



2017 PARTNERSHIP FORUM

5 April 2017

“Partnerships for promoting opportunities, increased prosperity and stronger inclusive economic growth for all”

ISSUES NOTE

I. Background

Resilient infrastructure is fundamental for the implementation of the 2030 Agenda for Sustainable Development. The 2030 Agenda for Sustainable Development addresses infrastructure across the agenda, in particular through Sustainable Development Goal 9, which commits the international community to building resilient infrastructure and promoting inclusive and sustainable industrialization and innovation. Resilient infrastructure is vital in the delivery of the other sustainable development goals as well as the commitments in the Paris Agreement for climate change.

At the Third International Conference on Financing for Development, Member States committed to bridging the infrastructure gap by facilitating development of sustainable, accessible and resilient quality infrastructure in developing countries, through enhanced financial and technical support. The Addis Ababa Action Agenda recognized that both public and private investment have key roles to play in infrastructure financing, including through mechanisms such as public-private partnerships.

The ECOSOC Partnership Forum will explore the potential of public-private partnerships (PPPs) for infrastructure development given the complex financing, construction and operation requirements of infrastructure projects. It will also explore the implications of the integrated nature of the 2030 Agenda for Sustainable Development and the commitments in the Paris Agreement for engaging in PPPs in infrastructure development, that are environmentally, socially and economically sustainable.

Infrastructure plays a catalytic role in fostering economic growth and employment, reducing poverty and inequality and facilitating accessibility in all countries. In least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing states (SIDS), infrastructure can underpin models of development and embed countries in regional networks supporting economic development. The ECOSOC Partnership Forum will examine the challenges faced by these countries in different types of infrastructure development and the potential of PPPs in these countries. It will also review the commitments made by public and private stakeholders to support infrastructure development and how they can be effectively implemented within a “partnership” context.

II. Current situation

The Addis Ababa Action Agenda refers to the infrastructure financing gap in developing countries to be between US\$1-1.5 trillion per year. McKinsey estimates that US\$57 trillion in infrastructure investment will be globally required between 2013 and 2030 simply to keep up with projected global GDP growth.

Infrastructure is considered a major bottleneck for growth by the World Bank. Globally, around 1.2 billion people do not have electricity, one billion people in low-income countries lack access to an all-weather road, 660 million people lack access to safe drinking water, and 60 per cent of the world's population cannot connect to the internet.

Insufficient, outdated, poor quality and unreliable infrastructure assets and services can contribute to constraining growth worldwide, and particularly in developing countries. It limits access to markets, jobs, information and training. Poor infrastructure performance is often a result of insufficient spending, poor planning, insufficient coordination and weak analysis, corruption and poor maintenance. Good planning, coordination, and analysis of potential projects are essential to ensure that the right projects are selected, supported, and ultimately that they deliver value for money and high quality services.

Infrastructure needs and solutions vary by country and sector. Countries in special situations are particularly constrained in infrastructure development. In SIDS, small domestic and remote international markets, lack of economies of scale and limited opportunities for the private sector result in high costs for energy, infrastructure, communication and transportation.¹ Climate change has increased the frequency and force of hurricanes, caused sea levels to rise threatening coastal infrastructure and beaches which are integral to tourism, housing settlements and fresh water supplies, as well as marine life and coastal fisheries.² Furthermore, most infrastructural development and agriculture in SIDS is highly coastal-concentrated and thus at highest risk from rising sea levels. All this has meant that physical infrastructure imposes very high costs. Innovative and cost-efficient infrastructure solutions, especially regarding maritime and air routes, are therefore essential for SIDS.

Similarly, the world's landlocked developing countries have to surmount severe infrastructure and transport constraints which hinder economic growth and access to the world markets. Countries without ports pay more and wait longer for imported goods, and face export delays and thus trade less and grow more slowly. Other problems include border delays, cartels in the trucking industry, multiple clearance processes, and bribe-taking, all of which keep transport costs artificially high. In 18 LLDCs, GDP per capita income remains below \$1,000 per annum. The persistence of such low per capita income has resulted in a vicious circle in which transport infrastructure investment is not viable owing to too little demand and simultaneously less economic activity taking place because of inadequate infrastructure. This results in lower domestic revenue available for investment into social sectors.³ It is thus of key concern for LLDCs to not only improve their physical infrastructure, especially roads and other trade corridor infrastructure, but to also work with adjacent coastal countries to improve port efficiency and thus increase exports for LLDCs.

Infrastructure in LDCs must improve if the SDGs are to be attained in those countries as more than two thirds of the LDC population live in largely remote rural areas. Moreover, 60 per cent of total employment is in the agricultural sector and shortfalls in human development are greatest in rural areas. It is estimated that achieving the SDGs would require 45 per cent more rural children attending primary school and four times as many attending secondary school. It would also mean that the number of people in rural areas with better access to water has to increase by 70 per cent, and 250 per cent regarding access to sanitation, and a 10-fold increase with respect to electricity. There is therefore a need for a leap in infrastructure investment in rural areas of LDCs. Access to water needs to increase more than twice as fast as in 2011–2012, access to electricity four times as

¹ UN-OHRLS (2011): Small Island Developing States, Small Islands Big(ger) Stakes. Available on: <http://unohrlls.org/custom-content/uploads/2013/08/SIDS-Small-Islands-Bigger-Stakes.pdf>

² UNDP (2015): Financing for Development Challenges in Caribbean SIDS: A case for review of eligibility criteria for access to concessional financing. Available on: <http://www.latinamerica.undp.org/content/rblac/en/home/library/poverty/financing-for-development-challenges-in-caribbean-sids--a-case-f/>

³ UN-OHRLS (2013): Mapping Support for Africa's Infrastructure Investment. Available at <http://unohrlls.org/custom-content/uploads/2013/09/Mapping-Support-for-Africas-Infrastructure-Investment.pdf>

fast and sanitation six times as fast.⁴ Mobilization of resources for infrastructure development in LDCs remains a challenge.⁵

III. Addressing the infrastructure gap

Given the large financing gap in infrastructure, it is clear that all financing sources, public, private, domestic and international will be needed, with the respective roles of these financing sources differing between different countries and sectors. Nevertheless, there are constraints on both public and private resources across countries, which make it challenging for them to meet their infrastructure needs. Constrained public budgets limit public resources available for infrastructure investment. At the same time, traditional private providers of financing for infrastructure (such as commercial banks) have reduced their infrastructure lending since the financial crisis.

In addition to these financing constraints, insufficient investment is also in many instances a function of a weak enabling environment and an inadequate pipeline of well-prepared investable projects. This entails the development of broader infrastructure investment plans, which should be part of national sustainable development strategies. Many countries lack the capacity to develop such plans, so technical support needs to be part of a global infrastructure strategy.

In response to these challenges, there have in recent years been several new infrastructure initiatives at the global, regional and national levels, including initiatives undertaken by countries in the Group of 20, the World Economic Forum, various multilateral development banks and some national governments.

As mandated by the Addis Ababa Action Agenda (AAAA) the Global Infrastructure Forum (GIF) was established by the multilateral development banks (MDBs) to improve alignment and coordination among established and new infrastructure initiatives in order to overcome obstacles and bottlenecks to investment, including in the finance and capacity-building sectors. In April 2016, the MDBs held their first GIF and agreed to support country-led approaches to planning, executing, supervising and evaluating sustainable resilient, inclusive, and well-prioritized infrastructure programmes and robust infrastructure frameworks, and to consolidate and scale up existing multilateral mechanisms to promote greater knowledge transfer, project preparation and implementation support in the form of global and regional platforms and tools, including risk transfer and allocation mechanisms. The 2017 GIF, to be held on 22 April, will focus on delivery and implementation of sustainable development, including climate infrastructure investment.

The G20 Multi-Year Action Plan on Development included infrastructure as one of its nine key pillars for development, emphasising the need for Multilateral Development Banks (MDBs) to catalyse the flow of private capital to developing countries through mechanisms such as guarantees. The Global Infrastructure Hub was launched by the G20 in 2014 to grow the global pipeline of quality, bankable infrastructure projects by facilitating knowledge sharing, highlighting reform opportunities and connecting the public and private sectors. In 2016, the G-20 also announced that it intends to consider actions to support industrialization in Africa and the LDCs, and “to identify infrastructure gaps, needs and funding requirements for sustainable infrastructure including regional and rural infrastructure—along with opportunities to promote public-private partnerships (PPPs).”

The OECD, together with the World Economic Forum, launched the Sustainable Development Investment Partnership (SDIP) at the Third International Conference on Financing for Development in 2015 to mobilize US\$100 billion in private financing for infrastructure projects in developing

⁴ UNCTAD (2015): The Least Developed Countries Report 2015: Transforming Rural Economies. Available at http://unctad.org/en/PublicationsLibrary/ldc2015_en.pdf

⁵ UNCTAD (2014): World Investment Report. Investing in the SDGs: An Action Plan. Available at http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

countries over five years. In 2016, African projects valued at over US\$20 billion were already assessed.

At TICAD-VI in 2016, Japan committed US\$30 billion in public and private support for infrastructure development, education and healthcare expansion in Africa. US\$10 billion was earmarked for PPP infrastructure investments executed in cooperation with the African Development Bank, not only to develop quality infrastructure but also to strengthen and diversify industrialization in agriculture and fisheries and to promote of health sanitation and nutrition in Africa.⁶

IV. Public-private partnerships for infrastructure development

The Addis Ababa Action Agenda (AAAA) recognizes that “both public and private investment have key roles to play in infrastructure financing, including through (...) public private partnerships”. At the same time, the Agenda cautioned that “careful consideration should to the appropriate structure and use of (...) PPPs” and urged that all partners should share the risks and rewards fairly and include [in projects] “clear accountability mechanisms and meet social and environmental standards.”⁷

Governments typically enter into PPPs to increase the availability, quality, and resilience of infrastructure and public services, while sharing the risk involved in providing them with the private sector. The allocation of functions such as design, construction, financing, operations and maintenance vary between the public and private partner depending on the sector.⁸ Some PPPs could involve service user charges to pay for the private party, while others involve a government agency making some or all of the payments. PPPs can help improve project selection and achieve better value for money. They can benefit from good corporate governance practices in project design, tender and implementation, increasing transparency and competition. PPPs can also reduce construction time and costs, improve service delivery and ensure regular maintenance. Generally, the main objective is to improve the quality and efficiency of service delivery, freeing up public resources for other expenditures.⁹

It should be noted, however, that the viability of PPPs varies across sectors. While information remains limited, research findings to date indicate that, in many cases, PPPs have been better suited for economic infrastructure projects, such as transport and electricity, which have positive cash flows to repay the private sector, and less suited for sectors without clear positive financial returns, such as social sectors where equity are major concerns.¹⁰ The World Bank Group also cautions that increasing reliance on private sector investments must not mean that parties can decrease their “vigilance to ensure that privatisation does not equal exclusion of the poor and marginalised”.¹¹

While PPPs can offer effective solutions for infrastructure development, countries need to consider the potentials risks and limitations associated with PPPs. Institutional capacity to create, manage and evaluate PPPs is key for their effectiveness in infrastructure development. Project-related risks, such as construction risks, financial risks, availability risks, demand risks and residual risks, add to the complexity of infrastructure projects. An enabling institutional framework for the public sector is needed for project selection and implementation; structuring contracts to price and transfer and

⁶ JAPAN GOV (2016): Japan in Africa Vol.4. Focusing on Public-Private Investments. Available at http://www.japan.go.jp/ticad/Japan_in_Africa4.html

⁷ Paragraph 48, Addis Ababa Agenda.

⁸ World Bank Group (2015): PPP Knowledge Lab: How PPPs can help. Available at <https://pppknowledgelab.org/ppp-cycle/how-ppps-can-help>

⁹ UNDESA (2016): Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose? DESA Working Paper No. 148. Available at http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf

¹⁰ Ibid.

¹¹ World Bank (2016): Speech by World Bank President Jim Yong Kim: The World Bank Group’s Mission: To End Extreme Poverty. Available at <http://www.worldbank.org/en/news/speech/2016/10/03/speech-by-world-bank-president-jim-yong-kim-the-world-bank-groups-mission-to-end-extreme-poverty>.

allocate risks between public and private parties; fiscal accounting and reporting standards, and legal, regulatory and monitoring framework.¹²

In addition, the integrated nature of the 2030 Agenda for Sustainable Development requires an integrated approach to infrastructure development, which takes into account the economic, social and environmental dimensions in engaging in PPPs for resilient infrastructure.

V. Questions for discussion

- Under what circumstances are public-private partnerships (PPPs) most effective in addressing the challenges countries face in achieving the 2030 Agenda in general and SDG9 in particular?
- How can PPPs be strengthened to better support resilient infrastructure, green industrialization and inclusive economic growth?
- What kinds of institutional, legal and regulatory framework are necessary to ensure effective public private partnerships (PPPs) in infrastructure throughout the partnership lifecycle? What are the implications of these for regional PPPs in infrastructure?
- What must be done to ensure that recently announced commitments by partners in the area of infrastructure development are effectively implemented? How are the specific challenges faced by SIDS, LDCs and LLDCs being addressed?

¹² UNDESA (2016): Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose? DESA Working Paper No. 148. Available at http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf