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Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?

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ABSTRACT

In light of a cautious emphasis given to public-private partnerships (PPPs) as a mechanism to finance infrastructure projects and highlighting the need for capacity building and knowledge sharing at the Third International Conference on Financing for Development in Addis Ababa, this paper reviews the extant literature on the subject and identifies areas requiring better understanding and institutional innovation for ensuring value for money, minimizing contingent fiscal risk and improving accountability. An institutional capacity to create, manage and evaluate PPPs is essential to ensure that they become an effective instrument of delivery of important services, such as infrastructure. There is also a need for a common definition of PPPs and internationally accepted guidelines, including uniform accounting and reporting standards.

JEL Classification: H41, H54, L32, L33, O18

Keywords: Public-Private Partnerships, value for money, infrastructure, Addis Ababa Action Agenda, sustainable development

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1 Introduction

The Addis Ababa Action Agenda (AAAA) of the recently concluded Third International Conference on Financing for Development (Addis Ababa, 13-16 July 2015) recognizes that "both public and private investment have key roles to play in infrastructure financing, including through (…) public private partnerships" (paragraph 48, AAAA). However, the AAAA also highlights the need to "build capacity to enter into PPPs, including as regards planning, contract negotiation, management, accounting and budgeting for contingent liabilities". It further stresses the need to "share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards".

While the AAAA highlights PPPs as a potential source for infrastructure investment, the language was carefully negotiated to take into account lessons learned from past PPPs. The emphasis on the need for fair risk-sharing and accountability is a response to the concerns of governments as well as many civil society organizations and public sector unions regarding the public sector costs and risks associated with many PPPs. Consequently, the AAAA confirms the need for private and public partners to be thoughtful in the design and implementation of PPPs to prevent pitfalls from the past, especially in light of the challenges related to the implementation of the ambitious 2030 Agenda for Sustainable Development.

However, some experts have argued that such pitfalls are unavoidable. They hold the view that PPPs simply "do not work" because of the incongruence of objectives of the public and private sectors. For example, Loxley and Loxley (2010), after a series of thorough and exhaustive case studies of PPPs in Canada involving schools, bridges and water treatment plants to social services and hospital food concluded that the claims of reduced cost and efficient delivery of services through PPPs to save tax payers money and benefit consumers were mostly empty and labelled them as ideological assertions. They found that PPP projects were more costly to build and finance, provided poorer quality services and were less accessible compared to publicly built and operated projects. Moreover, many essential services were less accountable to citizens when private corporations were involved. The study also found that the chief motive for the public sector to pursue PPPs in Canada was to get the projects "off book" and to give the appearance of lower debt levels. By quoting from a report of the rating agency Standard and Poor's, which found that investors in PPPs face "a relatively benign risk" and that penalty clauses for non-delivery by private partners are "less than rigorous", the study questioned whether risk was really being transferred to the private partners in these projects.

Whitfield (2010) provided a survey of PPPs around the world, showing how the model has been adapted to the economic, political and legal environments of different countries in Europe, North America, Australia, Russia, China, India and Brazil. It also examined the growing secondary market in PPP investments, "buying and selling schools and hospitals like commodities in a global supermarket" (p. 183) as well as the increasing number of PPP failures, usually as a result of investors' "miscalculations; states pick up the tab when they walk away". It found cases of deceptive techniques of assessing value for money (VfM) and manipulations of risk transfer so that PPPs appear to out-perform traditional public provision. Most importantly, Whitfield claimed that PPPs undermine democracy by systematically reducing the responsibility, capability, and power of the state.

As stated in Hall (2015, p.3), "private sector corporations must maximise profits if they are to survive. This is fundamentally incompatible with protecting the environment and ensuring universal access to quality public services."

While this may be seen as an extreme view, many observers (e.g. Harris 2003; Cavelty and Suter 2009; Bain 2009) believe that PPPs are not a simple panacea or a "silver bullet" to fill the huge financial gap in infrastructure investment. For example, evaluations done by the World Bank, International Monetary Fund (IMF) and European Investment Bank (EIB) – the organizations normally promoting PPPs – have found a number of cases where PPPs did not yield the expected outcome and resulted in a significant rise in government fiscal liabilities.[2]

In light of the above, this paper will discuss recent findings on the effectiveness of PPPs and reflect on their suitability as a key vehicle to implement the 2030 Agenda for Sustainable Development, as well as the AAAA. The paper begins with a brief history of PPPs followed by a discussion of the concept of PPPs and trends in infrastructure PPPs in developing countries. It then provides a synthesis of findings on the performance of PPPs followed by an analysis of the key issues underpinning successful PPPs, namely those that result in Value for Money in its broadest sense. The paper also outlines a broad enabling institutional framework for PPPs and reflects on recent efforts to develop common guidelines for successful PPPs. Lastly, it puts forward concrete recommendations on how such guidelines could be strengthened in support of the 2030 Agenda for Sustainable Development.

2 PPPs: A brief history

Public-private partnerships are not new. As a matter of fact, concessions, the most common form of PPPs – where the private sector exclusively operates, maintains and carries out the development of infrastructure or provides services of general economic interest – date back thousands of years. During the time of the Roman Empire, concessions served as legal instruments for road construction, public baths and the running of markets. Other famous examples include medieval Europe, where as early as 1438, a French nobleman named Luis de Bernam was granted a river concession to charge the fees for goods transported on the Rhine.[3] Examples abound since the turn of the seventeenth and eighteenth century with many infrastructure facilities (water channels, roads, railways) in Europe and later in America, China and Japan privately funded under concession contracts.

While the practice has been around for millennia, the term "Private-Public Partnership" or PPP was coined and popularized in the 1970s, when neo-liberal ideas began questioning the previously dominant Keynesian paradigm and the role of the state in the context of poor economic performance. Instead of ascribing poor economic performance to the failures or inadequacies of the market, government failure or inefficiency was blamed. [4] New ideas, such as New Public Management (NPM), became the new vogue. In this context, PPPs were often invoked as alternatives to bureaucratic public services and inefficient state owned enterprises, often for the promotion of privatization (Cavelty and Sute 2009). It was argued that handing over public tasks to private actors, (i.e., to privatize them, or to contract them out, or at least to carry them out in partnership with private businesses) was the main means to downsize the role of the state, to enhance the efficiency of the public administration and public service provision, and to reverse previously alleged crowding out of the private sector by state owned enterprises (see, Savas 1982).

2 See Akitoby et al, 2007; Hemming, et al, 2006; Bain, 2009.

3 See, for example, Bezançon, 2004.

4 For more on the impact of monetarist and neoclassical theories on PPPs in the 1970s, see for example: Gomes, 1990, p. 170.

Initially, PPPs involved urban construction projects to facilitate joint development and renewal of problematic urban zones (Budäus and Grüning 2004). The modern version of PPPs – whereby the private company is paid by the government rather than by consumers – evolved in the UK in the 1980s ostensibly to enable the government to develop infrastructure while adhering to strict borrowing limits or fiscal rules to address rising public debt. PPPs were seen as mobilizing private finance for public ends, under the rubric of the private finance initiative (PFI). Over time, the concept of PPPs expanded to include joint technology or ecological projects, as well as partnerships in the area of education, health services, and prison incarceration (see, Vaillancourt 2000). It has become an extremely heterogeneous concept and, according to the critics (e.g. Linder 2000), it has now evolved into a catchall label for all possible new or known forms of collaboration between the public administration and the private sector.

3 What are PPPs?

The goal of PPPs is to exploit synergies in the joint innovative use of resources and in the application of management knowledge, with optimal attainment of the goals of all parties involved, where these goals could not be attained to the same extent without the other parties (see Jomo and Chowdhury 2009; Linder and Vaillancourt 2000). However, as the OECD (2012) highlighted: "there is no widely recognised definition of PPPs and related accounting framework. Eurostat, IASB, IMF, IFRS and others work with different definitions." Similarly, the IMF (2004) noted: "There is no clear agreement on what does and what does not constitute a PPP …The term PPP is sometimes used to describe a wider range of arrangements."

Annex 1 provides definitions of PPPs by selected international organizations and the private sector, including academics. Callan and Davies (2013, p. 6) observed, "it is a problem that the term "public-private partnership" is so bewilderingly catholic. Its meaning needs to be broken down in some way in order to permit sensible discussion".

As can be seen from Annex 1, not only different institutions promoting PPPs differ in their definition of PPPs, but also countries are using their own definitions in national laws and policies. Although there are some common elements, authors do not use the same language and include the same characteristics in defining PPPs. According to Romero (2015, p. 12), "The vast literature on PPPs reveals at least up to 25 different types of PPPs". Table 1 summarizes various conceptualizations of PPPs by different authors as well their implied dimensions.

The lack of definitional clarity may result from the fact that PPPs, according to Grimsey and Lewis (2005, p. 346), "…fill a space between traditionally procured government projects and full privatisation".[5] In addition to PPP contracts, the space between traditional procurement and full-scale privatization may include short-term management and outsourcing contracts, concession contracts and joint ventures between the public and private sectors.

In practice, the definition of PPPs varies depending on the degree of ownership of assets and capital expenditure by the private partners. For example, in the case of management contracts, the private partners have very limited or no capital expenditure. On the other hand, in the case of a Design, Build, Own, Operate (BOOT) contract, the private partners are responsible for the design, building, operation and financing of a capital asset. In such a PPP, private partners receive payment from either the government (at regular intervals) or user charges, or both for delivering the services. Thus, there can be many variants of PPP schemes depending on the separation of asset ownership and risk-bearing between the public and private sector actors (Roehrich, et al. 2014). Figure 1 presents variations of PPPs in terms of distribution of responsibilities between the public and private sectors, asset ownership and the associated degree of

5 Quoted in OECD (2008, p. 16)

Table 1
Differing conceptualizations of public-private partnerships

Definition	Dimensions
An arrangement between two or more entities that enables them to work cooperatively towards shared or compatible objectives and in which there is some degree of shared authority and responsibility, joint investment of resources, shared risk taking, and mutual benefit (HM Treasury 1998)	■ Inter-organizational relationship; ■ Cooperation; ■ Shared objectives; ■ Joint investments; ■ Risk sharing
Public-private partnerships are on-going agreements between government and private sector organizations in which the private organization participates in the decision-making and production of a public good or service that has traditionally been provided by the public sector and in which the private sector shares the risk of that production (Forrer et al. 2010).	■ Risk sharing ■ Inter-organizational relationship
A legally-binding contract between government and business for the provision of assets and the delivery of services that allocates responsibilities and business risks among the various partners (Partnerships British Columbia, 2003)	■ Contractual governance; ■ Risk allocation
The main characteristic of a PPP, compared with the traditional approach to the provision of infrastructure, is that it bundles investment and service provision in a single long term contract. For the duration of the contract, which can be as long as twenty or thirty years, the concessionaire will manage and control the assets, usually in exchange for user fees, which are its compensation for the investment and other costs. (Engel et al., 2008)	■ Bundling ■ Service provision ■ Long-term contract
Partnerships which include contractual arrangements, alliances, cooperative agreements, and collaborative activities used for policy development, program support and delivery of government programs and services (Osborne 2000)	■ Contractual governance; ■ Inter-organizational relationship
A relationship that consists of shared and/or compatible objectives and an acknowledged distribution of specific roles and responsibilities among the participants which can be formal or informal, contractual or voluntary, between two or more parties. The implication is that there is a cooperative investment of resources and therefore joint risk-taking, sharing of authority, and benefits for all partners (Lewis 2002)	■ Inter-organizational relationship; ■ Shared objectives; ■ Mutual investments ■ Risk sharing ■ Benefit sharing
A relationship involving the sharing of power, work, support and/or information with others for the achievements of joint goals and/or mutual benefits (Kernaghan 1993)	■ Inter-organizational relationship; ■ Cooperation; ■ Power and information sharing ■ Shared objectives

Source: Roehrich et al (2014)

public sector risk. It is important to note that the chart does not say anything about the relationship between different PPP contracts and their value for money (VfM), which will be discussed later. For example, while greater private sector responsibility will reduce public sector risk exposure by default, a badly designed PPP of any type can carry significant risks for the public in terms of reduced coverage, poor quality of service, or contingent fiscal liabilities. Figure 1 also proposes to distinguish between "core PPPs" and related arrangement. "Core attributes" for PPPs have the following characteristics (World Bank, 2012):

a. A long-term agreement between a government entity and a private company, under which the private company provides or contributes to the provision of a public service.

b. The private company receives a revenue stream—which may be from government budget allocations, from user charges, or a combination of the two—that is dependent on the availability and quality of the contracted service. The agreement therefore transfers risk from the government entity to the private company, including service availability or demand risk.

c. The private company must generally make an investment in the venture, even if it is limited, e.g., to working capital.

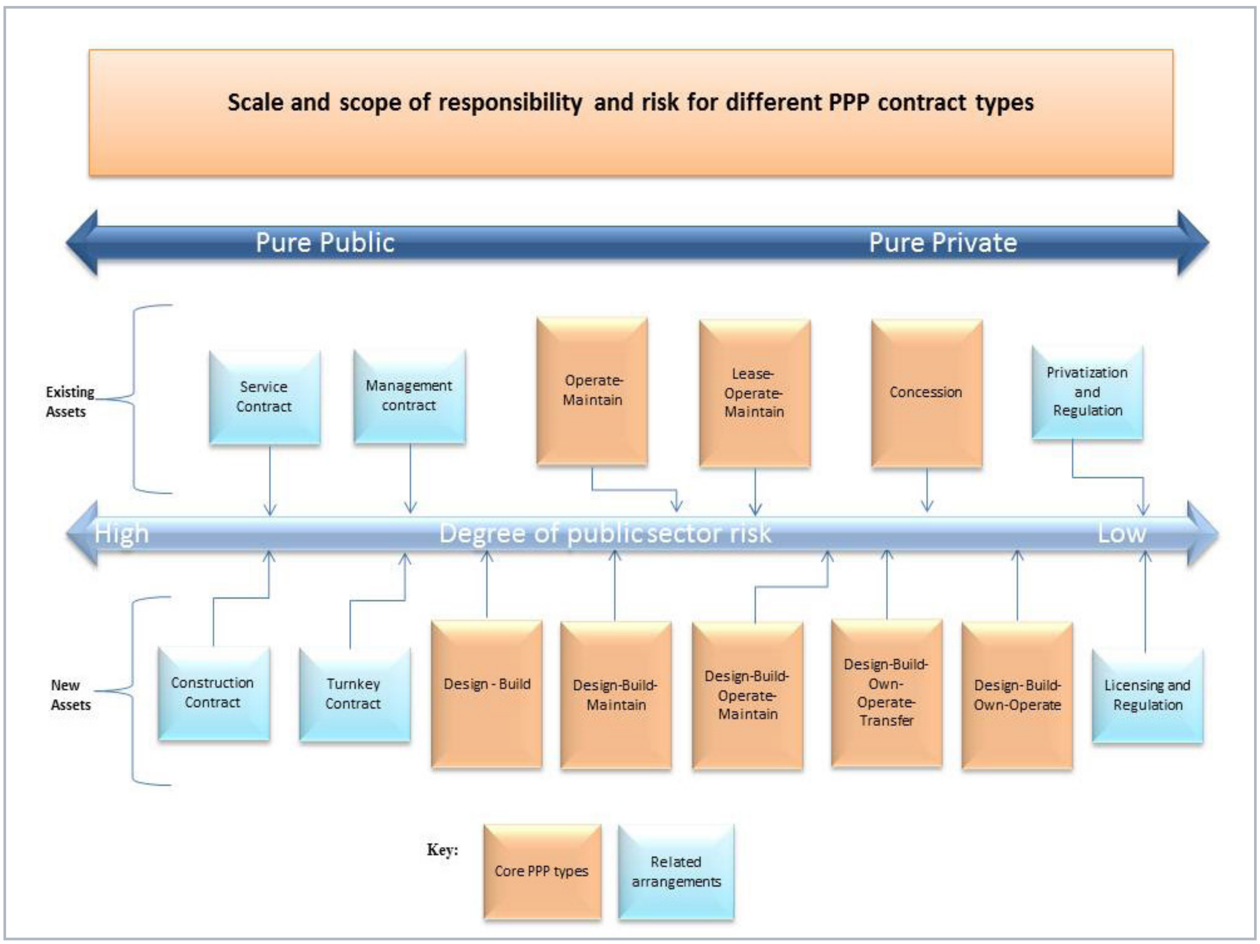
d. In addition to budget allocations, the government may make further contributions, such as: providing or enabling access to land; contributing existing assets; or providing debt or equity finance to cover capital expenditures. The government may also provide various forms of guarantee that enable risk to be shared effectively between the government and the private company.

e. At the end of the PPP contract the associated assets revert to government ownership.

Cross-industry studies also capture the variants in PPP arrangements including by sectors, project sizes and ownership structures. According to Roehrich et al (2014, p. 113), "Perhaps inevitably this diversity has meant that the specific definition and type of PPP project is often variable and sometimes unclear".

The wide range of contractual arrangements paired with the lack of clarity and variations in definition make it difficult to generalize findings about PPPs.

Figure 1
Variations of PPPs and distribution of risk



Sources: Based on World Bank (2012) and Roehrich et al (2014)

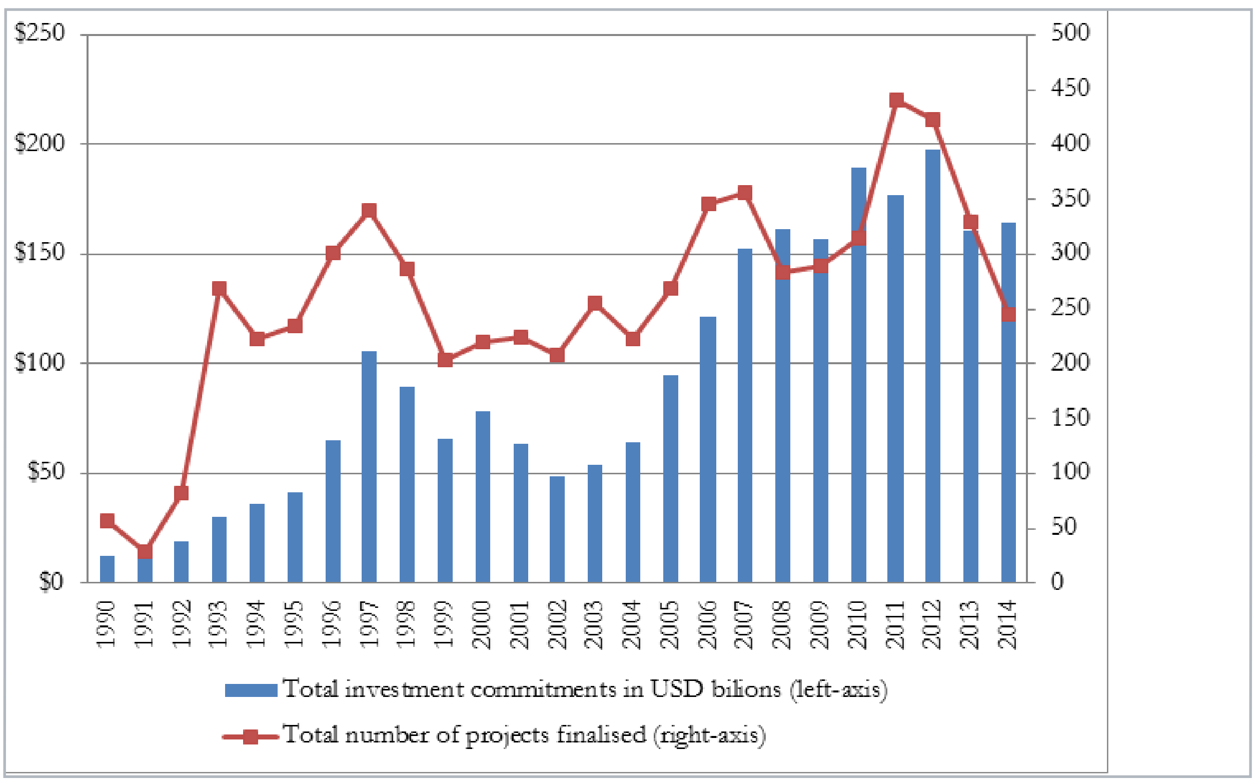
This is compounded by the paucity of studies or evaluation of PPPs in developing countries. "To date the predominant countries for PPP research have been the USA and UK (63% of the total PPP-related publications)" with some recent studies focusing on Australia, Netherlands and Germany (Roehrich et al. 2014, p. 113). The study of partnerships between official aid agencies and business or "blended finance" is even rarer as this is a very recent development (see Box 1).

4 PPPs in Infrastructure: Trends in developing countries

As can be seen from Figure 2, there has been a sharp rise in the private sector's participation in infrastructure during the 1990s, peaking in 1998. After declines for 2 years, both the number and amount rose again for more than a decade until 2012. The average size of projects increased from $182 million in 2003 to $322 million in 2013, but peaked in 2010 at $410 million (World Bank, 2014a). As observed by Flyvbjerg (2014), this is a sign of the growing trend in megaprojects in infrastructure.

However, it is important to note that private finance provides a small portion of aggregate infrastructure investment in the developing world. According to the IMF (World Economic Outlook, October 2014, p. 79, fn 9), "public infrastructure investment still dwarfs private, as infrastructure investment via public private partnerships is still less than a tenth of public investment in advanced economies and less than a quarter of public investment in emerging market and developing economies". The World Bank has also indicated a similar pattern for the last decade in developing countries: "private capital has contributed between 15 and 20 per cent of total investment in infrastructure" (World Bank 2014b, p. 2).

Figure 2
Private participation in infrastructure projects and investment commitments, 1990 – 2014



Source: World Bank, Private Participation in Infrastructure Projects Database (http://ppi.worldbank.org/

Box 1

Blended Finance- PPPs with Donors

Much like PPPs the concept of blended finance is not clearly defined. For example, a United Nations expert group suggests a broad definition with blended finance encompassing "a large portfolio of potential instruments, including instruments provided by DFIs [development finance institutions] to leverage private finance (…) as well as traditional public private partnerships" and "structured public-private funds and innovative 'implementing partnerships' between a wide range of stakeholders" (United Nations, 2014, p. 37). OECD and the World Economic Forum (OECD-WEF 2015, p. 8) refer to blended finance in a more narrow sense as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets." Donors are increasingly following the latter concept and moving towards channelling aid money through the private sector in the hope that it can leverage large sums of private sector financing. However, Callan and Davies (2013) point out a triple deficit in this donor strategy. First, the term "partnership" is used to cover a bewildering array of arrangements, such that it is almost a semantic cipher. Second, there is little information available on just how specific partnerships are built and implemented. Third, there is as little, or less, information on which partnerships have achieved substantial development impacts, and how. The resultant void tends to attract critics, who see a hidden agenda to help multinational corporations gain a stranglehold over global supply chains, or at least to substitute private finance for official aid, which has declined since 2010 as a percentage of donor GNI. Callan and Davies find "no comprehensive policy framework for business engagement; nor is there any explicit set of principles to guide decisions on the allocation of aid funds to business partnerships" (p.2). Callan and Davis also note that donors tend somewhat to favour corporations headquartered in, or identified with, their own countries. Thus, this new strategy "can give rise to a perception that public-private partnerships are vehicles for the pursuit of donor countries' own international trade and investment promotion agendas" (p. 3). Critics also caution that failed experiences at home are not taken into account in the donor push for PPPs in developing countries. For example, the OECD (Miyamoto and Biousse 2014, p. 31) states "donor countries that have domestic experience in private participation in infrastructure should take them into account—success and failures—when promoting private participation in developing country infrastructure. This applies to countries including Spain and Portugal where the extensive use of PPPs led to overinvestment in domestic infrastructure, contributing to the countries' financial crises. (...) If certain modalities are hugely unsuccessful in OECD countries, they are unlikely to succeed in less developed countries where cost recovery is more difficult".

Moreover, the claim that modest donor involvement through blended finance can leverage large quantities of private investment amounts in developing countries seems questionable. How could incremental reductions in required returns (e.g., through small subsidies or guarantees) make a large number of projects commercially viable, when the private sector consistently points out that the real constraint on investment is the lack of bankable projects? Consequently, the potential for blended finance or leveraging private sector resources through ODA may be overstated. If this is the case, then capacity building for project development deserves greater attention from donors than blended finance.

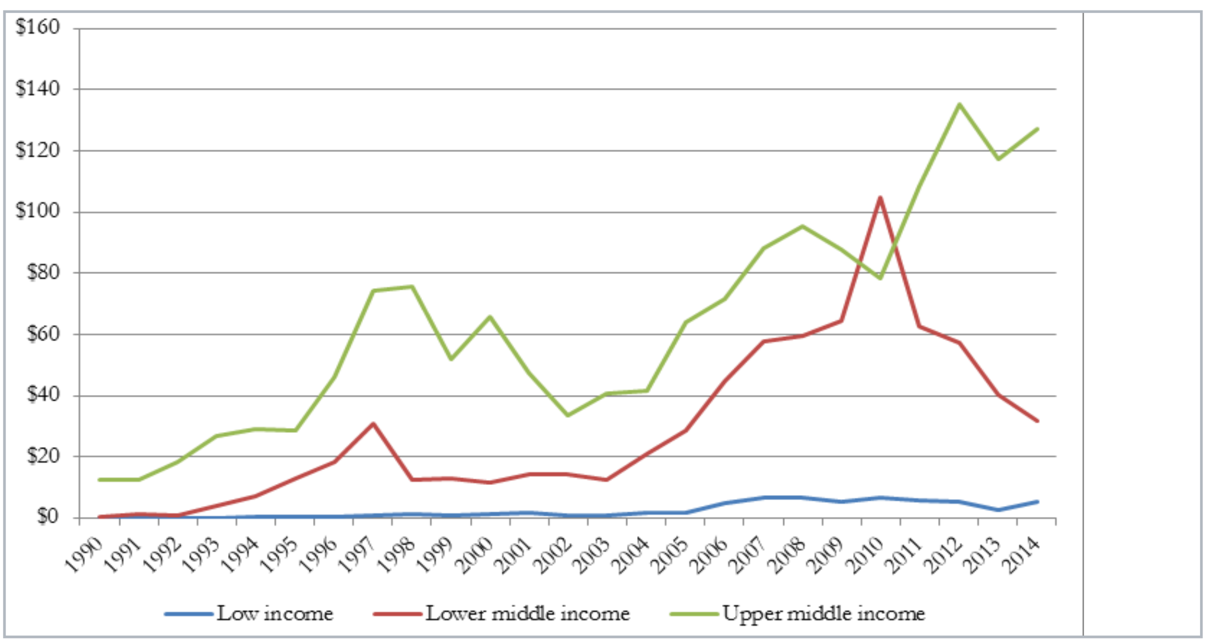
Figure 3a shows that such private sector participation in infrastructure is primarily in upper middle-income countries. The low-income countries did not attract much private sector investment, and there has been a sharp decline in the lower middle-income countries since 2010. Cumulative private investment over the period 1990-2014 in low-income countries was only $61 billion compared to about $1.6 trillion in upper middle-income countries (fig. 3b). In general, PPPs tend to be more common in large and developed markets to allow for a faster recovery of costs and more secure revenues. This implies a selective bias in PPPs, known as 'cream-skimming', which also occurs within countries, with investment directed towards affluent urban areas. Econometric study of the IMF (see Mona, Ruhashyankiko and Yehoue, 2006) also confimred this selection bias. It found that after adjusting for population, PPP concentration was more likely in larger markets with greater consumer demand and macroeconomic stability.

As a region, Latin America received the largest share of private infrastructure investment – $937 billion out of total of around $2.4 trillion – followed by East Asia and Pacific ($402 billion) and South Asia ($395 billion). In fact, Latin America drove the PPP growth in the early-1990s. However, PPP activities in the region remained flat since the mid-1990s due to several factors, including the Argentinian currency crisis and a series of project failures.[6] PPP activities surged in South and East Asia and the Pacific since the early 2000s.

Consistent with the selection bais as revealed in the PPPs' distribution in developing countries by income groups, Sub-Saharan Africa – which lags infrastructure development the most and where 23 of the 36 low-income countries are located – attracted only $154 billion of infrastucture investment from the private sector (fig 4a). Figure 4b presents the total number of infrastructure projects participated in by the private sector. Out of a total of 6,449 infrastructure projects with the private

Figure 3a

Private participation in infrastructure projects in different categories of developing countries

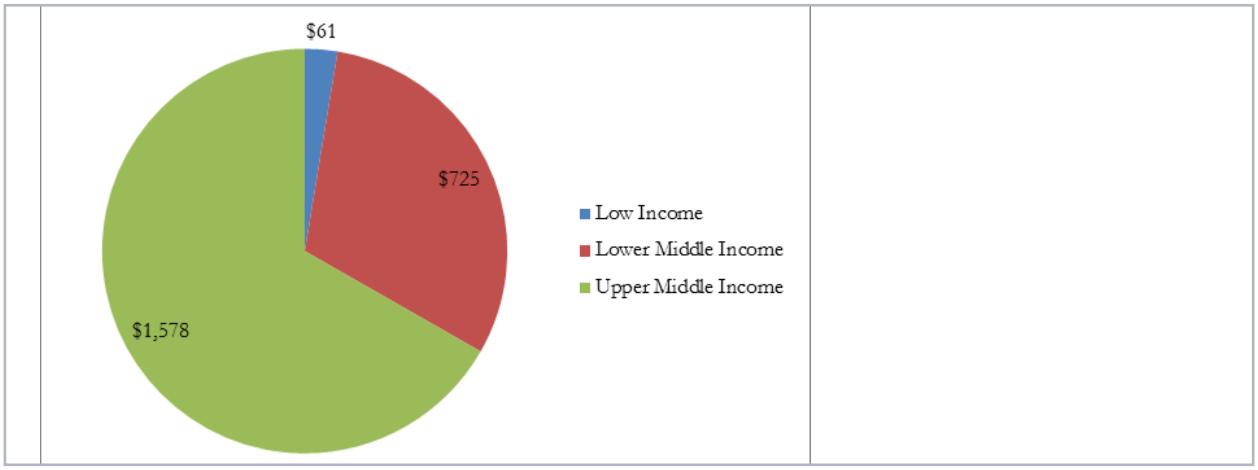


Source: As in Figure 2

6 See Trebilcock and Rosenstock (2015) for discussion of these factors.

Figure 3b

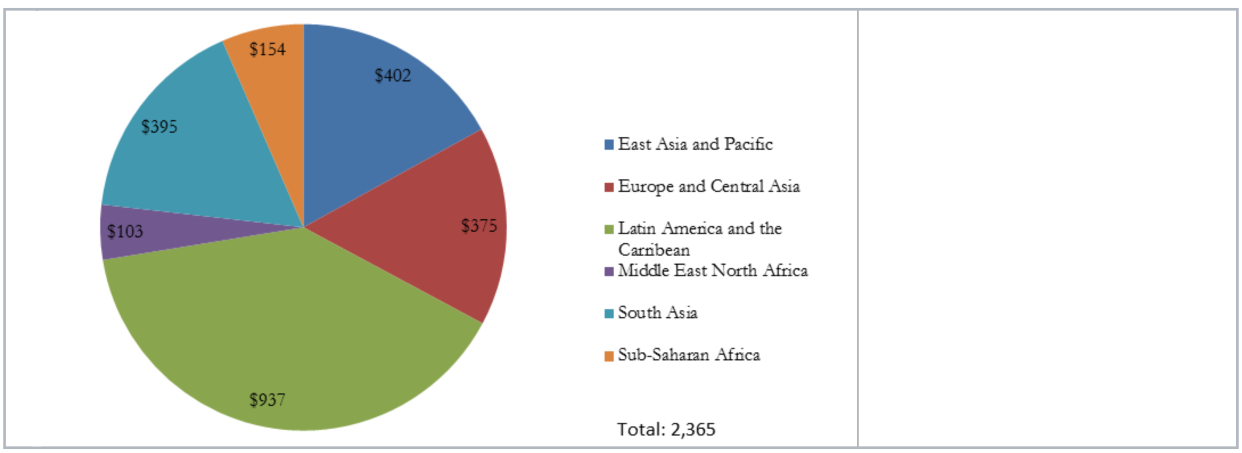
Total investment commitments in USD billions by income group (1990-2014)



Source: As in Figure 2

Figure 4a

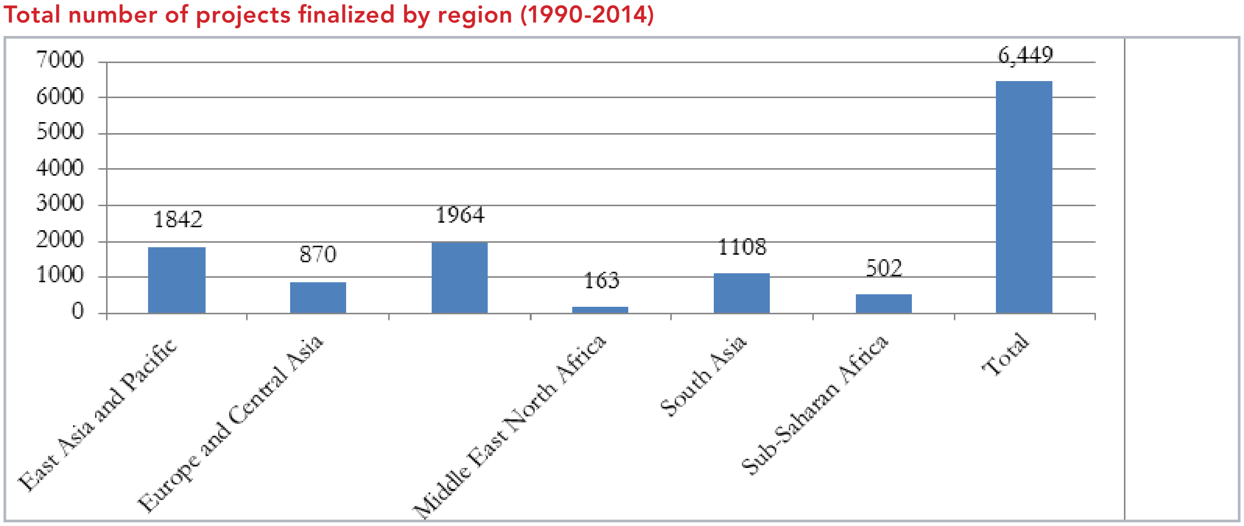
Total investment commitments in USD bilions by region (1990-2014)



Source: As in Figure 2

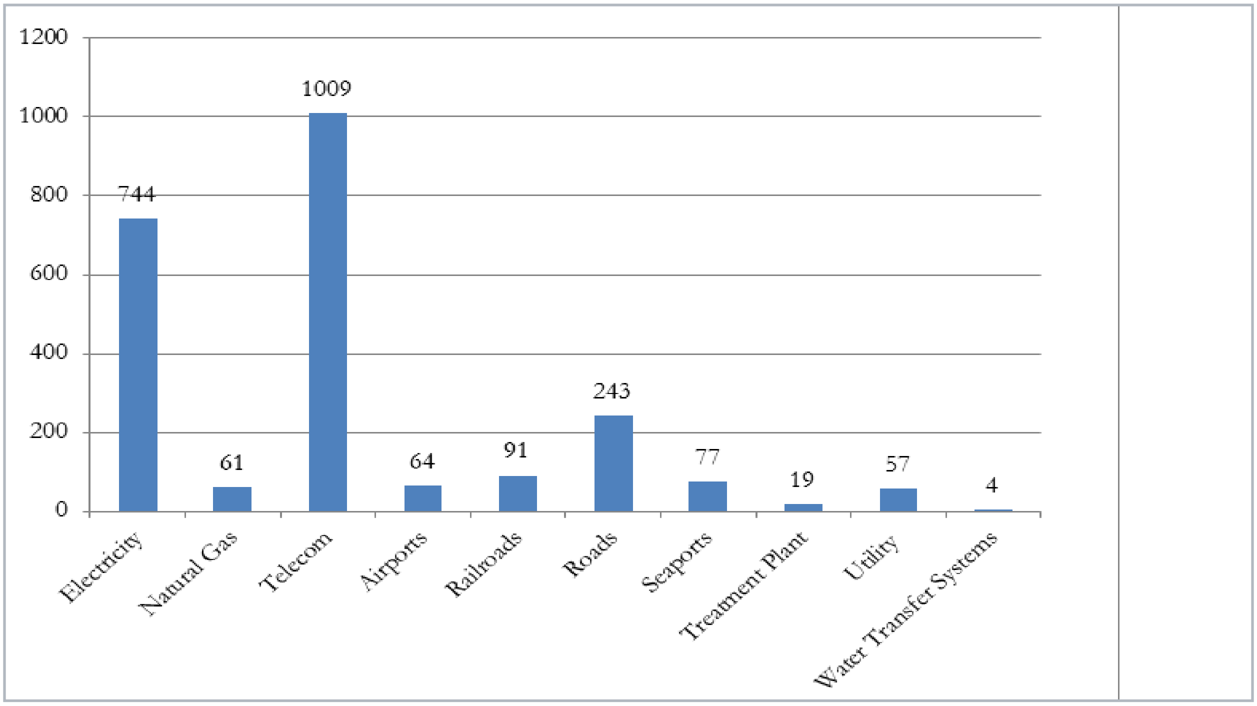
Figure 4b

Total number of projects finalized by region (1990-2014)



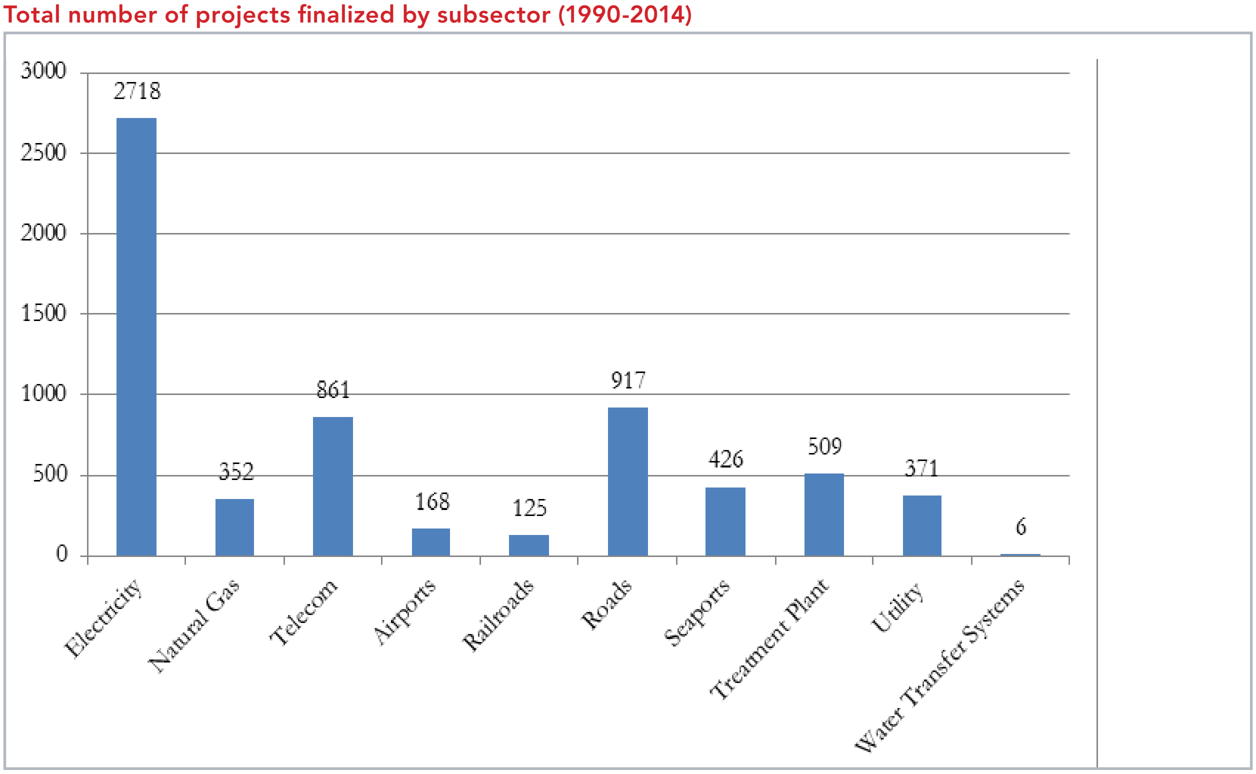
Source: As in Figure 2

Figure 5a
Total investment commitments in USD billions by subsector (1990-2014)



Source: As in Figure 2

Figure 5b
Total number of projects finalized by subsector (1990-2014)



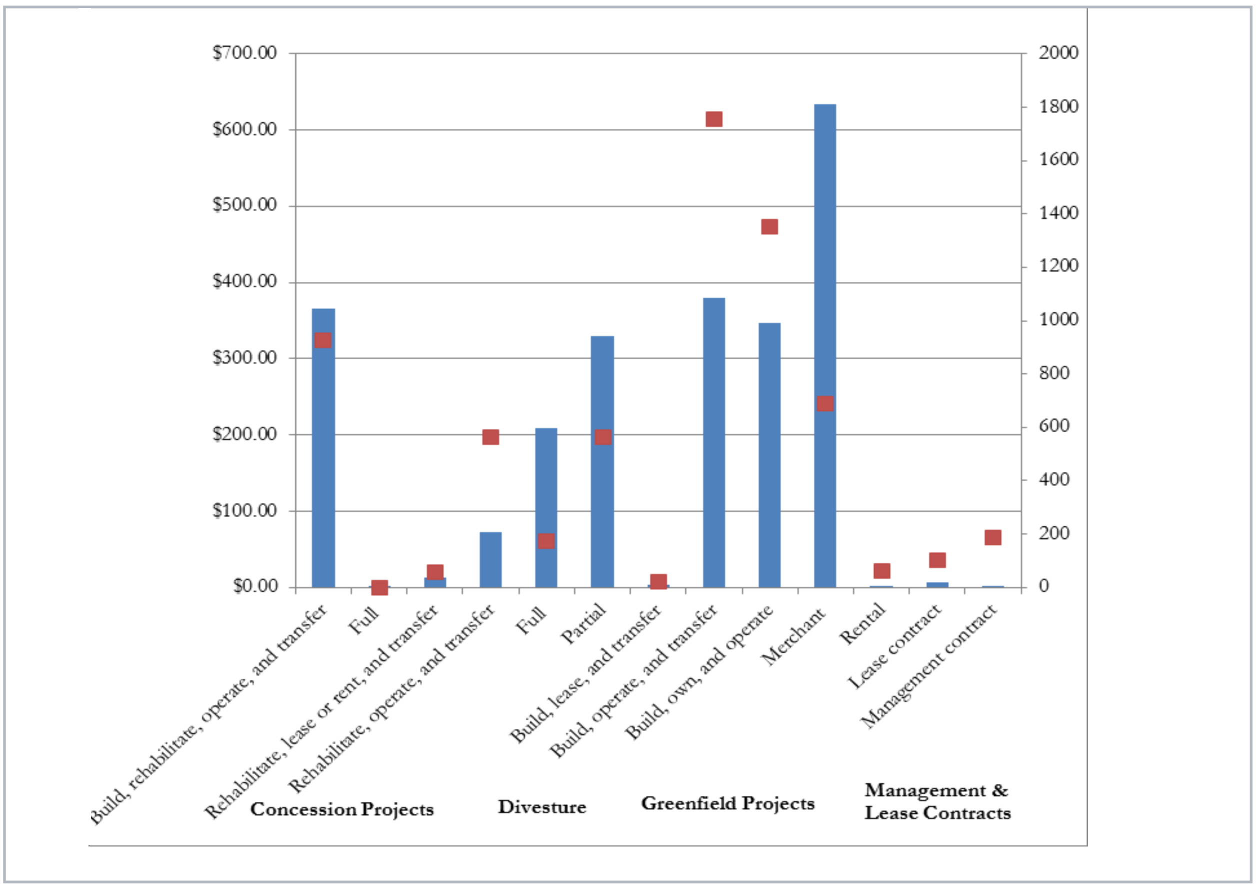
Source: As in Figure 2

sector involements during the 1990-2014 period, 1,964 were implemented in Latin America and the Carribean, 1,842 in East Asia and the Pacific region and 1,842 in South Asia. In contrast, there were only 502 infrastructure projects finalized in Sub-Saharan Africa with private sector participation.[7]

Figure 5a shows that the telecommunications sub-sector received the highest amount of investment (about $1 trillion) from the private sector during the 1990-2014 period, followed by electricity ($744 billion) and roads sub-sector ($243 billion). However, the highest number of projects with private sector participation occurred in electricity generation (2718 projects) compared to only 861 telecommunications projects and 917 roads projects.

Figures 6a and 6b present total infrastructure investment with private sector involvement by type. It can be seen from figure 6a that "build operate and transfer" is the most preferred mode of infrastructure investment in partnership with the private sector. Figure 6b reveals greenfield investment's dominance, while management and lease has been the least attractive.

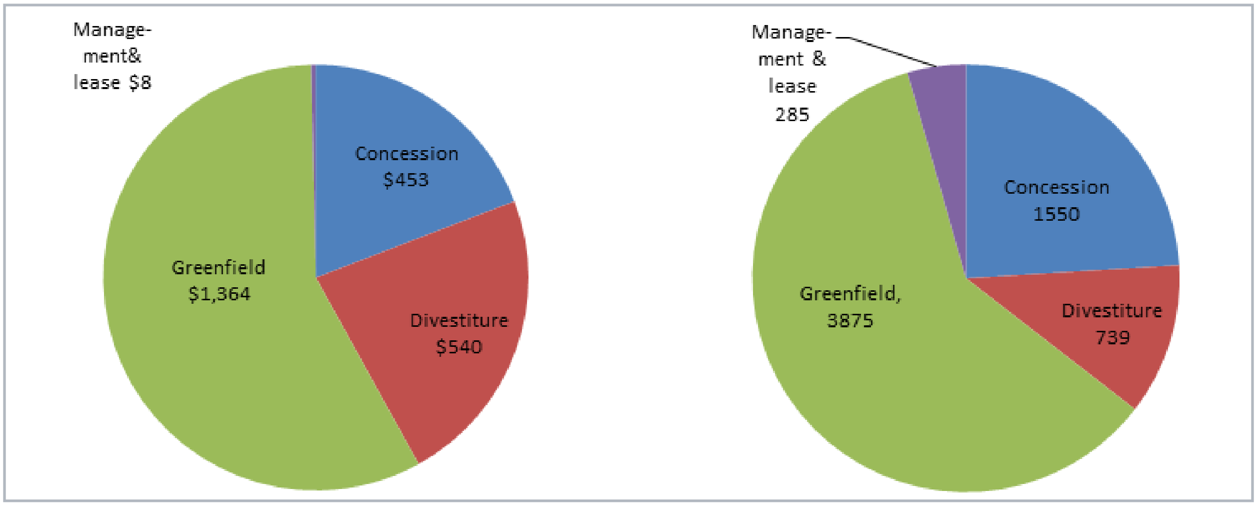
Figure 6a
Total investment commitments in USD billions (left-axis, blue bars) and number of projects by PPI Type (right-axis, red scatters) 1990-2014



Source: As in Figure 2

7 As pointed out by Trebilcock and Rosenstock (2015, p 341), "This pattern suggests that countries that may need basic infrastructure the most are less likely to engage in PPPs."

Figure 6b
Share of total investment commitments in USD billions (left graph) and number of projects (right graph) by PPI type



Source: As in Figure 2

5 Key issues underpinning the performance of PPPs

From a public policy perspective, the prime objective of a PPP is that it should result in an improvement in the quality and efficiency of a given service to the citizen. At the same time, it would have the benefit of attracting private resources into public services, thereby allowing public money to be diverted into other critical areas and alleviating long-term pressures on public finances. As this section illustrates, these gains have in many instances not been realized and the performance and viability of PPPs varies greatly across activities and sectors. To ensure PPPs are an effective instrument of delivery of important services, such as infrastructure, it is critical that countries have an institutional capacity to create, manage and evaluate PPPs, especially in relation to other possible sources of funding. For a number of developing countries, this would require assistance from the international community in the form of technical support and capacity building.

a. Assessing the value for money of PPPs

In order to be justifiable, a PPP must provide value for money (VfM). This term needs to be understood in the broadest possible sense. At a fundamental level, VfM would take into account the cost of a PPP, as well as the quality of service; for a PPP to be justified, it would need to compare favourably to how public sector provision would have performed on these criteria. However, the terms 'cost' and 'quality of service' require interpretation in a broader sense with the former taking into account not just the financing, transactions and operational costs of a project, but also its longer-term fiscal implications (including the risks of any contingency liabilities) and the latter taking due note of efficiency gains, as well as the social, economic and environmental objectives embodied in the 2030 Agenda for Sustainable Development.

Elements of costs

The cost of a project would need to be assessed over its lifetime, taking into account the entire gamut of expenses linked to financing, construction and transactions related to tendering, negotiations and monitoring projects. In this regard, the evidence provided by various academic researchers and international organizations suggests that PPPs have often tended to be more expensive than the alternative of public procurement.

To elaborate, private sector borrowing costs often tend to be higher than those of their public counterparts (with sovereigns in particular being able to obtain finance on more favourable terms). This is illustrated in studies by Romero (2015) and Hall (2015) which, for example, cite a 2015 review by the UK's National Audit Office (NAO) showing the effective interest rate of all private finance deals (7%–8%) to be double that of all government borrowing (3%–4%), implying a far greater burden on the public purse than if the government had borrowed from private banks or issued bonds directly. At the same time, PPPs are typically very complex to tender and negotiate and this, together with the fact that they are frequently renegotiated, has often entailed higher transactions costs. According to Hall (2015), the transactions costs of tendering and monitoring PPPs add 10-20 per cent to their costs, while the cost of construction is higher under a PPP because the financiers require a turnkey contract, which is about 25 per cent more expensive. The author argues that this is the case in both higher income and developing countries alike.

The above findings of academic researchers are generally consistent with the internal (staff research and independent) evaluations of various institutions or organizations which promote PPPs. For example, a European Investment Bank (Blanc-Brude, Goldsmith and Välilä 2006, p. 2) report, which compares the cost of 227 new road sections across 15 European countries of which 65 were PPPs, "estimate that the ex-ante cost of a PPP road to be, on average, 24% more expensive than a traditionally procured road".

To these costs must be added the potential risks, or contingent fiscal liabilities, relating to PPPs. In particular, infrastructure projects are associated with various types of risks. These include construction risks (e.g., design problems, cost and time over-run); financial risks (e.g., interest rate and exchange rate variations); availability risks (e.g., equipment performance, quality of service); demand risks (variations in the need/use of the service) and residual risks (future value of the project when transferred to the government). The principle underlying a PPP is that such risks which are best managed by the private partner should be allocated to the private partner. However, assessing risk transfer is difficult given the multitude of risks to which PPPs are exposed and the complexity of PPP contracts. If the risk assumed by the private sector partner were to be over-priced, it would increase the cost of the service to the consumer, making PPPs unviable. The IMF has warned that governments may sometimes exaggerate the true value of risk transfer, leading to an overpricing of risk that raises the cost of PPPs relative to direct public investment. On the other hand, quite often the risk assumed by the private partner is under-priced and governments are forced to extend a guarantee to cover the price differential. In doing so, governments can be left bearing an unduly large share of the risk involved in a PPP and facing potentially large fiscal costs over the medium term.

Overall, analyses by both the IMF and World Bank have expressed concerns regarding perverse incentives on the part of governments to treat PPP contingent liabilities as "off balance sheet", which in turn undermines sound fiscal management. According to Romero (2015), the historical experience of several countries in the developed and developing world shows that PPPs can pose a huge financial risk to the public sector. The author cites the much-discussed case of recently built hospital in Lesotho to provide an illustrative example of how a seemingly successful PPP (based on traditional project development criteria) may have negative impacts on the country's non-transparent contingent fiscal liabilities, and hence on overall social development efforts. The newly-built, 425-bed hospital was the result of a public-private partnership, facilitated by the IFC. A recent study (McIntosh et al. 2015, p. 960) of the project, using quantitative measures that reflected capacity, utilization, clinical quality, and patient outcomes, calls the project successful and generally concludes "that health care public-private partnerships may improve hospital performance in developing countries and that changes in management and leadership practices might account for differences in clinical outcomes". However, referring to the very same project, an Oxfam study (2014) asserts that the hospital threatens to bankrupt the impoverished African country's health budget, since more than half the country's entire health budget (51%) is being spent on payments to the private consortium that built and runs the hospital in the capital. The PPP hospital cost US$67 million per year – at least three times what the old public hospital would have cost today, and it consumed more than half of the total government health budget.

The Lesotho hospital case highlights the need to improve the impact assessment of PPPs on sustainable development in the longer term. It also emphasizes the need for caution when replicating seemingly successful PPPs in different contexts. Indeed, the Lesotho hospital was inspired by the 'Alzira model' a hospital PPP in the Spanish town of Alzira that has been labeled a success case and has inspired other (often less successful) PPPs in Spain, Portugal, as well as in developing countries. However, as noted by Acerete et al. (2014), Alzira's success was not the result of a true PPP, but rather that of a deeply rooted political partnership between the regional government and its regional savings banks. Where private sector partners are not bound to the public sector by such close political relationships, risk transfer and affordability are likely to become issues that may very well jeopardize the viability of the project in the long term.

Quality of service

Given concerns regarding the actual and potential costs of PPPs, it is important that these are offset by gains in quality of service provision, including its efficiency, coverage and development impact. Indeed, the main rationale to enter a PPP agreement is the possible improvement in service delivery and efficiency by the private partner relative to what traditional procurement can offer. The evidence however suggests that this outcome is not always realized.

According to OECD (2008), studies in the UK and Australia found that PPP projects compared favourably with publicly procured ones in terms of indicators such as performance, completion on time and profitability. However, the OECD cautions that governments may have 'cherry picked' their best projects for delivery through PPPs; had these projects been delivered through public procurement, their performance may have been just as good. Other studies, such as that by Romero (2015), argue that evidence of efficiency gains is not convincing. In most cases, efficiency gains depend on the sector, the type and size of projects, the contractual agreement between public and private partners, and the country context in terms of regulatory environment and governance. For instance, based on a review of extant literature on the performance of PPPs in the health sector Roehrich et al. (2014, p. 113) highlights that while the review does not offer a coherent picture of PPP outcomes with regards to its benefits and disadvantages, there are a "significant number of studies raising concerns over PPP performance: it may stifle improvements because of limited contractor capacity compared to project size, that transaction costs are too high throughout the project life-cycle, there is limited integration between clinical service models and infrastructure design and delivery, and limited innovation in new-build healthcare PPPs" .

The inconclusive nature of the evidence on the performance of PPPs is exemplified by World Bank research (Gassner, Popov and Pushak 2009) on private participation in electricity and water in developing countries which pointed to an increase in efficiency gains but also a shortfall in investment by the private sector and a failure to lower prices for the consumer. "Given the young regulatory environments in developing countries, which often lack sufficient capacity for supervising public-private contracts" (p. 5), the authors suggest that a plausible explanation for this could be that the private sector operators reaped the gains in savings in the form of higher profits without passing on benefits to the consumer. Harris (2003), researching for the World Bank, offers another plausible explanation for efficiency gains failing to translate into lower prices in a number of instances. Given "prices were already kept a long way below costs" by governments for political and social reasons, cost efficiency gains were not sufficient to prevent constant or rising prices in many cases (Harris 2003, p. 13).

This suggests that efficiency gains on their own may provide only partial information on the broader welfare benefits of a project. Especially in the context of developing countries, there is also an important requirement to assess performance in terms of indicators such as impact on poverty, inequality and sustainable development. Evaluations within international organizations are less than fully affirmative about PPP contributions to the aspects of sustainable development or impacts on poverty, gender and environment. In its most recent evaluation of the World Bank's involvement in PPPs, the Independent Evaluation Group (IEG 2014, p. ix) states that PPPs between 2002 and 2012 were largely successful "according to the development outcome rating of project evaluations." However, such evaluations may still be too limited in scope when assessing whether PPPs promote sustainable development. The report further recognizes this challenge and highlights the need "to shed more light on important aspects of public service delivery - for instance, access, pro-poor aspects, and quality of service delivery." There is "not a single project with data available for all of the above-mentioned dimensions" and those on and pro-poor and fiscal effects are particularly sparse. Consequently, governments cannot assess how far PPPs benefited the poor, and advice on how to manage fiscal implications from PPPs can and is rarely given. Another important issue is the lack of long-term evaluation. The study assessed the long-term performance of only 1.6 per cent of PPPs that the WBG supported.[8] Similarly, an IFC literature review on the gender impact of PPPs concludes that, despite policy level commitment, there is very little evidence of infrastructure projects taking conscious action on gender.

8 The IEG measured the long-term impact of 22 out of 1396 projects. (The IFC invested in 176 PPPs; MIGA supported 81 PPP projects, IFC PPP Advisory Services completed 140 transactions. The IBRD/IDA approved 353 lending and partial risk guarantee projects. This was complemented by 112 capacity building activities of the World Bank Institute (WBI) and 683 trust fund-supported advisory activities by the PPIAF.)

Authors like Romero (2015) and Hall (2015) also outline the challenges faced by PPPs in contributing to development outcomes. According to Romero (2015), the impact of PPPs on development outcomes is mixed and varies greatly across sectors. One possible reason for this could be due to the fact that PPP projects need to be commercially viable in order to attract private sector participation. This may in a number of instances exclude social infrastructure projects that have high developmental returns but financial returns that compare unfavourably with competing ventures and therefore fail to entice private sector interest. Moreover, while in some cases private participation results in improvements in service delivery, private companies have a greater incentive to strip out any elements of a service that might reduce their potential profits, including cutting jobs. Hall (2015) argues that PPPs select a small number of the most profitable projects, and persuade governments to prioritize spending on these projects, even if this distorts the development of public services. In Africa, for example, they finance high-tech hospitals in a few urban centres where there are enough wealthy people to support private medicine, but not the universal networks of clinics or the salaries of staff needed to provide healthcare for the poor. Similarly, in the case of urban infrastructure, a World Bank research paper (Annez 2006, p. 22) concluded: "PPI [private participation in infrastructure] is inherently limited in scope for financing urban infrastructure for the wide array of non-commercial infrastructure services cities need… Local governments need good sources of public finance to fund those services, and some form of government borrowing is needed for major investments in these areas to avoid inter-generational inequities."

Overall Impact

Overall, the evidence suggests that PPPs have often tended to be more expensive than the alternative of public procurement while in a number of instances they have failed to deliver the envisaged gains in quality of service provision, including its efficiency, coverage and development impact. Their impact moreover varies across sectors. Most research findings indicate that PPPs are better suited for economic infrastructures such as transport and electricity, where better quality infrastructure can reduce cost at the operational stage and impact on the level of service and where demand is relatively stable and easy to forecast. They are however less likely to deliver efficiency gains in the social sector such as hospitals and schools, where service quality is mainly determined by human capital investment, and demand evolves quickly over time. For instance, Joseph (2014, p. 6) concludes that PPPs in the health sector, especially involving philanthropies and donors, can be characterized as "a double-edged sword. Although they are able to provide large amounts of money, they do not allow for a holistic view of the healthcare concerns faced by a country".

After a systematic review of a large body of literature on PPPs in developing countries, the Evaluation Department of the Government of the Netherlands, (2013), concluded that (i) the evidence base on PPP evaluations is still scarce and hardly relies on sound and robust empirical counterfactual analysis; (ii) reported effects of PPPs are rather positive at output level, but also weak, mixed and negative effects are registered in several occasions; and (iii) the evidence of some development outcomes and effectiveness is rather weak.

Thus, it is unsurprising that PPPs have yet to become a major catalyst of investment in key sectors for sustainable development. According to Hall (2015), even in countries which make most use of PPPs, such as UK and Australia, they only account for about 15 per cent of all infrastructure investments; for most OECD countries the proportion is less than 5 per cent and, within Europe, PPPs represent little more than 5 per cent of all infrastructure investment. Even in those sectors – such as economic infrastructure – where PPPs may be considered more viable, but where evidence suggests they have not always been an unqualified success, their efficacy is dependent upon a number of interrelated conditions that, as will be explained below, can be viewed as essential elements of a broader institutional framework for PPPs.

At this juncture, it would be useful to refer to two very insightful observations by Trebilcock and Rosenstock (2015, pp 342-343): (i) "The notion that PPPs effectively permit a government to build infrastructure where it would otherwise lack the fiscal capacity must be viewed cautiously as it may invoke fallacious reasoning. Where the government permits a project to be delivered by a private proponent, and the proponent earns a return by charging user fees, the state foregoes the future revenue stream. This delivery method thus comes with a cost. (ii) The suggestion that PPPs can circumvent government fiscal constraints may also be based on problematic accounting practices. PPP arrangements, where the state pays a private proponent to deliver the project over the life of the contract (rather than user fees), creates a long-term liability on the state…Clearly, masking government liabilities does not reduce them…, nor is it transparent ".

6 The key components of an enabling institutional framework for PPPs

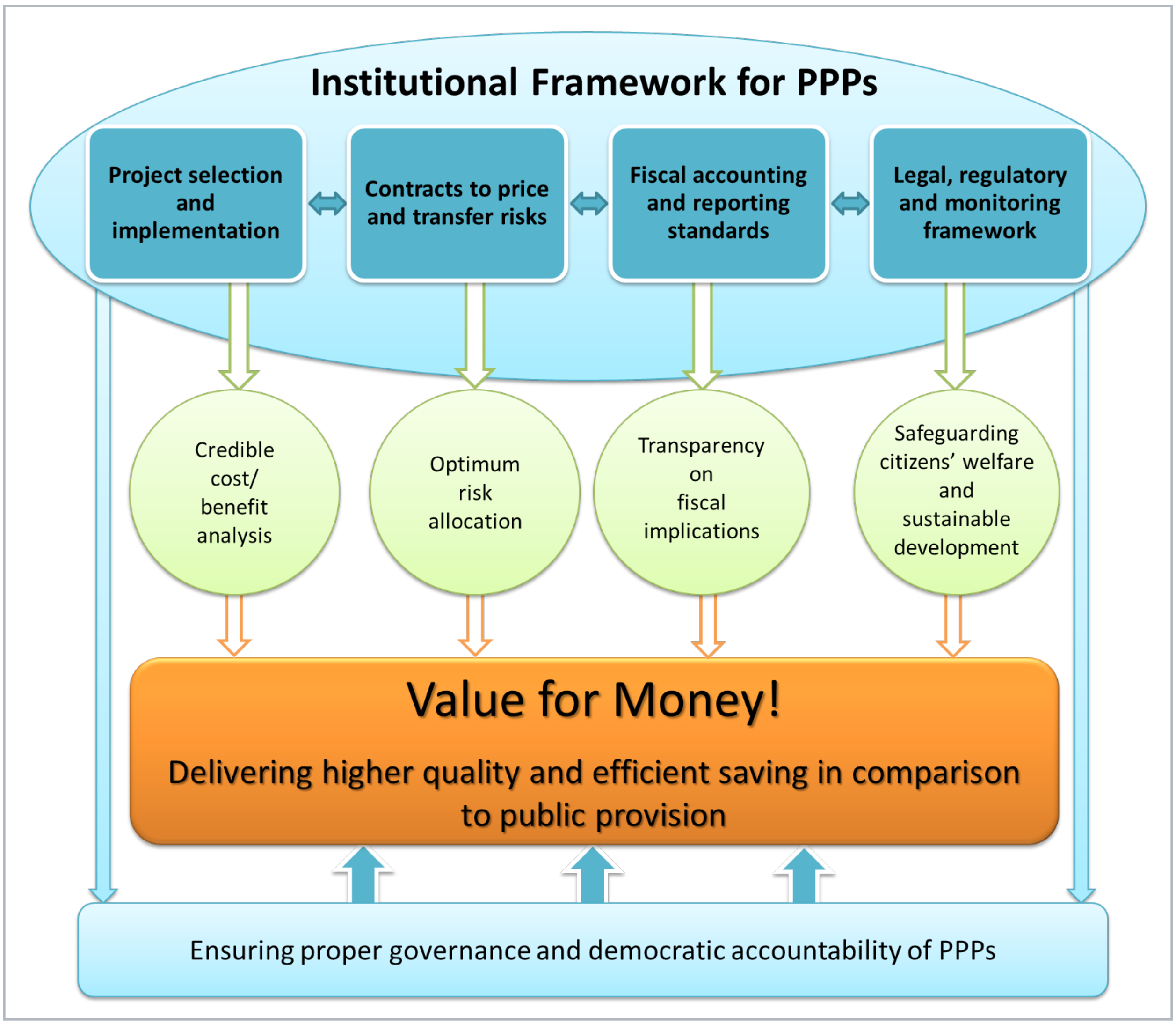
For PPPs to become an effective instrument through improvements in service delivery, efficiency and development impact over and above those attainable through public procurement, it is important that the public sector is able to: i) correctly identify and select projects where PPPs would be viable, ii) structure contracts to ensure an appropriate pricing and transfer of risks to private partners, iii) establish a comprehensive and transparent fiscal accounting and reporting standard for PPPs, and iv) establish legal, regulatory and monitoring frameworks that ensure appropriately pricing and quality of service. In other words, it is necessary that countries have in place the institutional capacity to create, manage, evaluate and monitor PPPs (see Figure 7 for conceptualization).

Taken as a whole, an institutional framework that endows countries with the above four interrelated capacities should have the benefit of ensuring that PPPs are undertaken for the 'right reason', i.e.

ensuring an improvement in the quality and cost efficiency of a given infrastructure service to the citizen and not as a vehicle for 'off budget' activities. They are also necessary for making certain that efficiency improvements are measurable and monitored and, broadly speaking, facilitating good governance in the administering of the PPP.

The process of selecting and implementing PPPs is important and should be undertaken on a sound cost-benefit analysis, avoiding any bias in favour of them because they involve private finance. Overcoming planning and project selection problems is critical for reducing the final cost of the project. The World Bank PPP Reference Guide observes that many infrastructure projects fail due to problems in the planning and selection process: "the analysis underpinning project selection is often flawed, so projects that appeared to be cost-benefit justified turn out not to be so in practice. Benefits are often overestimated, resulting in projects that are larger or more complex than is justified by demand for services, while costs are often underestimated". According to the study by Romero (2015), PPPs can suffer from an 'optimism bias', as a strategic overestimation of demand is common practice. This happens due to

Figure 7
Key components of an enabling institutional framework for PPPs



weaker incentives for rigorous analysis on both the private and the public sector sides.

Indeed, flaws in the project selections can distort the development of public services as PPPs are likely to focus on the most profitable projects. As mentioned earlier, the classic case of such distortions is found in the health sector in Africa where high-tech hospitals in a few urban centres were financed through PPPs even though there are plentiful of wealthy people to support fully owned private hospitals. Thus, the need for universal networks of clinics was ignored. Similarly, in Europe, PPPs often finance some lucrative toll roads on existing busy routes, but not the extension of toll-free roads to improve rural or semi-urban areas.

The setting in train of a credible, transparent and competitive process for the planning and selection of PPPs needs to be accompanied by the structuring of contracts that appropriately price and transfer risks to the private partner. Achieving value for money depends on the ability of the public and private actors to identify, allocate and price risks appropriately. In particular, adequate risk transfer from the government to the private sector is a key requirement if PPPs are to deliver high-quality and cost-effective services to consumers and the government (IMF 2004). Effective transfer of risk, in turn, depends on sufficient competition in both the bidding process and service delivery (OECD 2008). It would also benefit from the establishment of a transparent and comprehensive fiscal accounting and reporting standard for PPPs that would serve to counter perverse incentives that may lead governments to exaggerate or understate the true value of risk transfer.

By ensuring a transparent and credible evaluation of risks, a comprehensive fiscal accounting and reporting standard would also allow for comprehensive disclosure of all risks, including contingent fiscal liabilities, and thereby enhance the effectiveness of the overall process of selecting and implementing projects. As explained earlier, the fiscal implications of PPPs can arise from non-transparent contingent liabilities (or risk of debts in the future) and can be huge. If a project fails – and this has not been infrequent – the costs are shouldered by the public sector, which has to rescue the PPP project, or even the company, which results in private debts being shifted to the public sector.

Clear fiscal accounting and disclosure of risks would ultimately serve to ensure efficiency gains and value for money by discouraging governments from placing PPP projects off budget and ensuring transparency surrounding the medium to long term implications of the project. However, as mentioned later, there are still no uniform accounting and reporting guideline for PPPs. This is likely to become increasingly problematic as developing countries throughout the world seek to define their own accounting standards for dealing with PPPs. To complicate matters further, practices such as the Eurostat rule adopted in Europe on the criteria to be used to assess risk transfer favour the off-balance sheet accounting of PPPs, which in turn sets a wrong precedent for developing countries not least since a number of European institutions and governments advice on and promote PPPs through their development and investment policies.

Finally, an institutional framework for PPPs should also feature legal, regulatory and monitoring frameworks that allow for the enforcement of contracts, as well as appropriate pricing and quality of service. An enabling legal and regulatory framework would need to ensure a competitive environment during the bidding process and, where possible, service delivery in order to ensure an effective quality of service and allocation of risks. In particular, the broader welfare benefits of projects should be taken into account, including social externalities and the implications for sustainable development. In the case of infrastructure, most projects are natural monopolies that call for external regulation. In such cases, independent and professional regulatory authorities are needed to oversee and monitor the functioning of PPPs (Sarma 2006).

Overall, by strengthening transparency and public scrutiny, and by safeguarding the public interest, an enabling institutional framework with the above-mentioned four interrelated capacities would also serve to reinforce democratic accountability and popular acceptance of PPPs. This has been missing in a number of cases and the study by Romero (2015) illustrates that the lack of transparency and stakeholder participation in some PPP projects has triggered community opposition and unrest. In Peru, for instance, there have been some agreements reached with indigenous communities, but there are also cases where communities have demanded, through mass demonstrations, an open and transparent process of public consultation.

On the whole, efforts to establish an enabling institutional framework for PPPs would require technical assistance and capacity building on the part of the international community in all these areas. It is also necessary to help governments develop the skills needed to manage a PPP programme, and in particular to refine their project appraisal and prioritization. A specific area where global action would be helpful is in the discussion of an internationally accepted accounting and reporting standard which, as mentioned above, can promote transparency about fiscal consequences of PPPs and, in the process, make increased efficiency rather than a desire to meet fiscal targets the main motives for using PPPs. According to IMF (2006), until a common international accounting standard for PPPs emerges, there remains a substantial risk that, in designing PPPs, value for money considerations are traded off against other considerations. This would both defeat the objective of using PPPs for efficiency gains and disguise the medium to long term implications of many PPPs for public finances.

Indeed, all the above issues including consideration of internationally accepted guidelines should be an integral part of future endeavours by the international community committed to hold "inclusive, open and transparent discussion" on guidelines for public-private partnerships, to share lessons learned through regional and global fora.

7 Towards common guidelines for effective PPPs

Over the past decade, efforts towards the development of more general sets of guidelines for PPP contracts have been made at different fora and at different levels. At the national level, some countries with well-developed programs such as the UK, South Africa, Australia and Chile, have made efforts to introduce more transparent accounting and reporting practices for PPPs. Other organizations such as the OECD, the European Commission, the IMF, the World Bank and Regional Commissions of the UN have issued guidelines and recommendations on the introduction of more transparent accounting and reporting practices for PPPs. As an example, the World Bank Group publishes a guidelines framework for the disclosure and contractual arrangements of PPPs. The Regional Economic Commissions of the UN have developed guidelines for promoting good governance for PPPs (ECE, 2008; ESCAP 2011).[9]

In the area of accounting for PPPs, International Public Sector Accounting Standards (IPSAS) has put forward international standards. In the field of budgeting for PPPs in particular, international standards have been promoted through IMF's Fiscal Transparency Code and OECD Principles for Public Governance of PPPs. At the same time, fiscal treatments of PPPs continue to vary across countries. For example, some countries such as Australia and the United Kingdom follow accounting standards based on IPSAS and recognize typical government-funded PPPs on their accounting balance sheets. But many other governments do not currently recognize PPPs

9 Since June 2014 UNECE has been working on developing PPP standards by sectors. It has already drafted health care PPP standards with more sectors in the pipeline (railways, roads, and water and sanitation). Although the health care standards focus on key areas, such as policy and legislative framework, and economic context and affordability, the approach of each section is rather general and only a vague reference to accounting standards is included. This process could perhaps be further strengthened and become more impactful if it drew on existing multi-stakeholder fora within the follow-up to the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development.

on their balance sheets or treat investment in PPPs as public investment in fiscal data. Some present fiscal data only on a cash basis and do not have a balance sheet prepared according to any particular standard. The IMF is currently piloting a PPP Fiscal Risk Assessment Model (P-FRAM) to help developing countries assess the potential fiscal costs and risks arising from PPP projects. It is important that information from this project, including that relating to data on contingent liabilities, is disclosed in a timely manner to provide effective guidelines to policy makers.

The commitment of world leaders in the Addis Ababa Action Agenda (AAAA, paragraph 48) to hold "inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of PPPs, and to build a knowledge base and share lessons learned through regional and global forums" is an important step to bring these various strands of work together and develop a more systematic approach towards the development of guidelines for PPPs. However, as long as there is no agreed upon definition of PPPs, even in a broad sense, guidelines will necessarily fall short of developing a commonly accepted and understood set of criteria used to determine measurement, recognition, presentation, and disclosure of material items (in particular risks and fiscal implications) related to the implementation of a PPP. Agreeing on a broad definition of PPPs would therefore be a natural point to initiate these discussions.

In the meantime, the G20 finance ministers have provided another important input into the global discourse on PPPs by welcoming the "WBG PPP Guidelines and the OECD/WBG PPP Project Checklist".[10] The OECD/WBG PPP Project Checklist puts forward a concise questionnaire on a wide range of issues, including on the process for accounting treatment of PPPs in terms of classification as on- or off –balance sheet assets/liabilities. In addition to the previously mentioned Framework for Disclosure for PPP Projects and recommended PPP contractual provisions, the WBG PPP Guidelines comprises a comprehensive Infrastructure Prioritization Toolkit, a Report on Recommended PPP Contractual Provisions and a report on "Partnering to Build a Better World: MDBs' Common Approaches to Supporting Infrastructure Development". While a careful consideration of the recommendations contained in these documents is beyond the scope of this paper, a cursory look suggests that there are certain proposals (among many sensible ones) that could benefit from a broader and more inclusive dialogue as envisaged in the AAAA.

Example, as pointed out by Shrybman and Sinclair (2015), the report on Recommended PPP Contractual Provisions contains proposals that fail to take into account the lessons from failed PPPs, especially with respect to the allocation of risk between the public and private partner. The proposal that certain risks, which are outside the control of the public sector – such as labour protests – are assigned to the government merits further critical debate. At the same time, it is questionable why the public sector should compensate the private sector for costs associated with regulations that may be essential to achieving the SDGs (e.g., the reduction of greenhouse gas emissions, measures to protect public health). Indeed, if PPPs are to be used as a major vehicle to achieve a certain set of SDGs, such as those related to infrastructure and economic growth, contractual arrangements for projects should not penalize the public sector for putting in place policy frameworks that help achieve other goals.

Moreover, certain provisions may reduce incentives for the private sector to ensure optimal performance on their part, such as the recommended policy that the contracting partner, i.e., the public sector, covers 80-85 per cent of the outstanding senior debt of the private partner in the event the private partner defaults. On the other hand, such a generous guarantee would only make sense if it would significantly reduce funding cost for the public sector to a level that would be comparable to government borrowing

10 G20 meeting of Finance Ministers and Central Bank Governors, 4-5 September 2015, Ankara, Turkey.

rates. Yet, this is not the case due to the higher costs of private sector borrowing and the high tendering, transaction and negotiation costs of PPPs as discussed earlier.

It is also interesting to note, that the guidelines suggest that if a dispute cannot be resolved between the contracting authority and the private partner, the dispute shall move to international arbitration and that all international arbitration shall take place under the arbitration rules of the International Chamber of Commerce. This raises questions on two counts: Why cannot the dispute be resolved through the host state's domestic courts rather than international arbitration? Numerous studies have pointed to the flaws in current international arbitration processes. So it is not clear that these rules are preferable over domestic frameworks and regulations for arbitration. Second, why is a "one size fits all" set of arbitration rules, proposed, despite the common view that the choice of a particular set of arbitration rules in preference to others may have a significant impact in terms of costs and duration of the process?[11] Moreover, the ICC rules are among the least used international arbitration rules, which makes it curious that they are recommended as the standard framework for investor-state disputes related to PPPs.[12]

The WB framework for disclosure provides a useful tool for stakeholders to strengthen transparency in PPPs. However, as pointed out by Aizawa (2015), provisions could be even more ambitious, especially in light of the UN 2030 Agenda for Sustainable Development and the AAAA. First, provisions should go beyond country-level PPP disclosure to fully understand the regulatory requirements related to cross border PPPs, such as large-scale infrastructure projects like roads or pipelines. Second, the guidelines are an important start, but could go further in advocating key principles for harmonized PPP disclosure, with a clear statement of a presumption in favour of transparency. Third, cross-sectoral experience provides important lessons that could be taken into account in the disclosure framework. A closer look at public disclosure initiatives like the "Extractive Industries Transparency Initiative", "Publish What You Pay" or the "Open Contracting Partnership", may further promote integrity, transparency, and accountability in PPPs. Fourth, greater efforts are needed to advocate for a common platform for PPP disclosure. Many infrastructure facilities and financial institutions have made important strides in pushing disclosure practices of the private sector on key aspects of how PPPs generate value for money. Yet, standards differ across institutions. Stakeholders should come together to agree on common standards that include and build on the most ambitious existing provisions for disclosure. Lastly, a fourth P – "People"- should complement the focus on the financial and commercial disclosure practices of the implementing partners. People affected by or living in close proximity of major PPPs should be fully enlightened as to the potential welfare implications of any new project (Aizawa, 2015).

Overall, we therefore propose to re-evaluate existing guidelines in light of the 2030 Agenda for Sustainable Development, including its Sustainable Development Goals, as well as the AAAA. The broad challenge would be to frame contractual guidelines in such a way that the PPPs would lead to value for money for the implementing parties and the public at large, and not put undue constraints on governments and other stakeholders in their endeavours to pursue and promote national policies and interventions in support of the 2030 Agenda for Sustainable Development.

11 There are several other widely recognized arbitration rules, like the International Trade Law Arbitration Rules ("UNCITRAL Rules"), the rules of the International Centre for the Settlement of Investment Disputes ("ICSID")

12 Of the 42 new known disputes in 2014, 33 were filed with the International Centre for Settlement of Investment Disputes (ICSID) (of which three cases were under the ICSID Additional Facility Rules), six under the arbitration rules of UNCITRAL, 15 two under the Stockholm Chamber of Commerce (SCC) and one under the International Chamber of Commerce (ICC) arbitration rules. These numbers are roughly in line with overall historical statistics. See UNCTAD, 2015, "Recent Trends in IIAs and ISDS", IAA Issues note, No.1.

8 Conclusion

The purpose of the paper was to discuss the existing and future potential of PPPs in helping achieve the 2030 Agenda for Sustainable Development and the Addis Abba Action Agenda, in particular in the area of infrastructure investment. PPPs have recently undergone somewhat of a renaissance in the international policy discourse with many countries and organizations pointing to their potential to generate new resources and increase efficiency for public service provision.

However, the evidence suggests that PPPs have often tended to be more expensive than the alternative of public procurement while in a number of instances they have failed to deliver the envisaged gains in quality of service provision, including its efficiency, coverage and development impact. In other words, they have failed to yield 'value for money' in its broadest sense taking into account not just the financial costs and efficiency gains deriving from a project but also its longer-term fiscal implications (including the risks of any contingency liabilities) as well as the broader welfare benefits for society such as the impact on poverty and sustainable development.

The impact of PPPs moreover varies across sectors. Research findings indicate that PPPs are generally better suited for economic infrastructures such as transport and electricity, where demand is relatively steady and the impact on service quality easy to assess, and where better quality infrastructure can lower cost at the operational stage. However, they are less likely to deliver efficiency gains in the social sector such as hospitals and schools where access and equity are major concerns.

Despite a recent rise in the private sector's participation in infrastructure finance in developing countries, especially in electricity and telecommunications, private finance continues to provide just a small portion of aggregate infrastructure investment in the developing world. If PPPs are to be scaled up, there has to be sound understanding as to their ultimate purpose, namely to add value for money, i.e. to improve the coverage, access, quality and efficiency of a given service to the citizen. A commonly accepted definition of PPPs, something that is still sorely lacking, should be firmly anchored in such an understanding.

For PPPs to become an effective instrument for financing key economic infrastructure projects, it is necessary that countries have in place the institutional capacity to create, manage and evaluate PPPs. For a number of developing countries, this would require assistance from the international community in the form of technical support and capacity building. In this connection, the paper further argues that donor support for public sector capacity building in developing countries may be better spent than the current trend of blended finance, which frequently channels aid money directly to the private sector, including for PPPs

Finally, we stress the need for further work on developing international guidelines for PPPs, as called for in the Addis Ababa Action Agenda[13]. Many important initiatives are underway but they could be significantly strengthened if they were discussed in a more inclusive multi-stakeholder setting, such as the follow up process to the Third International Conference on Financing for Development, that would involve UN Member States, civil society, the private sector and other stakeholders. The UN, as the most legitimate international forum for international policy-making, can play a key role in forging these new guidelines for PPPs, which should fully support the implementation of the 2030 Agenda for Sustainable Development.

13 See United Nations Addis Ababa Action Agenda, Para 48:" We also commit to holding inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of public-private partnerships, and to build a knowledge base and share lessons learned through regional and global forums."

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Annex 1
Definitions of PPPs

European Investment Bank (EIB, 2004, p.2): "public-private partnership" is a generic term for the relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services. The term PPP is thus used to describe a wide variety of working arrangements from loose, informal and strategic partnerships, to design-build-finance-and-operate (DBFO) type service contracts and formal joint venture companies. EIB (2005, p. 3) provides a working definition, "a PPP [is] defined to be the private-sector construction and operation of infrastructure (including Concessions) which would otherwise have been provided by the public sector".

European Commission (EC, 2004): the term "public-private partnership", in general, refers to forms of co-operation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management and maintenance of an infrastructure of the provision of a service.

International Monetary Fund (Hemming & Staff team 2006, p. 1; Hemming, 2006, p. 3): "Public-private partnerships (PPPs) refer to arrangements under which the private sector supplies infrastructure assets and infrastructure-based services that traditionally have been provided by the government. PPPs are used for a wide range of economic and social infrastructure projects, but they are mainly used to build and operate roads, bridges and tunnels, light rail networks, airports and air traffic control systems, prisons, water and sanitation plants, hospitals, schools, and public buildings". "A typical PPP takes the form of a design-build-finance-operate (DBFO) scheme. Under such a scheme, the government specifies the services it wants the private sector to deliver, and then the private partner designs and builds an asset specifically for that purpose, finances its construction, and subsequently operates the asset (i.e., provides the services deriving from it)."

Organisation for Economic Cooperation and Development (OECD, 2008, p. 12): A PPP is defined as "an agreement between the government and one or more private partners (which may include the operators and the financers) according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners." Despite many similarities between them, this OECD study also makes distinction between PPPs and concessions based on the amount of risk carried by the private provider and the main source of income of the private provider (i.e. user charges and fees paid by the government).

World Bank Institute (2012, p. 11): A PPP is "a long-term contract between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility".

India: "An arrangement between a government or statutory entity or government owned entity on one side and a private sector entity on the other, for the provision of public assets and/ or related services for public benefit, through investments being made by and/ or management undertaken by the private sector entity for a specified time period, where there is a substantial risk sharing with the private sector and the private sector receives performance linked payments that conform (or are benchmarked) to specified, pre-determined and measurable performance standards."

Peru: "A PPP is a modality of private investment participation that involves expertise, knowledge, equipment, technology and distribution of risks and resources, preferable private, with the purpose of creating, developing, improving, operating or maintaining public infrastructure or providing public services and/or provides services related to those required by the State, also to develop projects of applied research and/or technological innovation."

South Africa: "PPP is a contract between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project."[14]

Tanzania: "PPP is an arrangement between public sector and private sector entities whereby the private entities renovate, construct, operate, maintain, and/or manage a facility in whole or in part in accordance with output specifications. The private entity assumes the associated risks for a significant period of time and in return, receives benefits/financial remunerations according to agreed terms; which can be in the form of tariffs or user charges. PPP is therefore a cooperative venture built on the expertise of each partner that best meets clearly defined public needs through the most appropriate allocation of resources, risks and rewards."[15]

Netherlands: "A form of cooperation between government and business (in many cases also involving NGOs, trade unions, and/or knowledge institutions) in which they agree to work together to reach a common goal or carry out a specific task, jointly assuming the risks and responsibility and sharing their resources and competences."[16]

United Kingdom: "PPPs are arrangements typified by joint working between the public and private sectors. In their broadest sense they can cover all types of collaboration across the private-public sector interface involving collaborative working together and risk sharing to deliver policies, services and infrastructure." The most common type of PPP in the UK is the Private Finance Initiative (PFI), which is "an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in assets, from the private sector on a long-term basis, often between 15 to 30 years."[17]

Standard and Poor's (2005): A PPP is any medium-to long-term relationship between the public and private sectors, involving the sharing of risks and rewards of multisector skills, expertise and finance to deliver desired policy outcomes.

Bain (2009, p. i): A PPP is "an alternative approach to traditional public sector procurement. Under a typical PPP, the private sector designs, builds, finances, operates and maintains infrastructure (such as roads or schools) in return for performance-related payments from government agencies ('promoters') and/or the right to charge users for services. Importantly, the public sector passes project risk to the private sector where, in theory, it can be better managed – thus providing value-for-money".

Mackenzie Nicholson (2010, p. 2): A PPP is "a relationship between public and private entities that are responsible for the delivery of an infrastructure asset and/or associated services (servicing, operations, and maintenance). Through this relationship there is a transfer of risk from the public to the private sector. Generally, there is a payment mechanism between the public and private sector based on revenue from services and usually ownership is then transferred to the public sector at the end of the contract."

14 Republic of South Africa, National Treasury website. http://www.ppp.gov.za/Pages/whatisppp.aspx

15 Tanzania National Public Private Partnership policy: http://www.tanzania.go.tz/egov_uploads/documents/ppp_policy_sw.pdf

16 Ministry of Foreign Affairs of the Netherlands. (2013).

17 UK Treasury. (2008)

Annex 2
World Bank's Private Participation in Infrastructure (PPI) Database

The World Bank's Private Participation in Infrastructure (PPI) Database records contractual arrangements with and without investments in which private parties assume operating risks in low- and middle-income countries.[18] The Database covers infrastructure projects that meet three criteria:

- Projects that are owned or managed by private companies in low- and middle-income countries. Private parties have at least a 25% participation in the project contract, except for divestitures, which are included with at least 5% of equity owned by private parties.
- Projects that directly or indirectly serve the public -- captive facilities (such as cogeneration power plants and private telecommunications networks) are excluded unless a significant share of output (20%) is sold to serve the public under a contract with a utility.
- Projects that reached financial closure after 1983 (database coverage currently extends to 2012).

Projects are considered to have private participation if a private company or investor bears a share of the project's operating risk. That is, a private sponsor is at least partially responsible for operating cost and associated risks. This could be by either having the rights to operate alone or in association with a public entity or owning an equity share in the project. The Database classifies private infrastructure projects in four categories:

Concessions (or management and operation contracts with major private capital commitments) ▪ Build, rehabilitate, operate and transfer ▪ Full ▪ Rehabilitate, lease or rent, and transfer ▪ Rehabilitate, operate, and transfer	**Greenfield projects** ▪ Build, lease and transfer ▪ Build, operate and transfer ▪ Build, own and operate ▪ Merchant ▪ Rental
Management and lease contracts ▪ Lease contract ▪ Management contract	**Divestitures** ▪ Full ▪ Partial

18 However, figures on PPPs should be treated with caution as different definitions of PPP result in confusing reporting practices. Therefore, figures should be read as a useful indication of global trends and not as a basis for an extensive quantitative analysis.