Public-Private Partnerships (PPPs) in International Development

Are we asking the right questions?

Discussion paper

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Cover photo: CAFOD

This industrially irrigated sugar cane field in Sierra Leone is operated by ADDAX Bioenergy Sierra Leone Ltd. This is a public-private partnership (PPP) which will produce electricity for the national grid and bio-ethanol for export and domestic use. This PPP receives UK aid money indirectly, through the Private Infrastructure Development Group (PIDG) and the Emerging Africa Infrastructure Fund (EAIF). The UK's Department for International Development makes more than two thirds of the overall contributions to the EAIF, which amounts to almost 10 per cent of the loan funding to Addax Bioenergy Sierra Leone Ltd.[1]

1 Calculated from figures in PIDG Annual Report 2011, Annex 3 (Member contributions); page 92, www.pidg.org/resource-library/key-documents/annual-reports/pidg-AR-2011.pdf (accessed 19 March 2013).

1 Introduction

British official development assistance (referred to here as 'UK aid') uses public-private partnerships (PPPs) as one way of delivering its poverty reduction aims in developing and transition countries. These partnerships allow the private sector actor to make a profit, and in some cases the donor government also intends to make a profit from this method of delivering aid.[2]

This paper looks at some of the arguments for and against the use of PPPs in international development. First we define PPPs, their purpose, the actors who might be involved, and some of the motivations for these partnerships. The next sections outline some of the arguments for and against using PPPs to deliver the sustainable development aims of UK aid. Based on this, we raise four key questions which we believe should be asked for each PPP:

- What is the added benefit to development of using a PPP (after balancing costs, risks and benefits)? Which actors benefit?
- Have target beneficiaries given free, prior and informed consent (FPIC) to these partnerships?
- How does the theory of PPP compare to the practice?
- Do PPPs represent good value for aid money?

We hope this paper will stimulate debate, both on these questions and also whether there are other questions that need to be asked.

1.1 Public-Private Partnerships (PPPs)

Public-private partnerships are transforming aid and development. There is no agreed definition, but the World Bank suggests that: "*Broadly, PPP refers to arrangements between the public and private sectors whereby part of the services or works that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/or public services.*"[3] There has also been a recent increase in sales of PPP equity, with over 75% of these transactions now being made through offshore infrastructure funds.[4]

There are a wide range of models under the umbrella of public-private partnership. Many do not explicitly use this label, but instead use a variety of others, such as Private Finance Initiative (PFI) in the UK. One consequence of this is that it is difficult to find out which projects funded by UK aid are in fact PPPs.

The **private sector** is diverse, but this one term is used to refer to very different business sizes, structures and sectors; ranging from small-scale farmers, artisans or local entrepreneurs to some of the richest economic entities on the planet.

Given the diversity of both the private sector and PPP structures, it is not possible to make any general assumptions about the development impacts of all PPPs. Assumptions must be tested at the assessment, monitoring and evaluation stages for each PPP by all of the actors involved.

2 For example, the Climate Public Private Partnership (CP3) is one such case where: *"The UK government is expected to earn a commercial return on its investments."* Available at www.decc.gov.uk/assets/decc/11/tackling-climate-change/international-climate-change/5720-business-case-for-icf-support-for-the-climate-publ.pdf, p38 (accessed 19 March 2013).

3 http://ppp.worldbank.org/public-private-partnership/ (accessed 19 March 2013).

4 Whitfield D (2012), European Services Strategy Unit Research Report no 6: PPP Wealth Machine: UK and global trends in trading project ownership, p43.

1.2 Who should be involved?

The term 'stakeholders' crops up frequently in relation to PPPs, but it may be more accurate to talk about specific actors. An umbrella term implies all stakeholders are equal. In reality, not all interested and affected parties have an equal stake within a PPP and, depending on who they are, they have very different degrees of influence. For example, local communities may have different levels of access to information and influence on company decisions in comparison to the main investors. The intended beneficiaries of UK aid funded PPPs are poor and marginalised people.

When thinking about who should be considered as a relevant actor in UK aid funded PPPs, the United Nations Conference on Trade And Development's recommendations on revenue distribution advise: "*To avoid inequitable solutions, it is also important to engage all relevant stakeholders –*

PPPs vary, but important actors may include:

- The next generation and beyond of citizens in both the donor and beneficiary countries and, where applicable (and if different), the home and host states.[5]
- Target beneficiaries of the PPP, i.e. the beneficiaries of UK aid, which may include the poorest and most marginalised in developing and transition countries.
- The local community in the area of operation of the PPP (this may or may not be the same as, or overlap with, the target beneficiaries).
- Consumers of the PPP outputs, e.g. roads, electricity, health services. (This group will overlap with target beneficiaries, but is likely to be much bigger).
- The developing country government (national and local levels).
- Direct and indirect 'beneficiaries' in the developing or transition country (e.g. small-scale farmers, slum dwellers, micro-entrepreneurs etc).
- Tax payers in the developing or transition country.
- UK tax payers.
- The British government and other donor governments.
- Various UK government departments involved in decisions on channelling aid through private sector actors, including: the Department for International Development (DFID), the Foreign and Commonwealth Office, the Department for Energy and Climate Change, the Department for Environment Food and Rural Affairs, Her Majesty's Treasury, the Cabinet Office[6] and more recently the Ministry of Defence.[7] UK Trade and investment and the Department of Business, Innovation & Skills also advise UK business on PPPs in developing and emerging economies.[8]
- The private sector actor(s), e.g. UK-based multinational companies; other multinational companies, local multinational companies or micro, small or medium-sized enterprises and their supply chains.
- Investors and shareholders, e.g. equity investors (shareholders); loan creditors (banks; bondholders) and financial analysts (who advise investors and creditors).
- Trade unions.
- Civil society organisations, including community-based organisations.
- Regulatory bodies.
- Parliamentarians in home and host states.
- Multilateral development banks (e.g. the World Bank, Asian Development Bank).
- Development Financial Institutions (such as the UK's CDC[9], owned by DFID).
- Multilateral funds set up to channel aid through private sector actors, for example: the Private Infrastructure Development Group.[10]
- International governmental groups such as the G8, G20 and various UN agencies.

5 A **home state** is where a multi-national company is registered. The term is used where a distinction is required from the state in which the operations of that company are carried out, the latter state being referred to as the **host state**.

6 www.decc.gov.uk/assets/decc/11/tackling-climate-change/international-climate-change/5539-uk-international-climate-fund-cmci.pdf, slide 8 (accessed 19 March 2013).

7 *"... as part of the Strategic Defence and Security Review, we pledged to invest 30% of our bilateral aid in fragile and conflict-affected countries. DFID will be working more closely with the FCO and the MoD to make sure our approach is a joined up one."* Justine Greening MP, UK Secretary of State for International Development: Development in transition, 7th February 2013, www.businessfightspoverty.org/profiles/blogs/justine-greening-mp-uk-secretary-of-state-for-international (accessed 19 March 2013).

8 See for example UKTI & BIS press release: $20 billion of Sao Paulo infrastructure contracts open to UK firms, 28 January 2013, http://news.bis.gov.uk/Press-Releases/-20-billion-of-Sao-Paulo-infrastructure-contracts-open-to-UK-firms-686bc.aspx (accessed 19 March 2013).

9 www.cdcgroup.com/key-facts.aspx (accessed 19 March 2013).

10 www.pidg.org/ (accessed 19 March 2013).

governments, civil society, affected communities, labour unions, industry and international organizations – in the process of policy discussion and formulation."[11]

1.3 The purpose and accountability of aid

The International Development Act 2002 states the purpose of development assistance as **poverty reduction**,[12] which the UK government argues should be achieved through sustainable development initiatives. PPPs are one way UK aid is channelled to fulfil this purpose.

The original, accepted definition of **sustainable development** is: "*development which meets the needs of the present without compromising the ability of future generations to meet their own needs*".[13] Some prefer to update this definition, arguing that it is now "*generally accepted that sustainable development calls for a convergence between the three pillars of economic development, social equity, and environmental protection*".[14] In the International Development Act 2002 the definition is: *"generating lasting benefits for the population of the country or countries in relation to which it is provided*".[15]

A Catholic perspective on PPPs

Catholic Social Teaching (CST) encourages openness to business models that serve the common good.

"*It is in response to the needs and the dignity of the worker, as well as the needs of society, that there exist various types of business enterprise, over and above the simple distinction between 'private' and 'public'... In order to construct an economy that will soon be in a position to serve the national and global common good, it is appropriate to take account of this broader significance of business activity. It favours cross-fertilization between different types of business activity, with shifting of competences from the 'non-profit' world to the 'profit' world and vice versa, from the public world to that of civil society, from advanced economies to developing countries.*"[16]

CST is also clear that our judgement of business models should be based on whether or not it serves the common good. This guides us to be open to exploring the possibilities of PPPs, while challenging the view that the purpose of business should be always to maximise financial returns.

When PPPs are used to deliver aid, private sector companies receive this development assistance. Company directors have a duty to promote the success of the company. This is often narrowly interpreted to mean only maximising financial profits. However, in the UK, company law is clear that when taking decisions, directors must also have regard for wider factors that influence company success, such as the social and environmental risks, costs and benefits of their core business activities.[17]

Public aid flows are distinct from private sources because their purpose is to finance the pursuit of the public good, for example public health services or infrastructure such as roads. Aid is public money that has been collected by the state, for example through taxation. With current austerity measures, there is pressure on all public money.

11 United Nations Conference on Trade and Development, World Investment Report 2007. Available at http://unctad.org/en/Docs/wir2007_en.pdf, p158 (accessed 19 March 2013).

12 International Development Act 2002, www.legislation.gov.uk/ukpga/2002/1/pdfs/ukpga_20020001_en.pdf, Part 1(accessed 19 March 2013).

13 Report of the World Commission on Environment and Development: Our Common Future, (1987), http://conspect.nl/pdf/Our_Common_Future-Brundtland_Report_1987.pdf, (accessed 19 March 2013).

14 Sustainable Development: From Brundtland to Rio 2012 (September 2010), www.un.org/wcm/webdav/site/climatechange/shared/gsp/docs/GSP1-6_Background%20on%20Sustainable%20Devt.pdf p2 (accessed 19 March 2013).

15 International Development Act 2002, www.legislation.gov.uk/ukpga/2002/1/pdfs/ukpga_20020001_en.pdf, Part 1 (accessed 19 March 2013).

16 http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html #41 (accessed 19 March 2013).

17 See the work of FairPensions on Fiduciary Duties, www.fairpensions.org.uk/fiduciaryduty (accessed 19 March 2013).

CAFOD believes that if a PPP receives UK aid to deliver a public good, then that PPP, both the public and private sector parts of it, should be assessed, monitored and evaluated following the same standards as any other aid delivery method.

According to the Prime Minister, those standards include full transparency over projects funded: *"Full information on all DFID international development projects over £500 [are] to be published online from January 2011, including financial information and project documentation."*[18] This level of transparency is a first step towards an appropriate level of accountability. The government's Aid Transparency Guarantee states it will *"publish detailed… comprehensive, accessible, comparable, accurate and timely information"* about aid expenditure. A key reason why this is important is that: *"Transparency creates better feedback from beneficiaries to donors and taxpayers, and helps us better understand what works and what doesn't. It also helps reduce waste and the opportunities for fraud and corruption."*[19]

CAFOD argues it is important to apply this principle more broadly. Good practice on transparency and accountability for delivering aid using partnerships with private sector actors needs to be explicitly defined, and the conditions spelled out in publicly available contracts.

1.4 Win-win or (in)compatible interests?

The UK government has stated both that *"promoting UK commercial interests will be central to its foreign policy"*[20] and that: *"Our new approach to working with the private sector will not compromise the principle that our aid is tied to poverty reduction, not to promoting UK trade or other commercial or political ends."*[21] Whilst these policy statements are distinct, in the specific instances where UK aid and British businesses collaborate through a PPP, it is not yet clear how both of these statements will be compatible in practice.

Justine Greening, Secretary of State for International Development, has presented a win-win for responsible UK businesses investing in the development of markets they will trade with in future.[22] However, the terms and conditions detailed in the PPP contracts will be one critical factor in determining how this is delivered in practice. Cost-free, public access to the full contract details of these PPPs would provide one means for actors, (see section 1.2), to monitor progress and learn from the experience of implementation. Concerns have been raised by private sector companies bidding for DFID procurement contracts that they are not clear how to reconcile UK aid aims with their own fiduciary duties, in particular the pressure to make a financial profit. Some companies have said their procurement contract bids to DFID will be more expensively priced, in order to factor in this uncertainty.[23]

So in practice it is not yet clear what will be done to ensure these distinct policies are made compatible for UK aid funded PPPs which include UK businesses, or how aid may be used to *"align businesses' core activities with broader development objectives"*.[24] For example, if UK aid is channelled through a PPP model, will people living in poverty be able to access the goods

18 Monday 31 May 2010, A letter from Prime Minister David Cameron to Government departments on plans to open up Government data, www.number10.gov.uk/news/letter-to-government-departments-on-opening-up-data/ (accessed 19 March 2013).

19 www.dfid.gov.uk/ukaid-guarantee (accessed 19 March 2013).

20 Working as one team at Post: Guidance for DFID, UKTI and FCO staff on HMG's Commercial Diplomacy and Untied Aid Agenda, www.dfid.gov.uk/Documents/publications1/gov-guidelines-commercial-diplomacy.pdf (accessed 19 March 2013).

21 www.dfid.gov.uk/Documents/publications1/Private-sector-approach-paper-May2011.pdf, p9 (accessed 19 March 2013).

22 Justine Greening: Investing in growth. How DFID works in new and emerging markets, 11 March 2013, https://www.gov.uk/government/speeches/investing-in-growth-how-dfid-works-in-new-and-emerging-markets (accessed 26 March 2013).

23 http://www.pwc.co.uk/government-public-sector/international-development/publications/achieving-effective-delivery-of-the-development-agenda-lessons-from-the-front-line.jhtml, p17, (accessed 19 March 2013).

24 Justine Greening, UK Secretary of State for International Development (05 November 2012) DFID, Business and the Post-2015 Development Agenda, www.businessfightspoverty.org/profiles/blogs/justine-greening-uk-secretary-of-state-for-international (accessed 19 March 2013).

or services it is delivering? Will any PPP projects receiving UK aid be run on a purely commercial basis that charges prices for goods and/or services that make them inaccessible to the very poor?

To ensure that businesses behave responsibly, the UK government is committed to implementing the UN Framework and Guiding Principles on Business and Human Rights, the UN Convention Against Corruption and other similar conventions.[25] So another relevant question is: will PPPs be used to embed these standards into the core business activities of companies receiving UK aid?

Whilst it is clear that private sector businesses shape economies and influence development, it is also important to recognise that their *"impacts are not automatically positive"*.[26] So CAFOD asks, why have PPPs become such a popular choice for policy makers? What mechanisms are in place to ensure that PPPs receiving UK aid deliver the sustainable development needed to reduce poverty?

"The countries where DFID works will be the growth markets of the next 20, 30 years"

Justine Greening
Secretary of State for International Development

2 Ten arguments given for using PPPs to deliver aid

2.1 PPPs could be used to boost profits of both the donor country's private sector and even the income of the donor government itself

Geoffrey Hamilton, the Head of the United Nations Economic Commission for Europe's (UNECE's) PPP programme, thinks European governments have become more interested in PPPs because there are *"tremendous"* business opportunities outside Europe where markets are *"exceptionally buoyant and growing"*, especially in the development and maintenance of new infrastructure.[27] These comments were not limited to PPPs that receive public funds that are specifically development assistance. If there is a clear way to balance business interests with the objectives of UK aid to deliver poverty reduction – and if businesses can price in this into their bids to partner the public sector in PPPs and still win these contracts – then a win-win scenario may be possible. For example, DFID is committed to channel UK aid into projects partnering the private sector which are both commercially viable and have positive development impacts.[28] In the example of the Climate Public Private Partnership (CP3), *"the UK Government is expected to earn a commercial return on its investments"*.[29]

Demonstrating the positive economic benefits to the home country and its private sector of using PPPs to deliver aid could be popular in donor countries – and also a strategic move, given the context of vocal challenges to the aid budget.

25 Foreign and Commonwealth Office, Business & human rights, www.fco.gov.uk/en/global-issues/human-rights/international-framework/business/ (accessed 19 March 2013).

26 CAFOD, Everyone's business: Towards a mature understanding of the role of the private sector in development, www.cafod.org.uk/Policy-and-Research/Private-sector, p1-2 (accessed 19 March 2013).

27 http://www.youtube.com/watch?v=e_NcpyEc84E (accessed 19 March 2013).

28 See: http://www.pwc.co.uk/government-public-sector/international-development/publications/achieving-effective-delivery-of-the-development-agenda-lessons-from-the-front-line.jhtml, panel session 2, p8. Also: http://www.dfid.gov.uk/What-we-do/Key-Issues/Economic-growth-and-the-private-sector/Private-sector/ (accessed 19 March 2013).

29 www.decc.gov.uk/assets/decc/11/tackling-climate-change/international-climate-change/5720-business-case-for-icf-support-for-the-climate-publ.pdf p38 (accessed 19 March 2013).

2.2 There is a shortage of funding available for essential services and infrastructure

In a context of protracted economic crisis and austerity measures, PPPs are seen as one way for governments to mobilise funds they would not otherwise have to deliver the public infrastructure and services that their citizens need. In the developed world, this can mean upgrading antiquated or worn-out facilities, which could be kept operational for longer if necessary. By contrast, in the least developed countries, if a PPP is the only way of securing the resources to provide access to medical facilities, safe water or building flood defences, then the returns on that investment will be measured in lives saved. The Asian Development Bank has calculated that only US$500 billion of the US$8.3 trillion required to deliver Asia's infrastructure needs is available through governments.[30]

2.3 We urgently need private sector finance to add to the response to climate change

Developed countries have promised to provide US$100 billion annually for climate action in developing countries by 2020. This is a conservative estimate of the finance needed to meet the needs of vulnerable countries and communities. There is currently a huge debate over how much of the finance needed for climate action will be delivered by leveraging private finance. In its 2011 annual report, the private sector arm of the World Bank predicts that *"within two decades the cost of addressing global warming in developing countries could reach US$275 billion per year, an investment that will not be possible without the private sector, which is expected to pay for more than 80%"*.[31][32] It is still currently accepted by the UK government that public finance is crucial for funding adaptation, with 50% of current UK international climate finance (ICF) allocated for adaptation, *"recognis[ing] the political imperative of UK support to the most vulnerable countries to adapt to climate change"*.[33] However, this does not mean that current levels of public climate finance will be maintained, let alone scaled-up to meet the US$100 billion target.

2.4 Speedy delivery[34] which will save lives

In the context of protracted economic downturn, the private sector is a source of investment today that a government would not otherwise have in its budget, and without which projects would be put on hold until a future budget year.

Whereas in developed countries PPPs may merely *"take the waiting out of wanting"*, by contrast in a developing country, if a PPP is the only way of securing the resources to provide safe water or medical services, which in turn may rely on sustainable energy access, then the returns on that investment will be measured in lives saved. Conversely the cost of delaying the investment until the government or donors can provide the necessary resources will be measured in lives lost.

30 Quoted by Geoffrey Hamilton, Head of UNECE's PPP programme, www.youtube.com/watch?v=e_NcpyEc84E&feature=player_embedded

31 IFC quoted in: Jeroen Kwakkenbos, (May 2012), Private profit for public good? Can investing in private companies deliver for the poor? http://eurodad.org/wp-content/uploads/2012/05/Private-Profit-for-Public-Good.pdf, p16 (accessed 19 March 2013).

32 An important lesson of the WBG's infrastructure experience during the past two decades has been that neither the public nor the private sector alone can meet the access, quality, financing, and policy gaps for infrastructure. While the public sector will continue to play a crucial role in delivering infrastructure services, mobilizing additional private and harmonized aid resources will be essential in addressing the growing infrastructure finance needs in developing countries. In the last several years, there has been an increase in private sector financing flows into infrastructure, which reached around US$115 billion in 2006. Of growing importance is the increased south:south financing for infrastructure investments, with China and India as the most significant contributors to financing in Africa. http://siteresources.worldbank.org/INTSDNETWORK/Resources/SIAPbooklet.pdf p9 (accessed 19 March 2013).

33 UK International Climate Fund (ICF) Implementation Plan 2011/12 – 2014/15.

34 http://siteresources.worldbank.org/INTTRANSPORT/Resources/336291-1227561426235/5611053-1229359963828/tp_24.pdf, p3 (accessed 19 March 2013).

2.5 Improving efficiency

The Global AIDS Vaccine Initiative (GAVI) argues that applying the skills from a range of actors to a single problem increases efficiency. *"As a public-private partnership, GAVI represents the sum of its partners' individual strengths, from WHO's scientific expertise and UNICEF's procurement system to the financial know-how of the World Bank and the market knowledge of the vaccine industry… GAVI is a merger of our comparative advantages that aims to deliver more than each of us can do if we go it alone."*[35]

"…a merger of our comparative advantages that aims to deliver more than each of us can do if we go it alone."

2.6 Better technology and the transfer of technology and skills

To achieve integrated human development, Catholic Social Teaching promotes a sharing of knowledge between all.[36] Aid can be used to support this by funding the development of locally appropriate technology that is low carbon, climate resilient and which can be scaled up. The International Climate Fund (ICF) seeks to *"demonstrate that building low carbon climate resilient growth at scale is feasible and desirable"* and part of this is driving innovation and north-south private sector partnership.[37]

The private sector has distinct skill sets and particular roles in the development of new technologies. Using private sector actors in the delivery of aid could mean for example that counterparts in the public sector or local community may acquire new technologies, or learn how to use more up-to-date technologies and acquire useful management skills. The World Bank says that there are opportunities in *"structuring PPPs in a way so as to ensure transfer of skills leading to capacitated entities that can eventually export their competencies by bidding for projects / joint ventures"*.[38] DFID's Construction Ideas Fund for Nigeria specifically intends to support PPPs that provide *"relevant training and skills acquisition"*.[39]

2.7 Improve the effectiveness of the private sector in developing countries

UK aid can be used to ensure that the core business activities of the private sector have an overall positive impact on the poor, in contrast to reliance on the widely criticised trickle-down effect. For example, **impact capital** or **impact investment** is a financial instrument that seeks to achieve beneficial social impacts and an adequate financial return for investors. The DFID Impact Fund launched in December 2012 promotes a tailored approach that is specifically designed to achieve a positive impact on consumers or workers at the bottom of the pyramid.[40]

A similar idea is that of **patient capital**, which first emerged in Europe in 2004[41] demanding a 5–10% return on investment (i.e. much lower than other forms of venture capital that might seek a 35% return) and also allows for a longer payback period. The International Climate Fund (ICF) includes an additional element of scaling up, which is intended to ensure there is a

35 Referring to the PPP the Global Alliance GAVI: Dr Gro Harlem Bruntland, a former Director-General of WHO and first Chair of GAVI after its foundation in 2000, www.gavialliance.org/about/partners/the-partnership-model/ (accessed 19 March 2013).

36 Pope Benedict XVI asked us to commit *"to foster the interaction of the different levels of human knowledge in order to promote the authentic development of peoples"*, In: Pope Benedict XVI, Encyclical Letter Caritas in Veritate, 2009, No. 48/117, www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html (accessed 19 March 2013).

37 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48409/5539-uk-international-climate-fund-cmci.pdf SLIDE 4 (accessed 19 March 2013).

38 http://ppp.worldbank.org/public-private-partnership/overview/ppp-objectives (accessed 19 March 2013).

39 www.dfid.gov.uk/Work-with-us/Funding-opportunities/Business/Construction-Ideas-Fund/ (accessed 19 March 2013).

40 DFID Impact Fund – Request for Proposals, http://www.cdcgroup.com/uploads/impactfundrfp%5b0%5d.pdf (accessed 19 March 2013).

41 Neil Bird, Overseas Development Institute (ODI), 6 April 2009, GEEREF: a model climate fund?, www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/4684.pdf, p2 (accessed 19 March 2013).

greater uptake of low carbon and climate resilient options and contribute to 'leapfrogging' by developing countries – i.e. supporting them to develop low carbon and climate resilient economies. In this way, the private sector in developing countries may be changed for the better.

2.8 Strengthening private enterprise in developing countries

There are arguments that boosting the private sector in developing countries will contribute to economic growth, which will help poor people to create their own wealth. Former Secretary of State for International Development, Andrew Mitchell *"passionately"* believes that *"... working with and harnessing the private sector in developing countries is crucial to creating the jobs and income opportunities that bring prosperity wealth to people living in poverty."*[42]

The Department for Energy and Climate Change believes that: *"Private finance is also key to delivering substantial developmental benefits, including a stronger financial environment, competitiveness and job creation... strengthened financial markets infrastructure [will] contribute towards wealth creation and therefore enhanced opportunities for the poor, including creating new jobs... [And it is beneficial to] strengthen financial markets (particularly the private equity markets) in the developing countries to build enduring financial and technical capacity."*[43]

It is also argued that profitable PPPs may encourage other foreign private investment in countries where there are few investors.[44] For example, this is one objective of DFID's new Impact Fund.[45]

2.9 Provide livelihood options for the poor, an exit strategy from aid

If PPPs are targeted effectively, they can be one tool for increasing the decent work available to populations that have been receiving UK aid. Investing in the private sector of developing and emerging economies can help to support local companies, local economies and provide decent jobs that allow poor people to support themselves and their families. If UK aid contributes to stimulating vibrant local economies, the increased stability may also reduce costs incurred by the UK in dealing with, for example, piracy or terrorism, and may ultimately provide markets with which UK companies can increase their trade.[46]

2.10 Tackling corruption

Issues of corruption in public utilities, while not absent from public procurement in developed countries, are more pronounced in developing countries. Customised and well monitored PPPs could be used to tackle corruption. *"The G20 will encourage public-private partnerships and offers a significant opportunity for developing and implementing initiatives that engage the private sector in the global fight against corruption."*[47]

42 Andrew Mitchell, Private Sector, Public Benefit – My vision for a new development paradigm; Guardian Development Blog, 28 January 2011, www.guardian.co.uk/global-development/poverty-matters/2011/jan/28/polio-vaccination-private-sector-development (accessed 19 March 2013).

43 www.decc.gov.uk/assets/decc/11/tackling-climate-change/international-climate-change/5720-business-case-for-icf-support-for-the-climate-publ.pdf p1 (accessed 19 March 2013).

44 www.decc.gov.uk/assets/decc/11/tackling-climate-change/international-climate-change/5720-business-case-for-icf-support-for-the-climate-publ.pdf p28 (accessed 19 March 2013).

45 DFID Impact Fund – Request for Proposals www.cdcgroup.com/uploads/impactfundrfp[0].pdf (accessed 19 March 2013).

46 Justine Greening MP, UK Secretary of State for International Development describes her vision of the private sector in development in her speech: Development in transition, 7 February 2013, www.businessfightspoverty.org/profiles/blogs/justine-greening-mp-uk-secretary-of-state-for-international (accessed 19 March 2013).

47 11-12th Nov 2010 G20, ANNEX III, G20 Anti-Corruption Action Plan: G20 Agenda for Action on Combating Corruption, Promoting Market Integrity, and Supporting a Clean Business Environment, http://www.g20.utoronto.ca/2010/g20seoul-anticorruption.pdf (accessed 19 March 2013).

This summary shows that important arguments are being made in support of this method of aid delivery; however, it is not always clear what evidence underpins these arguments. What assumptions are being made, and have they been tested against the evidence? Below are some of the arguments against using PPPs to deliver the sustainable development aims of UK aid.

3 Ten arguments against using PPPs to deliver aid

3.1 The PPP model is not robust enough for wholesale export to developing countries

Alongside the increasing popularity of PPPs among policy-makers are a growing number of questions about the effectiveness of the PPP model. In 2011 an OECD study on PPPs in African infrastructure found mixed results and an overall failure to learn lessons or apply lessons learnt to implementation.[48] In the UK, the Treasury select committee has found a series of shortcomings in the Private Finance Initiative, including binding government into long-term contracts with private sector partners without any clarity about whether future years' budgets will be able to afford the contract conditions or why such long contract periods are needed. It recommends that government consider using other financing models instead.[49]

If the PPP model has not been proven to deliver effectively and consistently in the UK, what evidence suggests it is a good method of delivering aid to the most vulnerable in a developing or transition country where governments have fewer resources to negotiate these contracts or provide checks or legal safeguards, and where there are fewer safety nets available to the poorest people if things do not work out as planned?

Defence Secretary Philip Hammond is a *"Former businessman [who] has said that he went into government with a 'starting prejudice' that it should learn from the private sector but now acknowledged that model was not always the best way to handle big projects."*[50]

3.2 PPPs are an expensive financing model

The European Investment Bank compared the cost of PPP and conventionally procured road projects throughout Europe and concluded that *"PPPs were on average 24% more expensive than the public sector roads"*.[51]

In the UK, the House of Commons Treasury Select Committee came to a similar conclusion: *"PFI projects are significantly more expensive to fund over the life of a project. This represents a significant cost to taxpayers. We have not seen clear evidence of savings and benefits in other areas of PFI projects which are sufficient to offset this significantly higher cost of finance."*[52]

Given this evidence, what is the rationale for spending aid using a financing model that is not good value for money even in developed countries?

"G4S's failure to provide enough Olympic security guards has taught ministers that private firms are unsuited to providing many public services."

Philip Hammond
Defence Secretary

48 *"Notwithstanding, and despite the relative newness of engaging private sector finance in development projects, results to date with PPPs have been mixed, with lessons yet to be learnt and applied."* OECD, (2011), Mapping Support for Africa's Infrastructure Investment: Note by the Secretariat, http://www.oecd.org/dataoecd/5/1/49108411.pdf p27 (accessed 19 March 2013).

49 Treasury Committee, *"Public Finance Initiative"*, House of Commons, 01 September 2011, www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114608.htm (especially points 4, 14 and 33) (accessed 19 March 2013).

50 www.bbc.co.uk/news/uk-19251772 (accessed 19 March 2013).

51 EIB Economic and Financial Report 2006/01 EX ANTE CONSTRUCTION COSTS IN THE EUROPEAN ROAD SECTOR: A COMPARISON OF PUBLIC-PRIVATE PARTNERSHIPS AND TRADITIONAL PUBLIC PROCUREMENT Frédéric Blanc-Brude, Hugh Goldsmith and Timo Välilä, www.eib.org/attachments/efs/efr06n01.pdf, cited in PPPs in the EU: a critical appraisal David Hall, Public Services International Research Unit (PSIRU), Business School, University of Greenwich, (October 2008) www.psiru.org/reports/public-private-partnerships-ppps-eu-critical-appraisal (accessed 19 March 2013).

52 House of Commons, Treasury Select Committee Report; Private Finance Initiative; 18 July 2011. Summary, page 3, www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf (accessed 19 March 2013).

3.3 PPPs are not the only option for accessing the necessary finance

We know that sometimes speed will save lives, but whilst sticking plasters may be needed in certain cases for the short term, there also need to be longer-term solutions that can sustainably deliver the aims of aid.

One such longer-term option may include improving the effectiveness and enforcement of anti-corruption systems, to ensure that developing countries can collect the tax and other payments owed to them. This may include strengthening institutions, anti-corruption mechanisms and the rule of law in developing countries. However, it is estimated that illicit flows out of developing countries into the rich world every year total approximately one trillion US dollars.[53] To stem these flows, there are a range of transparency and anti-corruption measures that could be put into place and enforced in tax havens, secrecy jurisdictions and in the home states of multinational companies. Justine Greening has recognised that: *"Tackling corruption means not only finding those who steal money but throwing the book at those outside actors in other countries that help it to happen"*.[54] It is important that meaningful measures are implemented and enforced, so that illicit outflows from developing country budgets are minimised. This could provide much needed funds that provide both cheaper and more locally empowered options for financing sustainable development.

Further, it has also been argued that all the necessary investments to achieve the current sanitation millennium development goal are affordable for the majority of countries from national resources alone, without need for expensive government borrowing.[55]

Is it possible that the popularity of PPPs is leading to alternative funding sources being neglected?

3.4 The poor remain voiceless

The poorest are the target of UK aid, but the risk that they remain voiceless within a PPP is often inadequately addressed.

Each actor in a PPP has different levels of access to information about each project, differing expertise about how to best use that information and also different levels of resources to put that into practice. For example, PPPs are commonly used to deliver major infrastructure projects and high levels of technical expertise are required to implement such projects successfully. This is one reason why it is beneficial to buy in private sector expertise. However, alongside this, the World Bank makes a point that: *"The private sector is likely to have more expertise and after a short time have an advantage in the data relating to the project. It is important to ensure that there are clear and detailed reporting requirements imposed on the private operator to reduce this potential imbalance."*[56]

The concept of **free, prior and fully informed consent (FPIC)**[57] is not often mentioned in relation to PPPs receiving UK aid, yet it is recognised as one of

53 Dev Kar and Devon Cartwright-Smith, Illicit Financial Flows out of Developing Countries, 2002-2006, Global Financial Integrity, December 2008, www.gfip.org/storage/gfip/executive%20-%20final%20version%201-5-09.pdf (accessed 19 March 2013).

54 Justine Greening MP, UK Secretary of State for International Development: Development in transition, 7 February 2013, www.businessfightspoverty.org/profiles/blogs/justine-greening-mp-uk-secretary-of-state-for-international (accessed 19 March 2013).

55 David Hall and Emanuele Lobina, The past, present and future of finance for investment in water systems; Public Services International Research Unit; November 2010, www.psiru.org/reports/past-present-and-future-finance-investment-water-systems (accessed 19 March 2013).

56 http://ppp.worldbank.org/public-private-partnership/overview/ppp-objectives (accessed 19 March 2013).

57 The FPIC principle is international law under the ILO Convention 169 (1989). It is currently applied only to people who are officially classified as 'indigenous'.

the essential safeguards in protecting the rights of indigenous people before starting business activities and for the duration of those business activities.[58] Without this measure in place, it is not always clear how target beneficiaries and directly affected communities will have the opportunity to have their voice heard within the design of each PPP. There also various other forms of safeguard such as social and environmental impact assessments, human rights due diligence, mitigation measures and managements plans etc, which are not always clearly in place within each PPP.

Additionally, it is likely to be necessary to go beyond minimum information disclosures if power imbalances are to be adequately addressed. We know from the experience of multi-stakeholder processes that they do not always guarantee an equality of participation from different groups in **decision making**. For example, some CAFOD partners have been unwilling to take part in the Extractive Industry Transparency Initiative (EITI) discussions because, to date, discussion has been restricted to issues that take place after production has happened, rather than including debate about what the parameters of a project should be before it starts. The process therefore falls short of ensuring that voices of communities directly affected by the operations of oil, gas and mining companies are reflected in the core business operations of the projects that affect them.

3.5 Lessons learnt about trickle-down have not always been applied to PPPs

It cannot be assumed that private sector growth will automatically benefit the poorest. This has been recognised in OECD research.

However, policy making has not caught up. The Secretary of State for International Development has said that working with big and small businesses to *"drive economic growth and create jobs for the poorest and most vulnerable people"* is part of her department's core focus.[59] But to understand why PPPs are good value for money for UK aid, it will be necessary to go further and define the steps each PPP will take to ensure economic growth benefits reach all the way to the poorest and most vulnerable, and do not accrue only or proportionately more to those already running businesses and other more privileged actors. To understand how this is being done, it will be necessary to analyse the PPP terms and conditions in the contract.

The Catholic faith calls each of us to *"…share and employ their earthly goods, according to the ability of each, especially by supporting individuals or peoples with the aid by which they may be able to help and develop themselves"*.[60]

Taking a Catholic Social Teaching lens to the OECD report findings would suggest that if aid money is used for PPPs, these should offer the poorest and most vulnerable opportunities to develop themselves. It follows then that aid should not be used for PPPs that increase inequality or render the poorest dependent on those who already have more power and access to resources. For example, it is clear that offering a few poorly paid jobs in a business that is benefitting relatively more than the poorest from the receipt of UK aid, is not

"The benefits of economic growth DO NOT trickle down automatically. This study dispels this assumption. Greater inequality DOES NOT foster social mobility. Without a comprehensive strategy for inclusive growth, inequality will continue to rise. There is nothing inevitable about high and growing inequalities. Our policies have created a system that makes them grow and it's time to change these policies."

Angel Gurría
OECD Secretary-General, December 2011

58 United Nations Declaration on the Rights of Indigenous Peoples, A Business Reference Guide, (10 Dec 2012), www.unglobalcompact.org/docs/issues_doc/human_rights/UNDRIP_Business_Reference_Guide.pdf, p24 (accessed 19 March 2013).

59 DFID, Business and the Post-2015 Development Agenda, www.businessfightspoverty.org/profiles/blogs/justine-greening-uk-secretary-of-state-for-international (accessed 19 March 2013).

60 Gaudium et Spes 69.12, (1965), (Vatican II).

as desirable a use of aid compared to supporting new entrepreneurs to shape their own private sector on their own terms.

3.6 Projects that are already commercially viable should not receive UK aid

Some PPPs are genuinely targeting micro and small-scale enterprises that are run by the poorest and most vulnerable in developing or transition countries. However, the Head of the United Nations Economic Commission for Europe (UNECE) public-private partnership (PPP) programme highlights that the main growth markets for the development of new infrastructure are in developing and emerging economies and that *"governments tend to want their own companies to benefit sometimes from PPPs"*.[61]

David Cameron has stated he wants British business to benefit from investment in booming infrastructure markets overseas.[62] Since infrastructure is a key sector where PPPs are used, PPPs receiving UK aid for infrastructure projects would need to clarify within the design, contract, monitoring and evaluation how UK aid is contributing to additional public benefits that would not have happened anyway. In the absence of public accessibility to this level of information about each infrastructure PPP receiving UK aid, questions will remain. For example: what is the added value of UK aid in PPPs that are commercially viable? How are the poorest getting their priorities heard and responded to when powerful interests are receiving the aid money that supposedly prioritises their needs? How will intended beneficiaries of PPPs know what added benefits to expect from UK aid funded PPPs in contrast to other infrastructure PPPs?

Research has shown that *"the majority of finance in existing PPPs goes to well-performing sectors such as telecoms, where commercial returns are likely to be high"*.[63] Other research analysing the destination of the development finance channelled to the private sector by the European Investment Bank and the private sector arm of the World Bank, found that big business, wealthier countries and tax havens benefitted most, with:

- just 25% of recipient companies domiciled in low-income countries
- 50% of funds channelled to companies based in OECD countries and tax havens
- 40% of recipient companies being *"big companies listed in some of the world's largest stock exchanges"*.[64]

There are inherent tensions between the pressures on a private sector actor to make a profit from a PPP contract and the use of aid to deliver for the poorest and most marginalised in markets and/or geographical zones where the private sector have chosen not to invest. This is a particularly pertinent issue given DFID's increased profile in fragile states and the urgency of needing effective incentives for the private sector to invest in innovative low carbon solutions where commercial returns might take some years to materialise. The specifics of how these issues are addressed within the terms and conditions of each PPP will be crucial to its success, which cannot be taken for granted.

61 Geoffrey Hamilton, Head of UNECE's PPP programme, discusses future challenges and the importance of PPPs to improve infrastructures and the quality of life (2012) UNECE, www.youtube.com/watch?v=e_NcpyEc84E&feature=player_embedded (accessed 19 March 2013).

62 David Cameron (19 March 2012) Speech on investing in road infrastructure. In TotalPolitics magazine: http://www.totalpolitics.com/print/speeches/314042/david-camerons-speech-on-investing-in-road-infrastructure.thtml (accessed 19 March 2013).

63 Bruce Byiers and Anna Rosengren, (July 2012), European Centre for Development Policy Management (ECDPM), Discussion Paper No. 131, Common or Conflicting Interests? Reflections on the Private Sector (for) Development Agenda, www.ecdpm.org/dp131 p7 (accessed 19 March 2013).

64 Jeroen Kwakkenbos, Eurodad, (May 2012), Private profit for public good? Can investing in private companies deliver for the poor? http://eurodad.org/wp-content/uploads/2012/05/Private_profit_report_eng-VF5.pdf, p5 (accessed 19 March 2013).

3.7 Poorly negotiated PPP contracts could add to state indebtedness

Since the 1980s, creditor countries have adopted some measures to relieve poor country debt, but the nature of lending has not changed and poor country debts have risen from US$579.6 billion in 1980 to US$3.7 trillion in 2010.[65] Debt is already a key barrier to development for many developing countries and whether or not a PPP can deliver on sustainable development for poverty reduction aims will depend to a great extent on the terms of how debt generated by the PPP is structured, and by whom it is borne.

- If the private sector partner(s) will bear the debt, how will they make a profit and also deliver the goals of UK aid (sustainable development for poverty reduction)?
- If the developing/transition country government bears the debt, will the rationale for the PPP detail how using aid to increase a country's national debt in a way that may impact on the ability of the state to provide public services will provide an overall development benefit to that country and especially its poorest citizens?
- If a donor government pays the debt by using its aid budget, what ratio of debt paid off using public money versus profit made by the operator is acceptable within a PPP?

In the example of Uganda's Bujugali dam, the terms of the project's power purchase agreement mean that the Ugandan government is bound to buy all the electricity produced by the dam, whether or not there is demand.[66] The World Bank inspection panel noted that: *"It is clear from the review of the Project documents that the greatest share of economic risks lies with the power purchaser… [whilst] the lenders especially but also the investors are held harmless against all or most eventualities."*[67] In effect this means that developing or transition country debt can be accrued via a PPP and that could result in debt bondage to a private firm, rather than to a donor country. So there is an argument that the PPP model just changes the shape of the debts that developing and transition countries grapple with; but it leaves the underlying power dynamics and debt problems unaddressed. Without addressing this, the projects cannot be sustainable.

3.8 Government officials often do not have the skills, resources or even political backing to negotiate deals which are most beneficial to their citizens

In the UK, there was widespread criticism about the government's handling of the West Coast Mainline franchise, which led to questions about whether the Department of Transport had adequate professional and administrative resources to manage the complex bidding process.[68] There were comments in the national press that: *"The bidding system is horrendously complicated. Some say that the winners are not those who offer best value for money to the taxpayer but the companies that are best at 'gaming' the rules – working out how to swing the system to make the biggest profit. Private sector bidders*

65 www.jubileedebtcampaign.org.uk/Getting3720into3720Debt+6281.twl p6 (accessed 19 March 2013).

66 Atipo Ambrose Peter, How is risk allocated in power purchase agreements? The case of Uganda's power market structure and the Bujagali power purchase agreement, p16 (Date circa 2010). www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CC8QFjAA&url=http%3A%2F%2Fwww.dundee.ac.uk%2Fcepmlp%2Fgateway%2Ffiles.php%3Ffile%3Dcepmlp_car13_69_917253745.pdf&ei=9JJ9T7LtOciq8QP4yq28DQ&usg=AFQjCNGGVoEDcqJrOMxBVhgsj0vSo-IEwg (accessed 19 March 2013).

67 World Bank Inspection Panel Report – Summary. Page xlii http://www.internationalrivers.org/files/attached-files/bujagali_part_1.pdf (accessed 19 March 2013).

68 www.guardian.co.uk/uk/2012/oct/03/west-coast-mainline-department-for-transport?intcmp=239 (accessed 19 March 2013).

are nearly always more experienced and more wily than the civil servants, who are not nearly as well paid as their opposite numbers."[69] If this is so, why would we expect developing country governments, whose civil servants are often even more under-resourced and under-skilled compared to multinational companies, to fare any better in their negotiation of PPP deals?

Learning lessons from the impacts of the extractives industry, the United Nations Conference on Trade and Development (UNCTAD) concludes that: *"The better the knowledge base, the stronger the bargaining position of a government vis-à-vis private enterprises in general and TNCs in particular."*[70]

Yet even if the necessary knowledge and negotiating skills are available, there are cases where there may not be the political will to ensure that contracts maximise delivery to the intended beneficiaries. UNCTAD states that: *"In the worst-case scenario, easy access to revenues from mineral resources can make governments less accountable to their constituents (Moore, 2000) and their actions more likely to be aimed at preserving the interests of a small governing elite. The entry of TNCs in such countries can enable ruling elites to prolong their stay in power and misuse a country's assets, with limited benefits for the people at large."*[71] Some officials in poorer countries may be tempted to take a similar path if PPPs are not carefully designed, with adequate, independent oversight and an effective redress mechanism in place for their intended beneficiaries. A senior government advisor in a developing country in Africa told CAFOD that he sees the scenario that UNCTAD paints happening in his country.[72]

3.9 The balance of costs, benefits and risks of each PPP are not clearly defined or fully transparent

The full costs, benefits and risks of each PPP are important for relevant actors to understand, since the *"private sector will also expect a significant level of control over operations if it is to accept significant risks"*.[73]

On the one hand DFID says it *"…believe[s] that aid spending should be fully transparent. This means that anyone anywhere should be able to track every pound of aid spending right through the system, from DFID all the way to the activity on the ground."*[74] This implies that the purpose of transparency could include ensuring the target beneficiaries of a PPP would be able to hold DFID accountable if something went wrong with a PPP its funds contributed to.

Hypothetically it is clear that accessing a spreadsheet of who spent what along a supply or value chain implies less accountability for the impacts of a project than, for example:

- a transparent, inclusive process of defining the costs, risks and benefits in advance of implementation (which will require there to have been free, prior and full information disclosure to all actors)
- disclosing the contract with all its terms and conditions and the relevant data required for target beneficiaries of the PPP to see who should have spent what along the supply chain and who can be held accountable if that did not happen.

69 Why the West Coast franchise is a great Whitehall railway disaster, 3 October 2012, www.telegraph.co.uk/news/uknews/road-and-rail-transport/9584236/Why-the-West-Coast-franchise-is-a-great-Whitehall-railway-disaster.html (accessed 19 March 2013).

70 United Nations Conference on Trade and Development, World Investment Report 2007. Available at http://unctad.org/en/Docs/wir2007_en.pdf, p158 (accessed 19 March 2013).

71 Ibid, p157-8.

72 CAFOD interview with a government advisor in a developing country July 2012.

73 http://ppp.worldbank.org/public-private-partnership/overview/ppp-objectives (accessed 19 March 2013).

74 Cited in: DFID's Open data strategy April 2012 – March 2014.

Transparency of data must always have a clear purpose if it is to provide more than just 'zombie data',[75] which can, in worst case scenarios, be used as a smoke screen and not as building block towards greater accountability. Data about each PPP receiving UK aid would therefore need to be disclosed in a meaningful and accessible way that allows intended beneficiaries of PPPs to hold other actors in the PPP accountable, including those with more power.

A report on a wind power PPP in Mexico illustrates how a large US company is obtaining cheap electricity from this project while local residents receive no such discounts and only 7 per cent have any access to electricity at all. This project is part financed by development banks, including subsidised credit from the World Bank's Clean Technology Fund, with UK aid money providing 14%.[76] When there are so many powerful actors involved in the finance of each PPP; even where there is full transparency, understanding and enforcing accountability can be daunting for the intended beneficiaries, the poorest and most marginalised.

3.10 Inadequate redress

Even within the UK, PPPs have not always been implemented as planned. For example, the Financial Times reported that: *"The role of private companies in public delivery has been high on the agenda in the past year following allegations of fraud at welfare-to-work provider A4E and the failure of G4S, the security company, to honour its Olympic security contract."*[77] Therefore CAFOD would expect to see clear and accessible options within the contracts of PPPs receiving UK aid for redress for intended beneficiaries and people living locally to the project, in case there are any problems with implementation.

The importance of adequate redress is acknowledged by the UN, whose Guiding Principles on Business and Human Rights are based on the following three pillars of:

- the state duty to protect
- the corporate responsibility to respect rights
- access to remedy.

If a government project fails to deliver, people can hold their government to account using local redress mechanisms, including traditional structures, the courts and their vote. If a project involving a donor government and possibly one or more foreign private sector actors goes wrong, how can affected people access redress? It is important to build in effective mechanisms to each PPP.

In the UK, the recent Legal Aid, Sentencing and Punishment of Offenders Act (2012) has increased the barriers to justice for people in developing countries who seek redress for human rights abuses caused by UK companies overseas.[78] If the UK is increasing the use of PPPs to deliver aid, this kind of access to justice needs to be improved, not weakened.

ADDAX Bioenergy Sierra Leone Ltd is the private sector partner in a PPP receiving UK aid money[79] to produce ethanol from sugar cane. The project has leased the agricultural land of local subsistence farmers. The 50-year land lease agreement that ADDAX holds for this project specifies that: *"All Disputes*

75 Kaufmann talks about 'zombie data', for example here: TrustLaw, (12 Nov 2012), Extractive industry transparency movement at crossroads – expert, www.trust.org/trustlaw/news/interview-extractive-industry-transparency-movement-at-crossroads-expert (accessed 19 March 2013).

76 World Development Movement, (Dec 2011), Power to the People, www.wdm.org.uk/climate-change/uk-climate-aid-funds-electricity-walmart-mexico (accessed 19 March 2013).

77 Helen Warrell and Chris Cook, Financial Times, 3 October 2012, Labour would extend FOI laws, www.ft.com/cms/s/0/59dd0a86-0d79-11e2-bfcb-00144feabdc0.html#axzz2BKtaHYij (accessed 19 March 2013).

78 Corporate Responsibility Coalition (CORE), (March 2012), Legal Aid Briefing, Lords 3rd Reading, http://corporate-responsibility.org/legal-aid-briefing-lords-3rd-reading/ (accessed 19 March 2013).

79 ADDAX Bioenergy Sierra Leone receives UK aid indirectly through the Private Infrastructure Development Group (PIDG), which in turn gives money to the Emerging Africa Infrastructure Fund (EAIF), which is the entity that directly contributes to this bio-energy project. DFID is the major funder of both bodies, providing just over half of all contributions to PIDG and 68 per cent of all disbursements by PIDG to EIAF – PIDG Annual Report 2011; Annex 3 (Member contributions); page 92, www.pidg.org/resource-library/key-documents/annual-reports/pidg-AR-2011.pdf

“We are not starry-eyed. Private companies can behave badly or simply ignore the marginalised. Standards matter – as do effective state and market institutions.”

Rt. Hon Andrew Mitchell MP
Former Secretary of State for International Development

shall be referred to and finally resolved by arbitration in London before three arbitrators under the Rules of Arbitration of the International Chamber of Commerce…”[80] These terms of dispute arbitration are not understandable, let alone accessible to most of the people CAFOD spoke to who had leased their land to this project, not least because they can’t afford to travel to London.

4 Conclusion

While PPPs are one potentially beneficial tool for channelling UK aid to deliver sustainable solutions for the poorest and most marginalised in developing and transition countries, equally there are many challenges to these initiatives realising positive development impacts, including the possible drawbacks and negative impacts outlined.

This paper has set out some of the arguments for and against using PPPs to deliver development. CAFOD would argue that to have this discussion in a more meaningful way, it is necessary to have the following:

- clearly defined, specific objectives that each PPP has been designed to achieve
- disclosure of the full details of how the contract is structured to deliver these, including who will bear which risks
- robust indicators of success identified and agreed amongst all parties
- an inclusive design and implementation process
- robust and independent monitoring and evaluation processes
- an adequate redress mechanism in place, in case all does not happen as planned.

DFID’s private sector strategy acknowledges there may be some challenges: *“We are not starry-eyed. Private companies can behave badly or simply ignore the marginalised. Standards matter – as do effective state and market institutions.”*[81]

CAFOD strongly supports this statement. Therefore, we think it is important to show that this insight informs government decisions and policies, and that learning from past experience informs current decision-making around the design of, and support for, PPPs.

5 Next steps – key questions for further research and debate

5.1 What is the overall additional benefit of the PPP model, (after balancing the costs, risks and benefits)? Which actors benefit?

What evidence demonstrates that channelling aid through a PPP ensures additional benefits to target beneficiaries that would not otherwise be delivered through the core business operations of the private sector in a developing or transition country? How do these additional benefits balance the

80 Addax Bioenergy Sierra Leone Ltd 2010, Land Lease Agreement, http://farmlandgrab.org/uploads/attachment/ADDAX%20MOU0001.pdf (accessed 19 March 2013).

81 The former Secretary of State for International Development, Rt. Hon Andrew Mitchell MP in: DFID, The engine of development: The private sector and prosperity for poor people, www.dfid.gov.uk/Documents/publications1/Private-sector-approach-paper-May2011.pdf, p5 (accessed 19 March 2013).

additional costs and risks that using a PPP imposes? Which actors in each PPP receive what proportion of the costs, risks and benefits?

5.2 Have target beneficiaries of each PPP given their free, prior and informed consent?[82]

In what ways are inequalities of power, knowledge, access to information and resources between all PPP actors mediated in the design, implementation and evaluation of each PPP, so that there can be a fair analysis of the balance of the costs, benefits and risks taken on by each actor? Have the consequences been fully identified and also accepted by the target beneficiaries and directly affected communities before the project goes ahead? Is informed consent continuously sought as the project is implemented and changes occur? Is there **full, prior and *continuously* informed consent**?

5.3 How does the theory compare to the practice?

What evidence shows that developing or transition country governments have the expertise necessary to negotiate PPP contracts? Is the recipient government able to realise those benefits? In cases where relevant actors agree a PPP is the best option for channelling aid to deliver sustainable development, what lessons from PPP implementation can inform the design of future PPPs? What ramifications are there in cases where PPPs have set up a developing or transition country debt to one or more large (local or foreign) private sector actors? What, if anything, is different about this debt in comparison with more traditional forms of debt with donor countries? Are PPPs leading the way in delivering common good economies in developing and transition countries? In particular are PPPs demonstrating how businesses can implement the UN Guiding Principles for Business and Human Rights?

5.4 Are PPPs good value for aid money?

This question can be challenging to answer, since many PPPs lack transparency. It can be a hurdle to follow the money if there is a lack of publicly available data, especially when the PPP is set up through financial vehicles.

What mechanisms are in place in the UK to ensure full transparency and accountability of this method of UK aid expenditure all the way along the PPP supply chain?[83] Have all the alternative options been assessed, or is the popularity of PPPs closing down other options for aid delivery and for the finance of essential public infrastructure and services?

This paper is the first in a series looking at PPPs. CAFOD will be discussing these issues with a wide range of actors and invites all comments on this paper to be sent to:

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82 The FPIC principle is international law under the ILO Convention 169 (1989). It is currently applied only to people who are officially classified as ‘indigenous’.

83 “*We believe that **aid spending should be fully transparent**. This means that anyone anywhere should be able to track every pound of aid spending right through the system, from DFID all the way to the activity on the ground,*” (their emphasis). In: DFID’s Open data strategy April 2012-March 2014. www.data.gov.uk/sites/default/files/DFID%20Open%20Data%20Strategy.pdf (accessed 19 March 2013).

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