Summary of the
Inter-Agency Taskforce Meeting on Public Private Partnerships

Friday, 16 December 2016 (UN Headquarters, New York)

1. Introduction

The Addis Ababa Action Agenda emphasizes the importance of infrastructure investment for achieving the SDGs. It notes "that both public and private investment have key roles to play in infrastructure financing, including… mechanisms such as public-private partnerships."[1] Nonetheless, public-private partnerships (PPPs) have become fairly controversial in debates on implementation of the SDGs, with views ranging from the essential need for PPPs to achieve the agenda to concerns that PPPs will be used to privatize public services and subsidize the private sector. The Addis Agenda recognizes both the potential and challenges associated with PPPs. It notes that "careful consideration should be given to the appropriate structure and use of … blended finance, including PPPs, [and that projects] should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards."[2]

In the Addis Agenda, Member States also committed to help developing countries build capacity to manage PPPs, including in planning, contract negotiation, management, accounting, and budgeting for contingent liabilities. In addition, Addis calls for inclusive, open and transparent discussions on guidelines and documentation for the use of PPPs, and includes a commitment to build a knowledge base and share lessons learned through regional and global fora.

In follow-up to these commitments, the Financing for Development Office convened an Inter-Agency Task Force meeting on Public Private Partnerships (PPPs). Participants at the meeting included approximately 20 Task Force members, as well as representatives from national governments, civil society, academia and the private sector.

The meeting was divided into four sections:

- A review of principles on PPPs that underlie the Addis Ababa Action Agenda, and their implications for PPP implementation;
- A discussion of PPP guidelines developed by various international organizations, and in particular by members of the Task Force. The aim was to better understand

[1] Paragraph 48, Addis Ababa Action Agenda
[2] Paragraph 48, Addis Ababa Action Agenda

the underlying assumptions behind the guidelines, including the extent to which they are aligned with the Addis Agenda and the 2030 Agenda, and with the underlying principles discussed above;

- ❖ Presentations of IATF members' toolsets that are available to countries to manage PPPs, including country experiences;
- ❖ A discussion of the World Bank's proposal for measuring the SDG PPP target, followed by a broader discussion on following up on the target and commitments made in the Addis Agenda related to PPPs.

The agenda of the meeting is attached in Appendix A and the background paper for the meeting can be found via this link (both prepared by Ms. Motoko Aizawa, an independent researcher).

2. PPP Principles in the Addis Ababa Action Agenda

Participants at the meeting discussed a set of underlying principles for PPPs that were extracted from across the chapters of the Addis Agenda. These include:

1. Careful consideration given to the structure and use of blended finance instruments (para 48);
2. Sharing risks and reward fairly (para 48);
3. Meeting social and environmental standards (para 48);
4. Alignment with sustainable development, to ensure "sustainable, accessible, affordable and resilient quality infrastructure" (para 48);
5. Ensuring clear accountability mechanisms (para 48);
6. Ensuring transparency, including in public procurement frameworks and contracts (paras 30, 25 and 26);
7. Ensuring participation, particularly of local communities in decisions affecting their communities (para 34);
8. Ensuring effective management, accounting, and budgeting for contingent liabilities, and debt sustainability (paras 95 and 48);
9. Alignment with national priorities and relevant principles of effective development cooperation (para 58).

In addition to the principles taken from the Addis Agenda, participants offered additional ideas that they believed should be included in a set of basic principles on PPPs. While the Addis Agenda includes a call for "effective management, accounting, and budgeting," many participants underscored the need for stronger language, specifically a call for governments to report PPPs on the balance their sheets. Other suggestions included alignment with domestic resource mobilization through fair taxation; affordability of services; 'effective' (in addition to 'clear') accountability mechanisms; and good corporate governance mechanisms on the part of the private actors. Some participants also pointed out that rules pertaining to PPPs often change mid-way through projects and suggested principles related to respecting processes and refraining from making excessive changes to the roadmaps of already agreed projects. Overall, however, it was agreed that the principles presented by the task force should remain closely aligned with the Addis Agenda, as it already represents text that has been agreed upon by all countries in the political process.

In elaborating on implications of the PPP principles on policies, it was noted that more work would be useful in a number of areas. For example, there was a call for additional research on the appropriate use of instruments (principle 1.) In general, PPPs can be seen as a potential instrument when the public benefit is greater than financial returns. However, there was agreement that the best financing structure ultimately depends on national circumstances and preferences, as well as levels of expertise and capacity constraints. The viability of PPPs also 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.) It was agreed that more work is needed in this area, and that as a first step, there is a need to map out a rough set of conditions (in terms of enabling environment, policies and sectors) under which PPPs can best advance sustainable development, as well as the areas and conditions under which they are less likely to bring efficiency gains.

The Addis Agenda calls not only for sharing risk fairly, but also for sharing returns fairly (principle 2), implying the importance of avoiding undue subsidies to the private sector and undue risk for the public sector. However, valuing risks and rewards in complex projects is notably difficult, even for governments with strong capacities. Climate change risk makes this task harder. While analysis inevitably needs to be on a case-by-case basis, IATF agencies could make a contribution by developing a set of analytical parameters that could give general guideposts for the use of instruments, such as when subsidies might or might not be appropriate, and what type of structures could be most effective.

The above points are in part about the interpretation and measurement of the concept of 'Value for Money'. 'Value for Money' is traditionally interpreted to mean the lowest price for a project, at the time of the project's initiation. While 'Value for Money' is important in determining the viability of PPPs, most participants stressed that it needs to be assessed in a broad sense, taking into account non-financial costs and benefits of projects, including long-term fiscal liabilities and social, environmental and development impacts, as well as value across the life-cycle of the asset. Although all infrastructure projects are designed with the public good in mind, the evaluation of projects often does not incorporate the full impact on sustainable development. The Addis Agenda calls on meeting social and environmental standards (principle 3), which is very much along the lines of keeping to safeguards. However, the Addis Agenda also calls for *all* investment flows to be aligned with sustainable development (principle 4). It was suggested that this implies a shift in thinking, from 'doing no harm' through safeguards, to measuring the positive impacts of public investment in all three dimensions of sustainable development.

Participants also noted the weak accountability and transparency in many PPP projects (principles 5 and 6) and suggested that a framework for disclosure on PPPs throughout their lifecycles could be an important agenda item for future work. This could, for example, include transparent and competitive bidding, which should serve to manage costs and ensure a better quality of service, or having development institutions work towards publishing relevant contracts and establishing mechanisms for public feedback.

Reference was also made to the importance of participation by local communities in decisions pertaining to projects that affect them (principle 7). It was pointed out that much infrastructure is done on the local level, and that to ensure accountability it is necessary to reinforce democratic accountability and popular acceptance of PPPs. This has been missing in a number of cases, and the lack of transparency and stakeholder participation in some PPP projects has triggered community opposition.

Participants also emphasized the need to ensure that debt incurred through PPPs is effectively tracked and managed (principle 8). The discussion on tracking and managing fiscal risks was continued in the later session on tool-kits and knowledge sharing, as described below.

It was pointed out that relevant principles of development effectiveness should be adhered to for projects involving international public finance (principle 9). Some participants noted that blended finance could divert funds from other needs, particularly for social needs where PPPs might not be the most appropriate financing tool, while other participants felt that blended finance could represent the most efficient use of international public resources. However, participants generally agreed that, given the limited availability of concessional public finance, the principle of country ownership in setting aid priorities should be adhered to.

Other points related to effectiveness included the suggestion that payments to the private partner should be linked to outcomes, and that there could be some form of certification standard that PPPs would need to pass before being implemented. The idea was put forward that, in addition to financing infrastructure, PPPs should be viewed as a way of enabling private investments more broadly, including for small and medium sized enterprises (SMEs.) Such projects may not happen otherwise and would need public support and appropriate tool-sets to kick-start them. In the context of the Addis Agenda, these issues are covered in Chapter II.B, on private finance.

3. PPP Guidelines

In paragraph 48 of the Addis Ababa Action Agenda, Member States agree to hold "inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of PPPs". As a basis for discussion, Motoko Aizawa presented a UN-DESA background paper, which analyzes 12 sets of guidelines developed by international organizations and national governments in relation to sustainable development and the PPP principles from the Addis Agenda. The paper found that there are areas of divergence in the guidelines, especially with regard to differing definitions of PPPs and value for money. It is also not clear whether the guidelines have an impact on results on the ground since little implementation data is available.

Participants concluded that most of the guidelines discussed are aligned with some, but not all, of the Addis principles. In particular, the guidelines tend to take a narrow view of public governance, focusing on enabling the public to facilitate the activities of commercial stakeholders, and missing out on the imperative for PPPs to generate public value. Most do not take into account the perspectives of non-commercial stakeholders. They also do not tend to explicitly incorporate environmental, social and governance aspects of PPPs alongside economic considerations.

There was agreement that the next generation of PPPs should be driven by a fuller vision of public governance in PPPs, including taking into account stakeholder perspectives, as well as climate and sustainability considerations. Guidelines for this new generation of PPPs would need to explicitly incorporate climate change and environmental, social and governance aspects of PPPs alongside economic considerations, and purposefully take on the perspectives of noncommercial stakeholders. This would mark another step in the evolution of PPPs, where earlier generations of PPPs were undertaken with narrower objectives such as putting assets 'off the country's balance sheet' and/or achieving 'value for money' in a strict financial sense through providing better services at an overall lower cost than through traditional public procurement.

This aim to evolve PPPs to take into account broader stakeholder concerns is exemplified by UN-ECE's initiatives to promote People-first PPPs that aim to ensure that, out of all stakeholders, 'people' are given top priority. People-first projects should meet a range of criteria including increasing access and promoting equity, developing a resilient infrastructure, improving environmental sustainability, demonstrating economic effectiveness, being replicable and scalable and engaging all stakeholders that are either directly involved in the PPP project or who are affected directly or indirectly in the short and/or long run. UN-ECE has more recently been facilitating the preparation of Guiding Principles in People-first PPPs as part of its intergovernmental process and as mandated by its Member States. Participants welcomed the idea of placing stakeholders at the heart of PPP agreements and emphasized the importance that developments in this area are discussed across the entire UN system. It was agreed that, in terms of work going forward, IATF members are invited to share any developments on guidelines with the Task Force and at the UN for a broader discussion and wide-ranging feedback.

4. <u>Toolkits and Knowledge-Sharing</u>

In the Addis Ababa Action Agenda, Member States also committed to "build a knowledge base and share lessons learned through regional and global forums."[3]

Speakers reiterated the need for support to help countries develop the institutional capacity to create, manage and evaluate PPPs. This would include the ability to correctly identify and select projects where PPPs would be viable, the structuring of contracts to ensure appropriate pricing and risk allocation, a comprehensive and transparent fiscal accounting and reporting system, and enabling legal and regulatory frameworks. In this regard, the Addis Agenda emphasizes capacity development, knowledge sharing, and peer learning.

A number of specific tools and knowledge-sharing initiatives were presented. The World Bank, in conjunction with other multilateral development banks, has created a platform called the PPP knowledge lab. This contains several tools that are available for use by governments and provides a joint platform for sharing analytical work in this area. In addition, the 'Public Fiscal Risk Assessment Model' or PFRAM, developed by the IMF and World Bank, was highlighted as providing a structured process for collecting project information and a framework to identify the main fiscal risks arising from a PPP contract. Similarly, UN ESCAP has developed an online training course on PPPs, produced methodologies for determining Value for Money, and brought out a readiness assessment tool, which examines the key elements of an enabling environment for PPPs. All of these tools serve to guide policy actions by governments.

The importance of developing tool sets for PPPs at sub-national level was brought up. It was pointed out that an increasing number of infrastructure projects are being undertaken at the municipal level and present an additional range of challenges that need to be captured by toolsets and guidelines.

It was also asserted that different archetypes of PPPs need to be envisaged for developing countries that may have varying needs in terms of public, private and multilateral interventions.

Some of the Task Force members are also working on enhancing the role of pension funds in financing infrastructure projects. Given their long-term liabilities, pension funds would be ideally placed to invest in infrastructure projects. Yet, pension funds currently invest less than 3% of their portfolios in infrastructure globally. The idea of an 'asset class' on infrastructure is thus on the global agenda, including in the G20, with the expectation that standardizing infrastructure and creating a benchmark of performance would encourage more portfolio investment in this area. However, it was noted that the emergence of infrastructure as an asset class could attract investments from not only pension funds but also other types of institutional investors, including those with short-term investment horizons, with the risk of creating short-term bubbles, which could impede rather than help long-term sustainable development.

[3] Paragraph 48, Addis Ababa Action Agenda.

In terms of peer learning and the exchange of ideas, it was suggested that the Global Infrastructure Forum, the FfD Forum, as well as regional dialogues can be used for open and inclusive dialogue on these issues.

5. Measurement of SDG PPP Target and Monitoring of Addis Commitments

The World Bank presented the proposed indicator for SDG target 17.17 ("Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships"), which is "*United States dollars committed to public-private and civil society partnerships*". Based on their data, from the PPI database, the World Bank proposes to measure the following indicator "*United States dollars committed to public-private partnerships in Infrastructure in EMDE countries"* and requested feedback on this from participants at the meeting.

Concerns were expressed that the SDG PPP target misses a number of nuances relating to the types of partnerships, their performance and the break down between public and private share of the financing. There were also questions relating to whether there would be a way to track the value of services generated by these PPPs over time or whether a project is on or off the balance sheet. It was also pointed out that the viability and effectiveness of PPPs are not captured in the target. In response, it was stated that the target should just be viewed as a financial indicator that does not track actual outcomes or performance.

There was some discussion as to whether debt incurred through PPPs would also be tracked. It was pointed out that foreign finance would be included in the debtor reporting system, as would finance from multilateral and bilateral partners. However, domestic finance would not be captured. However, if the PPP is recorded off-balance sheet, it would be less likely that any debt incurred would be captured.

The point was made that the data for this indicator would need to be verified with national reporting institutions (this being a tier 3 indicator, there is no international standard for measuring it).

The question was raised as to how this indicator relates to leveraging concessional public finance to raise private funds for the SDGs. In response, it was argued that the degree of leverage in PPPs is not that high and that the rationale for undertaking PPPs should be more about enhancing effectiveness and management that lead to better implementation of projects.

6. Possible follow-up and next steps

The discussions at the meeting also identified areas for possible follow-up and next steps, which are as follows:

A) **Deeper analysis of the principles**, including:

I. Clarifying the activities and sectors where PPPs can best advance the SDGs and where they may be less suitable;
II. Developing parameters for effective structuring and allocation of risk and rewards in PPP projects;
III. A broader interpretation and measurement of the concept of Value for Money;
IV. Construction of a framework for disclosure on PPPs throughout their life-cycles;
V. A deeper analysis of the impact of climate change on PPP evaluation.

Knowledge-sharing amongst IATF members: IATF members could on a continual basis engage in knowledge-sharing and information-exchange on PPP toolsets and the development of PPP guidelines by individual agencies. On the UN-ECE draft Guiding Principles in People-first PPPs, as a next step participants agreed that these could be presented at s meeting of to the Task Force to bring them into a wider discussion within the UN family. The PPP knowledge lab already provides one on-line platform for knowledge-sharing amongst some actors. The Global Infrastructure Forum provides a space for MDBs, UN Agencies, development partners and national entities to share knowledge. The IATF work could build on this, including linking to work by IATF members and other stakeholders as part of the IATF on-line annex.

B) **Supporting peer learning among countries and capacity building.** This could be undertaken at both global and regional levels. At the global level, the annual ECOSOC FFD Forum could facilitate open and inclusive dialogue and peer learning among countries. Similarly, regional dialogues on FFD (hosted by UN regional economic commissions) could facilitate similar discussions at the regional level.

Appendix A: Agenda

United Nations Nations Unies

Expert group meeting on Public Private Partnerships

The Inter-agency Task Force on Financing for Development

United Nations, New York,

16 December 2016

Agenda

9.00 am to 9.15 am	**Welcome, Introduction and Tour de Table** Shari Spiegel **Introductory remarks on definitions of PPPs** Laurence Carter
9.15 am to 10.45 am	**Discussion of PPPs in Addis and implications for PPP implementation** **Moderator:** Ms. Shari Spiegel (UN DESA) **Presenters:** Mr. Krishnan Sharma (UN DESA) Mr. John Pollock (AIG) Mr. Uwe Gneiting (Oxfam) Ms. Diana Barrowclough (UNCTAD) • Transparency; accountability; liability management • Appropriate use and structure of PPPs • Risk and reward sharing
10.45 am to 11.00 pm	**Coffee break**
11.00 am to 12.30 pm	**Discussion on PPP guidelines** **Moderator:** Ms. Shari Spiegel (UN DESA) **Presenters:** Ms. Motoko Aizawa (IHRB) Mr. Ian Hawkesworth (OECD) Mr. Tony Bonnici (UN-ECE) • What work is being undertaken in the international system on developing and adopting guidelines and documentation for

PPPs?
- How does this work tie in with agreed principles on PPPs?
- Commonalities, differences, and gaps
- Moving forward, what further work is required and how can the IATF contribute?

Respondent: Mr. Marc Powell (PWC)

12.30 pm to 2 pm **Lunch Break**

2.00 pm to 3.45pm **Discussion of toolsets available to countries to manage PPPs**

Moderator: Mr. Laurence Carter (World Bank)
Presenter: Ms. Isabel Rial (IMF)
Mr. Mathieu Verougstraete (UN-ESCAP)

- Ongoing work of IATF members
- Outstanding issues and gaps in fulfilling Addis mandates

Respondents: Mr. Jean-Mary M. Georges (Ministry of Economy and Finance, Haiti)
Mr. Mike Parker (EY)
Mr. Mathieu Vervynckt (Eurodad)

3.45 to 4.00 pm **Coffee break**

4.00 pm to 5.00 pm **Measurement of SDG PPP target (the amount of dollars committed to PPPs) and monitoring of Addis commitments**

Moderator: Mr. Laurence Carter (World Bank)

5.00 pm to 5.30 pm **Towards an integrated work programme on PPPs: Next steps and conclusions.**

Moderator: Ms. Shari Spiegel (UN DESA)