can have a significant impact on not just the current generation but the future financial obligations of taxpayers.

Financial transparency includes exposing the assumptions that the financial assessment is 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 financial transparency includes transparency for the contingency provisions and processes included for change and contract renegotiation.

PPPs must therefore be structured in a way so that guarantees, subsidies, profits, contingent liabilities or payment obligations do not overwhelm the sectoral or national budgets [22] or overburden public resources with excessive repayments over the life of the project(s). [23]

PPPs are a contractual arrangements and contractual provisions that foster accountability can easily be incorporated into agreements and made minimum requirements of bidding and partnering with the government. Such a contract might contain *inter alia* the following commitments to:

a) Engage with all relevant stakeholders in projects
b) Promote local job creation amongst the project impacts
c) Protect the interests of communities affected
d) Minimize negative social and environmental impacts of projects
e) Act with integrity and in an open and transparent manner
f) Use legitimate dispute resolution mechanisms that provide redress
g) Adhere to agreed transparency and disclosure guidelines

(v) Right to redress

Another key deterrent to undertaking potentially unsustainable projects is building in mechanisms that provide adequate opportunities and platforms for redress to citizens and stakeholders. This is acknowledged by the United Nations Guiding Principles on Business and Human rights and are based on the following three pillars:

- The state's duty to protect

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

[23] 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 as a whole.

- The corporate responsibility to protect rights
- Access to remedy

The right of redress is also built into the UNECE Aarhus convention.[24] Making redress a contractual obligation will foster responsible behaviour, provide a check against improper behaviour, and ultimately be an important tool to ensure projects remain responsive and accountable to the people and their governments.

People should also have the right to hold their government to account, using local redress mechanisms, including traditional structures, the courts and their vote. It is important for 'people-first' PPPs that in each PPP there are effective mechanisms that provide redress to individual citizens. All improprieties that may be caused by the project including abuse, misconduct, force etc. on individual and communities should be held to account.

(vi) Systematic and Proactive Disclosure

A simple yet effective cross-cutting solution that would fundamentally improve transparency and accountability in PPPs throughout their life cycle would be to develop PPP guidelines and/or policies on information disclosure that fixes responsibility on who discloses which information, in which form and manner, and at what point in the project life cycle. This will provide the necessary building blocks for the public to hold the government, or the SPV, or any other involved party to account on a constant basis. This disclosure would include information arising at different stages of the PPP life cycle, from project identification, to project procurement, to project implementation. Standard clauses on disclosure requirements on the part of all the parties concerned could also be embedded as a separate section within the PPP contract itself.

However, care would need to be taken that all relevant guidelines, policies and contracts clearly and narrowly define the types of information that would be treated as confidential, for example trade secrets and commercial in-confidence information, subject to a public interest override.

C. Next Steps

Given the above discussion, an immediate next step that could be initiated by the UNECE is to develop transparency and accountability guidelines in say five interested countries on a pilot basis. This would also include developing specific disclosure guidelines which could be implemented using a specially developed and customized web-based platform for PPP information disclosure for each of these five countries. Once the pilot is implemented, it could be revised, improved and scaled up across the entire membership of UNECE.

[24] Available at https://www.unece.org/fileadmin/DAM/env/pp/documents/cep43e.pdf, accessed 21-3-18

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Multilateral and Development Banks
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

Principle Number 5 - Risk and de-risking

PPPs allow public and private partners to share risks and the management of these is best done in a balanced way. However, the challenge of the SDGs requires projects to be done in countries where the risks are very high and all things being equal the private sector will be reluctant to invest. Here governments at all levels should encourage companies to take longer term perspectives, adopt new models of partnership with for example NGOs and a de-risking PPP model and strategy that improves the country's enabling environment. Intergovernmental organizations should help to insure good projects to enable companies to invest on LLDCs, LDCs and countries in conflict.

Challenge

The main benefits from PPP to governments are: the transfer of risk to the private sector; and harnessing the innovation and energy of the private sector to deliver more effective and efficient outcomes. Blessed with a good agreement and a supportive environment, the private sector will invest in such PPP arrangements.

However, in low-income countries the private sector has much less incentive to invest because of the very high risk. In such cases typically the private sector will not invest in the project or in compensation for taking on the extra risk, the private sector 'charges 'citizens higher prices. This can make its services unaffordable to the poor.

Loan finance has traditionally dominated PPP, the outcomes from the Global Financial Crisis have significantly limited the length of term for PPP finance and has significantly limited the willingness of the private sector to accept demand and other risks.

While equity investors are increasing becoming key investors in PPP projects, generally they do not support the traditional PPP models and seek to have a greater involvement in the business case and project design. These equity investors want an asset owner's perspective to be bought to the project and are increasingly developing in-house PPP project development and management capabilities. In designing PPP strategies, countries need to consider where they expect the finance to come from and design the process accordingly.

Solutions

Governments in low-income countries can adopt a four-pronged approach:

- Try to persuade companies to accept higher risks over the short and medium term without raising prices to its customers.
- Undertake considerable actions to make their business conditions more attractive through sound macroeconomic policies, an improved enabling environment etc. and – 'de -risk 'the country
- Introduce incentive mechanisms in the contractual frameworks such as viability gap funding etc. and beneficially use legal requirements under Corporate Social Responsibility (CSR), where applicable, as means to route the investments and structure projects.

- Use PPP solutions that are based on local practices and competences, rather than seeking high end technology driven solutions from developed countries. Local solutions will be much cheaper, support local manufacturers, provide local employment, and have lower maintenance costs.

In this transition period Governments should work with other partners in innovative PPP arrangements such as Public NGO Partnerships to help meet demands for essential services and to provide experiential local PPP capability and capacity development.

For larger and landmark programs governments should consider using PPP models such as the Inverted Bid Model and Asset Recycling to attract finance and to reduce risk.

Myths addressed

The private sector delivers infrastructure assets to the public sector at no risk and at no cost.

SDG Impacted

SDG 16 - Peace, justice and strong institutions
SDG 17 - Partnerships for the goals

* * *

Introduction - Definitions, context and challenges

Generally, theory states that project risks should be borne by the party best able to manage them. While this seems clear, the risk profile can substantially change over the project life cycle. The private sector is increasingly unwilling to take demand risk on greenfield projects. This often results in government having to take risks such as demand and using availability based payment schemes. This in turn leads to government having the total debt of the project on book which in turn limits the ability to borrow and can impact their rating.

But governments and private sector typically find themselves in negotiations to transfer as much risk as possible to the other party. Where the private sector is given such risks to bear, it can charge the government and ultimately end beneficiaries a higher price for taking on these responsibilities.

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 political risk (change in government policy etc.); financial risk (inflation and currency risk etc,) and legal (changes in law, inefficient legal processes and slow bureaucratic decision taking) should be retained by the government. More 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.

Overall, rather than trying to offload as much risk as possible onto one side or another, best practice recommends that both sides take a balanced approach to risk sharing in infrastructure projects and a process is established at project inception to change the risk allocation as the risk profiles change. For instance, once a traffic demand has been established, the risk for demand can be transferred to the private sector. This effectively removes the project on book debt from the government.

The implementation of these principles in the real world is, however, rather varied. There is also a trend that risk identification and allocation are becoming more sophisticated. Some risks are readily transferred and at low cost: while others need careful allocation and management; and yet others are best managed by dividing, sharing, or even dispersing the risk amongst various parties in a project, and in varying degrees.

Main challenges - The magnitude of the challenges dealing with project risks in the low-income countries is of course of a far different order than in mature developed countries. Their high-risk nature tends to make the countries generally unattractive to private companies. On top of this, the least developed countries are also more vulnerable to risks caused by climate change (e.g. water and food crises, extreme weather events, social instabilities) which can deleteriously affect projects. As a result, sadly, the countries, where PPPs are most needed, are precisely those where it is most difficult to attract the private sector.

A. Private sector strategies: Dealing with risks in different countries

In general, companies adopt risk strategies which vary depending on the socio-economic environment and business conditions in different markets as well as of course their overall competitive strategies based on the industries and sectors in which they operate:

(i) Mature markets

In mature markets, companies tend to adopt their risk allocation strategies using the international practices mentioned above, but mindful of the decreasing appetite of lenders to take risks since the crisis. The G20/ Global Infrastructure Hub has developed standard templates for risk allocation in certain sectors in mature markets, providing good direction on the risk/reward allocation that will allow the private companies to make reasonable returns. The maturity of these markets allows more projects to become bankable and companies feel more confident in accepting greater responsibilities and risks in large-scale projects, which in the end lead to strong profitability and sustained corporate growth.

(ii) Emerging markets

As it concerns emerging markets there are signs that the willingness of companies to enter into some of these countries and invest in infrastructure is growing. This comes when there is quite strong economic growth and the demand for infrastructure especially as a result of the rapid pace of urbanization in many countries.

This being said companies tend to adopt several risk mitigation strategies, especially as it concerns country and political risks and legal risks such as respect for property rights and the repatriation of projects earnings. In such cases, companies seek to mitigate these by appropriate guarantees, seeking contractual assurances within the contract law, contributing to the training of employees and of government authorities. Furthermore, in some instances these markets have quite stable financing schemes and instruments that make PPP infrastructure projects economically and financially feasible. In particular, they tend to join consortia that allow different private partners to share risks and finance projects.

(iii) High-risk markets

These markets are less attractive to the private sector because the country and its government do not have the experience and knowledge to deal with complicated and complex PPP projects. In particular, in fragile and conflict-affected regions, the private sector entities typically decide not to enter these markets at all.

By contrast, there are some large to medium and small-sized companies that see these regions as an opportunity to build markets, develop businesses and achieve a competitive edge over other competitors. Thus, they tend to enter these markets with the conviction that such countries, while not offering the rewards now, will in time offer satisfactory returns.
Accordingly, these companies take on the challenge of unpredictability and new risks. They also though form consortia, and with the support of loan syndication instruments and invest in different infrastructure sectors and invest in local training and capacity building for the future.

Furthermore, even the more conservative companies are also interested in investing but in short-term and small-scale projects, that allow them to manage risks (e.g. technology changes) more effectively. This happens in particular, where commercial banking, equity funds, and other financing instruments provided by the International Financial Institutions and the Development Banks are available.

B. Government strategies: The case of de-risking

Generally, as it concerns Governments in low income countries must address the challenge of risk - political and country risks - in a more robust way. While as said above there is interest, it is still a formidable challenge for the private sector to invest in many countries with high political and environmental risks and that are prone to conflict. Faced with these challenges, some Governments sometimes attempt to put projects into ‘special zones’ or even more to *ring fence* them so that they are somehow not as much affected by the prevailing business conditions.

Ring fencing is not sustainable though. It is very difficult to achieve in practice, while inevitably the conditions of ensuring components supply, borders and custom clearance, etc. eventually intrude and damage the business. A new term for a more radical approach by Governments is emerging – de risking – which conveys what the private sector is really looking for namely a de risking of the country and its PPP programme. They want to see governments demonstrating commitments to reform, establishing sound institutions, the rule of law, a more open for business economy etc. ***going beyond the project itself.***
Specifically, this includes *inter alia*:

(i) Improvements in the doing business conditions (as set out in the World Bank’ s Doing Business templates) straightforward registration of new businesses, ease of capital repatriation for foreign investors, managing currency fluctuations so that currency risk is minimized and other actions.

(ii) Development of capital markets

The country's credit worthiness is also a fundamental requirement in encouraging project finance including attracting offshore financing interests. Availability and development of local financing markets also eases the structuring of deals and often times lowers attendant financing costs.

(iii) A consistent policy framework and the five core requirements:

- ZTC;
- Neutral arbitration;
- Repatriation of profits;
- Level playing field in procurement and full disclosure of information **and**
- Consultation with local people for a sustainable legal framework for people first PPPs (see Principle 3).

Of course, this is a considerable challenge. Technical assistance and other supports will be needed (e.g. risk mitigation instruments such as political risk guarantees provided by the Multilateral development banks) for governments form the outside. But the risks are so high and the likelihood of companies interested in competing for tenders in infrastructure projects so small, that governments should look at possible de -risking strategies rather carefully – especially as these actions may be in fact requirements for the mobilisation of resources to achieve the SDGs.

C. New forms of Partnerships

Faced with the scale of such challenges and sometimes the crippling effects from war, disease and famine Governments have huge immediate needs to address:

- Refugees and other displaced persons
- Broken bridges that can prevent people from going to receive urgent medical attention
- Collapse of electricity and power systems
- Ensuring food supplies reach their destinations even in remote regions

Innovative forms of Partnership are needed to support countries coming out of conflict and recovering from natural disasters:

- Local and International NGOs and development agencies can conduct interventions that create conditions for reducing risks in the long-term, for example by promoting state building and peacebuilding processes, strengthening disaster risk management and promoting economic reforms that increase resilience.[25]
- Governments and NGOs can establish Public NGO Partnership to deliver core services such as health, education, and nutrition.

[25] OECD Development Assistance and Approaches to Risk in Fragile and Conflict-Affected States

These strategic actions can contribute to develop People-First PPPs where basic infrastructure needs are most required.

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

Principle Number 6 - Procurement: Promoting Value for People

The Public Procurement system should be used to support the promotion of People first PPPs that will contribute to achieving the SDGs and the Paris Climate Agreement: that is projects which optimize VfM (Value for Money) but also 'Value for People 'and using competitive, fair and transparent procedures to achieve targeted sustainable development objectives.

Challenge

Public Procurement systems tend to be organised around the achievement of 'value for money'. Tools are used to measure in fact where value for money has been achieved. However, VfM approach to inform PPP decision-making is difficult, can be manipulative and controversial. Nevertheless rather than solely relying on VfM assessment, it is worthwhile to governments to understand whether or not implementing a project now as a PPP comes at a cost, and if so, to weigh this cost against the associated benefits. This said, generally, the public procurements systems do not seek to achieve broader values for PPP including impacts related to achieving the SDGs.

Solution

Governments should put in place systems that is guided by value for money and uses value for people approach, with people at their core and sustainable development as their objective.

SDGs impacted

Myths addressed

* * *

Introduction - Definitions, Context, Challenges

Procurement in infrastructure projects is one of the most important phases, as it is where the definition and implementation strategies of a project are defined. In addition, it is in the procurement phase where negotiations and innovation of business models between public and private partners are designed. People First-PPPs in this regard require a very comprehensive design, in a way that national and subnational objectives and strategies are addressed, having an optimum impact on People, Planet and Prosperity.

Procurement can be often misunderstood. They can for example often be perceived as a highly technical function suitable only for people with correspondingly highly technical skills. But 'people first' PPP needs the involvement of people – citizens, consumer groups, other stakeholder organisations, etc.

Challenges - Many Governments eagerness to start projects can often forego the need to undertake proper procurements. Private companies can sometimes approach Governments – what are termed unsolicited bids – with schemes that sound too promising to refuse.

The number of infrastructure projects required to achieve the SDGs will put a strain on many countries ' existing systems that are not big enough to cope. The lack of effective public procurement schemes is a challenge precisely in countries where people first PPP projects are so badly needed.

People first requires that the people trust the system for selecting the partners.

A. Integrating people first criteria into procurement systems

The ways in which competitive tenders are organised need to integrate the people first principles. Tenders should be organised so that the 'winners' are those that demonstrate their ability to successfully meet procurement evaluation specifications like:

- Improving access to services
- Overcoming social inequalities
- Fit for purpose design and services
- Economically transformational
- Facility resilient against climate change threats
- Cutting CO2 emissions
- Introducing efficiency and reducing costs
- Increasing the quality of service
- Advancing the position of women as entrepreneurs in society and promoting gender balance in the workforce
- Providing training to local workforces for the transfer of skills
- Supporting local decent and sustainable employment

The PPP models firstly need to be refocused. Instead of specifying inputs in a PPP, the public authority should specify its requirements in terms of 'outputs'. 'Inputs' as in traditional procurement - set out building assets, which put in place are expected to deliver the desired level of public services. However, input based specifications do not leave the responsibility with the service provider on what should be inputs to achieve the desired outputs (e.g. instead of specifying the type and number of lights, the lux levels required to be achieved for the facility will be specified, leaving the choice of inputs to the service provider).

Further for People first PPPs, outputs by themselves don't mean much if they do not lead to the desirable outcomes and impacts. Hence the People first PPP contracts should also specify measurable outcomes (e.g. while not specifying the pipes and pumps and treatment system in a water supply project as inputs; they should not only specify the outputs in terms of the quality of potable water delivered at the tap of a consumer along with other technical requirements like pressure etc.; but also specify the expected reduction in the occurrence of water borne diseases from an existing baseline).

While measurable outcomes are more easier to monitor in a shorter period after achievement of outputs, sometimes even within the contract period if it is a concession type long term contract, the achievement of impacts is dependent on conditions beyond the project boundaries and can best be monitored by the governments for defining the sector development plan strategies (e.g. reduction of water borne diseases may result in consumer not losing wages and make him/her available for productive work, but such enhanced work contribution leading to an increase in economic productivity as a impact is dependent on many other factors).

Achievement of measurable outputs by the service provider may need additional consumer education clauses to be built in to the contract, which in traditional PPPs may not exist, but should be a part of the People first PPPs. Thus while non achievement of outputs can be penalized, achievement of outcomes can have incentive payments in a contract.

This is a considerable challenge for governments to do as unlike most commercial products, infrastructure should be built to last many decades. Bridges and most airports are expected to operate for 40-50 years or more; while parts of the water distribution and sewerage systems were designed to last upwards of 100 years. However, in hospitals during the service life of these assets, the external environment will change: new technologies will emerge, the needs of customers and end users will evolve, demand might grow or ebb, and the government will write new legislation and regulation. In PPP contracts for health that combine clinical services delivery and infrastructure, the PPP contracts needs to support ongoing change without having to go to contract re-negotiation. Governments should test the PPP scope and contract design for the level of certainty. As a general rule do not do the detail beyond the certainty horizon.

Now on top of this they have to put the sustainable development criteria not various ‘outputs ‘ and ensure that they translate into robust key performance indicators.

B. PPP procurement systems and management capability

There is a need to insist that the public procurement system can generate inclusive projects that promote growth and the specific country’s development objectives. These are captured through outcomes and impacts of project(s) and sector development plan.

(i) Due diligence

The due diligence process needs to test the contractors and their proposed teams competences, culture, and maturity. A robust vetting of bidders is needed where governments evaluate and qualify potential partners for the opportunity. This should include such due diligence as identifying operational modes and the partnering aspects of a bidding consortia (and, for example, shedding light on those whose offices are registered in a tax haven). Potential bidders should be asked if they adhere to the ten principles of the Global Compact and if they ESG report and have a sustainability report.

Project design stage: Accountability starts when People First PPPs are planned and appropriately designed. Baseline data should necessarily be established for measuring the outputs, outcomes and impacts. Sectorial, national and local regulations should be aligned, so that fiscal and contractual issues are addressed, while PPPs also reflect sustainable national strategies and policies.

(ii) Evaluation

The tender process should be well documented and evaluated. Furthermore, by evaluating the best partner, an equal weighting and balance on social, economic and environmental benefits should be promoted, while integrating as well UNECE criteria for quality of investments as part of the selection criteria. Thus, People-first PPPs can be achieved and more tangible outcomes and impacts on the UN SDGs from country and local perspectives can be obtained.

(iii) Cost

The achievement of these goals should not be at the expense of creating over complicated procedures or accruing excessively high bidding costs to bidders. Procurement must be efficient yet designed to create sufficient competition considering the need for the government to award a contract and move forward with projects and plans. The Interactive Tendering process while still in a competitive environment reducing uncertainty and has consistency led to significant savings in cost [26].

The contractual model and stakeholders for procurement should be carefully revised, as governments can face additional risks and budget constraints in the process. Good governance and transparent pre-qualification, bid negotiation and partner selection processes should be also implemented, to mitigate transaction costs.

C. Transparency and integrity

Overall the process must achieve the highest standards in transparency and integrity.

(i) Fostering transparency

Openness

An open competitive tender is a basic requirement for people first PPPs. The best ways of designing suitable procurement regimes is to ensure that the process attracts bids from the most capable companies and ensures that the possibility of winning is open to all, i.e., there is true competition.
The free flow of information surrounding the contract is a pre- requisite. Governments need to give the public all information on the projects especially on financing issues. (Principles Number)

Publicity

Many PPP projects are advertised to give maximum opportunity to those wishing to make a bid. Best practice support from UN and multilateral banks is very important to help implement efficient and effective procurement strategies, among countries with lack of experience.

[26] https://infrastructure.gov.au/infrastructure/ngpd/files/Volume-2-Practitioners-Guide-Oct-2015-FA.pdf

Process

One of the main causes of corruption in PPPs is the lack of a tendering process or conducting a procurement that is designed to be fair and competitive, but is not. There needs to be at a minimum a competitive tender process, but governments must also look across the spectrum of project initiation, tender, to contract award and operations and put in place many procedures that can address the risk of corruption. These include requirements for preparing accurate feasibility studies, open procedures and known criteria for the award of contracts, independent evaluations and probity systems, and mechanisms which deter and punish offenders

(ii) Fostering trust and integrity

Fostering trust amongst the citizens in the procurement can *inter alia* include:

- Stakeholder organisations *should* have a seat at the selecting table. They indeed are playing an increasing role in procurement with good results. These trends should be reinforced. Such roles for the stakeholders can also involve the monitoring of the performance of the PPP after closure and once operational.
- Legislation is needed to promote consultation if it does not take place. In Switzerland, referenda are used to consult citizens on large scale infrastructure projects like sports stadia or transport projects. There are many other methods, which can be used to achieve trust.
- People think that that there has been a cover up or some other deceitful action in procurement if they have not been provided with clear information. It is up to governments to demonstrate to citizens that open and transparent procedures are in place and projects have been won on clear, fair criteria and in an open way

D. Audit and control

(i) Oversight

When the contract is awarded to a project partner, a governance and quality review system should be established and adhered to, to ensure 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.

(ii) Payment

Payment can be made only after due diligence has been done satisfactorily. Utilizing of bank escrow accounts to effect payments after third party assessment and approval is another practical solution. Third party independent assessor can be audit firms or committee consisting of public and private members. An independent audit office is useful and can work to ensure that the public receive “value for money”, 2value for the environment”, and “value for the people” from the PPP project.

(iii) Whistle blower

Governments should also establish effacement and effective complaints, echeneids, (including whistle blower practices). Everyone should have the right of redress if they feel that the process has in any way been unfair.

(iv) Digitalisation

Digitalization and electronic payment system*s aids substa*ntially to reduce corruption. All files should be available as public records on the Internet. Furthermore, digitalization does not only support governance, but also, monitoring impact of projects.

(v) No to corruption

There should be a zero-tolerance approach to corruption in this regard Governments can map process and procedures recommended in the UNWCE standards on a ZTC approach to procurements along with fully patrician in the suggested machismos for implementation concerned in the Declarations to the ZTC 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.

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

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Principle Number 7 - Resilience and Climate Change

PPPs will be a critical component in building climate change resilience and this should be People-First. A holistic PPP approach will recognise the need to address the interlinked nature of the SDGs and their role through a full life cycle impact on climate resilience. PPPs should help mitigate and adapt to increasing climate change risks and environmental impacts in different infrastructure sectors.

Challenge

People-first PPPs require sustainability and resilience to be imprinted in the design and outcomes: no longer is it sufficient to pay lip service to these issues by simply using green building materials or renewable energy to power a PPP facility.

Solution

Governments need to produce People-first PPPs in a holistic way, with full life cycle impact assessments for all projects and make both internal (administrative) and external (project impact) sustainability and climate resilience a key component of evaluating, scoring, awarding, and implementing a PPP project, Recognising the need to address the interlinked nature of the SDGs and their role through a full life cycle approach.

Myths addressed

Climate change pose no threats to infrastructure development and access to basic services for the world's population.

SDG Impacted

SDG 6. Clean water and sanitation
SDG 7. Affordable and clean energy
SDG 10. Reduced inequalities
SDG 11. Sustainable cities and communities
SDG 12. Responsible consumption and production
SDG 13. Climate action
SDG 14. Life below water
SDG 15. Life on land
SDG 17. Partnerships for the goals

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Introduction - Definition, Context and Challenges

(i) Climate change[27] risks for People-First PPPs

Climate change has a strong effect in the economic growth and well-being of the population. If this unsustainable path continues, around 1,026 million people will be living in extreme poverty without access to basic infrastructure services by 2030.[28]

As a result, countries around the world need to invest US$3.3 trillion in economic infrastructure annually by 2030.[29] This will be exacerbated by rapid urbanization and population growth especially in emerging markets, leading to an increase demand in infrastructure.

Climate shocks will detonate more the shortfall of infrastructure assets and consequently boost the need of significant capital requirements. The United Nations Environment Programme (UNEP) found that the cost of adapting to climate change only in developing countries could potentially reach up to US$300 billion by 2030 billion, and US$500 billion respectively. Even if developing and least developed countries are mostly vulnerable to climate risks, developed regions are still affected and accountable to climate change effects.

The public sector alone cannot bear alone the capital required to enhance resilience of infrastructure, meaning that the private sector plays an increasing role not only to invest, but also to offer solutions that minimize climate change effects at lower costs, while making a sustainable impact to the society. Accordingly, not only typical project infrastructure risks should be taken into consideration, but also climate change risks should be likewise factored-in PPP projects.

(ii) Cross-sectoral impact

As mentioned above, climate change effects have a strong impact on the development of infrastructure across all sectors, leading to significant risks and additional costs worldwide. This hinders the possibility to overcome current infrastructure gaps. Some risks by infrastructure sector are listed below:

- ***Power sector:*** Impact of sea level rise and increasing changes in precipitation and floods can cause collapse of electricity infrastructure, physical damage and operational efficiency of power plants, substations and underground transmission, among others. The move to renewable energy not only helps reduce climate change impacts but also in a water scares world enables more water for people.
- ***Transport and road sector:*** Gradual and extreme changes in temperatures are likely to impact pavements, sea-level rise and storm surges damage highways, roads, tunnels, and bridges due to flooding, inundation in coastal areas, and coastal erosion, among other risks.

[27] The United Nations Framework Convention on Climate Change (UNFCC) defines "climate change" as a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.

[28] World Bank (2015)
[29] European Bank for Reconstruction and Development (2017)

- ***Health:*** Climate change events in particular high temperatures increase the prevalence of diseases in both developing and developed regions (e.g. more cardiovascular and vector-borne diseases), increasing the demands for healthcare infrastructure assets and medical supplies.
- ***Water and sanitation:*** Droughts, floods and storms can cause contamination of water sources, leading to a lack of access to clean water in vulnerable regions. Drainage systems can be also damaged due to extreme weather events.
- **Agriculture:** Desertification and extreme rises in temperature cause additional risks in the agriculture sector, affecting productivity and food security, particularly in developing countries. As agriculture uses around 70% of water it is important to reduce water use.

A. PPPs for climate resilience

(i) New holistic view of PPPs

Promotion of the environment through PPPs is now a broader concept than simply using green building materials or renewable energy to power a PPP facility. Environmental initiatives, and people-first PPPs in particular, now involve a holistic view of PPP projects and a true cradle to grave 'sustainable' perspective and effort with respect to the jurisdiction in which they sit and the communities where they will occur. This will require both short and long-term considerations on the impact of PPPs on the public, the government implementing the project, the users of the PPP facility, the community in which it is located, and traditional notions of the natural environment.

(ii) The concept of an environmentally sensitive PPP is possible and attainable

The concept of an environmentally sensitive PPP that achieve the SDGs will therefore promote resilience in delivering clean water and sanitation (or reduce its impact thereon), use clean energy that is also affordable and economically efficient, provide solutions to public entities while representing the optimal value for money and allocation of public resources, foster sustainable communities and urban and rural environments including reductions in inequalities in communities, markets, and sectors, demonstrate responsible consumption and production of public resources and services, account for a project's impact on climate change and reduce any negative impact, and respect water and land resources, if not contributing to them, by using what is needed, returning what it can, and taking no more resources.

(iii) PPP entails incorporating a full life cycle impact assessment

Environmentally sensitive PPPs must therefore consider the climate resilience that needs to be built in the design of infrastructure along with a full lifecycle impact of PPP, from project inception to completion and disposal, and take into account the full costs of goods, services, and impacts involved in the creation and operation of PPP and tailor their needs and structure with these lifecycle impacts in mind. This means that sustainable value chain processes and activities within the project PPP cycle should be fostered.

B. Key government actions

(i) Focus on investment in resiliency

Governments are challenged to provide public services that are not at the expense of future generations and the natural environment. At the same time, they also will face the challenge of developing infrastructure to last its economic life, considering potential climate change impacts. Despite the importance of this principle, many governments still prioritize short term needs and "development at all costs" over systems that serve their long term needs and are socially and environmentally sustainability. Future governments and citizens should not be burdened with the projects of today, nor have to deal with the environmental degradation that was imposed by these projects.

Resilience, in the broadest context, is a foundational issue that must be addressed. Natural disasters are increasingly more common and more intense, reaching places once thought to be immune to them. Man-made disasters such as oil spills and industrial accidents threaten lives and livelihoods, and acts of malicious invasion and terror continue to rise. Ingraining resilience, both of hard infrastructure and operations/programs, into all public projects should be a base requirement.

Public investment should be directed to finance programmes and projects that support both climate change mitigation and adaptation strategies. For instance, by designing projects to reduce carbon emissions and directly respond to the challenge of resilience.

(ii) PPPs for climate change mitigation and adaptation

A further critical challenge is climate change and the need to promote investments in resilience and the enhanced risks to everyone and especially the poor. These are not necessary optional, as they contribute to long term sustainability and ensuring current development gains are safeguarded for future generations.

Governments must look ahead and implement public services and infrastructure that will serve their current needs but also be able to keep up with the rapid pace of climate change. That means systems that are durable, high quality, and most of all resilient and able to withstand the challenges that Mother Nature may impose. They must also be flexible so that they may adapt to not only changing environmental conditions but also the changing government needs. For this, governments can leverage private investment and technical capacity to bring forward projects that mitigate and adapt to climate change challenges.

An emerging trend in PPPs is their ability to challenge sustainable development issues posed by climate change. PPPs through its package of assets - finance, risk transfer, technology, management skills and efficiency - offer a useful tool in addressing the challenges of climate change. There are in fact, three ways in which PPPs can contribute to mitigating the effects of climate change:

- **First**, technological innovation is required to make the significant shift to a low carbon economy and to bring about the necessary technological breakthrough, increased R&D expenditure is required - not only to develop new technologies but also to make the existing ones more affordable. 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. For example, in the development of carbon capture and storage technologies, which will enable the reduction of carbon dioxide emissions arising from industrial sites, public incentives will be necessary for the private sector to accept the risks of working in these critical technologies.

- **Secondly**, the actual PPP projects themselves 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 water 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 EU counties as a result of the EU landfill directives.

- **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.

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups

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Principle Number 8 - Innovative Financing: Impact Investing

Enabling innovative financing mechanisms is key to achieve the SDGs and impact investing' is a form of financing that has the potential to be a significant contribution to the financing of 'people first' PPPs for the SDGs.

Challenge

The interest of private sector is growing to invest in the SDGs and more and more people are wishing to make investments that are "doing good and doing well" - impact investing. Investors, governments and project developers therefore need to continue to work together to utilize people-first infrastructure projects fit for the impact investing community.

Solutions

Impact investing can play a bigger role is supporting People first PPPs that produce value for people with people at their core and sustainable development as their objective. To be effective, countries need to proactively lead the establishment of a local Fourth Sector through transforming local NGOs into For-Benefit Organisations. While there is strong interest in Impact Investing, there is a very significant shortfall in suitable projects to receive Impact Investment.

Myths addressed

SDG Impacted

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Introduction - Definition, Context and Challenges

People first PPP will need to rely on new sources of funding if they are to be mainstreamed. These types of projects combine *'commercial success with social progress*. And given its goal to achieve an economic return **and** to deliver social and environmental benefits, 'impact investing' is a form of financing that has the potential to be a significant contribution to the financing of 'people first' PPPs.

Impact investing is one side of the same coin with blended finance: blending in financial engineering terms means combining various types of instruments and or levers to achieve more than the "mere addition of two or three layers" of financing or funding. "Blending" is achieved for example when financial engineering allows to "mix & match" various tools and levers to lower a risk exposure or use the value of an asset as a collateral to leverage and extract more value or optimise different sources of funding and or guarantees a means
Mandate - The AAAA in particular, Section 48.

" ..recognize that both public and private investment have key roles to play in infrastructure financing, including through Developments Banks, development finance institutions, through tools and **mechanisms such as public private partnerships,** blended finance which combines concessional public finance with non-concessional private finance and expertise from the public and private sector, special purpose vehicles, non-recourse project financing, risk mitigation instruments and pooled funding structures."

"Blended Finance instruments including PPPs, serve to lower investment specific risks and incentivize additional private sector finance across key development sectors, led by regional national and sub-national government policies and priorities for sustainable development."

A. The Supply issue

Impact investing has the potential and a new industry is growing. There has been considerable growth in funds around the world even in traditional financial centres fuelled by a desire by clients to use their investments to create impact. Such investors are guided by watchwords, 'doing well for doing well'.

As a source of capital, the supply is destined to grow. In the next 20 years 460 billionaires will hand down US dollar 2.1 trillion to their heirs - the size of India's GDP.

There is a further view 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.

The task is to mobilize the funds from private investors and others and channel this capital into sustainable development actions and projects. To date specific sectors are benefiting, such as for example affordable housing, education services and sustainable energy.

More has to be done to make this potential a reality: Impact investing as a source of funding for projects is contributed at a rate of only 0. 2 per cent of global wealth, thus it is far from reaching its full potential. However if this share rises to simply 2 per cent, it could mean over USD 2 trillion invested in impact driven assets.

B. Demand side

The problems in impact funding tended to be found on the demand side. The industry is missing for example:

- Standardized metrics to measure the impact on the ground
- Missing suitable products from a risk and adjusted- return from the perspective of a private client
- Product size: Impact product are rather small, institutional clients need products that are large enough in AuM to minimize their exposure
- Lack of liquidity / closed funds: the lack of liquidity and flexibility when an investor can invest also creates barriers.
- A significant supply of projects that satisfy the combined financial/social requirement for impact investment.

C. Government actions

Governments can intervene more in order to:

- Lead the establishment of a local fourth sector to develop and manage impact investment projects
- Play a more active role in enabling capital disbursement
- Provide tax incentive schemes for environmental/social investing (ex: Netherlands since 1995 for green funds and social investing since 2004)
- Provide first loss guarantee on some products for example. By doing so, it would reassure private investors and raise more private capital. The regulations acts as a catalyst for the development of the market for social responsible savings and investments (tax treatment and allocation of funds)
- Create policies directing capital change the perceived risk and return characteristics of impact investments by adjusting market prices and costs and improving transaction efficiency and market information
- Strong private sector orientation. The government can facilitate the development of public/private partnerships (CFAs and lending partners).

Commentary - What people think

- PPP Units & Government Representatives
- World Bank and IFIs
- Private sector
- Major Groups and Other Stakeholders
- Community Groups