

SUSTAINABLE PROJECT MANAGEMENT: INNOVATIVE PUBLIC PRIVATE PARTNERSHIPS FOR A PEOPLE-CENTERED APPROACH TO SUSTAINABLE DEVELOPMENT

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SUSTAINABLE PROJECT MANAGEMENT (SPM) is an independent not-for-profit Swiss association, registered in Geneva in 1994, with offices in Geneva and representation in the U.K., U.S., France, New Zealand, Argentina, the Philippines, Vietnam, South Africa, and Indonesia. SPM was created to develop and structure "eco-efficient" public private business partnerships, which will contribute to sustainable development in the USD \$ 5 – 50 million investment range.

In 1994, responding to the recommendations of the Rio Earth Summit, the United Nations Development Programme (UNDP) and SPM joined forces to initiate a global programme to promote public-private partnerships in support of increased access to environmental services such as waste, water and energy in the developing world.

The Urban Dilemma

Basic human rights include the right to a *humane* living environment including essential “*public services*” such as safe drinking water, sewage disposal, and municipal sanitation. These services go hand in hand with access to other essential needs such as food, basic medical care, education, housing, energy or electricity supply, and a rule of law. Together with a stable, peaceful government and a sound economy, all peoples ought to enjoy a *humane* level of life.

The services mentioned above are largely provided for and taken for granted by the “developed” peoples of the world. But there are entire populations, sub-groups within developed societies and pockets of peoples within all countries who still lack adequate levels of these services. SPM sees both an opportunity and some responsibility to find ways and to advocate solutions to address these needs.

Many people suffer from inadequate and unsafe drinking water. This is far and away the most critical challenge facing the developing world. Sickesses abound that can be readily abated with an adequate treated water supply. Proper treatment and disposal of sewage is essential to keep contaminated waters from recirculating back into the public water supply. The collection and safe disposal of all municipal garbage and medical wastes also removes these contaminated materials from public contact.

“While most of the industrialized world takes clean drinking water for granted, more than a third of all residents of the world’s poorest countries have no access to safe water and 80 percent subsist on inadequate sanitation facilities...” [UNDP survey]

“Every day an estimated 30,000 people die worldwide from the lack of adequate waste and sanitation...” [World Health Organisation.] Think of those 30,000 people as the people in a nearby community of that size, or perhaps your own community. It is like an entire city of

30,000 people dying every day because they lack something that we take for granted, safe drinking water and the sanitary management of solid wastes and sewerage.

The World Health Organisation (WHO) also estimates that 75 percent of all diseases suffered by humanity globally are directly connected to poor sanitation and inadequate water supplies. The pathogens in human waste cause about 30 diseases, including killers such as cholera, typhoid, dysentery, hepatitis, schistosomiasis, and the crippling parasitic Guinea worm. Because we have excellent and abundant water supplies here in the developed world, we are shielded from the horrors these diseases ravage on peoples elsewhere in the world.

The UNDP estimates that more than one and half billion people worldwide lack clean water, and about 1.8 billion people lack adequate sanitation. Four out of five common diseases in developing countries are linked to either infection from dirty water or the lack of sanitation.

The Development Problem

Without detracting in any way from the efforts and achievements of all parties directly or indirectly involved in the alleviation of poverty and solutions to development problems, it is nevertheless appropriate to highlight some of the difficulties and frustrations encountered in the field of public service infrastructure design, construction and management in many parts of the developing world. In brief, these can be summarized as follows :-

- the developing world is overburdened with studies (prefeasibility, feasibility, technical, financial), financed by external agencies. A large proportion of these are out of date or need reviewing upon completion, or are so detailed and technically demanding that they never move off the shelf of the governmental or other agency for which they were commissioned;
- the transaction costs, the delays and failure rate associated with infrastructure projects are increasingly a deterrent to major contracting groups and external investors, without whose resources such projects are often inconceivable;
- the pattern of economic and financial “shocks” affecting the macro-economic environment for such projects is a growing obstacle to external participants;
- the ability of national public sector entities and personnel to manage and coordinate a complex project development process is limited;
- the continuing battle with corruption, with the developed world accepting corruption as a ‘cost of business’ and the developing world maintaining the status quo;
- the pros and cons of wholesale privatisation are increasingly being questioned, particularly in the field of public services; and
- the traditional process of designing and implementing an infrastructure project provides inadequate opportunities for technology transfer and capacity building.

In brief, the process is rarely cost-effective and often opaque. There is no lack of projects - only of good projects!

One approach therefore lies in modifying:

- the nature and mechanics of the contractual relationship between the public sector and the private sector;
- the methodology of infrastructure projects, including the:
 - project definition
 - design;
 - development; and
 - execution; and
- the respective roles of the local and international contractors, consultants and Local Government Units.

A New Development Model

Many good programmes exist as examples of people and organizations recognizing and addressing these types of infrastructure needs. However, there is such a wide need and so few resources being applied that the problems will never be adequately addressed unless more people become aware and commit some level of support.

There is also a need to fill the gaps between various programmes to meet the full range of needs. Many programmes are limited in the scope of the possible delivery and quite often very broad in concept. As a result they are unable to address serious problems that they observe because either they lack sufficient resources or they are overcome by organizational inertia and bureaucratic red tape.

Clearly the pieces need to be all brought together in a more complete, organized fashion. Within SPM we believe that sustainable development is the central principle that must be understood and embraced before real solutions can be implemented.

The UN Commission on Environment and Development defined sustainable development in 1987 as,

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

That was 13 years ago. Since then there have been many more definitions and these have created a variety of different arguments. For example: Is high growth compatible with environmental protection? Who defines social progress? On what basis? And to whose benefit? Suffice it to say that most people accept that sustainable development, however defined, has and will have great relevance to our future. It is critical that the economic, environmental and social outcomes that define sustainability be managed as a whole. Focusing on any one aspect at the expense of the others is not sustainable.

The actions central to the creation of sustainable economies will involve significant changes in technology, work practices, lifestyle and in political and social awareness. Companies, governments and society have a fundamental role to play if this is to be successful.

Provided that we work constructively and continuously to create solutions from across the globe, we can achieve a sustainable world. The critical obstacle that we face will be in overcoming our own inertia. To overcome this requires understanding by all of us at every level and a willingness to extend our skills.

The SPM Solution

There are many possible solutions, but certain elements are clear. The response must be integrated, it must be global and it must be balanced in terms of the social, economic and environmental results. Solution providers in the private sector that do not consider these other elements of sustainability will find themselves at a competitive disadvantage. Much the same can be said of the public sector.

Historically it has been the practice of government to adopt various environmental regulations to protect the quality of the environment. However, experience shows that reliance upon environmental compliance targets that are set by regulation is not a guarantee for successful elimination of basic infrastructure problems. (And this is with an adequate enforcement program). This regulatory approach ignores many of the underlying economic and social realities of the contemporary world. For example, it ignores the reality that social progress is driven by economic growth. It does not consider the inter-dependence of many human activities. And it has little regard to wider issues such as levels of educational attainment, living standards and employment opportunities - all of which have an impact on people's ability to behave in a sustainable way. To be sustainable, we need a sustainable world. All of us -- governments, companies, academia, the media, and consumers - are adapting to this much wider agenda as it replaces pure and simple environmentalism.

The formation of partnerships between the public and private sectors is one of the most promising of the newly emerging forms of co-operation that truly goes to the heart of sustainability. Through public-private partnerships, municipal authorities and companies can pool their resources, expertise and approaches to problem solving to tackle urban challenges in a comprehensive way.

What Are Public Private Partnerships?

Public-private partnerships are a form of privatization in which government and private companies assume co-responsibility and co-ownership for the delivery of city services. Through these partnerships, the advantages of the private sector - dynamism, access to finance, knowledge of technologies, managerial efficiency, entrepreneurial spirit - are combined with the social responsibility, environmental awareness, local knowledge and job generation concerns of the public sectors.

Just as importantly the Public Private Partnership can mitigate the inherent distrust that often exists between the Public and Private sectors. On the one hand the Public Sector often believes the contractor or investor has only commercial goals in mind and the Public Sector will in time fall victim to this. The Private sector on the other hand may believe the Public Sector wishes only to thwart his efforts whilst minimizing the costs. The result is often a stormy alliance that can be minimized by a well-structured partnership that allows transparency and some common goals.

The Mixed Capital Public-Private Partnership (MC-PPP)

The development of a model that aims to solve some of the problems outlined above, in which the public sector is strengthened and retains a tangible economic stake, also transfers useful experience in running profitable public services. Hence the concept of a mixed capital business to provide services in the fields of water, waste and energy – the Mixed Capital Public Private Partnership (MC-PPP). SPM and the PPP Programme at UNDP have been working for the last 5

years on the design of this model under the auspices of the Public Private Partnerships for the Urban Environment Programme.

The MC-PPP provides a number of benefits to the public sector, including:

- an less radical alternative to sometimes controversial wholesale privatization;
- a more transparent and pro-active manner of engaging the private sector;
- a defense against accusations of selling off the "crown jewels";
- the maintenance of partial ownership and management responsibility of its own assets, through the exercise of shareholder voting rights;
- enhanced managerial performance within the venture and through the capacity building inherent in the model;
- access to proven leading edge technologies;
- improved transparency through involvement in the business from implementation through to the operation;
- a way to preserve the political responsibility and benefits of a public service better provided.

Overall, the Programme has introduced the MC-PPP approach to some twenty governments and various regional or municipal authorities. A number of local and international private sector corporations in the fields of water, waste and energy have become aware of (and in certain cases actively involved in) these projects, as well as the World Bank and some of the regional development banks, most notably the EBRD, the IADB and the ADB. NZODA has been a core donor to the MC-PPP programme since 1996. In 1998 NZODA and SPM established a direct relationship and SPM primarily uses NZODA's support for its Asia/Pacific projects. NZODA's support this financial year is NZD \$500,000.

Today, SPM manages the programme and acts in a catalytic and supporting role for this unique network of public and private institutions. Building on this collaboration, replicable models of public-private cooperation and shared responsibility are being established to address infrastructure problems in major urban areas and smaller communities too.

The purpose of the programme is to promote the involvement of the private sector in infrastructure problem-solving through investment in environmentally sound and eco-efficient solutions. SPM provides resources and works with the public sector for the purpose of clearly identifying infrastructure problems that can be turned into viable business opportunities. A related objective is to advance and share knowledge based on careful monitoring of valid experiences and success stories, and to identify the elements of success so that these can be replicated and obstacles avoided.

Elements of the Mixed – Capital Public-Private Partnership (MC-PPP) Programme

- A unique international network that is tackling urgent environmental problems of developing countries- water and sanitation, waste management and energy services.

- An innovative new approach that aims at turning environmental challenges into viable business opportunities and sustainable, economically sound and socially conscious investments.
- A leveraging mechanism by which the international community and developing country municipalities can unlock and focus significant levels of private sector investment into vitally needed services that also provides access to needed technologies.
- A tool for building effective, "win/win" partnerships between public sector institutions and private sector urban services, rather than simply selling off to private concerns the public services that the authorities can no longer afford to operate.
- Funding that is directly applied to potential solutions to these urban challenges. No resources are channeled to the establishment of bureaucracies, or to maintaining institutions.

Project Selection Principles

In order to be eligible for selection, a candidate project must:

- Address a problem that is a priority for local authorities and the central government, and also a common concern shared by other communities in the region.
- Establish a functioning mixed-capital, public-private partnership, not simply a privatization of public services. Public administration must be engaged and have an active interest and participation in the project.
- Demonstrate a strong potential- including the possibility of reasonable profitability- for attracting the private sector.
- Provide an opportunity for improving local social conditions through job creation, improvement of public services and enhanced living conditions.
- Respect local cultural values and established labor traditions.
- Embody opportunities for technology transfer and capacity building.
- Involve local stakeholders, nongovernmental organizations and community-based organizations in project development.

Criteria For Selecting Private Sector Partners

In identifying private sector partners to participate with the public sector in mixed capital companies, the programme uses a transparent process based on clearly defined criteria. In order to be eligible for selection, the private partner must:

- Be willing to contribute to the cost of the project's feasibility studies.
- Be prepared to invest in the new company when it is formed.
- Have experience operating the eco-efficient technologies to be used by the new company.

- Preferably have experience operating in the country where the new company will be established.
- Strongly support and advocate eco-efficiency and local participation

The Benefits of the MC-PPP

The experience of privatization in developing countries to date indicates that private corporations, non-governmental organizations and informal sector enterprises have potential advantages over government agencies in providing some of these services. The private sector can provide lower production costs, more efficiency in service delivery and has greater capacity to maintain capital equipment. Private companies can often offer consumer's greater choice and make decisions faster and more efficiently than public bureaucracies. They have access to the latest technological advancements and can undertake their own research, allowing for more flexibility in adjusting the types and levels of services to changing needs. They can also reduce financial burdens on governments for wages, operating costs, debt servicing and investment. Today, more than \$120 billion of private international capital flows into developing countries; hundreds of billions more of private domestic capital is also invested within countries. Yet little of this is specifically directed at meeting social needs through environmentally sound approaches. One of the main objectives of the SPM programme is to re-direct a percentage of these investments.

It should be noted that the MC-PPP model is most applicable when the community under consideration has made some progress with basic standards of living. Poverty alleviation at the most critical level is not a workable PPP environment as there is often insufficient capital in circulation to pay for the barest of services. In the most part projects of this nature have to be supported by direct aid. However it should also be pointed out that the most critical environmental problems arise in communities that have climbed on the development track.

The Community Elements In The MC-PPP Approach

One of the great advantages of the model is its flexibility. Although there are a set of principals which are applied to projects, the criteria for measuring an individual project's success are always specifically developed thereby ensuring the resulting business produces outcomes of direct benefit to the local communities.

An important way in which this achieved is through community consultation during each phase of a project's development. Consultation with a wide variety of groups is a vital element in any project's success. SPM believes a key tenet of sustainable development is that the inclusion of groups previously disenfranchised in infrastructure type projects such as ethnic minorities, women, the elderly, and the disabled is vital if long lasting improvements are to be made to an entire community's living standards. There are unfortunately too many examples of how projects designed to solve infrastructure problems in the waste, water or energy sectors have failed because there has been no substantive involvement of community groups who can show how the proposed project will actually provide benefits or produce new problems.

SPM has a tradition therefore of involving a wide cross section of organisations in project development so that those working at the community level in any particular society can provide the knowledge needed to ensure the proposed methods, technologies and business components of a project will actually work within the community in which the project is located. It is after all the creation of a liveable environment for a community which is at the heart of the MC-PPP's approach and which has been shown to be possible using this new tool.