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Official Development Assistance for the development of People-First Public-Private Partnerships

Conference room paper submitted by the secretariat

Summary

The following document has been prepared by Ms. Waleska Guerrero Lemus as a contribution to the discussion under item of the Provisional Agenda, and is being circulated by the secretariat for information as received.

Innovative financing for People first PPP especially in low income county will play a considerable role in completing the SDGs. Development Aid Agencies may be called upon to act as catalysts in the financing of People first PPPs in the countries.

I. Introduction

1. Industry and infrastructure are crucial aspects of development, economic growth and job creation. Water and sanitation, transport, energy, agriculture and healthcare are in concrete key infrastructure sectors that play an important role for human development. Unfortunately, infrastructure development and industrial activities have followed an unsustainable path that has led to further climate change issues and a negative impact on the society.

2. More than 700 million people live under extreme poverty (less than USD 1.90 a day) without having the possibility to cover essential infrastructure needs (World Bank 2016). If the current climate change effects continue the amount of population in extreme poverty could increase to 1,026 million until 2030 (World Bank 2015). Around 1.3 billion people worldwide still do not have access to electricity, 2.6 billion people lack of improved sanitation facilities, and around 800 million rural dwellers do not have

access to an all-weather road and are cut off from the world in the rainy season (World Bank 2012). Furthermore, a total of 844 million do not have access to clean drinking water, and at least 2 billion people use a contaminated drinking water source. It is also estimated that by 2025, half of the world's population will be living in water-stressed areas (World Health Organization (WHO) 2017) [1].

3. For this reason, the United Nations through its agencies and programmes is promoting partnerships to increase prosperity and sustainable development for all, as part of the 2030 Agenda for Sustainable Development[2]. The 17 UN Global Sustainable Development Goals (SDGs) are defined to measure the impact of the Agenda, and within them 169 specific targets are also identified to monitor their progress. Global Goal 17 is defined to foster partnerships to meet all SDGs. Moreover, Global Goal 9 in particular promotes resilient infrastructure, sustainable transformation and innovation.

4. The United Nations Economic Commission for Europe (UNECE) has therefore the mandate not only to promote sustainable infrastructure, but also to enhance partnerships that actually contribute to its deployment. In this context, UNECE developed a new concept of "People-First Public-Private Partnerships (PPPs) as "those partnerships ensuring that out of all stakeholders, 'people' are on the top. Its focus is on improving the quality of life of the communities, particularly those that are fighting poverty, by creating local and sustainable jobs, those that fight hunger and promote well-being, promote gender equality, access to water, energy, transport, and education for all, and that promote social cohesion, justice and disavow all forms of discrimination based on race, ethnicity, creed and culture. People-first PPPs must expand in scale, speed, and spread with more people having access to better services at affordable prices". Additionally, UNECE recommends that infrastructure projects are now measured upon the impact of the 'quality of investment'. This means that People-First PPPs should be designed in a way that make a significant impact on the SDGs, and meet quality criteria such as increasing access and promoting equity, improving environmental sustainability, improving project economic effectiveness, and being replicable and engaging all stakeholders[3]. Making efforts to develop People-First PPPs helps not only to target current global challenges, but also to make progress on the SDGs.

5. Multi-stakeholder partnerships are necessary for People-First PPPs. UNECE calls for action to mobilize resources and develop a 'People First-PPP Framework' with guidelines and an evaluation methodology for the design, implementation and monitoring of People-First PPPs. Official Development Assistance (ODA) is among the most important international public resources targeting poverty reduction and the SDGs through infrastructure development. Around 6 to 7% in infrastructure financing in developing countries come from ODA partners. In addition, approximately 37% of Official Development Financing (ODF) has been mobilised for green infrastructure (OECD 2015). UNECE consequently recognizes ODA as a vehicle to partner with key stakeholders for the development of People-First PPPs and thereby contribute to the UN 2030 Agenda.

[1] Retrieved from http://www.who.int/mediacentre/factsheets/fs391/en/

[2] The UN 2030 Agenda for Sustainable Development is a transformative Action Plan for People, Planet and Prosperity https://sustainabledevelopment.un.org/post2015/transformingourworld

[3] Retrieved from http://www.uneceppp-icoe.org/people-first-ppps/what-are-people-first-ppps/

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II. ODA Implications for the development of Public-Private Partnership Projects

6. ODA resources spent to meet infrastructure gaps in developing countries: Around USD 1 trillion is spent on infrastructure every year. However, two to three times more this amount is required until 2030, especially in energy, water and sanitation sectors.

Approximately USD 79 billion of ODA sources from Development Assistance Countries (DAC) has been oriented to economic and social infrastructure (OECD 2016). In terms of geographical distribution, Asia received the largest share of ODF for infrastructure with 46%, followed by Africa with 31%, Americas with 15% and finally Europe with 8%. Lower Middle Income Countries (LMICs) received 42%, Upper Middle Income Countries (UMICs) 36%, and Low Income Countries (LICs) 22% of ODF for infrastructure development (OECD 2016). Still, ODA cannot solely meet infrastructure gaps in developing and Least Developed Countries (LDCs). Fifty three times the size of ODA in private finance is needed to reach the 3-4 trillion required for achieving the SDGs (World Bank 2017). [4] For this reason, other financial sources, in particular private sector finance and innovative instruments are required so that infrastructure requirements are met in a sustainable way, particularly in LICs and fragile states where basic services are most needed. OECD with the "Policy Framework for Investment" has undertaken already efforts in this matter, but more resource mobilisation and innovative models are required to attract public-private partnership agreements and further governmental efforts for development challenges. In particular, the private sector is normally reluctant to invest in countries with lack of political stability, mostly in conflict-affected states that actually live under poorest conditions and with lack of basic services for a good quality of life.

7. ODA allocation and capacity built in developing countries for sustainable infrastructure: Net ODA grew 7.1% in 2016, of which contributions made by DAC rose to multilateral organizations by 10%. Nevertheless, volume of support for bilateral projects, programmes and technical cooperation rose slightly by nearly 3% in 2016, yet its share of total net ODA fell around 15% on average in 2016, in comparison to the values of 2010 and 2012 (OECD 2017). [5] However, ODA is a very important source for technical capacity to strengthen regulatory, institutional and project development capabilities for developing countries. Not only through financial support, but also by sharing best-practice knowledge in the deployment of green infrastructure and innovative partnership models that make a positive impact on economic, social and environmental dimensions of development. In particular by promoting gender equality and empowerment of women-owned businesses. For this reason, ODA is a primary and important capacity building source for infrastructure development and educational support to sustainably manage resources for the maintenance and continuous improvement of assets.

8. Measurement of ODA impact on the SDGs for developing countries: Measuring development and especially the impact of policies and strategies undertaken in developing countries is a requisite to make progress on the UN Sustainable Development Agenda. ODA direct flows and official assistance from bilateral and multilateral sources are measured by the OECD and there is likewise a commitment to develop an international standard in order to track the resources invested to achieve the SDGs through the 'Total Official Support for Sustainable Development (TOSSD)'. This includes monitoring of the

[4] Retrieved from http://live.worldbank.org/belt-and-road?CID=ECR_XPL_LangSchedule_EXT_AM2017

[5] Share of support for bilateral projects, programmes and technical cooperation of net ODA amounted to 49% in 2016, whereas this value reached 58% during the period of 2010 and 2012)

types of support covered such as concessional grants and loans, non-concessional loans, private sector instruments, PPPs, among others. Nevertheless, sustainable impact and progress results of these financial resources used in target countries also require measurement. Global challenges and development enabler categories are defined already by OECD such as climate change, environmental sustainability, access to technology and markets, among others, as a way to measure how efforts tackle the SDGs (OECD 2017). However, alignment and a common approach for all countries in need is a hard task, since policies, and priority sectors differ from country to country.

9. Data measurement and analysis of infrastructure projects and PPPs in emerging, developing and Least Developed Countries (LDCs): At a multilateral level, the “PPP Knowledge Lab” of the World Bank is a platform for countries to prepare the enabling environment and readiness for PPP procurement and implementation. Data and benchmarking analysis for UMICs, LMICs and LICs are also available under this platform. PPP procurement, contractual management, governance and regulatory frameworks are indeed crucial for a positive impact of PPPs that deliver infrastructure services. Notwithstanding, PPPs have been conceived initially as an instrument to transfer risks and therefore, steady regulatory and financial conditions are required to achieve ‘Value for Money’. However, PPPs are more than financial instruments, since private sector participation under these schemes also provide technology, services or even capacity building frameworks, under performance-based agreements. Unfortunately, there is lack of evidence in a centralized way, on the overall results achieved until financial close, and if the projects are afterwards sustainable and continuously addressing access to infrastructure services promoting knowledge and creating decent or green jobs, in particular for women in LDCs. Sustainable Key Performance Indicators (KPIs) in different infrastructure sectors are thus likewise a key component for measurement and analysis.

III. Guidelines for ODA support to develop People-First PPPs

10. ODA funding can help raise infrastructure financing from other sources into effective and quality investments: Investments in developing countries across all developing regions are required in order to meet infrastructure gaps. Shortages of private sector investment, including Foreign Direct Investment (FDI) are however a problem in developing countries, in particular due to high risks and the lack of an adequate economic environment. Therefore, ODA could support and help governments incentivize private sector funding with innovative instruments and syndication opportunities, so that infrastructure can be built in developing countries. Still, large- scale projects need a large amount of resources, financing and extensive capabilities. For this reason, development of small-scale projects in LICs, unstable markets or conflict-affected states could be an option to carry out effective and quality investments, supporting as well local Small and Medium-sized companies (SMEs) developed by women or young entrepreneurs. In this way, resources can be mobilised through innovative partnerships and at the same time capacity and infrastructure can be built and replicated in similar regions.

11. ODA should facilitate the enabling environment to mainstream capacity of governments from developing countries to develop and implement sustainable projects: PPPs have demonstrated to be a viable mechanism for infrastructure development. However, PPPs are long-term complex agreements that require significant capabilities and strong regulatory frameworks by the public sector, while conflicts of interest and risks have to be managed in an effective way. Still, innovative payment models under these frameworks support budgetary constraints by the public sector, particularly in UMICs. South-south cooperation for both PPP and sustainable infrastructure development could be enabled through ODA, so that capacity built already in emerging and developing regions can be shared in other countries. Furthermore, the extent of technical cooperation should be

oriented not only to build capacity from regulatory, financial and institutional viewpoints, but also apply this capacity to enable the design of People First PPPs or either large or small-scale projects that support the 2030 Sustainable Development Agenda.

12. ODF should be channeled only to public-private partnership investments that meet sustainable development outcomes: ODA priorities should try to target those countries with most infrastructure needs and with lack of technical capacity, replicating efforts and best practices in other countries. Further to this, ODF should be channeled only to projects that have a sustainable impact and are scalable in more countries; most of all if the private sector is involved under a PPP scheme. In this way, “Value for Sustainability” can be from now on promoted by governments during tender processes. This means, that not only economic aspects are taken into account, but also social and environmental criteria are factored in the design and bidding phase of projects, consequently supporting green procurement principles. Private partners are not responsible for delivering infrastructure services to citizens, but allow the public sector to offer them with innovative and cost-effective solutions over the long term. If governments and ODA partners request innovation for sustainable impact of infrastructure projects then the private sector will make efforts to implement solutions and even provide the technical capacity and consultative services required. In addition, part of the sustainable criteria should be the integration of women participation, green solutions and decent employment.

13. Evaluating sustainable impact of projects during design, procurement and implementation are crucial for ODA strategies and investments, in order to contribute to targets set in the Sustainable Development Goals (SDGs): As OECD already established TOSSD to monitor financing channels, including partnership agreements such as PPPs, and its impact on high-level challenges in particular climate change and environmental sustainability, a specific programme for “People-First PPPs" can also complement this framework. This by monitoring social economic and environmental impacts of PPP infrastructure projects. Consequently, ODA partners could introduce a sustainable infrastructure project funnel, considering financial, social and environmental criteria, particularly addressing gender-related problems. If baseline KPIs for sustainable investments and impact categorization are defined upfront, monitoring of project results and mapping to the SDGs are more feasible to be conducted.

14. The introduction of ‘ODA People First PPP-Framework’ between DAC countries and other ODA partners, the World Bank and UNECE could support sustainable investments that cover infrastructure gaps and meet “People First” PPP criteria: World Bank’s Knowledge PPP Lab and OECD’s TOSSD are examples of project initiatives and knowledge platforms for both PPPs and monitoring of financing channeled to sustainable projects. A People-first PPP Framework could support both approaches and target ODA implications in addressing sustainable infrastructure gaps with the objectives of: a) mobilise financing b) build capacity for the design of sustainable infrastructure projects (People-First PPPs), and c) measure impact indicators of these projects on the SDGs. UNECE is therefore interested in undertaking efforts to develop this framework, by developing guidelines and a standard evaluation methodology through all project stages with People-First PPP criteria. At the same time UNECE aims as well to apply this framework in pilot projects, particularly addressing gaps in LICs, while measuring impact on the SDGs.

IV. Discussion Questions

a) Impact: Is public taxpayers’ money well spent from an impact point of view (Does private finance in PPP improve access, make the planet more safe, contribute to prosperity etc.) and how can ODA increase the chances of private finance having such an impact, e.g. make it People First?

b) Risk and Financing: To what extent is ODA likely to promote high risk PPPs or what precisely should ODA do to make People First PPPs an effective developmental tool? Are there examples of successful infrastructure financing instruments in developing countries?

c) Feasibility: In conflict and extreme fragile states and with dire social need (e.g. no effective health services) the private sector is normally reluctant to invest. Governments do not have normally the capabilities of developing People First PPP projects. It can take realistically up to ten years before these states can have such capacity. Should ODA be more focussed on assisting different type of partnerships such as those between governments and NGOs and humanitarian agencies, or other forms of partnerships with the private sector? (As mentioned in SDG 17).

d) Criteria: Which People-First criteria or key categories would you consider to evaluate the impact of sustainable dimensions of projects?

V. Actions Ahead

(i) Can a People First PPP-Framework be an interesting initiative to transform and scale up smart, sustainable "People First" (PPPs) and/ or other small-scale partnership projects for sustainable infrastructure, thus making progress on SDGs, with more transparent tangible evidence? If so, would there be interest to develop a project for its implementation, and make a proposal for further support (e.g. We-Fi Initiative (World Bank))? [6] Are there any other similar initiatives?

(ii) Could a centralized ODA platform be useful for monitoring and benchmarking sustainable impact of infrastructure projects, so that data is better analyzed and mapped to the SDGs?

(iii) Are there interesting pilot projects that could be developed under this framework, in particular promoting women entrepreneurship and development in LICs or conflict-affected states?

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