

Public-Private partnerships and foreign direct investment as determinants of SDG achievement

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On 25 October 2018, two synergistic United Nations agencies based in Geneva – UNCTAD and the United Nations Economic Commission for Europe (UNECE) – joined forces at the World Investment Forum’s 10th Anniversary in Geneva to address how Public-Private (PPPs) and Foreign Direct Investment (FDI) could contribute to the implementation of the SDGs.³

Since the agreements on the 2030 Agenda and the Financing of development (AAAA) in 2015, the member countries of the United Nations have agreed that domestic and foreign direct investment and PPPs are expected to be aligned with the 2030 Agenda.

The 17 SDGs of the 2030 Agenda are supposed to be achieved in an integrated manner focusing at the same time on social, economic and environmental sustainability and be implemented in a transparent, inclusive and participatory manner.

In order to achieve these 17 goals and guiding principles, very substantial financial investment will be required. According to the 2014 World Investment Report (WIR) by the United Nations Conference on Trade and Development (UNCTAD), approximately 4 trillion USD will be required every year in developing countries alone for the SDGs to be achieved by 2030.

Given the current levels of investment in all SDG-related sectors by both public and private bodies, developing countries face a funding gap of \$2.5 trillion per year.⁴

It is unlikely that government budgets and official development aid will be able to compensate fully for this funding gap. Many developing countries face fiscal constraints, while most donor aid is often channelled towards their current spending

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³ SDG target 17.17 reads: Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of Partnerships; Sustainable Development Knowledge Platform; <https://sustainabledevelopment.un.org/sdg17>

⁴ http://www.unece.org/fileadmin/DA_M/ceci/documents/2014/PPP_Newsletter/newsletter_06_content_2_WEB.pdf

needs. Therefore, investments made by the private sector will be crucial in assisting the realization of the SDGs.

However, the UNCTAD as cited in the UNECE newsletter also states that private sector involvement is not without its difficulties. The first difficulty in garnering additional private sector investment is the lack of an adequate risk -return profile in many developing countries. This can arise from a number of factors: at country level, the presence of weak institutions increases investment risk while at market level, the degree of demand uncertainty affects the level of risk.

Investments made by the private sector will be crucial in assisting the realization of the SDGs. These partnerships are defined by Goal 17 target 17 as consisting of the following: 17.17 “Encourage and promote effective public, public -private and civil society partnerships, building on the experience and resourcing strategies of partnerships (p.27/35)”

At the same time, the 2030 Agenda also highlights the risks of indebtedness. SDG target 17.4 states “Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress”.

In other words, whether public, private, public -private, or society based -all financing of SDG goals carry the risk of indebtedness if countries do not carefully assess the potential short, medium and long –term risks of indebtedness.

The United Nations Economic Commission of Europe (UNECE) based in Geneva has been active in the field of PPPs. Its PPP activities are part of its Committee on Innovation, Competitiveness and Public Private Partnership (ICOC) and its International PPP Centre of Excellence.

However, PPPs have come under growing criticism by leading NGOs like Eurodad and PSI who warn of the negative consequences of PPPs such as the lack of transparency and PPPs proneness to corruption and damage to environment. This has led to strong advocacy for a new approach putting sustainable development and people at the core of infrastructure development.⁵

Responding to the critics, UNECE has re-named its PPP approach as “People First PPPs” to ensure that PPPs will be aligned with the SDGs and integrate the following five outcomes namely : Access and equity; Improving access to essential services; Environmental Sustainable Development; Stakeholder engagement; and Economic Effectiveness including women involvement, and Replicability.

In parallel with this work at UNECE, UNCTAD has been working on how to make FDI work better for development. UNCTAD has developed the UNCTAD Investment Policy Framework for Sustainable Development⁶, which has established itself as a

⁵ <http://www.world-psi.org/en/report-exposes-how-ppps-across-world-drain-public-purse-and-fail-deliver-public-interest>

⁶ UNCTAD. 2015. https://unctad.org/en/PublicationsLibrary/diaepcb2015d5_en.pdf . First launched in 2012.

major instrument for governments worldwide formulating a new generation of investment policies and has been used by a large number of countries and regional groupings, as well as their models or bargaining positions for the negotiation of international investment agreements (IIA).

The question that beckons answers is how these principles for investment policymaking can be combined with the People-First PPP Guidelines in order to promote investment aligned with the SDGs since it is important to ensure coherence with other investment-related policy areas.

The investment and sustainable development strategy suggested by UNCTAD's 2015 Policy Framework proposes that the potential for infrastructure development through FDI, in particular under PPPs or other-risk sharing arrangements, should be an integral part of investment policy.

UNCTAD argues that *“Infrastructure development policies should give due consideration to basic infrastructure areas crucial for the building of productive capacities, including utilities, (rail-) roads, sea- and airports or industrial parks, as well as other sustainable -development sectors, in line with investment priorities. Strong governance and oversight should be exercised in essential infrastructure industries and sectors of a public service nature.”* UNCTAD's Policy Framework further recommends that *“a specific regulatory framework for PPPs should be in place to ensure that Investor-State partnerships serve the public interest.”*

Close cooperation between UNCTAD and UNECE on matters pertaining to investment and PPPs is called for. What is needed is concrete concepts and measurement to assess investment and PPPs based on SDG principles.

However, the indicator of SDG 17.17 remains a Tier III indicator which is defined by the IAEG as: “No internationally established methodology or standards are yet available for the indicator, but methodology/standards are being (or will be) developed or tested.” It is hoped that cooperation between UNCTAD and UNECE will make it possible to improve the 17.17.1 indicator from Tier III to a Tier I indicator needed for countries to measure SDG alignment of their investment and use of PPPs.

References

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