Public-Private Partnerships for Urban Infrastructure

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ICLEI Local Governments for Sustainability

Tellus Institute for a Great Transition

nrg4SD

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Public-Private Partnerships for Urban Infrastructure

Background

- Cities and sub-national governments on front line for implementing the SDGs and New Urban Agenda
- Finance needs for implementation estimated at trillions of dollars per year globally – a critical challenge facing all levels of government
- PPPs cited as key mechanism for accessing private capital for implementation, especially for infrastructure and basic services
- PPPs are contractual agreements between local/regional governments and, principally, private business partners

Public-Private Partnerships for Urban Infrastructure

Background (con't)

- Both enthusiasm and skepticism about the role of PPPs.

- Interest due to emphasis on partnerships in the 2030 Agenda for SD and NUA, and magnitude of infrastructure investment needs

- **Potential PPP benefits** cited by proponents:
  - For governments: access to private capital, advanced technologies, and management expertise
  - For businesses: access to markets and revenue streams, understanding of local needs and and conditions

Public-Private Partnerships for Urban Infrastructure

Background (con't)

- **Potential PPP risks for governments** cited by critics:
  - distortion of the public agenda
  - loss of local control over critical infrastructure and services
  - co-option of government or civil society partners
  - commoditization of commons
  - lack of strong local legal/regulatory frameworks & institutions
  - lack of transparency and accountability
  - hidden or "off-book" accounting of PPP-related debt
  - need for improved monitoring and evaluation
  - inadequate investment in maintenance
  - displacement of public employees

Public-Private Partnerships for Urban Infrastructure: Draft Principles

- Draft Principles intended to identify the conditions under which PPPs can be beneficial for local/regional authorities & citizens

- Draft Principles based on:
  - review of relevant literature
  - results of Communitas PPP workshop in June

Draft Principles for Public-Private Partnerships

Objectives of PPPs

1. PPPs should result in **improved outcomes for end users and citizens**, through improved service quality, accessibility and affordability.

2. PPPs should be consistent with and **support the long-range sustainable development plans of the public sector**.

Draft Principles for Public-Private Partnerships

Conditions of Suitability

Local/regional authorities should not engage in PPPs for urban infrastructure unless the following conditions are (substantially) met:

3. Need "**sound enabling environment**" – rule of law, high standards of public and corporate governance including: fair competition laws, transparency, accountability and enforcement mechanisms, and adequate anti-corruption provisions.

4. Public authority must have the **institutional capacity** to negotiate and independently oversee implementation of PPP on an equal basis with private sector counterparts.

Draft Principles for Public-Private Partnerships

Conditions of Suitability (con’t)

5. Public authorities should evaluate the potential life-cycle costs, benefits, and risks of a range of available infrastructure financing and management alternatives, including a careful **“Value for Money” analysis, comparing the financial impacts of the PPP option against those of a traditional public financing option**.

Draft Principles for Public-Private Partnerships

Conditions of Suitability (con't)

6. **Transparency** measures should be maintained throughout the lifecycle of the project, including full and proactive public disclosure of PPP agreements, with specific accountability instruments that establish performance-based responsibilities of all parties. Governments should include PPPs in national accounts rather than off-balance sheet, so they are part of debt sustainability analyses.

7. **Meaningful and sustained consultation with end-users** and other (local) stakeholders in decision making through a deliberative process, from design to implementation and evaluation, including prior to infrastructure project initiation.

Draft Principles for Public-Private Partnerships

Contracting Provisions

8. **Appropriate (equitable) risk sharing** should be included, based on assessment of public interest, with caution concerning any public sector guarantees.

9. Payment modalities and **return should be commensurate with investment risk** allocation. Remuneration to the private party(ies) should be linked to predetermined, mutually-agreed performance metrics.

10. The **sources of revenue to pay the private partner should be clearly identified** and made transparent from the outset of a PPP.

Draft Principles for Public-Private Partnerships

Contracting Provisions (con't)

11. **Employment preference** should be specified for local labor and, where it exists, for unionized labor to ensure health and safety protections, honor prevailing wage rates, and maintain benefit commitments (e.g., pensions, holidays). At a minimum, jobs created must abide by the ILO's decent work framework.

12. **Identify responsibilities concerning social and environmental aspects** of the project, as well as risk allocation in case of unforeseen events.

Draft Principles for Public-Private Partnerships

Contracting Provisions (con’t)

13. Clear, **independent performance monitoring and reporting** mechanisms must be identified, including provisions to monitor private partner(s)’ observance of human rights principles and coherence with the Sustainable Development Goals (SDGs).

14. Include clear, **mutually acceptable dispute resolution procedures** as well as defined mechanisms for renegotiation, with full public disclosure of renegotiation process and results.

15. Clearly **identify the grounds and procedures for terminating the partnership**, with full disclosure of the terms of termination within the PPP agreement.