Public-Private Partnerships and Sustainable Development Goals

What role can they play in their achievement in developing countries?

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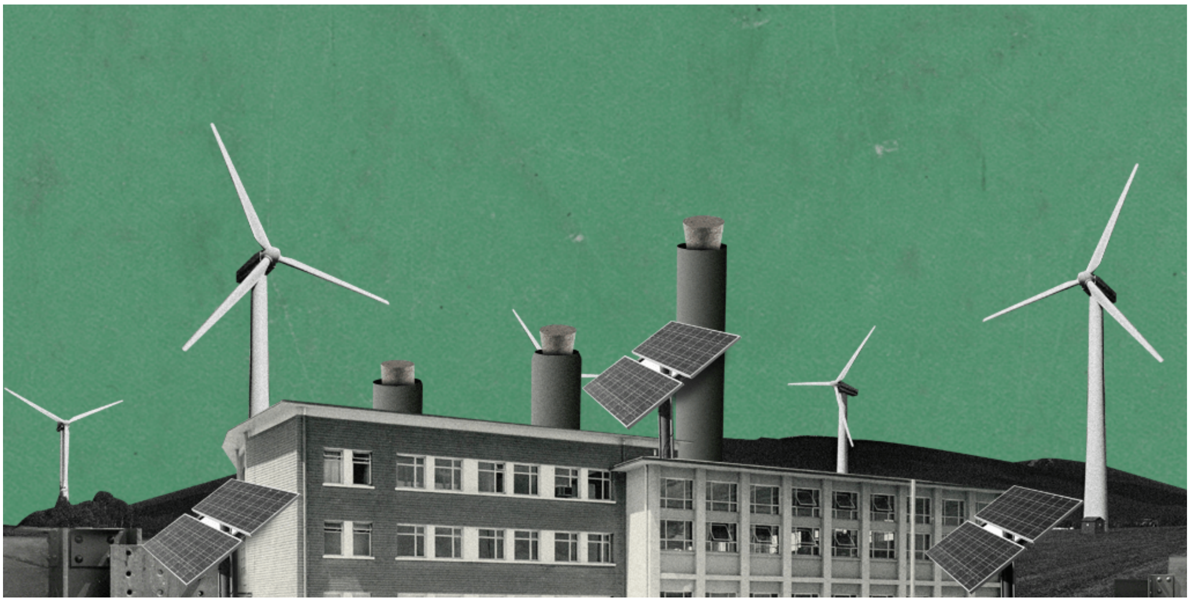

Il·lustració: Hansel Obando

In December 2021 I participated in a major Public-Private Partnership (PPP) conference in Istanbul, attended primarily by participants from emerging economies. There was considerable enthusiasm for PPPs as a mechanism to help developing countries achieve their sustainable development goals (SDGs). This continued enthusiasm was interesting in the light of reduced global keenness for PPPs over the last two years, due to the fact that unexpected COVID pandemic induced *force majeure* risks in the projects [1]. It was noteworthy that one of the distinguished PPP conference speakers made the following comment during his speech – “PPPs need to be seen as a tool to help countries achieve their SDGs rather than merely a procurement mechanism.” His comment addressed the crux of the matter. PPPs will remain a useful development tool if we change our approach to implementing them based on lessons learned.

What are the Public-Private Partnerships?

ÉIt is important that we understand what PPPs are before we consider them as development tools. Fortunately, there is a general consensus on what PPPs are. The World Bank describes PPPs broadly as "A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance." The United Nations Economic Commission for Europe (UNECE) has a wider description that states that PPPs are "the mechanism for financing, designing, implementing and operating public sector facilities and services." UNECE also refers to PPPs including "innovative methods used by the public sector to contract with the private sector, who bring their capital and their ability to deliver projects on time and to budget, while the public sector retains the responsibility to provide these services to the public in a way that benefits the public and delivers economic development and an improvement in the quality of life."

So, while PPPs at the highest level can be described as a long-term partnerships between the public and private sectors to deliver services or build government assets, when one delves deeper it becomes clear that PPPs are formal contractual agreements between the public and private sector that leverage private sector innovation and financial resources and which require appropriate sharing and allocation of risk. Additionally, if the formal contractual partnership is successful, the private sector is remunerated according to contractually required performance based on pre-determined outcomes.

It is important to caution those who are exploring PPPs as a tool for development that PPPs should not be confused with partnerships between the public and private sectors (also sometimes called PPPs) which are philanthropic in nature and which are often driven by corporate social responsibility (CSR) considerations.

Why PPPs?

The primary reason for implementing PPPs in emerging economies is the public sector funding gap that developing countries face. They often have limited financial resources to develop critical infrastructure or deliver urgently needed services that are strategically required to achieve their national sustainable development priorities. Because of this need the public sector is inclined to reach out to private sector developers and investors to bridge this gap.

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Reaching a decision to embrace PPPs requires considerable due diligence and an acceptance that feasibility study findings might conclude that candidate projects might not be implementable as PPPs. If proposed PPP projects are well planned, proven to be commercially and financially viable, have clear desired outcomes, and are procured competitively and transparently they have a chance for success. Additionally, institutional capacity building should be implemented to strengthen implementing parties and enabling environments should be codified to reinforce the legal parameters within which PPPs and implemented and operate.

Poorly Implemented PPPs Are a Risky Proposition

Unfortunately, in too many cases, PPPs are poorly implemented and procurements are rushed. Proponents of PPP projects need to be realistic about PPPs and understand challenges that they are facing. If not, a *laissez-faire* approach will increase project exposure to risks and the possibility of project failure. Regrettably, there are too many accounts of avoidable PPP failures and delivery shortcomings that have led to dissatisfaction, in certain circles with PPPs.

In a 2014 report written by David Hall titled – "Why Public-Private Partnerships Don't Work – The Many Advantages of the Public Alternative" – the potentially shadowy side of PPP processes is highlighted. Revealed PPP weaknesses include "confidential negotiations to protect secrecy, lack of public consultation, lots of false promises, and incredibly complex contracts designed to protect corporate profits." Additionally, the specter of bribery, limited implementation capacity, and poor understanding of PPPs scope and complexity by public sector employees is also raised in the report.

This prognoses is unfortunate as PPP have great potential if they are implemented in a transparent manner by skilled practitioners who are supported by an enabling environment (legal framework). Successful implementation of PPP projects therefore requires qualitative and quantitative screening processes that help decision makers decide whether a PPP approach is appropriate for a project under consideration.

A New Paradigm to Implement Successful PPPs in Emerging Economies?

We have to ask what can be done to implement successful PPPs in emerging economies? UNECE has launched an initiative that provides qualitative project screening guidance (best practices) for emerging economies that wish to successfully use PPPs as a tool to achieve their SDGs and avoid many of the mistakes that have been made in the past. UNECE's "Guiding Principles on People-First Public-Private Partnerships (PPPs) for the United Nations Sustainable Development Goals (UN SDGs)" introduces best practices that should be embraced by PPP proponents in emerging economies.

The aptly named "People First Public Private Partnership" (PfPPP) approach (paradigm) has identified specific outcomes for PPPs that can enhance PPP's design and implementation by emerging economies if adopted. They include the following:

- Increased access to essential services that lessen social inequality and injustice
- Delivery of resilient and sustainable infrastructure to secure longevity of projects
- Economically effectiveness that bring about transformational economic impact
- Replicable and scalable project approaches that allow the development of further projects
- Bringing stakeholders together in partnership and consulting parties impacted by proposed projects

If these specific qualitative screening outcomes are adopted, the opportunity exists to mitigate concerns expressed by PPP critics and strengthen the implementation of sustainable and resilient PPPs that do not squander the limited resources of emerging economies.

A New Definition of PPPs

Up until now PPPS have traditionally focused on completing quantitative "Value for Money" (VfM) assessments to determine the value proposition of PPPs. However, the many changing challenges that PPPs are facing (i.e. the covid pandemic and climate change) in emerging economies has led to a growing consensus that we also need to increasingly focus desired outcomes on the needs of people who are impacted by PPP projects.

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In recognition of this new reality, UNECE has developed an expanded PfPPP definition for PPPs which states the following: – "A People First Public Private Partnership is a long-term contractual relationship between the public and private sector where delivering value for people is the core objective, where there is a commitment to serving and protecting the community, and where the project is developed with the real interests of people in mind."

Value for People

The new UNECE guiding principles proscribes "Value for People" (VfP) where projects should: address critical challenges facing humanity; fight hunger and poverty; promote human wellbeing by increasing access to essential services; tackle a social agenda promoting social cohesion; overcome inequalities; and achieve gender equality and empowering women. Moreover, projects should disavow all forms of discrimination based on race, ethnicity, creed and culture. Furthermore, projects should bring resilience into infrastructure and mitigate risks and adapt projects for climate change; cut CO_2 emissions and take on circular economy practices; and develop more sustainable production and consumption patterns."

There is no doubt that PPPs can help countries achieve their specific SDGs if VfP becomes a central perspective of their implementation. Implementers must be cautioned that every country has its own specific SDG goals and therefore PPP project implementation strategies and adopted models should be customized for specific priorities designed to maximize positive impacts on their citizens and to mobilize civil society support.

In 2021, UNECE released its PfPPP evaluation methodology and user's guide to a self-assessment tool that allows PPP project proponents to implement a quantitative and qualitative PfPPP assessment. This methodology is intended to provide a common language for a basis of understanding of PfPPPs by all project stakeholders. The self-assessment toolkit should be used during project identification, development, and implementation. It provides benchmarks for evaluation that include; access and equity; economic effectiveness and fiscal sustainability; environmental sustainability and resilience; replicability; and stakeholder engagement.

Once a qualitative and quantitative PfPPP assessment is completed, PPP proponents will, in addition to having completed a VfM assessment, have completed a "people sensitive" assessment that will determine more precisely whether a candidate project meets PfPPP considerations and is compatible with national SDG priorities.

Future Proofing and Value for the Future

The COVID pandemic and climate change impacts have revealed the fragility of long-term PPP projects that have an operational horizon of many years. PPP project extended periods of performance therefore require that PPP projects are future proofed.

Future-proofing is described as the process of anticipating the future and developing methods to mitigate its impacts. Future-proofing when adopted in PPP planning adds a layer of resilience to projects that will enhance their sustainability and longevity. Future-proofing leans towards resilience planning strategies that accommodate future events and changes that ensure infrastructure facilities do not become prematurely obsolete. It can also be tied to building infrastructure that will be resilient to future adverse weather events are occurring with increasing intensity and frequency. Future-proofing additionally adds value to infrastructure in the sense that investors are more likely to invest in infrastructure that has built-in buffers that increase the project's resilience and financial sustainability of their investment.

Future proofing of PPP projects needs to be qualified and quantified. New innovative quantitative appraisal methodologies are being developed that allow the processing of comprehensive social, economic, and financial inputs and which provide cumulative objective-metrics on VfM, VfP, and VfF [2].

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Value for the Future (VfF) is a critical PPP evaluation assessment that looks at whether a project will contribute to enhanced well-being of successive generations and takes into consideration long-term PPP financial obligations. A new tool —the Intergenerational Redistributive Effects Model (IREM)— developed at CINME by Domingo Peñalver informs users about the impact on project socioeconomic benefits of different interest rates, loan conditions, and other financial compensations given to private partners for project risk mitigation over the lifetime of the project. This insight is critical to the selection of projects that will be impactful in reaching long-term SDG goals.

Making Sound Decisions and Attracting Investor Interest

The biggest challenge facing developing economies is making the right decisions when planning and launching PPP projects focused on achieve SDG priorities and goals. Wrong decisions will result in failed projects as well as projects that do not pass market interest litmus tests. Investors are not sentimental and will only invest in projects where risks have been mitigated. If VfM, VfP, and VfF assessments prove that projects are viable and have identified mitigatable risks, experienced investors will be interested. Not only is the project's attractiveness a decision point, but country's enabling environments and implementation track record are also a major consideration for investors.

Developing countries often find themselves in tight competition with their neighbors. This is particularly relevant for countries in the MENA region where powerful countries such as the UAE and Saudi Arabia are very attractive for PPP investors. The same is for Africa where countries find themselves competing with regional powerhouses such as Nigeria, South Africa, and Kenya.

Countries can remedy investor bias if they make efforts to improve their appeal. The World Bank's Benchmarking 2020 Infrastructure Development report provides a recent assessment of country's regulatory quality to prepare, procure and manage PPPs. The report scores countries according to their preparation of PPPs, procurement of PPPs, PPP contract management, and approach to unsolicited proposals. Developing countries should continue to strive to improve their scores so as to attract investors in the highly competitive PPP investment market.

PPP Considerations in a COVID Pandemic World

In June 2020 I initiated an informal survey of PPP practitioners from both the public and private sectors to determine their insights about the current and future PPP prospects. The feedback from 157 practitioners from 69 countries was insightful and pertinent to the implementation status quo of PPPs in developing countries.

Feedback on two of the survey questions provided below is shared:

- What two PPP sectors do you see being the most vulnerable to COVID-19 impacts?
- What two PPP sectors do you see as being the most promising in a post-COVID-19 era?

Sectors most vulnerable to COVID impacts by region (where most developing countries are located) were as follows:

- Africa – transportation; tourism/leisure; power/energy; and healthcare
- Asia – transportation; tourism/leisure; and power/energy
- Middle East – transportation; tourism/leisure; power/energy
- South America – transportation; tourism; and education

The most promising post-COVID pandemic sectors identified by respondents, by region where developing countries are predominantly located, were as follows:

- Africa – healthcare; digital infrastructure; agriculture; renewable energy; and water and sanitation
- Asia – healthcare; digital infrastructure; education; agriculture; and renewable energy;
- Middle East – healthcare; smart transportation; education, digital infrastructure; and water and sanitation
- South America – healthcare; digital infrastructure; and transportation

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An interesting observation is that the sectors identified as most impacted in the first place and having the most potential in the second place overlapped and were related to critical infrastructure and social service priorities needed for developing countries to achieve their SDGs. This provides an insight into the types of PPP project pipelines that are evolving in developing countries and which will possibly drive the PPP market in developing countries in the next few years. Additionally, many respondents from developing countries affirmed their commitment to PPP projects.

Conclusion: Adapting to a Changing World

Although one would expect that many survey respondents would be jaded by the current impacts of the pandemic, it was interesting to note that a pragmatic enthusiasm for PPPs still exists. However, respondents made it clear in their responses that the way of implementing PPPs has changed and that PPP programs are facing an unavoidable strategy shift. This change in circumstances offers a holistic opportunity to develop sustainable PPPs projects that address not just VfM, but also VfP and VfF.

PPP Practitioners have acknowledged that the impacts of global occurrences such as the pandemic and climate change are changing the context and ecosystems wherein PPP projects are being implemented. This reality is specifically relevant for vulnerable developing countries which have limited resources and need to make sound decisions regarding the implementation of PPP projects if they are to be successful achievers of the SDG goals through the leveraging of PPP projects.

In many discussions with PPP practitioners it has been repeatedly pointed out that PPP practitioners, from both the public and private sectors cannot continue to implement PPP projects as we have in the past. It is time for refocused and more relevant projects in developing countries, that are defensible, sustainable and resilient, and which include improved collaboration and cooperation between the public and private sectors in redefined partnerships.

REFERENCES

1 — See the following article for interesting perspectives: Baxter, D. (2020) 157 PPP Practitioners from 69 Countries Share their Insights on the Status of PPPs in the Pandemic Epoch [Disponible en línia].

2 — Domingo Peñalver of the International Center for Numerical Methods for Engineering (CINME) in Barcelona (Spain) is a leading authority in this sphere.

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David Baxter is an independent PPP (public-private partnership) consultant and Senior PPP Advisor of the International Sustainable and Resilience Center (ISRC). He advises governments, agencies and institutions for development around the world. Consulting focus areas include project procurement, PPP policy and practice, concession planning, and sustainable and resilient development planning. He was an advisor of World Bank's PPP Certifications Program and supported United Nations Economic Commission for Europe (UNECE) 'People First PPP Standards' initiative. Additional organizations that he has supported as a consult include United States Agency for International Development (USAID), the Millennium Challenge Corporation, the Inter-American Development Bank, the Islamic Development Bank, the Global Center on Adaptation (GCA), the Global Infrastructure Hub (GIH) and the Dutch Government, to mention a few. He is also a steering committee member of the World Association of PPP Units and Professionals (WAPPP) and is a recognized prestige member.