

Discussion Paper

No. 194

July 2016

Principles for public-private partnerships – towards sustainability?

Lessons from SAGCOT, healthcare
in Lesotho, and Better Factories
Cambodia

by Bruce Byiers, Sebastian Große-Puppendahl,
Huib Huyse, Anna Rosengren and Sarah Vaes

www.ecdpm.org/dp194



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Key messages

This study looks at some of the main sets of criteria or principles to ensure more 'developmental' engagement with businesses. It examines three prominent public-private partnership (PPP) experiences from the health, agriculture, and textile sectors and how sectoral considerations may influence the lessons learned.

Beyond generating private returns to ensure financial viability, a 'successful' partnership must generate public returns in terms of wider social, political and environmental sustainability. The challenge for partnerships is then to balance these dual objectives, while ensuring compliance and enforcement.

The two concerns raised most frequently regarding development PPPs are i) additionality related to defining, ensuring and measuring the additional impact that is being achieved due to the public finance component and ii) transparency related to the availability of reliable information on the negotiation, the design, the implementation and the results of PPPs.

To evaluate PPPs, two questions need to be addressed: i) is the PPP the best tool to address the identified needs in a specific context? ii) does the PPP deliver on its promises? This requires a better understanding of the distribution of costs and benefits based on greater transparency, while the PPPs' design must take into account the likely power imbalances between actors in institutionally weak environments.

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Acknowledgements

ECDPM and HIVA/KU Leuven gratefully acknowledge the financial contribution of 11.11.11 who commissioned the study.

The authors, Dr Bruce Byiers, Senior Policy Officer, ECDPM; Sebastian Große-Puppenthal, Policy Officer, ECDPM; Dr Huib Huyse, Head of Research Group Sustainable Development, Research Institute for Work and Society (HIVA – KU Leuven); Anna Rosengren, independent consultant (ECDPM alumnus); and Sarah Vaes, Senior Research Associate, Research Group Sustainable Development, Research Institute for Work and Society (HIVA – KU Leuven), would like to thank the numerous persons interviewed for this study, in particular Dr San Bilal of ECDPM for his comments on earlier drafts.

The views expressed in this study are those of the authors only and should not be attributed to any other person or institution.

Acronyms

BFC	Better Factories Cambodia
BTTA	Bilateral Textile Trade Agreement
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
CTF	Catalytic Trust Fund
DFI	Development finance institution
DFID	Department for International Development (UK)
DGGF	Dutch good Growth Fund
FDI	Foreign direct investment
GDP	Gross Domestic Product
GMAC	Garment Manufacturers Association of Cambodia
GoL	Government of Lesotho
GoT	Government of Tanzania
GPOBA	Global Partnership on Output-Based Aid
IFC	International Finance Corporation
ILO	International Labour Organisation
LIC	Lower income country
LMIC	Lower middle-income country
MFA	Ministry of Foreign Affairs
MFA	Multi-Fibre Agreement
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPIP	Public-private integrated partnership
PPDP	Public-private development partnership
PPP	Public-private partnership
PPPP	Public-private-producer partnership
RSA	Republic of South Africa

SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SME	Small and Medium Enterprises
SVCF	Social Venture Capital Fund
UMIC	Upper-middle income countries
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WTO	World Trade Organization

Executive Summary

Overview

While private sector development and job creation are not new aspects of development policy, there is growing recognition that global development challenges are multi-faceted and complex, requiring collaborative, multi-stakeholder alliances between all sectors of society. This has been bolstered by pressure on public budgets for development cooperation and the need to complement these with private resources to finance the future development agenda.

This study looks at some of the main sets of criteria or principles that have been proposed to ensure more 'developmental' engagement with the private sector; and at three prominent PPP examples from the health, agriculture and textile sectors, looking at what can be learned from the experiences. The array of sectors is in itself useful for comparison of how sectoral considerations may influence the lessons learned.

A majority of bi- and multilateral donors now have some form of collaboration with the private sector as part of their development strategies while economic growth, job creation and market development are now considered key factors in most donors' support to developing countries. A study by ITUC found that 19 of 23 donor development strategies had private sector development as a main priority (Oxfam, 2015). The aim to collaborate and engage with the private sector is increasingly also reflected in the institutional organisation of development agencies.

With rising interest in PPPs, the budgets for partnerships have increased accordingly, with two investment 'waves' identified: one in the early 90s and one starting around mid-2000. That said, there is limited information regarding donors' spending on PPP investments, particularly as PPPs are often implemented through a wide range of departments, (i.e. development, trade, DFIs etc.). The OECD highlights several problems related to donors' reporting systems, resulting in poor transparency. Some major institutions do not report their private sector activities separately, and several members fail to provide descriptive information regarding their DFI programmes and activities.

Beyond generating private returns to ensure financial viability and sustainability, a 'successful' partnership must generate public returns in terms of wider social, political and environmental issues. The challenge for partnerships is then to balance these dual objectives. This plays out even at the level of country selection, where commercial interest would suggest investing in more developed and stable markets, but where developmental needs are in poor, and often fragile countries. From the figures that are available, 60 percent of PPP investments are targeted to upper-middle income countries (UMICs).

The burgeoning array of sets of development principles governing private sector engagement in development reflects a degree of convergence on what is appropriate private sector behaviour, though challenges remain in ensuring compliance and enforcement. However, to ensure compliance, donors must find a balance between legally binding regulations and softer measures aimed at motivating enterprises into compliance - while it might be easier to incentivise private firms to sign up to voluntary principles, they may be less effective than mandatory principles.

Three case studies

The study applies the above discussions to three case studies: the Southern Agriculture Growth Corridor of Tanzania (SAGCOT), the Queen Mamohato Memorial Hospital in Lesotho, and the ILO's Better Factories Programme in Cambodia.

This selection of high-profile cases covers a variety of PPPs highlighting different factors: the roles of and interplay between the actors differ between a private sector driver in the agriculture sector for SAGCOT, public sector health in the Lesotho case, and a civil society led cooperation on textiles in the case of the Better Factories Cambodia programme; while each case has a different purpose and objective, from leveraging private investment, provision of health care as a public good, to addressing and influencing business practices.

SAGCOT

The SAGCOT case is interesting to study for several reasons. Its massive scale in terms of finance and geographical area reveal important lessons for other PPP frameworks and similar future partnerships. As a flagship of the WEF, it is a mainly business-driven partnership, which determines and influences the power dynamics among the different stakeholders in the PPP. It is also regional in nature, with the SAGCOT area extending north and south of the central rail, road and power 'backbone' that runs from Dar es Salaam to the northern areas of Zambia and Malawi. By taking a holistic approach, SAGCOT tries to address various gaps and issues, such as engaging local farmers, raising overall agricultural productivity, thus contributing to broader economic transformation and decreasing (rural) poverty, increasing job creation, and improving regional coordination towards food security and market development.

SAGCOT has put objectives/principles in place to achieve fair and inclusive Agricultural Green Growth. That raises the question of whether the policy, as laid out in the Greenprint strategy for instance, has sufficiently been put into practice. Numerous reports suggest that some of the environmental and social objectives are at least controversial or seem to be at risk, requiring closer monitoring, independent assessment and review structures.

While emphasising the importance of partnership itself, the sustainable development principles fail to take into account the issue of financial sustainability and demand for such investments, which is a prerequisite for successfully achieving the SAGCOT objectives. Conflicting interests between national and local elites as well as the overall business environment constraints are potentially negative factors for PPPs to develop. Land conflicts, land management and land use in the past do have direct impact on the SAGCOT PPP rather than foreign direct investment (FDI).

Healthcare in Lesotho

In the case of Lesotho's Queen Mamohato Hospital, several arguments were made for the case for a PPP solution to replace Lesotho's main hospital: it offered a comprehensive solution that made capital expenditures affordable in the short-term; the predictability of expenditures would contribute to government budget stability; the cost neutrality for the patients; the transfer of risk to the private sector for construction delays or cost overruns during construction; the transfer of significant operational risk for a complex healthcare operation; the opportunities it offered for Basotho-owned businesses and local economic empowerment (Downs et al., 2013).

However, it has faced a number of challenges. They include escalating costs, payment delays (both by the GBOPA and the GoL); significant cultural change for nurses physicians, and staff; negative media reaction during the start-up; challenges for physician recruitment due to comparatively low salaries; and delays in establishing PPP units in the Government and strengthening the Government's contract management capabilities. Whereas some of these are relatively manageable challenges, the affordability of the PPP throughout the entire term of the contract is a more pressing and fundamental challenge, with costs still mounting above what was considered as feasible for the GoL and no clear solution on the way.

In hindsight, the case also demonstrates that the actual implementation of any provisions remains uncertain and depends strongly on the capacity of the public partner involved to enforce them as well as to stand its ground during unavoidable renegotiations of the contract. The power dynamics between the public and the private partners, but also within a private consortium seem to be an underestimated factor in the outcome of a PPP.

Better Factories Cambodia

The Better Factories Cambodia programme (BFC) represents a third type of PPP, one which is much less known and studied than its counterpart PPPs in infrastructure and service delivery, focused on labour standards governance.

BFC is a large-scale multi-donor programme managed by the International Labour Organisation (ILO). The main aim of BFC is to monitor garment and footwear factories, organise training for the management and workers, and provide guidance and advice on factory improvements. The programme has both a promotional function (export promotion) and a monitoring function (labour conditions).

The BFC is judged a success because the different actors in the PPP have sufficient incentives to participate and take the system seriously with factories increasingly wary of reputation risks. The factories in the BFC programme also receive HR management support and are audited in areas that also affect product quality. From the perspective of the Cambodian government, there are strong indications that the factories that comply with the BFC monitoring protocols are more competitive, especially in an international market which has become more sensitive to images of sweatshops, child labour, etc. Research strongly suggests that improvements in working conditions in the BFC factories have gone hand in hand with productivity improvements.

Aggregated monitoring reports show a steady improvement in the eight key areas of working conditions monitored since 2001 while research shows that the factories that delivered to 'reputation-sensitive' buyers still continued to improve (but at a decreasing rate) though compliance rates decreased over time for other factories. Nonetheless, based on factory level monitoring reports it is shown that once garment factories have improved working conditions, most of them do not fall back again.

However, as in many developing countries, more than a lack of labour laws and policies it is the enforcement of laws that is problematic. The main criticisms of the BFC scheme have therefore been around declining real wages, outside the control of the programme; opacity around monitoring due to a lack of transparency in the system; enforcement problems when factories do not comply and

subcontracting to factories which are not part of the BFC scheme but produce for and deliver to BFC monitored factories.

Conclusions

The two concerns raised most frequently regarding development PPPs are additionality and transparency. The first concern is about defining, ensuring and measuring the additional impact that is being achieved due to the public finance component. The latter relates to the availability of reliable information on the negotiation, the design, the implementation and the results of PPPs.

Looking at the Lesotho case, a key factor determining the course of a PPP is the capacity of the public partner to adequately negotiate, renegotiate, manage and monitor the deal throughout its entire contract term.

While SAGCOT is a very different type of PPP, similar conclusions emerge from the controversies over land-titling and the power balance among different actors, where large agribusinesses may outplay smallholder farmers.

The Better Factories Cambodia case suggests developmental effects on the most important industrial sector of Cambodia (garment sector) in terms of improved working conditions, but the question remains whether the enforcement cost is not largely pushed onto the suppliers, with buyers remaining reluctant to take the full cost of a garment that is produced under fair conditions. In addition, the BFC process is designed in such a way that it guarantees international brands secrecy about the interactions with their suppliers.

Overall then, the analysis reflects a wide and widening definition of PPPs, and the difficulties of finding data on these. The analyses suggest that two basic questions need to be addressed when evaluating a PPP: firstly, is the PPP the best tool to address the identified needs in a specific context, in comparison to the alternative options. Secondly, does the PPP deliver what it promised to deliver?

To answer these, the study points to the need to better understand the distribution of costs and benefits of these, therefore requiring greater transparency, while the underlying design of PPPs must take into account the likely power imbalances when private sector actors negotiate with public sector in institutionally weak environments.

1. Introduction

The private sector is increasingly seen as one of an array of ‘development actors’ in international development policy circles. Governments, donors, civil-society organisations and private firms are all experimenting in building bridges between business and development policy (Große-Puppenthal et al., 2016; Byiers et al., 2016; Di Bella et al. 2013; Kindornay and Reilly-King 2013; European Commission 2014). While private sector development and job-creation are not new aspects of development policy, there is growing recognition that global development challenges are multi-faceted and complex, requiring collaborative, multi-stakeholder alliances between all sectors of society. The pressure on public budgets for development cooperation and the need to complement these with private resources to finance the future development agenda has further bolstered this trend.¹ Different forms of public-private partnerships (PPP) therefore increasingly feature in the toolbox of multilateral and bilateral donors and international finance institutions.

The growing interest in development partnerships with the private sector has been accompanied by concern about the impact of such approaches. This relates both to the need to minimise the harm that comes when private interests override social and environmental concerns, and the opportunities for maximising development impact. It has led to a plethora of codes of conduct, principles of engagement and criteria for engaging firms for development, though little is known about how effective these actually are or can be in addressing the concerns associated with public-private partnerships for development.

Although research into the development impact of PPPs and on the success factors and challenges is increasing (e.g. BCLC 2009; Heinrich 2013; Kindornay, Higgins, and Olender 2013), PPPs are being introduced in development policy and practice with little feedback on the lessons learned so far. Policy and practice on PPPs therefore risk being insufficiently grounded in insights and evidence on their legitimacy, effectiveness and efficiency as a development tool (IOB 2013).

This study examines the evidence and lessons from three case studies, taking particular account of principles of engagement to improve PPP design and implementation. While not able to provide a definitive review, based primarily on a detailed literature review and a small number of key interviews, it adds to this body of evidence and critical discussion by examining some of the key definitions and trends around PPPs.

The study looks at some of the main sets of criteria that have been proposed to ensure more ‘developmental’ engagement with the private sector; and at three prominent PPP examples from the health, agriculture and textile sectors, looking at what can be learned, particularly in terms of development criteria. The array of sectors is in itself useful for comparison of how sectoral considerations may influence the lessons learned.

¹ This trend is illustrated by process and outcomes of several international policy fora: the emphasis on partnerships during the Rio Earth Summit in 1992 and during the follow-up World Summit on Sustainable Development in 2002; the launch of the Global Compact at the World Economic Forum in 1999; the emphasis on an inclusive multi-stakeholder approach since the Monterrey Conference in 2002, the adoption of partnerships as a principle in the Paris, Accra and Busan Declarations of 2005, 2008 and 2011, and the place of private sector in the policy discussions on a post-2015 development agenda.

The remainder of this study is organised as follows: Section 2 provides an overview of current PPP policies and practices as applied by a set of key bilateral donors. It looks at the various definitions and typologies in use, the trends in PPPs, and discusses the use of development criteria in the design and implementation of PPPs. Section 3 looks in more detail at three specific case studies: the Queen Mamohato Memorial Hospital in Lesotho, the Southern Agricultural Growth Corridor (SAGCOT) in Tanzania, and the Better Factories project in Cambodia. Section 4 concludes the outcomes of these case studies.

2. PPPs: State of affairs

2.1. Definitions and typologies of PPPs

Definition

Development-oriented PPPs emerged in the 1990s, building on the growing practice of PPPs in developed countries and on a wide variety of standards, legal frameworks and definitions (Strickland, 2014). Researchers and development organisations alike are now moving from stricter definitions of PPPs towards broader, less formalised definitions that are better adapted to capturing the context-related and varied approaches of PPPs. In broad terms, a PPP involves public support for private investments with the aim of achieving some public benefits in addition to private profit, with shared risks and responsibilities.

The World Bank's Public-Private Partnership for Infrastructure Centre defines a PPP as: "A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance" (WB, ADB, IADB, 2014). The Dutch Ministry of Foreign Affairs (MFA) takes a broader definition, not requiring a contract to provide a 'public asset or service'. Instead a PPP is: "A form of cooperation between government and business (in many cases also involving NGOs, trade unions, and/or knowledge institutions) in which they agree to work together to reach a common goal or carry out a specific task, jointly assuming the risks and responsibility and sharing their resources and competences" (Dutch MFA, quoted in Eurodad, 2015). Similarly for USAID a PPP includes: 1) a common goal; 2) jointly defined solutions; 3) non-traditional partners; 4) shared resources, risks and results; 5) innovation, and; 6) 1:1 leverage of resources (or better) (USAID, 2008).

For the purpose of this paper, we broadly define PPPs to include all development-oriented partnerships between the private and public sector, where the private sector provides resources (mainly capital), takes on a share of the risk, and receives some of the financial benefits. As we will see, the private sector can take a multitude of roles within these partnerships, including finance, direct investment, monitoring, maintenance, full operation and result measurement.

While acknowledging the great diversity among businesses, we use 'the private sector' to refer to all for-profit entities, whether formal or informal. The resources provided by the public or private partner can be both 'material' and 'immaterial'. Lastly, in order for a partnership to be classified as 'for development' it is required that 'resources are used in a way that pushes the private sector actor to go beyond its business-as-usual impact on development and aim for an explicitly pro-development impact' (Vaes & Huyse, 2015, p 13).

Categorising PPPs

Partnerships can be categorised according to:

Lead actor: a partnership can be initiated and led by a bilateral donor, a private firm or coalition of firms, a multinational organisation or even civil society. This relates to the distinction between partnerships aspiring to increase the development impact of the *core business* activity of the private partner, and those that contribute to the private *provision of public goods* (Heinrich 2013).

Purpose: Beyond this, different partnerships have different characteristics and face different challenges depending on their purpose (e.g. public goods such as health or education vs. private goals such as value chain development etc.).

Interests and incentives: The different partners have different interests and incentives to engage in a partnership: public sector incentives include harnessing private funding to reduce the pressure on the national budget, but also to reach new networks, share risks, access new technologies and skills, and increase efficiency; private sector incentives include access to public finance, reduced reputational risks, as well as enhanced legitimacy and international and local goodwill (Bilal, et al, 2014).

Role: Finally, the contribution or role of the private sector can vary according to instrument used, whether a challenge fund, venture fund, loan, mezzanine loan, syndicated loan, direct equity, innovative fund, or frontloaded.

It is therefore important to distinguish between partnerships aimed at engaging with private sector *investment* for development purposes - as with challenge, venture, and innovation funds as well as output-based aid - and those using ODA to leverage private sector finance (Bilal et al. 2014) as in blending, frontloading of ODA and public support for private flows.

These various distinctions are important to keep in mind in discussing the lessons that can be learnt from existing partnerships.

2.2. Key trends in PPP policies and practice

Given that PPPs are defined and used differently across donor agencies and firms, figures are not directly comparable and data vary substantially depending on how a PPP is defined. This chapter looks at some of the more general donor approaches to engaging with the private sector before looking at some more specific issues adopted by European donors.

Policy and strategy trends

The rise of private sector engagement and developmental PPPs have had been accompanied by significant changes in international development policy. A majority of bi- and multilateral donors now have some form of collaboration with the private sector as part of their development strategies while economic growth, job creation and market development are now considered key factors in most donors' support to developing countries. A study by ITUC found that 19 of 23 donor development strategies had private sector development as a main priority (Oxfam, 2015).

Table 1 lists some of the major donors' PPP strategies. This illustrates the fuzziness around what is classified as a PPP and the broader PSD: several of the strategies refer to private sector

collaborations that go beyond pure PPPs. The extent to which donors have developed specific private sector strategies differs greatly, as do the approaches adopted, while the table also highlights the wide range of sectors being targeted through private sector partnership approaches.

Table 1: Donors, programmes, priorities and approach²

Donor and PPP/PSD key policy framework	Programmes	Priority partners and/or sector	Approach towards working with the private sector
Germany BMZ Key strategies: Sector Strategy on Private Sector Development (2013) Forms of Development Cooperation involving the Private Sector (2011)	DeveloPPP.de Integrated Partnerships Africa Facility PPP Fund for Mano River Union Countries	i) Mainly medium to large sized firms. ii) Grid-bound infrastructure incl. energy, telecom, transport and water supply. iii) Social infrastructure incl. health and education. (BMZ, 2011)	"...to combine the innovative force of the private sector with the resources, knowledge and experience of development cooperation. This results, amongst other things, in job creation, the transfer of expertise to local businesses, the tapping of markets, and enhanced value added in partner countries" (BMZ, 2013:23f).
The Netherlands Key Strategy: A World to Gain, 2013	Matchmaking Facility PPP Facility for Sustainable Entrepreneurship and Food Security Dutch Good Growth Fund	i) Food Security ii) Women's rights and Sexual and Reproductive Health and Rights iii) Water, the environment and climate iv) Security, the Rule of Law and Good Governance (Minbuza, 2013:9)	A three pronged approach designed to develop: i) aid relationship with fragile and low-income countries; ii) transitional relationships with low and middle-income countries with burgeoning economies, and; iii) trade relationships that promote trade and investment in the Netherlands (Minbuza, 2013; 6f).
Finland Key Strategy: Team Finland	Finnpartnership	i) Cleantech; ii) Biotalous bioeconomy; iii) ICT and digitalisation; iv) Life science, healthcare and foods; v) Arctic competence; vi) Creative industries and design; vi) Education and learning (Bilal, Krätke, 2013)	"create a clear, flexible and customer-oriented operating model where project falling under the scope of Team Finland activities are carried out in cooperation between state and private actors" (Bilal, Krätke, 2013) i) supporting the internationalisation of Finnish businesses; ii) influencing the external environment; iii) promoting FDI in Finland, and; iv) promoting Finland's country brand abroad
The United Kingdom Economic development for shared prosperity and poverty reduction: a strategic framework, 2014:	Trade in Global Value Chains Initiative Afghanistan Business Innovation Fund	i) Job-intensive activities and sectors ii) Export sectors (goods and services) to create deep and durable markets	Encourage and support businesses to invest more, and responsibly, in poor countries as part of their core business strategy. Promote business investment in upgrading supply chains to benefit

² For more information on donor strategies, visit the Donor Committee for Enterprise Development (DCED) <http://www.enterprise-development.org/>

The Engine of Development: The Private Sector and Prosperity for Poor People, 2011	Malawi Innovation Challenge Fund Vietnam Business Challenge Fund Enterprise Competitiveness Facility (Ethiopia) Business Engagement Hub Business Innovation Hub	iii) Diversification of economies to create inclusive growth (DfID, 2014: 7)	the poor as part of their core business strategy. Support domestic businesses to grow and strengthen their productivity and capabilities so they can compete in regional and global markets. Support businesses to innovate to develop better solutions to development challenges. Encourage businesses to apply better standards in their work. Involve domestic and international businesses in policy debates on economic growth and development. (DfID, 2014: 14)
Sweden Private Sector Development Portfolio (2013) Business for Development (2010)	Public-Private Development Partnerships <i>Innovations against Poverty (currently closed; the next application cycle is yet to be decided)</i>	i) Private sector development and trade ii) Health iii) Climate and environment iv) Human safety v) Human rights vi) Education vii) Infrastructure	“The private sector is the engine of innovation, investment and growth. Competitive markets are the most effective way of creating more and better jobs, higher incomes and prosperity, leading to empowerment and economic freedom” (SIDA, 2010:2). “When it comes to direct support for individual companies, Sida is very restrictive so as to avoid distorting competition. Instead we prioritise projects that create the conditions for vitality in the business sector...Sida contributes towards the development of small-scale businesses through, for example, education, micro-loans and increasing the accessibility of markets for these poor business people” (SIDA, 2013:1).

Source: Grosse-Puppendahl et al., 2016

Use of ODA funding for both development objectives and national growth goals has become increasingly attractive in the wake of the 2008 economic crisis. Moreover, with growing pressure for donors to show value for money, this dual approach has also become a way to respond to some of the national criticism of aid effectiveness and the requests of reduced aid budgets. Donors like the Netherlands, the UK, Sweden, Denmark, and Germany have developed strategies to engage with both international and the domestic private sectors in partner countries. While some such as Canada and Japan mainly focus on providing assistance and support to developing countries' private sector, others such as the Netherlands and Finland have mainstreamed private sector collaboration across all their development work, other countries such as France, Portugal and Austria reportedly collaborate with the private sector on a more *ad-hoc* basis (Kindornay-Reilly-King, 2013).

For some European donors, the aim to collaborate and engage with the private sector is reflected in their institutional organisation. One example of this is the Finnish government's Team Finland initiative. This was launched under the 2011 Government Programme to bring together public institutions to promote internationalisation of Finnish companies, Finland's country brand, external economic relations and inwards investments into Finland (Hearle, 2014, Pentikäinen, Vehnämäki, 2014). Team Finland combines the strategic interests of the Ministry of Employment and the Economy, the Ministry of Foreign Affairs, the Ministry of Education and Culture and the Prime Minister's Office under one umbrella. Beyond these ministries Team Finland also includes chambers of commerce, investment and trade promotion agencies, national funds as well as cultural and science institutes (Team Finland, 2015). This new institutional arrangement is designed to increase the interaction between Finnish development cooperation and business promotion. Economic development is promoted in partner countries through Team Finland's efforts to enhance the interest amongst Finnish companies, in particular SMEs, to invest in developing countries. Beyond economic development, Team Finland also believes that investments from Finnish firms can spread technological know-how and innovativeness (Pentikäinen, Vehnämäki, 2014).

The Dutch Good Growth Fund (DGGF) also provides an example of innovative institutional approaches to engaging the private sector in development. Funded through the Foreign Trade and Development Cooperation budget to offer loans and guarantees, the DGGF has three main target groups: 1) funding for innovative, direct, high risk investments in low- and middle income countries; 2) Dutch companies willing to collaborate with a counterpart in low- and middle income countries, and; 3) Dutch companies wanting to start or expand exports to developing countries and emerging markets. Technical assistance is also provided, although funded outside of the DGGF (Hearle, 2014). Each of these target groups have a set objective, the first aims to enhance investments that would not be accommodated by the private capital market due to their high risk. The second and third respectively aim to promote the finance of SMEs via private investors and financial intermediaries, and stimulate development relevant exports to low-and middle-income countries (ActionAid, Both Ends and Somo, 2013).

While Finland and the Netherlands are very explicit in using ODA to also benefit domestic firms, a similar approach can be found among other donors. In 2014, the UK's international development secretary Justine Greening gave an influential speech in which she launched the UK's new approach to engage the private sector, not only to mitigate risk but also to reap the opportunities. She called it a win-win approach where enhanced trade and investments into developing and emerging economies would benefit both their and the UK's economic growth. Bringing in the private sector is not only considered vital for development co-operation efforts, but also for the long-term growth and stability of the UK (Greening, 2014).

Scale and scope³

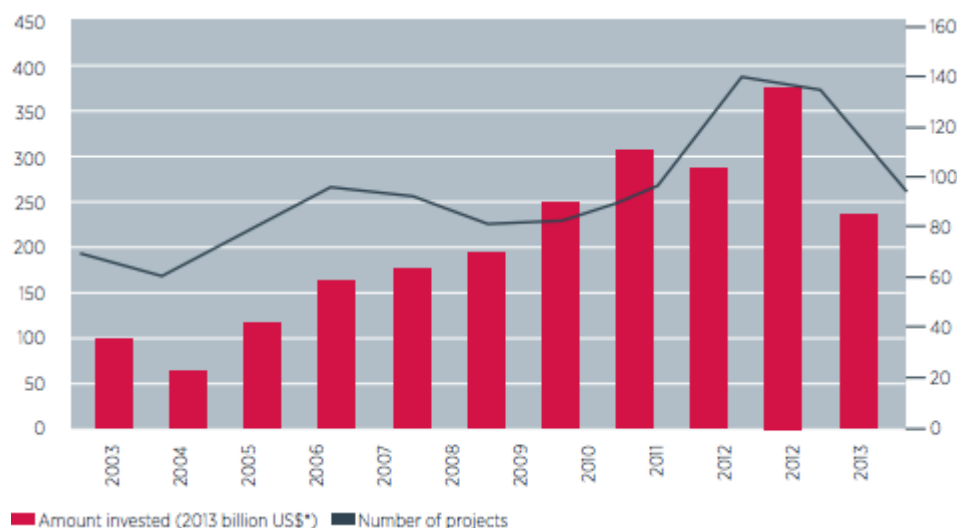
With rising interest in PPPs, the budgets for partnerships have increased accordingly, with two investment 'waves' identified: one in the early 90s and one starting around mid-2000. The first wave was driven by the deregulation policies in many developing and developed countries, combined with a strong reliance of private finance. It reached a peak in 1997, but the Asian crisis (1997-98) significantly reduced global investment flows, including those destined for PPPs in developing

³ This sub-section draws heavily on Eurodad (2015) largely due to the lack of other available data. The OECD's CRS database on aid flows does not compile separate data on PSD expenditures.

countries. This rapid decline was followed by a slow recovery process and during the decade it took for PPP investments to regain its former volumes many contracts were cancelled or renegotiated.

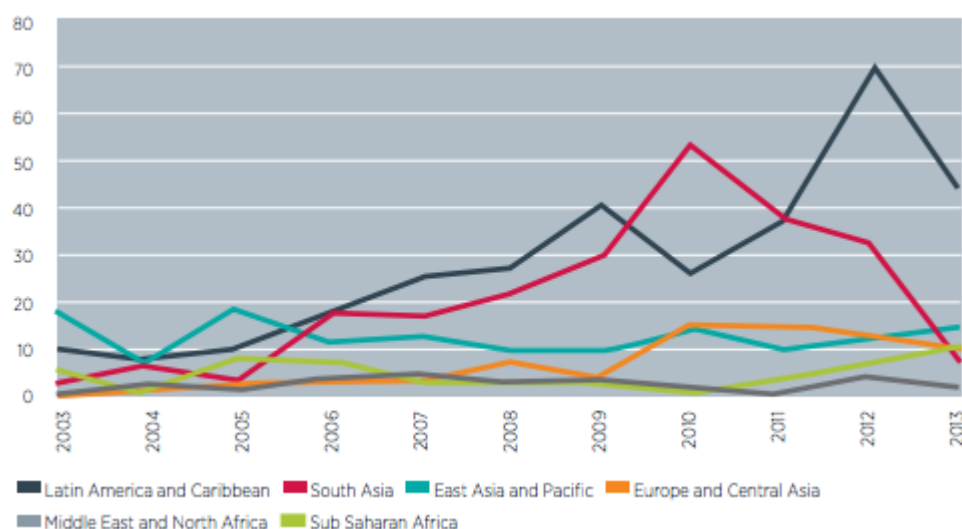
The second wave, between 2004 and 2012, saw PPP investments increase six-fold, from US\$22.7 billion to US\$134.2 billion. This was driven mainly by two factors; GDP growth in many developing countries with the associated demand for more infrastructure investments; and the lower interest rates in the developed world causing investors to look elsewhere for more profitable projects. As well as the number of PPP projects, the increasing scale and size of each project is noteworthy. The trend of mega-PPPs (particularly in infrastructure) increased the average size of projects from US\$182 million to US\$332 million between 2003 and 2013. The financial crisis has temporarily halted the increase in PPPs globally, due particularly to dropping investment rates in Brazil (down by almost 60 percent 2012-2013) and India (down by almost 80 percent 2012-2013). However, many other developing countries have managed to overcome the crisis without major drops in the investment figures, while estimates indicate that PPP investments are on their way back (Eurodad, 2015). Figure 1 shows the total investment in PPPs reported by Eurodad.

Figure 1: Total investments in PPPs and number of projects in the developing world, 2003-2013 (billion US\$ in real terms)



Source: Private participation in Infrastructure Projects Database, quoted in Eurodad, 2015.

During the second wave, PPP infrastructure investments were targeted mainly towards middle-income countries, in particular India and Brazil, with a focus on energy (58 percent) and transportation (37 percent) (Eurodad, 2015). Countries with large and more developed markets are often more successful in attracting PPPs, just as affluent urban areas are more attractive than poor rural regions (Figure 2). Between 2003 and 2013 61 percent of all PPP investments went to upper-middle income countries (UMIC), 37 percent to lower middle-income countries (LMIC) and only 2 percent to low-income countries (LIC). However, the ratio of PPP investments into LICs and LMICs in relation to their domestic GDP volumes is higher than the PPP investment/GDP ratio in UMIC. This indicates that PPP investments can have a greater impact on fiscal flows in LIC and LMIC, but also that it makes the countries more fiscally vulnerable (Eurodad, 2015).

Figure 2: Investment in PPPs by regions, 2003-2013 (billion US\$ in real terms)

Source: Private participation in Infrastructure Projects Database, quoted in Eurodad, 2015.

Beyond this general overview there is limited information regarding donors' spending on PPP investments, particularly as PPPs are often implemented through a wide range of departments (i.e. development, trade, DFIs etc.). There is some available information on public spending on programmes and strategies towards economic development, trade and/or growth. For example, Norway has spent on average 14 percent of their ODA budget on economic development, Canada spent almost 30 percent and the Swedish aid agency SIDA claims that its support for economic development represents close to half of their budget when cross-cutting issues are included (Kindornay, Reilly-King, 2013). However, these figures are not exclusively about private sector partnerships and often also include areas such as education, multi-sector aid and sometimes also humanitarian assistance (Kindornay, Reilly-King 2013). Likewise, the OECD has provided an overview of DAC members' reporting on private sector contributions from 2013, summarised in Table 2. They list commitments and disbursements provided by DFIs and development banks into the categories of Official Development Support (ODA) and Other Financial Flows (OFF).

Table 2: OECD DAC Member reported private sector development contributions

Commitments (USD Million) 2013				
ODA			OFF	
Grants	Equity	Loans	Equity	Loans
279.2	1,360.1	5,767.4	103.9	8,031.4

Disbursement (USD Million) 2013	
ODA	OFF

Grants	Equity	Loans	Equity	Loans
232.8	1,349.8	2,421.4	84.0	8,694.2

Source⁴: OECD, 2015

However, the OECD highlights several problems related to donors' reporting systems, resulting in poor transparency. Some major institutions do not report their private sector activities separately, and several members fail to provide descriptive information regarding their DFI programmes and activities. Thus, the DAC statistics cannot provide a comprehensive statistical overview of their members' private sector activities in developing partner countries (OECD, 2015).

While recognising that OECD figures on donor support of PPPs might be incomplete, Tomlinson (2013; cited in Kindornay, Reilly-King 2013) outlines that in 2010, DAC members channeled US\$903 million through PPPs, representing rapid growth from US\$234 million of DAC ODA in 2007 (although this may also reflect under-reporting in 2007). The sector allocation of ODA for PPPs in 2010 emphasised projects in the health sector, including population and reproductive health (40.9 percent), in economic infrastructure (31.8 percent), agriculture (15.2 percent), and environmental protection (6 percent) (Tomlinson, 2013).

2.3. Development effectiveness principles and PPPs

Beyond concern with, but poor data availability on PPPs, critics point to the importance of analysing PPPs in terms of their ability to 'deliver development'. This has led to questions regarding i) the definition of developmental success in terms of PPPs, and ii) how to maximise this. This is of particular concern given the use of public funds to engage firms which are therefore under increased scrutiny when compared with, for example, pure public projects.

Why is there a need for principles?

The 'success' of a PPP depends on the initial objectives established in the design phase. While different PPPs can have different objectives, there are some common features that can be discussed at a more general level.

Beyond generating private returns to ensure financial viability and sustainability, a 'successful' partnership must generate public returns in terms of wider social, political and environmental issues. The challenge for partnerships is then to balance these dual objectives. This plays out even at the level of country selection, where commercial interest would suggest investing in more developed and stable markets, but where developmental needs are in poor, and often fragile countries. This explains why the majority of PPPs are currently in middle-income countries, increasing the risk that the areas most in need of investments are neglected. The same goes for sectors, where certain sectors such as finance and extractives generate high returns but not necessarily the same extent or type of developmental benefit as investments into e.g. healthcare or education (Bilal et al, 2014, Bilal and Krätke, 2013).

⁴ Note: ODA commitments for loans to the private sector by development banks have been identified using additional data provided by members for the report on 2013 ODA loans. This method could not be applied to ODA disbursements; these were estimated in pro rata of the share of the private sector loans in total loans. Regarding OOF loans to the private sector, commitments were identified using the channel code "52000" for France and project descriptions for KfW and EIB. The disbursements were prorated following the same method as for ODA loans.

The growing role of criteria and the emergence of principles

While working in partnership with the private sector may create opportunities, there is a risk that the need for commercial viability overrides development concerns. While this could mean that development impacts are lower than they might be, a greater concern is that they cause harm, through disregard for social or environmental concerns.

To address these challenges, a range of interest groups and organisations have designed guiding principles and criteria to encourage partnerships truly provide the benefits they are created for.⁵ In 2000 Joseph Stiglitz formulated a list of ethical principles to be considered by public institutions collaborating with the private sector. This list was further developed by David Crocker in 2005, who adapted and expanded the list to include assessments of the effects of globalisation (Carney, 2014).

This list can be seen as the core of ethical principles and serves as a useful theoretical backdrop to the discussion of donor principles. It includes the following items:

- **Responsibility:** in which institutions and individuals should take appropriate responsibility for their actions as well as for the consequences of these actions.
- **Fairness:** development agents should neither discriminate nor provide preferential treatment to special interests. Horizontal equality should be a core value.
- **Honesty:** highlights the importance of promoting openness and transparency, as well as the disclosure of conflicts of interest and avoidance of misrepresentation.
- **Social justice:** development agents have a duty to promote social justice through efforts towards poverty reduction and the prioritisation of need of the poor over the need of the rich.
- **Protection of life and promotion of security:** above all else this refers to the obligation to 'do no harm'. Beyond this, development agents also have the duty to protect human lives and rights, including gender equality.
- **Promotion and protection of democracy:** the obligation to include beneficiaries in decision-making processes that affects their livelihoods. Promote democracy on a wider communal or national scale (Carney, 2014).

Listing all the different principles and criteria established by multi- and bilateral donors is beyond the scope of this paper. Instead, we highlight and discuss common features in some of the more established global criteria or principles that are of additional relevance to this study. A more detailed account of the different set of principles presented below can be found in Annex 1.

The UN Global Compact of 2004, one of the most used and referenced global guiding criteria for responsible business, have divided their 10 key principles under four separate headings: human rights; labour; environment, and; anti-corruption. Overall, these can be perceived as a set of

⁵ The first international agreements on socially ethical business behaviour were formed under the ILO's Tripartite Declaration and the OECD's Guidelines for Multinational Enterprises in the 1970's. The ILO Declaration focuses on labour relations, such as employment and work conditions. The guidelines provided by OECD, focusing primarily on human rights issues, are mandatory for governments to promote within their national private firms, but voluntary for the firms themselves. These were later followed by the Rio Declaration of 1992, which outlines how enterprises can support sustainable development. It could be argued that this represented a shift in policy, moving from a 'do no harm' perspective to an approach where the potential benefits and positive outcomes of private investments are emphasised to a greater extent. Another shift can be seen in the UN Global Compact, launched in 2000, which places a greater emphasis on the implementation process of its ten key principles (Byiers and Bessems, 2015). The methods and practices around implementation have been, and in many ways still are, too often neglected.

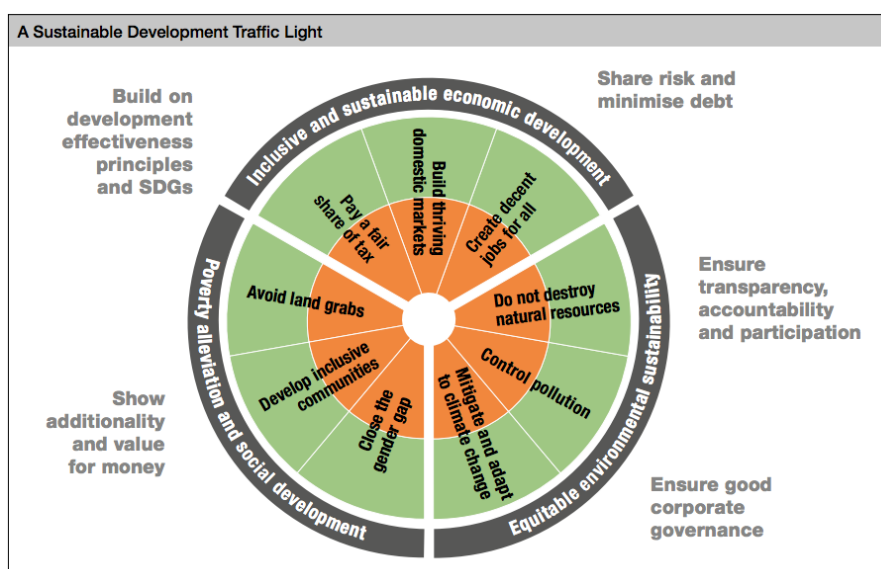
fundamental principles guiding minimum actions that need to be considered in responsible business practices (UN, 2014). Beyond this, the UN have also designed the UN Guiding Principles on Business and Human Rights, which states that businesses should respect and promote Human Rights as expressed in the International Bill of Human Rights (UN, 2011).

The OECD established a set of guiding principles for Public Governance of Public-Private Partnerships in 2012. These include the headline criteria to: 1) establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities; 2) ground the selection of public-private partnerships in value for money, and; 3) use the budgetary process transparently to minimise fiscal risks and ensure the integrity of the procurement process (OECD, 2012).

Some sector-specific principles have also been designed, such as the Committee of World Food Security's (CFS) Principles for Responsible Investments in Agriculture and Food Systems. Agreed upon at the 41st session of the committee, the principles represent the first international consensus on how agricultural investments can best promote agricultural growth, food security and poverty reduction. Beyond the 10 key principle related to agriculture and food security, the document also sets out roles and responsibilities for all parties, including states, INGOs, donors, DFIs, and farmer organisations (CFS, 2014).

Finally, a coalition of CSOs - CAFOD, Oxfam⁶, ActionAid UK, EURODAD, WWF and BOND - recently developed a set of principles for involving the private sector in development, visualised in Figure 3 below:

Figure 3: CAFOD Sustainable Development Principles



Source: CAFOD et al. 2015

⁶ Oxfam published a set of suggested PPP principles in 2014, governing what they identify as 'mega-PPPs'. These principles are categorised under three headings: government and process; disclosure; and monitoring and evaluation. They can be found here: https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/oxfam_moral_hazard_ppp-agriculture-africa-010914-en_0.pdf

These principles cover many of the challenges that private sector involvement and finance can lead to, beyond pure public-private partnerships. Similar to the UN Global Compact, they can be seen as standards and requirements to be ‘ticked off’ before and during a private (or public) investment process. While the UN Compact provides minimum requirements however, these are far more wide reaching, including standards addressing the indirect consequences of sub-optimal business practices.

Principles/criteria used by donor agencies

Kindornay and Reilly King (2013) investigate the extent to which OECD-DAC donors make reference to international standards and norms. They find that 12 donors refer to the UN Global Compact, nine refer to the OECD guidelines on Multinational Enterprises, 11 refer to the ILO conventions, and six refer to the Extractive Industries Transparency Initiative (Kindornay, Reilly-King, 2013). While information does exist on the extent to which donors establish principles for the PPPs, very few reports detail the extent to which these principles are actually set in force and by which means (Carney, 2014).

In a review of OECD-DAC members, UN organisations and the EU approaches to ‘ethical’ collaborations with the private sector, Carney (2014) investigates how these donors relate and act to promote ethical principles. He finds that the inclusion of principles varies considerably between different donors, where some have comprehensive and well-defined ethical systems outlined in their core strategy, while other have more loosely defined ethic statements spread across different documents. The more systematic method descriptions commonly include values or principles relating to risk management processes, application procedures, and due diligence processes for partner selection (Carney, 2014).

In its Communication “A stronger role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries” from 2014, the European Commission outlines six criteria for supporting the private sector, seven principles for engaging with the private sector, and 12 actions to help the private sector achieve positive development results as part of its core business strategies. The Communication presents an ambitious and comprehensive approach, where the 12 action points represent a new step in enforcing the implementation of principles. Nevertheless, these action points include a rather wide and broadly formulated range of activities such as e.g. the promotion of eco-entrepreneurship, green job creation and international CSR guidelines, support for financial inclusion of women and youth, and finance of advisory services and diagnostic tools for policy formulation (see full list in Annex 1).

The EU is to some extent following other donors. The Swedish donor agency SIDA has 10 key principles for governance, including issues such as country focus, scaling up potential, partner country selection, additionality, transparency and CSR (SIDA, 2013a). This is one of the more comprehensive list of principles created by an individual donor, complemented by an application questionnaire assessing e.g. the relevance, risk management, social responsibility and evaluation capacity of the private partner (SIDA, 2013b).

Furthermore, UNDP has identified risky sectors for PPP engagement that demand high levels of due diligence. These include oil and gas; metals and mining; chemicals; large infrastructure; utilities; as

well as agriculture, fishing, and gambling (UNDP, 2013). The OECD has created a due diligence framework for responsible supply chains of minerals from conflict-affected and high-risk areas.⁷

Commendable as these different efforts are, they primarily serve as voluntary indicative directives without any associated compliance mechanism. Thus, the extent to which private firms and other actors will apply these voluntary measures remains to be seen (Byiers, Krätke, Rosengren, 2014).

From principles to practice

While the burgeoning range of principles reflect a degree of convergence on what is appropriate private sector behaviour, challenges remain in ensuring compliance and enforcement.

To ensure compliance, donors must find a balance between legally binding regulations and softer measures aimed at motivating enterprises into compliance. Voluntary business reporting measures, such as the principles presented above, are increasingly combined with mandatory regulations. According to a KPMG study, out of 180 national reporting systems approximately two thirds are completely or partly mandatory. This is particularly frequent in the extractives and finance sectors.

Softer measures, such as social pressure and consumer demand, can gradually develop into more formal treaties and policies. Firms breaking widely recognised principles and global criteria might suffer such reputational damage that compliance becomes a top commercial priority. Self-regulation and public reporting can therefore be useful to increase the pressure on enterprise compliance.

As an example of this, the UN Compact obliges member enterprises to submit a yearly progress report on their implementation rate of the 10 key principles. However, although this does add further reputational pressure, should enterprises fail to provide the adequate reporting, they can simply leave the scheme without any further costs or legal penalties (Byiers, Bessems, 2015). For firms benefiting or focusing on other competitive advantages e.g. price, these measures might not be of much strategic importance. Moreover, reputational risks are often greater for large international firms compared to the risks for small and medium sized national businesses. There is thus a risk that voluntary measures fail to capture the range of businesses operating in developing countries.

Thus, while it might be easier to incentivise private firms to sign up to voluntary principles, they may be less effective than mandatory principles. This might ultimately come down to a question of quality versus quantity, and could raise the question of whether insufficient attention has been placed on the compliance with existing principles.

That said, even without a set of guiding principles donors still influence the character and the expected outcomes of their PPPs. Two key design factors for creating sustainable and pro-developmental PPPs relate to partner and sector selection. International firms are often more experienced at working in partnership while their background or track record tend to be easier to control and assess. However, local firms, while commonly more difficult from a due diligence perspective, often have a better knowledge of local markets and context (DCED, 2015).

⁷ This guideline rests on three key steps, namely; i) identify the factual circumstances involved in the extraction, transport, handling, trading, processing, smelting, refining and alloying, manufacturing or selling of products that contain minerals originating from conflict-affected and high-risk areas; ii) identify and assess any actual or potential risks by evaluating the factual circumstances against standards set out in the company's supply chain policy, and; iii) prevent or mitigate the identified risks by adopting and implementing a risk management plan (OECD, 2013: 14).

Some donors have established an overarching set of partner selection criteria outlining mandatory requirements for all firms applying for public support (e.g. SIDA, 2013b), while others have created due diligence frameworks guiding their partner selection. DfID for example assesses their partner diligence through four pillars: i) governance and control; ii) ability to deliver; iii) financial stability, and; iv) downstream partners (DfID, 2014). A key factor in these schemes relates to the past performance of firms where they can be checked for issues such as tax and fiscal behaviour, control of bribery and fraud, internal or external conflict, and risk management.

As such, actions taken to comply with principles may play out only through exclusion of 'bad companies', the inclusion or selection of 'good companies', and systematic approaches to good governance and management practices.

PPPs and principles

Looking at PPPs in particular, different principles relate to different stages in the development and operationalisation of these. Below we discuss some of the more thorny issues associated with PPPs, that the principles commonly try to address.

Transparency: Despite the centrality of transparency in most donor strategies as well as in the multiple studies and mappings of these strategies, the definition and use of the term transparency differs somewhat depending on the user and its purpose. For example, SIDA defines transparency in their key principles as *'the company should be willing to share information, results and outcomes from the projects as it is an important part of improving methods for development partnerships'* (SIDA, 2013a). UNDP states that a PPP is only transparent if all participants: 1) have access to the same information about the project; 2) comply with the same minimum requirements; 3) be prohibited from involvement with those awarding the contract; 4) be prohibited from collusion with other bidders, and; 5) be bound to their proposal and not be able to change it after the contract is awarded (UNDP, retrieved 30/6/2015). Transparency is often also highlighted as a means to combat corruption, bribery and counterfeit.

One criticism voiced over donor approaches to transparency in PPPs is that focus often rests on the partner government or on the private partner (Kindornay, Reilly-King, 2013). Although often governed by national transparency regulations or governmental requirements, the transparency standards for PPPs often exclude the donor party. Perhaps an indication of this can be seen above in the section of scale and budgets. Little public information is available as to the exact budget allocation provided to PSD and PPPs, which should be a fundamental step in ensuring full openness and transparency.

However, there are also some international initiatives directed towards donor governments. One of the most well known multi-stakeholder transparency initiatives is the Extractive Industry Transparency Initiative, created with the aim to improve the governance of natural resources. Since its first conference in 2003, EITI has established a set of guiding principles, a set of mandatory requirements for members as well as a validation method and committee. Governments play a significant role as lead actor in applying for membership, ensuring that the principles are adhered to and leading coordination processes (EITI, 2015).

Likewise all members, (including donor governments, partner government, private firms and civil society) of the **International Aid Transparency Initiative** are required to report all public-private development projects, including budget and funding, which later gets published at the IATI Registry

(IATI, retrieved 30/06/2015). IATI currently has 349 members of which the clear majority are international and national NGOs. However, it does include some donors and some PPP projects. Similar to most of the voluntary principles though, the effectiveness of IATI depends on the value members and other stakeholders place on the reporting system, and the extent to which the information gets distributed and used.

Accountability: Fombad (2014) presents three different aspects to take into account when assessing the level of accountability in PPPs. These are the hierarchical perspective, the horizontal perspective, and accountability as a virtue.

The *hierarchical* perspective is built in the traditional vertical principal agent relation, and the legal, social and political structures surrounding it. Accountability is achieved through part social norms of accepting responsibility and liability, and part the bureaucratic, contractual, administrative framework guiding the partnership. Although hierarchical accountability is relevant for PPPs given that it governs how the government uses its public finance (i.e. tax money), it is not always efficient as PPPs often are highly complex with a multitude of different actors. This can create issues in regard to the vertical order, and who is accountable to whom (Fombad, 2014).

The *horizontal* perspective, also called the management of expectations, is at times more practical for understanding accountability in PPPs as the focus lies on partner discussion and negotiations around the expectations created within and outside of the partnership. The aim is to identify diverging expectations, and then find non-hierarchical methods to resolve these (Fombad 2013).

Lastly, *accountability as a virtue* related to the moral responsibility of parties to uphold the promises they have made. Although it might not sound too relevant perhaps for PPPs, it actually is the fundamental perspective behind the principles and criteria discussed in the sections above (Fombad, 2015).

Donors relate to the concept of accountability much in the same way as they relate to the concept of transparency. It is often mentioned as one key criterion, with little detail on how this is to be achieved and what the potential challenges might be. Also similar to transparency, it is often a requirement asked of the private partners rather than a structure to govern the partnership. In SIDA's application questionnaire the applying firm is assessed on their response to the question: "How will information on the project's performance, such as economic, social and environmental impact, be disclosed?". Accountability can also be assessed in terms of active participation of affected stakeholders, and again SIDA requests its applicants to showcase whether "The people affected by the project will have possibility to participate in the project design?" (SIDA, 2013b). In the same vein do FAO and CFS demand accountability through "Regularly assessing changes and communicating results to stakeholders"? (CFS, 2014: 18).

Ownership: Even though almost all (if not all) donors recognise that economic growth is a necessary prerequisite for development, they differ in the extent to which they acknowledge the potentially negative social and environmental impacts of growth. Although pro-poor, green growth (or similar concepts) is emphasised in most donors' strategies and programmes, there is perhaps an over-reliance on the capacity of markets to address issues such as income distribution, poverty reduction and sustainable growth. Very few attempts are made at providing support to government policies promoting equitable, shared, pro-poor growth (Kindornay, Reilly-King 2013).

Related to this is the question of aid dependency. One oft-stated objective with PPPs is to increase resource mobilisation to reduce aid dependency and economic pressure on national budgets. However, criticism has been voiced over often very technocratic approach towards reaching these objectives. While partnerships can increase private funding (and thus reducing pressure on national budgets), insufficient attention is paid to the political circumstances of these partnerships (Kindornay, Reilly-King 2013). These are both political challenges created by the lack of partner ownership.

Result and impact measurement: This is a notoriously difficult area for all types of collaborations between the public and private sector with development as the key ambition. The private sector on the one hand is often is very stringent in its reporting but focuses mainly on measurements of outputs and outcomes rather than impact. Moreover, for commercial reasons more attention is usually paid to promoting project successes to the consumer, rather than exploring potential lesson learning opportunities derived from challenges and setbacks. The donors on the other hand have been criticised for relying too much on anecdotal evidence and anticipated rather than achieved results. Given that impact measurements are inherently very costly, difficult and time consuming, it is commonly considered more effective to undertake result rather than impact measurements. The fact that many partnerships are guided by a 'light touch' managements and measurement system is perhaps cost effective in the short run but could be costly in the long run as it provides for very little learning-by-doing (Heinrich, 2013, Bilal, et al. 2014).

2.4. Section conclusions

- This section has provided an overview of the concepts and trends associated with PPPs for development, while also providing an overview of some of the key sets of principles and criteria that different organisations employ to assess them. As the discussion highlights, the different types of PPPs make it hard not only to define, but also calculate levels of investments, ODA budget shares, public costs, and related factors such as risk management, social benefits, additional costs etc.
- Partial and distinct reporting system and practices of donors makes it difficult to assess the priority given to their PPP programmes. In addition to this, the lack of investment figures makes it more difficult to measure and assess the outcomes and impacts of each programme. If high transparency is demanded by the private partner, then the least the public sector can do is to provide an accurate reporting framework.
- The fact that 60 percent of PPP investments are targeted to upper-middle income countries (UMICs) is perhaps worth more discussion amongst donors and other involved. Thus moving the discussion from the question of whether positive developmental outcomes can be achieved through PPP, to a discussion on opportunity costs and whether these activities really maximise the developmental benefit.
- Whether a donor agency has established its own set of guiding principles or adheres to an international framework, there is often a lack of an internal assessment of the degree to which these principles have been met. Creating a set of principles serves a marginal function if this is not later monitored and assessed as part of the M&E of the PPP programmes themselves.

3. PPP Case studies

This section applies the above discussions to three case studies: the Southern Agriculture Corridor of Tanzania (SAGCOT), the Queen Mamohato Memorial Hospital in Lesotho and the ILO's Better Factories Programme in Cambodia.

This selection of high-profile cases covers a variety of PPPs highlighting different factors: the roles of and interplay between the actors differ between a private sector driver in the agriculture sector for SAGCOT, public sector health in the Lesotho case, and a civil society led cooperation on textiles in the case of the Better Factories⁸; while each case has a different purpose and objective, from leveraging private investment, provision of health care as a public good, to addressing and influencing business practices.

The case selection also enables identification of challenges and issues across PPP types. As all three cases have received attention and are often referred to in the debates about PPPs, they also provide a good testing ground for the use of principles to streamline and deepen discussion and reflection on the development impact of PPPs. Additionally it seems that these three cases have sparked particular interest among development actors and NGOs in recent months, since the authors of the study have increasingly been confronted with these cases in events and public debates as references for PPPs' challenges in its design and implementation. The case studies are primarily based on already existing analysis and literature as well as on informal interviews and partially field trips conducted for other previous work.

Case Study 1: The Southern Agricultural Growth Corridor of Tanzania

Introduction⁹

According to the *G8 Cooperation Framework to support the 'New Alliance for Food Security and Nutrition' in Tanzania* (2012), the Southern Agricultural Growth Corridor (SAGCOT) exemplifies Tanzania as "a showcase for public-private partnership in agricultural growth". As a combination of an overarching public-private partnership framework in agriculture that includes additional private sector engagement instruments, SAGCOT seems an important model to examine as a case study.

SAGCOT was initiated at the World Economic Forum (WEF) Africa summit in May 2010 and launched a year later at the 2011 WEF in Davos. The SAGCOT Investment Blueprint, showcases investment opportunities in the Corridor (see Figure 4 below) and lays out a framework of institutions and activities intended to "reap the development potential".¹⁰ It is part of the overall implementation of the Agriculture Sector Development Programme (ASDP) (New Alliance, 2014b), covering 132 rural districts of the mainland where "about 90 per cent of the poor live".¹¹

⁸ http://www.ilo.org/asia/whatwedo/projects/WCMS_099340/lang--en/index.htm

⁹ The SAGCOT case study is mainly based on secondary literature, so analysis and studies that have particularly looked at SAGCOT. It further benefited from informal interviews used and conducted for previous ECDPM work, which is referenced where applicable. It further uses official documents and publications available on the SAGCOT webpage as well as news and reports available on other online platforms equally referenced where applicable.

¹⁰ SAGCOT webpage: <http://www.sagcot.com/who-we-are/what-is-sagcot/>

¹¹ IFAD Operations: United Republic of Tanzania: Agricultural Sector Development Programme <http://www.ifad.org/operations/pipeline/pf/tan.htm>

Figure 4: The SAGCOT Area

Source: SAGCOT website: What is SAGCOT?

The SAGCOT case is interesting to study for several reasons. Its massive scale in terms of finance and geographical area reveal important lessons for other PPP frameworks and similar future partnerships. As a flagship of the WEF, it is a mainly business-driven partnership, which determines and influences the power dynamics, as elaborated in the sections above, among the different stakeholders in the PPP. It is also regional in nature, with the SAGCOT area extending north and south of the central rail, road and power ‘backbone’ that runs from Dar es Salaam to the northern areas of Zambia and Malawi.¹² By taking a holistic approach, SAGCOT tries to address various gaps and issues, such as engaging local farmers, raising overall agricultural productivity, thus contributing to broader economic transformation and decreasing (rural) poverty, increasing job creation, and improving regional coordination towards food security and market development.

The SAGCOT area covers almost one third of the country and is inhabited by around 10 million people, with the investment blueprint pledging “to bring 350,000 hectares of land under commercial agricultural production and to generate \$2.1 billion of private sector investment in agriculture over 20 years” (ActionAid, 2015a). These private sector investments are hoped to be catalysed through US\$1.3 billion of public sector grants and loans (Rosengren, 2013).

SAGCOT stated purpose and objectives

As a multi-stakeholder agricultural public-private partnership (PPP), SAGCOT brings together government, businesses, donor partners and the farming community.¹³ This is intended to pool resources and foster cooperation towards a common goal on the basis of addressing the entire value chain. Therefore, it needs to make sure that beyond raising agricultural productivity (Figure 5), the necessary infrastructure, a conducive policy environment and access to knowledge are in place “to create an efficient, well-functioning agricultural value chain”.¹⁴ This is reflected in its two pillars

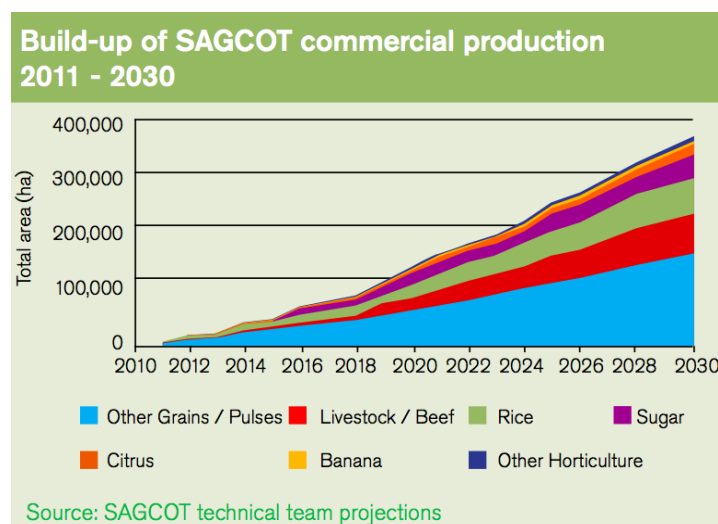
¹² SAGCOT webpage: <http://www.sagcot.com/who-we-are/what-is-sagcot/>

¹³ SAGCOT partners are from the government of Tanzania, private sector companies, development partners, foundations, research organisations and CSOs, and apex and farmer organisations. http://www.sagcot.com/fileadmin/documents/2015/SAGCOT_Partner_List_External_March_2015.pdf

¹⁴ SAGCOT: <http://www.sagcot.com/who-we-are/what-is-sagcot/>

(Gálvez Nogales, 2014): (i) support the development of agricultural clusters in the corridor; and (ii) policy dialogue to ensure an enabling environment for the agribusiness sector". SAGCOT essentially aims to overcome coordination failures in investment in agriculture.

Figure 5: Projected build-up of SAGCOT commercial production 2011 - 2030



Source: SAGCOT, 2011a

The SAGCOT Centre independently supports the initiative by facilitating partnerships and investments and promoting private sector engagement in partnerships “to develop a high-potential region of the country” (WEF, 2013). The Centre therefore plays something of a broker role, which is necessary to facilitate contact and dialogue among stakeholders in the PPP. This is particularly relevant for public-private-producer partnerships (PPPPs) in agricultural value chains and an important enabling factor for these kind of PPPs (Thorpe and Maestre, 2015).

The SAGCOT Investment Blueprint (2011a) states that of “the 2.1 million hectares that are under production, 95 per cent are farmed by smallholders using traditional methods, primarily for subsistence”. Among its objectives, the Investment Blueprint envisions that “over 22,000 emergent farmers (with more than five hectares) will be able to achieve full commercial yields” and that 75,000 smallholder producers (less than five hectares) will become commercial farmers. Additionally, it aims to create 420,000 new jobs as well as to lift more than 2.3 million people in rural areas out of poverty. Further, SAGCOT aims for “raising the annual value of farming revenues to \$1.2 billion and assuring regional food security” (Rosengren, 2013).

As a priority of the New Alliance for Food Security and Nutrition (New Alliance), Tanzania has committed itself to attract greater agricultural investment from businesses as well as to increase its transparency in land tenure policy. According to the New Alliance’s progress report 2013-2014, Tanzania has signed 21 letters of intent (LOIs) referencing US\$34 million in commitments while almost US\$10 million of investments have already been made, which created 1,049 jobs and reached 453,000 smallholders.

SAGCOT sustainability criteria

SAGCOT itself has developed its Membership Principles and Obligations (2011b), according to which “each SAGCOT Partnership member will be required to accept five Partnership Principles”. Further in

its Greenprint SAGCOT mentions five priorities to create “fertile ground for Agricultural Green Growth (AGG)”. In the following, Table 3 is setting those principles in comparison with the aforementioned sustainable development principles (CAFOD et al., 2015).

Table 3: Comparison with the sustainable development principles

<i>Sustainable development principles</i>	<i>Partnership and project principles</i>	<i>Principles</i>	<i>SAGCOT Membership Principles and Obligations (1-5) & Greenprint priorities (I-V)</i>
<u>Inclusive and sustainable economic development</u>	➤ Build on development effectiveness principles and SDGs ➤ Share risk and minimise debt	➤ Pay a fair share of tax ➤ Build thriving domestic markets ➤ Create decent jobs for all	1. Agreement on the overall SAGCOT Objectives – (...) for responsible commercial growth and poverty reduction (...), need for commercially viable agricultural businesses to incorporate emergent and small-scale farmers and their interests into their operations. 4. Agreement to contribute to the resolution of policy and infrastructure constraints – by bringing to the attention of the SAGCOT Centre their own concerns about specific factors that currently hinder local and national development of commercial agriculture. (...) 5. Agreement to consider new and innovative financing mechanisms – which are aimed at catalysing additional private investment in SAGCOT in ways that ensure that major benefits also accrue to smallholder farmers. This will require creative investment, and the willingness of farmers and agribusiness to accept new types of risk and modifications to traditional practices. I. “Agricultural extension for AGG should be designed and deployed, with the aim of reaching at least 70 percent of the Corridor’s farm households by 2030” V. “AGG should be mainstreamed into the SAGCOT Investment Generation Programme to position the Southern Corridor as a place that attracts “best in class” investors and innovators that integrate sustainability into their business plans”
<u>Poverty alleviation and social development</u>	➤ Show additionality and value for money	➤ Avoid land grabs ➤ Develop inclusive communities ➤ Close the gender gap	II. “SAGCOT partners should invest in local organisations and local leadership” IV. “SAGCOT Investment Guidelines should be put into place to help steer investors toward AGG practices with broad social and environmental benefits”
<u>Equitable environmental sustainability</u>	➤ Ensure transparency, accountability and participation	➤ Do not destroy natural resources ➤ Control	III. “planning and allocating land and water should be designed and adopted to reconcile the objectives of optimizing economic returns from available land and

	➤ Ensure good corporate governance	➤ Mitigate and adapt to climate change	water resources, ensuring equitable land allocation and land rights , and creating a transparent and streamlined process for identifying new sites for investment”
			2. Agreement to work with other members to promote a harmonised approach and strategy – so that within their own particular sphere of activities, each member will cooperate with the overall, coordinated SAGCOT programme of planning, investment, implementation and policy reform. 3. Agreement to engage with the partnership, maintain communication and support the SAGCOT Centre (...). Until such time as the benefits become evident, the underlying trust and intrinsic goodwill of each member will be essential to maintain progress.

In particular SAGCOT principles two and three aim at better internal partnership cooperation, while the other three are concerned with inclusive economic development outcomes, a well-functioning domestic market based on good infrastructure and the right policy environment, and sharing risks and costs. Notably, these membership principles developed by SAGCOT cannot prevent issues around land management, environmental and social risks.

Nonetheless, the SAGCOT Greenprint aims “to refine the SAGCOT strategy to ensure that development in the Corridor is environmentally sustainable, socially equitable, and economically feasible” (SAGCOT, 2012), so along the lines of the sustainable development principles of Table 3. To what extent though the Greenprint has helped to counterbalance some of the key challenges cannot easily be assessed due to **a lack of reliable information and resources**. “To sustainably intensify agriculture for smallholder and commercial agriculture alike”, while “conserving the natural resource base that supports agriculture and reducing pressure on forests, water resources, and biodiversity” is key but also a challenge. Priorities III. and IV. combine elements of poverty alleviation and social development on the one hand, and equitable environmental sustainability on the other.

In light of these priorities, SAGCOT has put objectives/principles in place to achieve fair and inclusive Agricultural Green Growth. That raises the question of whether the policy as laid out in the Greenprint for instance has sufficiently been put into practice. Reports by Bergius (2014), Boudreaux (2012), Chiza (2012), War on Want (2012), ActionAid (2015a & 2015b), or the SAGCOT’s Environmental and Social Management Framework (2013) suggest that **some of the environmental and social objectives are at least controversial or seem to be at risk**, requiring closer monitoring, independent assessment and review structures. These points are going to be picked up in the following section that looks into the question of what are the key drivers and challenges of the PPP as well as who potentially benefits and loses or carries most risk.

Winners and losers

In terms of engaging small-scale farmers:

Analysing SAGCOT progress, Byiers and Rampa (2013) point to the high time and financial costs of working with smallholders and their representatives and therefore argue that “for SAGCOT to achieve its development objectives, investors will have to be willing to absorb these costs in the long-run”. They further underline that SAGCOT was able to attract international agribusiness and note “their willingness to engage with smallholders and the potential sustainability brought by commercial interests”. Hence, it seems that there is a need to find a balance between short-term financial implications vis-a-vis long-term objectives of partnerships between businesses and smallholders to successfully engage small-scale farmers.

To address power dynamics and coordination among PPP partners:

Powerful international agribusinesses as drivers of the process are questioned in terms of widespread and inclusive developmental benefits they should bring about, as defined as objective in the SAGCOT PPP (Byiers and Rampa, 2013). In addition to these concerns, there are a number of challenges that hinder the project, such as delayed responses from public institutions and access to surveyed and titled land that need to be overcome so that SAGCOT can achieve its set objectives.¹⁵ SAGCOT Centre Deputy CEO Jennifer Baarn further notes “legal and regulatory issues, inadequate access to financial services, inadequate infrastructure, unpredictable policy changes, and limited institutional capacities” as other obstacles that need to be addressed.¹⁶

To develop sufficient infrastructure in place to develop a regional market:

Along similar lines and as a prerequisite for a successful agricultural PPP, Geoffrey Kirenga, Chief Executive Officer (CEO) of SAGCOT Centre in Tanzania underlines the importance of physical infrastructure - railways, roads, airports and seaports - in order to connect countries, regions and customers from production to consumption areas (Rampa, 2015). He also stresses the significance and role of political leadership and the willingness to cooperate in platforms, such as Grow Africa, in the various regional economic communities (RECs) as well as in farmer organisations and businesses that ultimately provide the opportunities to effectively work together. This then adds to the case for having private sector involvement.

Mobilising private sector investments to achieve a more commercially-oriented but inclusive agricultural sector to achieve regional food security:

Looking at SAGCOT, Kirenga emphasises the need for responsible investments to the benefit of regional development, while SAGCOT partners need to comply with three key principles: i) investment needs to contribute to food and nutrition security, ii) approaches need to be inclusive, so benefitting local communities, and iii) it must be done in a sustainable manner, so that no damage is done to the environment (Rampa, 2015). As an example for successful implementation, SAGCOT Centre’s CEO refers to the mobilisation of 84 business partners with pledges of about US\$1 billion for investments in agriculture and food security, with 40 percent invested to date. As a further success factor, Kirenga points to the fact that SAGCOT listened to its people in terms of protecting the farmers’ rights and taking into account their concerns. By doing so, SAGCOT, according to him, provides a solution and a vehicle that can be replicated elsewhere and that can guard the African continent and its people from irresponsible investments that are doing harm to both the environment and local communities. (Rampa, 2015)

¹⁵ Article retrieved from [Agri-business Africa](#): 30 private actors set to invest in SAGCOT to boost agriculture.

¹⁶ Ibid.

To address the issue of being inclusive and improving livelihoods in Tanzania:

SAGCOT's Environmental and Social Management Framework raises concerns about "significant environmental and social impacts associated with the numerous development challenges in the region and the Corridor's important biodiversity and ecosystem services" (SAGCOT, 2013). In an interview in December 2013 the Managing Director of Yara Tanzania Ltd, expressed his "doubts whether SAGCOT will be able to create any significant positive change for small-scale farmers in the long term" (Bergius, 2014). ActionAid (2015a) additionally points to a traditional danger of private agricultural investments and their tendency of benefits mostly going to larger farmers. It is also noted that "SAGCOT's Investment Blueprint defines small-scale food producers as those with a turnover of less than \$5,000 per year" - this is nine times more than the minimum agricultural wages are in Tanzania (ActionAid, 2015), "suggesting that the project will mainly target larger farmers" in reality (War on Want, 2012).

To address the issue of transparency in land tenure policy:

There are suggestions that SAGCOT will mainly benefit large agribusinesses while encouraging land grabs. ActionAid (2015b) reported a land grab case where the Swedish sugar company EcoEnergy "planned to push rural communities off their land", while land "is being offered cheaply to investors, often leasing at less than \$1 per hectare per year" (Chiza, 2012). ActionAid (2015a) further argues that "all of the SAGCOT documents emphasise the importance of investors' accessing land", thus there is a promotion of land titling policy under SAGCOT, "which envisages demarcating all village land". This might therefore be considered as "a precursor to increasing privatisation and concentration of land" (ActionAid, 2015a). Boudreaux (2012) claims that "most of the lands that the Government of Tanzania (GOT) wishes to see developed in SAGCOT will need to be taken from villagers by government and leased to investors", which is likely to result in "displacement of villagers and a loss of grazing rights".

In response to the ActionAid (2015a & 2015b) reports, Bagamoyo EcoEnergy (BEE) itself calls for safeguards to be in place in order to guarantee equitable development, as "all projects may do more harm than good", according to Per Carstedt, Executive Chairman of BEE.¹⁷ Therefore, "BEE has made immense efforts to follow international best practice standards", which are the IFC Performance Standards on Environmental and Social Sustainability.¹⁸ He further refers to "a very comprehensive consultation process on the resettlement programme with not only all the four hamlets¹⁹ recognised by the GoT valuations process, but also with the temporal residents inside the Project site, all of which has been meticulously documented". Carstedt additionally underlines that "all eligible people for resettlement will be resettled according to IFC PS5", that is the performance standard dealing with *Land Acquisition and Involuntary Resettlement*: "avoid resettlement and if you can't, minimise it".

Smallholder producers becoming commercial farmers:

Another PPP project under SAGCOT is the Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme (BASIC), financed and designed by the AfDB and IFAD respectively amongst others. This is a large ethanol production project spanning over 22,000 hectares, where "peasant farmers on the land that is grossly underutilised are expected to become successful cane growers".²⁰ The Minister of Agriculture, Food Security and Cooperatives in Tanzania, Stephen Wassira, praises BASIC as transformational, as "the investment will come with a sugar mill to

¹⁷ http://www.ecoenergy.co.tz/fileadmin/user_upload/AA_Report_Response.pdf

¹⁸ IFC *Performance Standards on Environmental and Social Sustainability*. January 1, 2012.

¹⁹ Kaloleni Biga, Gobole, Gama and Bozi.

²⁰ Tanzania: How SAGCOT Struggles to Benefit Small Farmers. 30 May 2015. [Retrieved from allAfrica](#).

process up to 60 per cent more cane than could be grown on its nucleus estate, thus creating the opportunity for smallholders in the surrounding settlements to become commercial cane outgrowers". Interestingly, the project is seen by local authorities as a means to "help curtail high levels of poverty and youth unemployment", while "district Commissioner Mr Majid Hemed Mwanga is quick to assure that no families will be evicted from their land to pave way for the project".

Raising agricultural productivity and creating an efficient, well-functioning agricultural value chain:

In yet another PPP under SAGCOT, Kilombero Plantations Limited (KPL), an outgrowers' rice scheme in the Southern Islands of Morogoro region, "Tanzania hopes to attract more high value agricultural investments as a vehicle to lift millions of peasants from poverty".²¹ Dr Sinare, the Chair of the Agricultural Council of Tanzania (ACT), a farmers' umbrella body, notes increased smallholder farmers' productivity, now "earning up to four times more due to a ready market in which they have a direct say". Further, the ACT "says the KPL success in the short period of time goes to prove how positive reforms could impact the lives of the majority of the poor peasants", as 7,300 farmers are able to negotiate the price with the buyer while profiting from training to increase their harvests.²² According to Oxfam (2014), "some farmers are likely to benefit financially from these outgrower schemes, particularly due to increased access to inputs and improved market opportunities, in the absence of other government support". Eco-Energy that is implementing the project wants to comply with the 14001 ISO standards, aiming for BONSUCRO certification, which "is an international multi-stakeholder non profit organisation that provides certification and sets sustainability standards in the sugar industry".

Land titling:

There are several fundamental factors that need to be taken into consideration when looking at the SAGCOT initiative, as well as the need for an understanding of the underlying political economy, so internal and external actors and factors. Large amounts of land in the SAGCOT area are unused and are either village land or have land title problems (Byiers and Rampa, 2013). Particularly, land titling in Tanzania is a challenge, as land governance systems or rules-based land management systems are not in place, "so farmers often have no legal backing to hold on to land they may have lived on communally for generations".²³ Therefore, regardless of any initiative to achieve rural poverty reduction, effective and sustainable land policies need to be in place (IFAD, 2014). "In SAGCOT, there are 7.5 million ha of arable land available, of which less than one-third is currently under cultivation", while only 1.5 percent of the available arable land are under commercial farming and "only 5 percent of the area under production corresponds to medium- and large-size holdings dedicated to sugar, rice and tea production" (Gálvez Nogales, 2014; SAGCOT, 2011a; DfID, 2012).

To address the issue of a conducive business environment, also for the agribusiness sector:

Also important is the business environment, which relates to electricity supply as much as to access to finance and tax administration among other business constraints (Byiers and Rampa, 2013). Byiers and Rampa (2013) accordingly raise the question of "the SAGCOT role in improving, or working within, the existing business environment". It also directly links to the question of attracting investors and promoting business by stimulating policy reform. Another underlying key determinant for

²¹ Tanzania: *How SAGCOT Struggles to Benefit Small Farmers*. 30 May 2015. [Retrieved from allAfrica](#).

²² Tanzania: *SAGCOT - Farmers Set to Enjoy High Yields*. 1 June 2015. [Retrieved from allAfrica](#).

²³ *Is Africa's 'green revolution' a mask for a profit-led corporate bonanza?* 1 July 2015. [Retrieved from International Business Times](#).

SAGCOT's success is coordination among actors, so that the initiative can become fully operational and benefits can actually trigger down to smallholder farmers, as Byiers and Rampa argue (2013).

Attracting sufficient private capital to develop agricultural clusters in the corridor:

In SAGCOT, only a small part of the finance being made available is from public sector coffers. Financial sustainability should be key to the PPP. While the SAGCOT investment blueprint envisages public investments of US\$1.3 billion, public funds from DfID, the World Bank, USAID and the Government of Tanzania amount to around \$70m (see Table 4 below). From these funds, entrepreneurs are supported through the SAGCOT Catalytic Trust Fund (CTF), through which “sub-projects are appraised and implemented in the corridor. It has two windows: the Matching Grant Facility (MGF) for “established commercial agribusinesses working with smallholder farmers to build or extend competitive supply chains in a way that generates income and creates employment for smallholders”, and the “Social Venture Capital Fund (SVCF) to encourage the development and expansion of smaller and younger agribusiness firms (provided with start-up finance), also linked to smallholders”. These are still in their infancy so hard to evaluate in terms of effectiveness.

Table 4: Estimated contributions to the SAGCOT Catalytic Trust Fund

SAGCOT Catalytic Trust Fund		
<i>Matching Grant Facility</i>	<i>World Bank</i>	<i>US\$40-45 million</i>
Social Venture Capital Fund	Government of the United Republic of Tanzania	US\$1 million.
	USAID	US\$12.5 million
	DFID	£10 m ~US\$15.25 million
Total		US\$68.75–73.75 million

Source: Gálvez Nogales, 2014

Risks to the social and environmental sustainability of SAGCOT

Looking at the principles developed by CAFOD et al. (2015), discussed in Section 2, it seems that poverty alleviation and social development are particularly challenging in the SAGCOT case, when considering the key drivers and the potential beneficiaries. SAGCOT's Environmental and Social Management Framework (2013) also raises questions about whether equitable environmental sustainability is ensured or rather under risk. At the same time the objective of job creation related to achieving an inclusive and sustainable economic development remains critical to make SAGCOT a success. Different sources of information give varying pictures and perspectives that do not allow drawing one single and clear conclusion

In light of equitable environmental sustainability and the SAGCOT area being of special ecological importance, “with 40 per cent of the area representing a critical natural habitat and a wildlife corridor linking protected habitats”, a Green Growth strategy including “agricultural, social and environmental objectives” tries to counterbalance some of the involved risks (Oxfam, 2014). To these risks belongs “reduced water availability due to agricultural development”, which is according to Oxfam (2014) considered as “a serious threat to local communities in the SAGCOT target area’.

Within the SAGCOT zone, a third of all rainfall in the country takes place in the Rufiji basin for instance - comprised of four sub-basins (the Great Ruaha, the Kilombero, Luwegu and Lower Rufiji) - as well as a quarter of its river flow, which shows its “national significance, with huge potential for agricultural production but also for other uses such as hydro-energy and supporting the livelihoods of small-scale producers” (Oxfam, 2014). Oxfam (2014) however reports that “many parts of the zone

are already suffering water stress” and “large-scale irrigation for monoculture plantations in the basin area will lead to increased demand for water, particularly during the dry season, leading to further pressure on wetland and other aquatic ecosystems”. With its Investment Greenprint SAGCOT in 2012 laid out its strategy to achieve agricultural green growth “in the corridor to intensify agriculture sustainably for both smallholder and commercial agriculture, while conserving the natural resource base” (Gálvez Nogales, 2014).

In light of inclusive and sustainable economic development, the Agriculture Council of Tanzania (ACT), the Agricultural Non-State Actors Forum (ANSAF), the SAGCOT Centre Ltd, and the Tanzania Horticulture Association (TAHA) have signed a Memorandum of Understanding (MoU) in order to allow for the “farmers’ participation in the design and implementation of the SAGCOT” (SAGCOT, 2014). This helps ensure that civil society and farmers can actively play their role and engage in the process, with the “aim to mobilise and monitor inclusive investments in agriculture and improve policy reforms that promote and encourage growth in the agriculture sector” (SAGCOT, 2014).

With regard to poverty alleviation and social development, an outgrower farmer from the Kilombero region for instance reported that access to finance in terms of loans with high conditions though was available but despite incurring the costs and starting to farm, financial companies “are not buying the rice as they promised” (Oxfam, 2014). Additionally, Oxfam (2014) argues that land allocation actually takes place in favour of nucleus farms over smallholders, as “the proposed ratio for land allocation stands at around 80/20 in favour of the core estate in sugar, and at a more equitable 40/60 or 30/70 in favour of smallholders in rice”, which might have increased inequality in land ownership as a result due to “agricultural dualism between large and small farms”.

Emerging issues in SAGCOT’s implementation

There are several aspects that need to be taken into consideration when more closely looking at the implementation of SAGCOT. While emphasising the importance of partnership itself, the sustainable development principles fail to take into account the issue of financial sustainability and demand for such investments, which is a prerequisite for successfully achieving the SAGCOT objectives. Taking that into account, it seems that a lack of private responsiveness, so a lack of actual investments, was one reason, as reported by Bergius (2015), for SIDA to drop out of the Eco Energy project in Bagamoyo and to withdraw “18.7 million dollars in loan guarantees”. Hence, financial implications need to be reflected in the principles - and even more so in the implementation phase of PPPs - so that commitments made can turn into actual investments.

A second aspect, which again relates more to PPP implementation challenges, is around the political economy of a region or country and the need to account for historical and structural factors. Conflicting interests between national and local elites as well as the overall business environment constraints are potentially negative factors for PPPs to develop. Land conflicts, land management and land use in the past had a direct impact on the SAGCOT PPP rather than foreign direct investment (FDI). In the absence of a well-functioning land management system prior to the PPP, it is delicate to assess issues of land grabs given that there might be uncertainty about whom the land belongs to for instance. Internal land conflicts between farmers on the one hand and pastoralists on the other might have prevailed for a long time, which makes it without sufficient data and independent analysis difficult to assess whether land grabs have taken place and smallholder farmers had to leave their own land that they have used and ‘owned’ over generations.

To counterbalance the challenge of land management, a framework to avoid land grabs has recently however been drafted by global food giants, such as Unilever, Nestle and Coca-Cola, and international NGOs, such as Oxfam and Global Witness. “The voluntary guidelines on responsible land acquisition (are) designed to make it easier for companies to comply with guidelines on buying land in areas where legal systems and formal documentation over who controls territory are often murky” (Farmlandgrab, 2015).

A third aspect relates to the fact that PPP implementation is not linear and takes time. SAGCOT is only a recent initiative, which cannot be expected to deliver from day one. Principles must also reflect that as well as having process scrutiny in place and allowing for room for consultation among actors. Someone needs to be able to manage the whole process, requiring capacity and capabilities that the public actor, in this case the GoT, might not have for various reasons.

Considering these emerging issues, it seems that there are important lessons for why partnerships work and what might hinder them. The SAGCOT case seems to confirm the need for proper coordination and dialogue among partners, common objectives and understanding of the starting point and agreed roles to be played by each actor. A PPP of that scale, such as SAGCOT, can further suffer from too high ambitions and too many actors involved, which have such differing financial capacities and hence power leverage.

Alternatives to partnering with the private sector?

To achieve large-scale impact and regional transformation, it is legitimate to question whether there are actually alternatives to partnering with the private sector. In the SAGCOT Investment Blueprint, it says that “\$2.1 billion of private investment will be catalysed over a twenty year period, alongside public sector grants and loans of \$1.3 billion” (SAGCOT, 2011a). While that figure may turn out to be over-ambitious, it seems unlikely that anything like that scale of finance would be available without private sector engagement. Looking at the defined outcomes by 2030, as laid out in the Investment Blueprint, with only public money and without the involvement of the private sector - domestic and international - these objectives cannot be met:

- 350,000 hectares in profitable production, serving regional and international markets.
- Tens of thousands of smallholders become commercial farmers, with access to irrigation and weather insurance.
- At least 420,000 new employment opportunities created in the agricultural value chain.
- More than two million people permanently lifted out of poverty.
- Annual value of farming revenues US\$1.2 billion.
- Regional food security would be assured.

Private investments should follow a clear set of criteria and conditions that both investors and public actors - with the involvement of local communities and farmers - agree upon so that they do not have negative effects on social and environmental sustainability. This could significantly contribute to making PPPs work better and more importantly decrease environmental and social risks while spreading the benefits beyond large agribusinesses to wider civil society and farmers in the case of SAGCOT.

The principles and criteria in place - SAGCOT Membership principles and the Greenprint - offer the opportunity to do so but in order to monitor effectively, data and independent analysis must be

available, so that successes and failures can be taken into consideration for the future development of SAGCOT in particular and other related and non-related PPPs in more general. Since private investment expectations are so high, it would be extremely difficult to manage the successful SAGCOT implementation on a purely public or domestic finance basis, including the domestic private sector.

Case Study 2: Lesotho's Queen Mamohato Memorial Hospital Case Study²⁴

Introduction

Although later than in other domains such as infrastructure, transport, and energy, the health sector has witnessed an acceleration of interest in public-private partnership models over the past decade. This has been across continents and across country income levels, with some frontrunners being the UK, Australia and Spain.

As in all sectors, PPP models for health come in different shapes and sizes and can apply to a range of health care system needs: construction of facilities, provision of medical equipment or supplies or delivery of healthcare services. The relatively straightforward 'design, finance, build and maintain' models are currently most common, but other more encompassing models are gaining traction (Downs et. al., 2013, pp. 6–7). This includes the public-private integrated partnerships (PPIPs) following the so-called Alzira model that, on top of the construction and operation of a health facility, outsource the provision of clinical services and care for a defined population to the private partner(s). PPIPs position a private entity, or consortium of private partners, in a long-term relationship with a government to co-finance, design, build and operate public healthcare facilities and to deliver both clinical and non-clinical services at those facilities for a long-term period (Downs et. al., 2013, pp. 6–7; McKee, Edwards, & Atun, 2006, p. 891).

Acerete et. al (2015) consider it an important step up from the traditional PPP models that opens up "extremely attractive revenue streams" to the private sector and fundamentally changes the public sector's role, from provider to commissioner of health care. It is this type of public-private arrangement that is at the heart of the Lesotho Queen Mamohato Memorial Hospital, held up by the IFC as a pioneering, landmark model for integrated health service delivery (Coelho & O'Farrell, 2009).

Stated purpose and objectives

In 2000, the Lesotho Government (GoL) launched a tender to the private sector, responding to the need to replace Queen Elizabeth II (QEII), the 100-year old national referral and district hospital for Lesotho's capital Maseru. Its key question was: for the same level of expenditure at QEII, how much more can the private sector provide in quality, breadth and volume of healthcare services? A decade of investigation, negotiation, planning and construction later, three renovated urban filter clinics and the new Queen Mamohato Memorial Hospital are up and running (Downs et al., 2013, p. 9), managed by the private Tsepong consortium but paid for and overseen by the Government of Lesotho.²⁵

²⁴ This case has been largely based on document analysis. Consulted materials include literature on PPPs and health PPPs in particular, publicly available project documents and evaluation reports, IFC publications related to the project and reports, articles and blog contributions by independent journalists and CSOs. Additional information was gained through communication with Dr. J. Lister (independent journalist, author and senior lecturer at Coventry University) and Anna Marriott (health policy advisor for Oxfam GB).

²⁵ The filter clinics started to see patients in May 2010, the hospital opened its doors on October, 1 in 2011.

The Lesotho public-private partnership is an 18-year contract between Tsepong and the Lesotho government, signed in 2008. The agreement includes the construction and operation of a new, 425-bed national referral hospital (Queen 'Mamohato Memorial Hospital, or QMMH), of a gateway clinic adjacent to the hospital, and the refurbishment and re-equipment of three urban filter clinics.²⁶ The underlying idea was to engage the private sector in new ways to ensure that these new facilities functioned effectively as an integrated care network. Tsepong's responsibilities under the agreement include co-financing, building, maintaining and delivering of clinical and non-clinical services. On completion of the 18-year contract, the hospital and clinic will pass into government ownership.

The deal aims to bring improved health care at the same cost for patients and at an affordable cost for the GoL. Funding for Tsepong to repay its loan and to finance annual operating expenses of the integrated network of facilities—including staffing, medicine, general expenses, preventive maintenance, ambulances, and management services—is bundled into a single unitary payment which the government pays to Tsepong each year. The unitary fee is calculated based on the estimated cost to provide services to up to 310,000 outpatients and 20,000 inpatients per year. At volumes above this ceiling, Tsepong is entitled to incremental payment per patient, according to negotiated rates. Certain services are excluded from the PPP contract, including chemotherapy and radiotherapy. In order to achieve this central objective, and in an attempt to maximise additional advantages (e.g. related to local economic development, inclusive communities) and to avoid detrimental effects (e.g. on work conditions, nondiscriminatory access to health care) the deal featured several provisions that can be seen as sustainability principles.²⁷

²⁶ In Qoaling, Mabote and Likotsi.

²⁷ Information on how broader sustainability frameworks or principles applicable to the work of the IFC were applied was lacking.

Table 5: Sustainable development principles

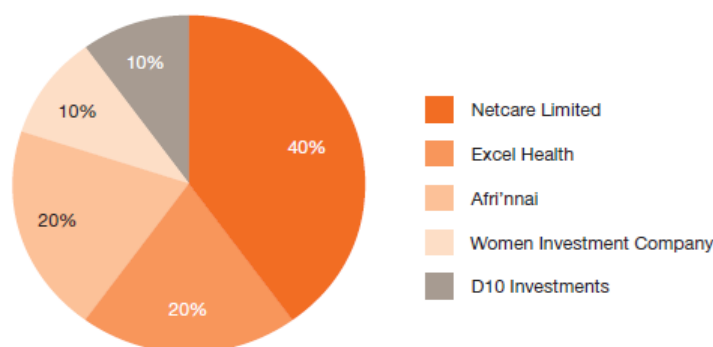
<i>Sustainable development principles</i>	<i>Partnership and project principles</i>	<i>Principles</i>	<i>How addressed in the contract?</i>
<u>Inclusive and sustainable economic development</u>	Build on development effectiveness principles and SDGs Share risk and minimise debt	Pay a fair share of tax Build thriving domestic markets Create decent jobs for all	Risks regarding design, construction, and technology change, case mix of patients, human resources, and service performance transferred to private partner, but key risks such as demand volume and referrals remained shared risks. Loan for construction now by private partner and not government, although the latter would have received a far less expensive loan. Contract requirements regarding percent of capital requirements to be directed through local enterprises to stimulate local economic empowerment Contract requirements regarding employment of local staff
<u>Poverty alleviation and social development</u>	Show additionality and value for money	Avoid land grabs Develop inclusive communities Close the gender gap	Contract requirements regarding employment of local staff and gender balance in management staff Principle of non-discrimination and equal access for patients Provisions on CSR activities of the private partner
<u>Equitable environmental sustainability</u>	Ensure transparency, accountability and participation Ensure good corporate governance	Do not destroy natural resources Control pollution Mitigate and adapt to climate change	Independent monitoring in construction and operational phase.

Private sector in the driver's seat

Understanding how this PPP is managed and who has been in the driver's seat during the different stages of this PPP requires an understanding of the actors in this first-of-its kind PPP in a low-income country. Within the Government of Lesotho, the Ministry of Health and Social Welfare and the Ministry of Finance and Development Planning have been the driving forces and both are now key in the provision of operational oversight. The International Finance Corporation (IFC) was engaged as transaction advisor to the Lesotho government. The Lesotho-Boston Health Alliance did extensive study and evaluation work to advise the GoL on a solution for the Lesotho health challenges and to inform the subsequently unfolding PPP process.

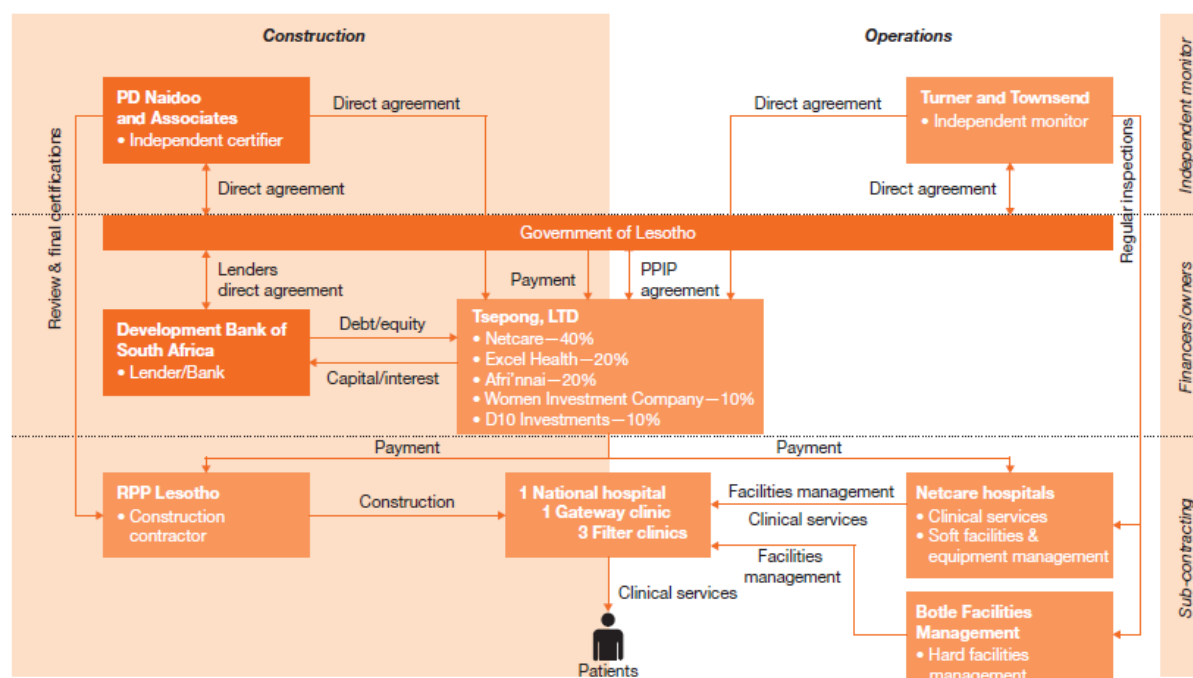
On the private side of the deal is the Tsepong consortium formed specifically for the project. It is headed by Netcare Limited (40 percent), a private South African health care provider and completed by four Lesotho-owned business, Excel Health (20 percent), Afri'nnai (20 percent), Women Investment Company (10 percent) and D10 Investments (10 percent), of which the two former were created for the purpose of the consortium. Additional private players are involved in the monitoring of the PPP and as subcontractors in the construction, management of facilities and provision of clinical services (Downs et al., 2013; Vian et al., 2013).

Figure 6: Tsepong consortium



Source: Downs et al., 2013

Other actors include the Global Partnership on Output-Based Aid (GPOBA) which provided a grant of US\$6.25 million, administered by the World Bank, to cover operating expenses during the interim period when the filter clinics had opened but the hospital was not yet open. The PPP reportedly also benefitted from technical assistance funds from the governments of the Netherlands and Sweden. Additional private players are involved in the monitoring of the PPP (PD Naidoo and Associates & Turner and Townsend) and as subcontractors in the construction (RPP Lesotho), management of facilities and provision of clinical services (Bottle Facilities Management & Netcare hospitals).

Figure 7: Actors and tasks in the Lesotho PPP

Source: Downs et al., 2013

Winners and losers

Taking into account the stated purpose and objectives of the PPP, and confronting these with a review of its first years 'in operation' results in a more nuanced account of who benefits and who doesn't.

The Queen Mamohato Hospital PPP addressed major defects in the existing health infrastructure. A feasibility study conducted in 2002 by Bicknell et. al. raised important concerns regarding the QEII, including hospital buildings beyond salvation, a possibly unsustainable rate of referrals to RSA mostly because of cancer, insufficient numbers of nursing staff to meet the needs of the current patients, insufficient infection control, and a 'distressing' lack of equipment and facility maintenance. Also noted was the lack of physicians and equipment at the district level, leading to low occupancy of the district hospitals. Population increase and the HIV/AIDS pandemic guided a projection of a required bed capacity of 435 in 2006 and 653 in 2026, although later accounts state this even at the time this was a moderate projection in the light of the national average hospitalisation rate (Lister, 2010).

The 2002 study concluded that the old QEII hospital was incapable of addressing existing and future health care needs, and that the construction of a new hospital on a new site would be the most (cost-) efficient and straightforward way to address this. Other options, such as building a second hospital in Maseru for less-complicated cases, expanding inpatient services at the filter clinics, upgrading some of the existing hospitals to district hospitals were considered either inefficient or unrealistic (Bicknell et al., 2002). The need to raise additional finance (above and beyond the business as usual budget) for health was clear, and in that sense this PPP responded to an evident need.

The PPP was therefore considered a tool to spare the limited health budget and to divert risk. Looking for financing options, the limited health budget did not leave much room for manoeuvre for the GoL to

act alone.²⁸ The 2002 study considered several options to raise money, such as shifting funds from other Ministries, creating a Medical Aid²⁹ scheme, increasing user fees, authorising private practice by physicians (carefully structured to enforce obligations for public service) and considering cuts in the number of District Hospitals and/or elimination of referrals to the RSA (Bicknell et al., 2002). Another option on the table would have been a concessional loan from the World Bank or another development bank, but no conclusive information is available on the degree in which the GoL explored this possibility. Instead of any of the options above, the GoL decided to embark on an ambitious public-private partnership that would outsource the financing, construction and operation to the private sector.

Making a deal that would respect the financial capacity of the Lesotho health budget and that was as close to cost neutral as possible, was a leitmotif in the design of the tender and the PPP – apparently in vain. The tender basically requested to know what the private sector had to offer ‘for the same level of expenditure as the QEII hospital’ (although at the time the costs of the QEII had also been on the rise). In its further design, the affordability of the deal over the lifetime of the contract remained a key concern. According to the project’s baseline study in 2002, anything over 40 percent of budget consumption should be considered as unsustainable and risking adequate financing being available for district health services (Marriot, 2014).

However, calculations commissioned and published by the IFC confirmed that in 2012/13, the annual cost of the new hospital was between two and three times the costs of the old hospital (Vian et al., 2013, p. 21). According to a recent Oxfam discussion paper, figures made available by the Lesotho Ministry of Health suggest that in 2013/14 the cost of the new private hospital has escalated further to between 3 and 4.6 times what the old public hospital would have cost today. Still according to Oxfam, the figures suggest that the PPP now consumes as much as 51 percent of the total health budget, or US\$67m per year, and costs are expected to continue rising in the near future. This has raised concern with CSOs, government officials and even hospital management and Tsepong shareholders (Lehlohonolo, 2014; Marriot, 2014, pp. 5–7).

Possible reasons for the escalating costs is that from the start the number of in-patients and out-patients exceeded the PPP foreseen maximum. In 2012, the first full year of operations, this was by 17 percent and 21 percent respectively. The increase in referrals to South Africa (by 61 percent between 2007 and 2012) and the inflation of the annual unitary fee³⁰ further bloated the cost for the GoL (Lister, 2013; Marriot, 2014; Vian et al., 2013). It is quite possible that the deal was based on flawed projections of the patient demand and service needs, meaning the current actual costs for the private sub-contractor might be well above anticipated. However, Oxfam also points out that, while the escalating costs are rocking the boat of Lesotho’s health department, the contract is projected to

²⁸ Despite increases in health spending over the past decade, the government budget was still a long way short of the necessary investment. E.g. 2006/07 Ministry of Health capital budget was only M80m (6 percent of the Government’s total capital spend) compared to the M1.200m required.

²⁹ "Potentially a large revenue generator, and well established in the formal sector in neighboring South Africa. A major increase in financial and administrative capacity is necessary for such a scheme to work. (...) A Medical Aid scheme would be a way of organizing into a “risk pool” funds collected from those who work in the formal sector of the economy. Payments from the Medical Aid scheme would substitute, in part, for fees now paid at the time of an illness." (Bicknell et al., 2002)

³⁰ For example, the entire unitary fee paid by the GoL is subject to annual increases in inflation. This is a strange approach in a PPP since the private providers will have inflation-sensitive operational costs but also fixed costs such as debt repayments. Consequently, only a portion of the annual fee should be adjusted. Also, in the Lesotho PPP the inflation index used is based on the -higher- rate of medical inflation in South Africa instead of Lesotho.

generate a 25 percent rate of return on equity for Netcare and the broader Tsepong shareholders, a rate that can be considered as very profitable in the world of PPPs.

The PPP was expected to deliver better health services with the assumption that the private sector would be able to offer more health services of better quality and wider scope than the public sector could. The end line study, commissioned by IFC and conducted in 2013, indeed reported important improvements.³¹ However, it also pointed out three important 'buts': the referral rate to South Africa went up instead of down, the mortality rates and Caesarean section rate did not markedly improve patient outcomes, and the hospital cost much more than originally expected (McIntosh et al., 2015; Vian et al., 2013). Oxfam rightfully points out that with an expenditure at three times the budget of the old hospital (see below), significant improvements could be expected. Their critical review of the collected data in the study also makes the less positive (patient) outcomes more visible, including pointing out an increase in mortality rates in some wards and complaints about the reduced accessibility of the hospital for lower-income patients (Marriot, 2014).

The promise of better health services may also not have been evenly shared. The large chunk of health budget going to the PPP in the capital has an important opportunity cost as it cannot be invested in rural health care systems, and may thus contribute to thus maintaining and possibly deepening the health coverage gap between the rural and the urban. This in part contradicts another World Bank funded study that recommended Lesotho invest in health in under-resourced rural areas. Consequently the PPP may aggravate health inequality in Lesotho, a challenge that has also been recognised by the hospital management (the Guardian, 7 April 2014).

The PPP was expected to bring gains for local economic and community development. The GoL attempted to stimulate local economic empowerment and create jobs through the PPP: international respondents could only participate in the tender if they partnered with local companies³²; the deal stipulated minimum requirements regarding the hiring of local staff and the share of management staff that needed to be female³³; and it included provisions to direct capital expenditure and operating expenditure to local companies. In hindsight, the planned benefits for local business have gone mostly to South African firms, as the balance of power within the consortium did not allow Lesotho shareholders to orient the sub contraction to Lesotho based companies (Marriot, 2014;). Moreover, reportedly the Tsepong shareholders have refused to approve the financial statements presented by Netcare for four consecutive years claiming Netcare is affecting payments to its South African subsidiary firms without the board's approval (Kabi, 2014). The PPP agreement also touched on community development, requiring Tsepong to deploy health-care related community development activities (e.g. the 'Sight for You' program and a Women and Rape Crisis Management center).

³¹ Some achievements included the opening of the first Intensive Care Unit and Neonatal Intensive Care Unit in Lesotho; improvement in mortality rates in several departments, better clinical management of HIV/AIDS and related diseases, better staff performance, better facility and equipment maintenance, more training (McIntosh et al., 2015; Vian et al., 2013).

³² According to Downs et al. (2014) the agreement stipulated that 30 percent of all capital expenditures would be directed through local enterprises. In Years 1-5, 50 percent of operating expenditures to be directed through local enterprises, escalating to 70 percent of operating expenditure in Years 6-10, and 100 percent of all operating expenditure in Years 11-18.

³³ Downs et al. (2014) summarised that across all contract years, 80 percent of staff employed at QMMH were required to be local. By Year 2 of the contract, 50 percent of management staff were to be local, increasing to 80 percent by Year 5. Further, 25 percent of management staff were required to be local women by Year 2, and 40 percent of management were to be local women by Year 5.

When comparing the old hospital with the new one after 1.5 years of operation, McIntosh et. al.³⁴(2015, p. 959) conclude that: “Overall, the PPP-managed network compared favourably with the government-managed network.” This seemed to apply to the quantity, quality and efficiency of the services provided as well as to the patient outcomes such as mortality rates. McIntosh and colleagues conclude that their findings from the Lesotho case suggest that a health care public-private partnership may present opportunities for other developing countries to broadly improve their clinical and organisational performance (McIntosh et.al. 2015, p. 959).

However, in 2011 academic and journalist John Lister published a far more critical review of the deal (Lister, 2011, 2013), followed in 2014 by local and international CSOs such as Lesotho Consumer Protection Association and Oxfam International (Lehlohonolo, 2014; Marriot, 2014). They consider the PPP as a bad – and unsustainable deal - for the GoL and one that hinders the development of a more inclusive national health approach in which rural needs are also addressed. They in turn warn against the use of the Lesotho model in other developing countries. However, in the meantime IFC has been involved in the realisation of PPPs according the Lesotho model in Nigeria (deal signed in June 2013) and Benin (in the pipeline) (Prosper & Nyirinkindi, 2013). Again, as in the SAGCOT case, rather different views and opinions on the PPP emerge, and in the light of the limited information available on the details of such deals it remains close to impossible for an outsider to conduct a full account and assessment. Confronting some of the information and positions available already offers an interesting overview of the different interests the PPP serves.

Emerging issues

Confronting the Lesotho PPP's concept, the design and the implementation to date with existing guidelines or principles on the sustainability of PPPs, brings to light how the negotiated agreement did address certain important issues, but failed others. It also shows the gap between the assumptions and provisions underlying the agreement, and actual operationalisation.

Several arguments made the case for a PPP solution: it offered a comprehensive solution that made capital expenditures affordable in the short-term; the predictability of expenditures would contribute to government budget stability; the cost neutrality for the patients; the transfer of risk to the private sector for construction delays or cost overruns during construction; the transfer of significant operational risk for a complex healthcare operation; the opportunities it offered for Basotho-owned businesses and local economic empowerment (Downs et al., 2013). Most of these arguments were indeed backed by requirements or provisions in the final agreement.

Two years into operation, the end line study by the Lesotho-Boston Health Alliance, a review by PwC and a critical assessment by Oxfam identified **a number of challenges**. They listed, amongst others, the escalating costs, payment delays (both by the GBOPA and the GoL); significant cultural change for nurses physicians, and staff: negative media reaction during the start-up: challenges for physician recruitment due to comparatively low salaries; and delays in establishing PPP units in the Government and strengthening the Government's contract management capabilities (Downs et al., 2013; Vian et al., 2013). Whereas some of these are relatively manageable challenges, the affordability of the PPP throughout the entire term of the contract is a more pressing and fundamental challenge, with costs still mounting above what was considered as feasible for the GoL and no clear solution on the way.

³⁴ This study was funded by the World Bank Group's Global Partnership on Output-Based Aid.

The LCPA and Oxfam ask how the IFC and the World Bank can continue to consider and broadcast the PPP as a major success when it causes already insufficient funds for rural health care services to be diverted to the hospital, and when it risks bankrupting the Lesotho Health Department. A related question is how it has come to this point and why no stronger provisions are in place to avoid this scenario. Responding to this critique in April 2014, South African Minister Aaron Motsoaledi said he had told former Lesotho health minister Mphu Ramatlapeng already in 2009 that her government's plans to enter into a public-private partnership with Netcare were doomed to failure, referring to similar experiences in South Africa (Kahn & Makholwa, 2014).

In hindsight, the case also demonstrated that the actual implementation of any provisions remains uncertain and depend strongly on the capacity of the public partner involved to enforce them as well as to stand its ground during unavoidable renegotiations of the contract. The power dynamics between the public and the private partners, but also within a private consortium seem to be an underestimated factor in the outcome of a PPP.

Case Study 3: Better Factories Cambodia

Introduction

The Better Factories Cambodia programme (BFC) focuses on labour standards governance. It represents a third type of PPP, one which is much less known and studied than its counterpart PPPs in infrastructure and service delivery. Research on interventions that monitor or try to improve working conditions has focused mainly on private standards (self-regulation initiatives of companies), or on interventions that involve lobby and advocacy activities of NGOs towards companies and governments (Wetterberg, 2011). There has been some attention for PPPs which consider decent work issues, but mainly examining partnerships between transnational organisations, such as the Global Compact, which involved multinationals and UN agencies. In the case of the Global Compact however, the engagement of companies is purely voluntary and based on self-reporting (Wetterberg, 2011). Over the last few years, a growing number of studies have looked at the functioning and impact of BFC including by the World Bank (2015), Human Rights Watch (2015), Stanford University (2013), Clean Clothes Campaign (2012), also reflected in a growing number of paper contributions in academic journals.

The BFC programme focuses on the garment industry, an industry, which is worldwide associated with poor working conditions, low wages, discrimination, and health risks.

BFC's objectives³⁵

BFC is a large-scale multi-donor programme managed by the International Labour Organisation (ILO). The programme is part of the Better Work initiative, an IFC-ILO-industry partnership launched in 2001, originally running only in Cambodia but now active in eight countries.³⁶ The main aim of BFC is to monitor garment and footwear factories, organise training for the management and workers, and provide guidance and advice on factory improvements. The programme has both a promotional function (export promotion) and a monitoring function (labour conditions). Factories sign a Memorandum of Understanding under which they agree to be subject to BFC's announced and unannounced visits. Aside from assessing and reporting on labour conditions, BFC also offers training

³⁵ The BFC case study is mainly based on secondary literature, combined with observations and interviews during fieldwork for other assignments.

³⁶ Bangladesh, Cambodia, Haiti, Indonesia, Jordan, Lesotho, Nicaragua, and Vietnam.

and advisory services to factories to tackle non-compliance issues. Finally, BFC also convenes Buyers' Forums biannually, which 'includes all firms sourcing from Cambodia committed to credible inspections of labour conditions in the factories where their clothing is produced' (Wetterberg, 2011). These events have grown 'into a real industry forum, where pertinent industry issues are discussed, ranging from industrial relations to the environment' (Wetterberg, 2011). In summary, BFC core services are to (ILO, 2013):

- monitor and report on working conditions against national and international labour standards
- provide various constructive means of intervention (remediation) at factory level to ensure sustainable improvement of working conditions
- facilitate social dialogue between the social partners and international buyers
- do advocacy activities to promote the garment industry nationally and internationally

In July 2015, BFC was monitoring 514 garment and 11 footwear factories³⁷ of a total of around 640 factories (ILO Bulletin, 2015). The programme is funded through a diverse group of international donors³⁸, combined with contributions from the Cambodian government and GMAC, the Garment Manufacturers Association of Cambodia. An additional source of income is through BFC's monitoring, training and advisory services, which are purchased by different companies/international brands. Its overall budget provided by international donors was US\$11.300.000 for the period 2006-2015.

BFC has its origins in the US-Cambodia Bilateral Textile Trade Agreement (BTТА) that went into force in 1999. What made this agreement unique was the fact that, contrary to other trade treaties which rely on state enforcement of labour laws, this agreement was putting independent factory monitoring by the ILO as a condition for increased access of the Cambodian garment sector to the US market (Wetterberg, 2011). When the US-Cambodia BTТА agreement came to an end in 2005, the same model of independent monitoring remained, now under ILO's BFC programme, but no longer linked with import quotas. Over time BFC has been fully integrated into successive ILO Decent Work Country Programmes for Cambodia. The BFC is guided by a Programme Advisory Committee (PAC), which consists of the government of Cambodia, GMAC and selected trade unions. This tripartite governance structure and the facilitation role played by ILO is another feature that makes it different from most other PPPs.

Several aspects make BFC an interesting case to study the developmental relevance of PPPs. First of all there is the national scale of the programme, covering a large majority of the factories in the garment sector, a sector that represented 90 percent of the total merchandise export in 2008 (79 percent in 2014). This makes the garment and footwear sector the largest manufacturing industry and the country's largest foreign exchange earner (ILO, 2015). In the first quarter of 2015 the garment sector employed 500,000 workers based in 640 factories. Secondly, the BFC programme is one of the flagship programmes of the ILO, often promoted as a success story and replicated by ILO in seven other countries. Over the last few years there have also been a range of critical studies and reports questioning the real impact of the programme. Finally, a third reason that makes this case interesting is the importance of monitoring working conditions as a key activity of the PPP, making it possible to map key aspects of the developmental effects of the PPP.

³⁷ List of all factories monitored, BFC website, http://betterfactories.org/?page_id=6540, accessed on 1 October 2015.

³⁸ United States Department of Labour (USDOL); Agence Française de Développement (AFD); USAID; NZAID; Government of the Netherlands; World Bank; UNDP; and foundations of major international brands.

What criteria and mechanisms are in place to make BFC sustainable?

As concerns over labour conditions and fears around unfair competition with the American garment sector are at the origins of BFC (Wetterberg, 2011), the promotion of decent work conditions is at the core of the programme. This is reflected in the principles outlined in most programme documents, the institutional set-up (with ILO and labour unions), the core activities of the PPP (monitoring of factories), and the public reporting function.³⁹ At the same time, as will be explained in later sections, the fact that the programme has had to continuously balance workers' interests and those who co-fund the programme, which are factory owners and the Cambodian government, has resulted in all sorts of tradeoffs and has - some would argue - at times compromised the core-mission of the programme.

Table 6 describes the sustainable development principles of the PPP framework introduced in the first chapter, and compares them with the principles and goals of the BFC programme as defined in programme documents.

Table 6: Comparison with the sustainable development principles

Sustainable development principles	Partnership and project principles	Principles	BFC principles & aims
Inclusive and sustainable economic development	- Build on development effectiveness principles and SDGs - Share risk and minimise debt	- Pay a fair share of tax - Build thriving domestic markets - Create decent jobs for all	BFC wishes to “contribute to the growth of exports of the garment industry in Cambodia through promoting socially responsible production and compliance with Cambodian labour law and core labour standards” (ILO, 2013). More specifically, BFC has the following objectives (ILO, 2013): 1. To improve compliance with Cambodian labour law and core labour standards. 2. To increase socially responsible production (SRP) in the Cambodian garment industry. 3. To promote the Cambodian garment sector project domestically and internationally. 4. To develop tripartite and sustainable systems to support the ongoing operation of Better Factories Cambodia. 5. To enhance workers' access to health and social protection services; and broadening workers' pre and post garment life skills and economic opportunities The programme is integrated in subsequent ILO Decent Work Country Programmes for Cambodia, with decent work one of the 17 SDGs.
Poverty alleviation and social development	Show additionality and value for money	- Avoid land grabs - Develop inclusive communities - Close the	Avoiding land grabs is not relevant as the BFC programme does not cover agricultural activities. The BFC programme does not have community-

³⁹ The public disclosure of factory level monitoring reports was interrupted between 2006-2013, but picked up again starting from January 2014.

		gender gap	based components. The BFC programme is targeting an industrial sector which has a largely female workforce. The monitoring protocols have a substantial number of questions and indicators related to gender at work.
Equitable environmental sustainability	• Ensure transparency, accountability and participation • Ensure good corporate governance	• Do not destroy natural resources • Control pollution • Mitigate and adapt to climate change	Environmental sustainability is only dealt with indirectly through the attention for specific occupational health & safety issues in the monitoring protocols.

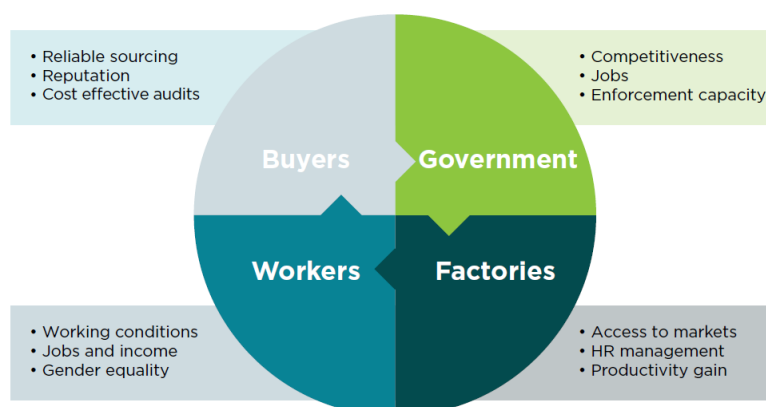
Drivers behind BFC

The US-Cambodia Bilateral Textile Trade Agreement (BTТА) was pushed under the Clinton administration in the end of 1990s in response to the growing number of reports on the bad working conditions in sweatshops in the booming Cambodian garment sector. At that time these were not restricted by import quotas towards the US market because Cambodia did not fall under WTO regulation and the Multi-Fibre Agreement (MFA). NGOs and International American labour unions were campaigning against the loss of more American manufacturing jobs to overseas sweatshops (Wetterberg, 2011). The 1999 BTТА agreement provided strong incentives for improved labour standard governance for factories and the Cambodian government as it included both the strengthening of Cambodian labour law and the enforcement of labour standards as a condition for access to the US market. The incentive system changed dramatically when the BTТА stopped in 2005 because the programme was now only monitoring without any direct implications for the factories involved beyond possible reputational damage towards international buyers. The incentives were further weakened when BFC decided in 2006 to stop the public disclosure of key monitoring data at factory level, except for some aggregated numbers which could not be linked to any specific company or buyer. However, while a number of observers anticipated that this would make the programme collapse, it continued to grow. Research by Robertson (2011) shows that in the period 2006-2013 factory compliance with labour standards started stagnating or went down. Starting from 2014 important monitoring data became public again.

In a recent World Bank study (2015) of the Better Work programme, the authors conclude that the BFC programmes and its counterparts in other countries have been successful because the different actors in the PPP have sufficient incentives to participate and take the system seriously (see Figure 8). From the perspective of the buyers, aside from cost considerations they are increasingly wary of reputation risks. The factories in the BFC programme also receive HR management support and are audited in areas that also affect product quality. From the perspective of the Cambodian government, there are strong indications that the factories that comply with the BFC monitoring protocols are more competitive, especially in an international market which has become more sensitive to images of sweatshops, child labour, etc. The government is also charmed by the continued growth of the garment sector and what this means for job creation, export and access to foreign investments. The programme also helps them to deal with the problem of enforcing labour laws through independent

monitoring. As a majority of the international buyers source through from factories that are monitored by BFC, for factory owners it facilitates access to international markets. The additional services provided by BFC also help them with HR management and there are strong indications that improved working conditions are leading to productivity gains (World Bank, 2015). Finally, for workers there is the perspective of improved working conditions, better jobs and income, and more attention for gender equality.

Figure 8: Overview of the incentives and benefits for the four main stakeholders



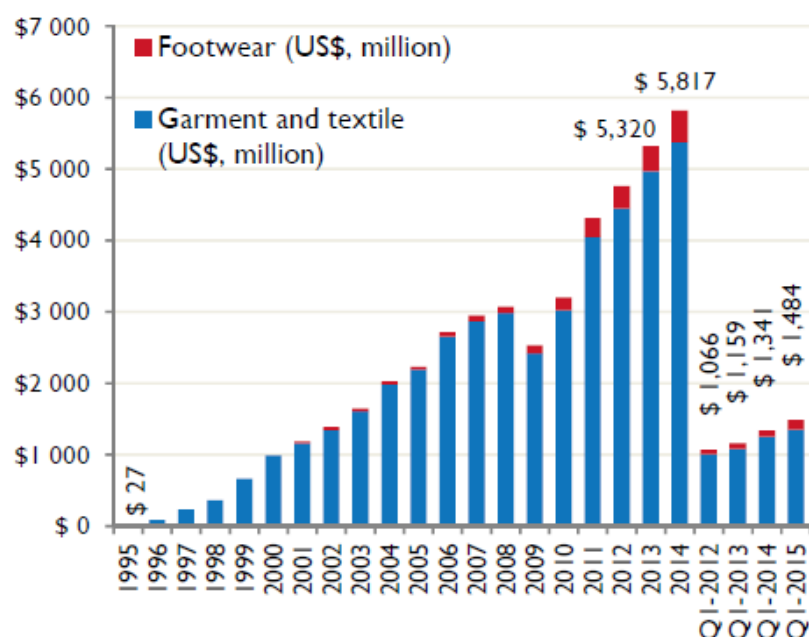
Source: The World Bank, 2015

Who benefits and who loses?

In practice, the degree to which the benefits and incentives described above were really relevant for different actors in the PPP has varied over time, depending on internal and external dynamics. These are discussed more systematically underneath.

In terms of raising productivity, the large share of participating garment and footwear factories means that national export figures for the sector are a good parameter for economic success. Figure 9 illustrates how the garment and footwear exports have grown in a spectacular way since 1996, only slightly interrupted in the aftermath of the 2008 financial crisis, but then recovering strongly again up to date (ILO, 2015). The ILO report concludes that the growth figures are even more impressive when the size of the industry is taken into account: “when an industry becomes larger and more mature, it is increasingly difficult to maintain the rapid proportionate growth rates it recorded at its inception.” (ILO, 2015, p.1). The World Bank Study of 2015 used a specific comparative empirical model⁴⁰ to analyse the factors that affect trade volumes of countries. The researchers conclude that the Better Work programme is positively associated with rising garment exports when compared to other relevant countries.

⁴⁰ Gravity model the basic idea behind a gravity model is that trade volumes between two countries can be modelled as a function of a number of fixed factors (size of the economy, etc.) and a varied list of other factors (including trade agreements, etc.).

Figure 9: Cambodia's garment and footwear exports, 1995-2015 (US\$ million), ILO (2015)

Source: Ministry of Commerce

In the same World Bank Study, new research by Asuyama et al. (2015) is highlighted which strongly suggests that improvements in working conditions in the BFC factories have gone hand in hand with productivity improvements. The research data is more credible than earlier studies because it is based on factory-level data sets. New research in Vietnam (Brown et al., 2015) is confirming these findings and is indicating that aside from increasing productivity also factory profits increase with improved working conditions.

These findings are important when linked with the debates around the minimum wage in the garment sector in Cambodia in the period 2013-2015 (see also next paragraph). In that period the garment manufacturing associations and the government were strongly opposing higher minimum wages with the argument that this would undermine the competitive position of Cambodia in the region. Intensive campaigning by an alliance of trade unions and national and international CSOs was for a long time opposed by the government with repression and violence, but finally the government agreed with hikes in the minimum wage in the garment sector, first from US\$80/month to US\$100/month in 2014 and then to US\$128/month in 2015. A recent ILO report concludes that: "The growth of the industry compares favourably against predictions that the new minimum wage level of \$100 (effective 1 February 2014) and \$128 (as of 1 January 2015) would lead to a collapse of export volumes." (ILO, 2015, p1).

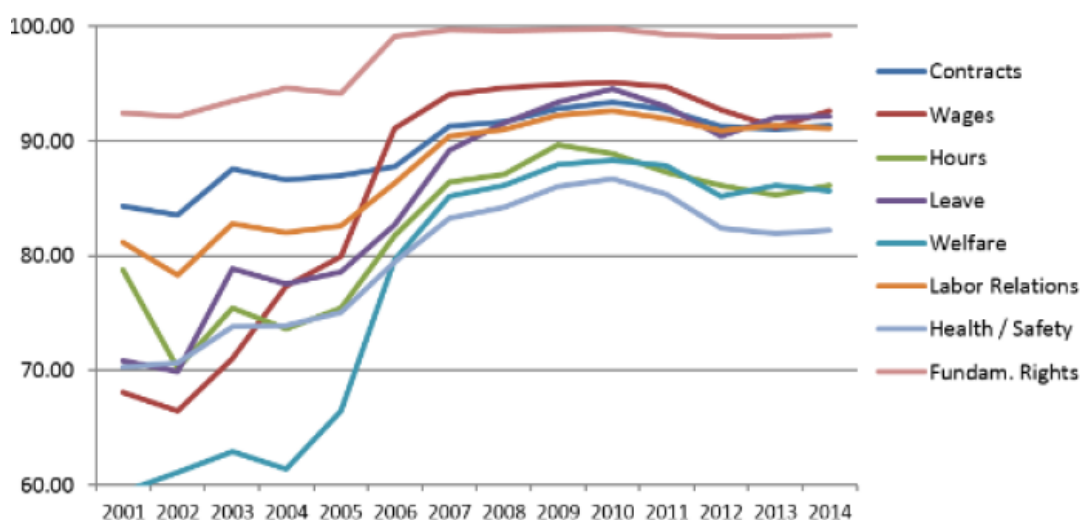
Regarding labour friendly laws and policies, the initial US-Cambodia BTTA agreement was very successful in the 'policy dimension' of the PPP (Wetterberg, 2011). At the start of the BTTA only one of the eight ILO core conventions were ratified into national labour laws. In response to the BTTA, the government started ratifying all eight conventions. As in many developing countries, more than a lack of labour laws and policies it is the enforcement of laws that is problematic (see below). In addition, over recent years the initial tolerant approach of the government towards CSOs has been changing. The government has been adjusting and adding regulations that complicate the right of freedom of association, for example by complicating the registration of trade unions or by criminalising their

activities (World Bank, 2015). In 2015 Cambodia made the international news with again a new draft law that would further restrict the right of freedom of association. International civil society groups are supporting the campaigns of a group of 300 local CSOs against the new draft legislation (CIVICUS, May 2015). A first bill targeting NGOs was approved in July 2015, a second bill specifically targeting unions is expected soon. Another recent example is the sentencing of 11 opposition leaders in July 2015 for jail terms of 7 to 20 years for leading a protest activity in the capital. These developments raise serious doubts about the willingness of the government to engage in social dialogue.

The degree to which BFC has contributed to improved working conditions has been the source of significant debates over the last five years. From the side of BFC, aggregated monitoring reports show a steady improvement in the eight key areas⁴¹ of working conditions monitored since 2001. Figure 10 visualises the improved compliance of factories in all areas monitored by BFC. The strongest areas are the respect for fundamental labour rights, the presence of valid labour contracts, the respect for minimum wage standards, leave stipulations, and the respect for labour relations. Weaker areas remain the issues of overtime, and especially health and safety.

While overall compliance has increased dramatically since 2001, the graph shows the stagnation and then slight decrease in compliance for a number of areas in the period 2008-2013. This industry-wide drop is explained in internal BFC reports but also in the 2015 World Bank study by the decision to stop the public disclosure of monitoring reports after 2006. Research shows that the factories that delivered to 'reputation-sensitive' buyers still continued to improve (but at a decreasing rate) while compliance rates decreased for other factories. The situation improved again starting from 2014 when a new system of public reporting was introduced, which included factory level-based data for 21 critical areas of working conditions. The authors conclude that without the continuation of BFC after 2005 it would have been very likely that with the end of the US-Cambodia BTTA agreement, and in the absence of incentives to respect labour rights, working conditions would have deteriorated substantially.

Figure 10: Changes in compliance 2001 – 2014 in 8 areas as monitored by BFC (June 2015)



Source: BFC programme Cambodia

⁴¹ The eight areas are clustered/aggregated results from a total of 200 indicators.

Researchers have also been looking at the effects on the lives of workers outside the factory, especially around gender equality. The 2015 World Bank study finds that women workers of BFC monitored factories tend to have more equality in their family life, for example in terms of the division in labour on household duties but also in the way decisions are made between partners. In addition, girls from female workers are more likely to attend school than workers in other sectors. At the same time, the study acknowledges that working conditions in the garment sector remain lower than in most other urban-based productive sectors.

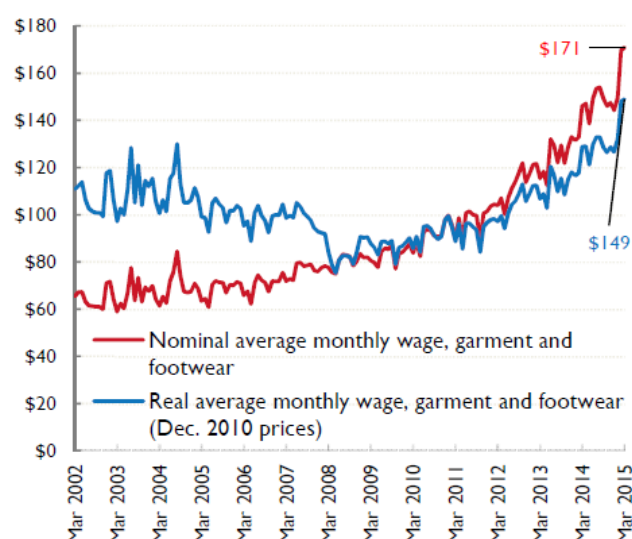
The same World Bank study further demonstrates the sustainability of the observed changes in working conditions. Based on factory level monitoring reports it is shown that once garment factories have improved working conditions, most of them do not fall back again. BFC data also suggests that a 'culture of factory compliance' is growing over time, as less and less new factories fail the compliance test during the first visit.

With the presence of such an extensive and credible data set the question comes up why there has been a continuous flow of critical studies alongside the information generated by BFC. Especially the 2013 study by Stanford University was critical in its analysis, bringing in a list of arguments to conclude that over the previous 11 years (2001-2012) the working conditions of garment workers had not improved in key areas. Part of the critiques can be linked with flaws or weaknesses in the BFC monitoring set-up, some have to do with the timing of the specific studies. Some of the problems have also been acknowledged in ILO reports and evaluations. It is important to mention however, that almost all studies see the overall merits of the BFC programme, and acknowledge improvements in important aspects of working conditions. We highlight four returning areas of critique.

Declining real wages - The issue of wage levels can be called the elephant in the room in the BFC system. Insiders know that increasing wages is not within the mandate of the BFC, and is therefore not the direct topic of monitoring activities, aside from controlling whether factories respect minimum wages or not. At the same time, this has been one of the main critiques in, for example, the Stanford study. The researchers calculated that in the period 2001-2012 real wages had actually deteriorated for most garment workers. The Stanford study (2013) rightfully argued that achievements in other working conditions were important but relative in view of the low wages of only US\$80/month (offered up to 2013), far beyond the calculated living wage which is required for a family to cover basic costs (around US\$160 to 180/month). However, the situation changed drastically after the hard fought campaigns for higher minimum wages in the period 2013-2015, a development of course not captured in the 2013 Stanford study. After intensive protests by labour unions, NGOs, international organisations, and groups of international buyers, the government agreed finally to minimum wages of US\$128/month, still below the living wage but at least 60 percent higher than the situation before 2014.

Recent ILO data (ILO, 2015) shows that since end of 2013 real wages (corrected for inflation) have finally improved as shown in the blue line of Figure 11. ILO also observes that the salary increases did not go at the cost of the number of jobs. Figures show that the number of workers has continuously grown alongside the growth in exports.

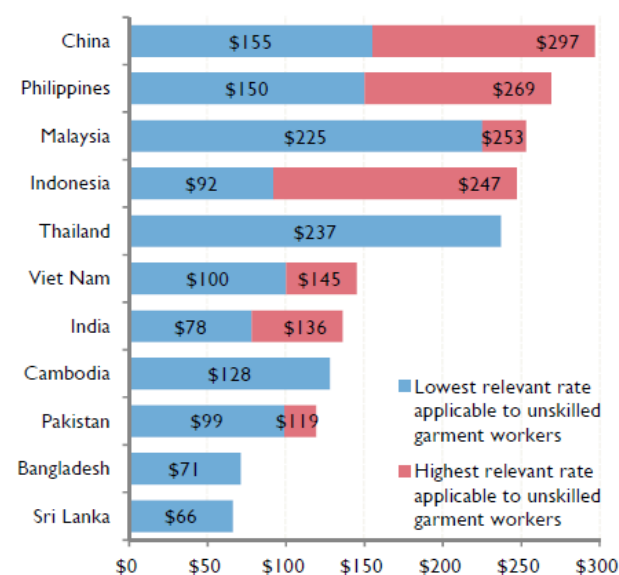
Figure 11: Nominal and real average monthly wage in the garment and footwear sector, 2002-2015 (US\$ per month), from ILO (2015)



Source: National Institute of Statistics (inflation), Ministry of Commerce (wages and workers), and ILO staff calculation

With this new minimum salary in the garment sector Cambodia is still on the lower end of the salary scales compared to other major Asian garment exporting countries (Figure 12), but significantly higher than Pakistan, Bangladesh and Sri Lanka.

Figure 12: Monthly minimum wages applicable to the garment sector in Asia's major garment exporting countries, as of 1 January 2015 (US\$)



Source: ILO, 2015

One tentative conclusion that can be drawn from the above data is that minimum salaries have increased compared to earlier periods. At the same time, with the latest crackdowns on independent labour unions (see further), the question is whether further increases are likely. A second observation

is that the improvements in wages cannot be counted as an achievement of the BFC programme as it is not within their scope of activities to lobby for higher wages, something which has been critiqued in several studies (Stanford university, 2013; CCC, 2012; HRW, 2015). Finally, the salary increases did not affect export growth, neither did it stop the growth of new jobs in the garment sector.

Black box monitoring – This set of critiques relates to the way the monitoring is organised, labelled by the Stanford report as ‘black box monitoring’. It first of all concerns the lack of transparency in the original monitoring data collected at factory level. The situation was especially problematic during the period 2006-2013 when BFC decided to limit public disclosure of data to a large extent (see earlier). Under the pretext of confidentiality and as a response to pressure from GMAC, BFC only published aggregated data on a very small set of indicators, which in addition tended to change regularly making it almost impossible to compare data over time. Research reveals that there is “intense debate and political posturing around the framing and presentation of the data” between BFC and GMAC (Stanford university, 2013, p.44). The sharing of the factory monitoring reports with representatives of factory-based unions also stopped. The findings for a given factory were only accessible to individual factory owners and for buyers who wanted to have access to the data (on a payment basis). As a result it became virtually impossible for workers, trade unions and other stakeholders to follow trends in factory compliance.⁴²

After a range of critical reports⁴³ (Stanford, 2013; CCC, 2014) and critiques from civil society groups, by January 2014 BFC opened up again the public disclosure to pre-2006 levels, and added factory-level reporting on 21 ‘critical indicators’. A second critical issue raised in the Stanford report is what is described as the ‘coaching and preparation’ of monitoring visits. Workers reported on how they were told by the management not to say certain things to the BFC inspectors, or changes were made quickly when inspectors were waiting to enter the building. The same report also argues that workers are interviewed too much in groups and inside the factory, making it more risky for them to report critical issues. The overall scale of these practices are not clear from the study material. In other parts of the report, the researchers indicate that they assess the quality of the factory monitoring reports as good. The independence of the BFC monitors is not questioned. A third critique deals with the lack of transparency about the international brands that are sourcing from specific factories. BFC is critiqued for being even less transparent on this issue than some of the major brands themselves.⁴⁴

Enforcement problems – After the end of the US-Cambodia BTTA in 2005, BFC monitoring reports no longer had direct consequences for the factories. On paper it is the Cambodian government which is expected to act on factories with low compliance, but up to now this has hardly happened according to several studies. A report by Human Rights Watch (2015), for example, maps the weak enforcement of government inspections (not BFC). The report documents that on a total of more than 1000 factory visits by government inspectors only 10 fines were issued. Other more indirect ways of enforcement are through public disclosure and through pressure from the buyers. The challenges with public disclosure were discussed above. Pressure from buyers is of growing importance as a mechanism to put pressure on factories. Buyers are in turn increasingly monitored by civil society groups on their sourcing practices. For example, during the last round of wage protests in 2014, a group of

⁴² A reported side effect of this situation was a lack of trust of workers in the BFC monitoring process as they could not judge if the issues they raised were taken-up by BFC or others.

⁴³ In the Stanford university report the situation pre-2014 is described as follows (p40): BFC is now “more opaque than some of the leading factory monitoring organisations, and even some of the major buyers’ own auditing schemes.”

⁴⁴ Nike for example, has up-to-date lists of the factories it is sourcing from in Cambodia.

international buyers publicly declared their support for higher minimum wages in Cambodia, after they were pushed to do so by different NGOs and unions. A midterm evaluation report of BFC (ILO, 2013) recommends a more constructive engagement of BFC with international buyers in recognition of the important influence they have on working conditions.

Lack of real freedom of association & authentic collective bargaining – The BFC monitoring reports document improvements in the freedom for unions to organise workers in the factories. The garment sector is indeed the best organised industrial sector in Cambodia as a majority of the workers are unionised. However, the union landscape is extremely fragmented and only a small portion of the unions is genuinely independent from government or from the private sector. It is especially the independent unions that continue to face problems in accessing factories.

In many studies, including the 2015 World Bank study, it is acknowledged that initial gains in freedom of association are being reversed over the last few years. As indicated, the government is gradually closing the operating space for NGOs and trade unions with new laws that criminalise the work of unions and that are creating additional conditions which make the registration of new unions difficult. The midterm evaluation of the BFC programme (ILO, 2013) recommends BFC to take its tripartite role more seriously, especially by strengthening the role played by the PAC, the tripartite body that governs BFC. The same evaluation also recommends making the factory-based monitoring activities the entry point for social dialogue on working conditions between all parties concerned. This also includes sharing of reports between all relevant stakeholders involved before being published.

Subcontracting and short-term contracts - This relates to the grey zone of subcontracting factories which are producing for and delivering to BFC monitored factories. The working conditions in those subcontracting factories are known to be worse than those followed-up by BFC. Because of the lack of monitoring with subcontractors there is no systematic overview of the situation on the ground. In its latest programme, BFC had an explicit objective to increase its outreach towards subcontractors. At the time of writing it was not yet clear if BFC made progress in this area. A final issue has to do with the increased use of repeated short-term contracts instead of permanent contracts. This has implications for the possibility to unionise these workers, but it also creates insecurity of employment. Reports indicate that BFC is not sufficiently taking account of this changing reality.

Emerging issues

The BFC programme is continuously balancing between workers' interests and those of other stakeholders. The latter, factory owners and the Cambodian government, co-fund the programme with numerous, resulting trade-offs. While some would argue that BFC has at times compromised the core-mission of its own project, a majority of the studies acknowledge the relevance and impact of the programme, especially related to non-wage issues.

BFC is a different type of PPP than traditional PPPs but it has been successful in improving core labour standards, with a development impact at national level in Cambodia, reaching out to more than 500,000 workers in more than 500 garment and shoe wear factories.

The programme is also reported to be contributing substantially to the continued growth of the garment export and improve productivity. In that way it is one of the few examples of developing interventions which are successful in creating more and better jobs simultaneously. At the same time BFC still faces a number of structural and operational challenges which hinder it from having an even larger impact on working conditions on the ground.

The success of the PPP is explained by observers (Wetterberg, 2011) by referring to two key success factors that define strong partnerships, that is mutuality and organisational identity (Brinkerhoff, 2002). PPPs which show high level of mutuality are characterised by more or less balanced decision-making, without the dominance by one partner. In the case of BFC this should not be seen as a harmonic process, but one which shows continuous tension and attempts to overpower other parties in the PPP, but at least through the facilitation of ILO there is some degree of checks and balances. Secondly, the different parties contribute to the PPP according to their specific organisational strengths. The buyers can bring their economic power in this buyer-driven commodity chain to push factories to supply inspected garment products. ILO on the other hand brings its capacity to enforce standards independently; and the national state can use its regulatory power over domestic producers to ensure participation to the programme. The latter was especially the case in the BTTA period when factory compliance was a condition to export to the US.

In the longer term, there is a need to build the enforcement capacity of the Cambodian inspection services and create more soft and hard incentives for stronger political support at the highest levels of the Cambodian government. Over time the government has to gradually assume and take over the monitoring and enforcement role of the ILO managed programme. BFC does not have an extensive strategy yet to institutionalise the programme.

4. Conclusions

Given the burgeoning interests in engaging the private sector for development in different forms of PPPs, this paper provides an overview of lessons learned and evidence on current practices regarding the critical factors for success or failure of PPPs. It examines the use of principles to influence PPP design and implementation, applying this to the three cases of the SAGCOT in Tanzania, the Mamohato Hospital in Lesotho, and the Better Factories programme in the garment sector in Cambodia.

As the paper highlights, the PPP concept has evolved from a narrow definition, based on a contract for public service delivery by private sector partners to pool investment and share risks, to cover a variety of cross-sector collaborations. These differ widely depending on the types of actors involved, the division of roles, the objectives, and the operational modalities. This increasingly wide definition of PPPs complicates analysis and comparability, since what constitutes as a PPP varies from one analysis to the next. Such conceptual confusion risks lowering the level of public and academic insights in and understanding of PPPs.

In general, the two concerns raised most frequently regarding development PPPs are **additionality and transparency**. The first concern is about defining, ensuring and measuring the additional impact that is being achieved due to the public finance component. The latter relates to the availability of reliable information on the negotiation, the design, the implementation and the results of PPPs, crucial elements in the cases examined above – both emerge as key to understanding the three cases discussed here. Though various codes of conduct and criteria attempt to address transparency, much depends on their enforcement. Currently, information on PPP transactions, contracts and results is often lacking, including data on the levels of public and private investments, ODA budget shares/public costs, and related factors such as risk management, social benefits, additional costs

etc. More commitment to sharing this kind of information would offer the best avenue for ensuring more developmental PPPs.

The Better Factories Cambodia case offers an interesting example of the power of transparency as well as of the difficulty to pinpoint additionality in PPPs. Public disclosure of longitudinal data provides a detailed picture of the developmental effects of BFC on the most important industrial sector of Cambodia (garment sector), suggesting substantial public benefits in the form of improved working conditions, especially regarding non-wage issues, for more than 500,000 workers. Such PPPs, focusing on labour standard governance through the monitoring of working conditions, are not directly geared towards mobilising substantial private sector resources, but are shown to have the potential to improve both working conditions while at the same time strengthening productivity and factory profits.

Looking at the Lesotho case, a key factor determining the course of a PPP is the **capacity of the public partner** to adequately negotiate, renegotiate, manage and monitor the deal throughout its entire contract term. In the Lesotho case it was very clear and recognised by all partners that this capacity was and to some extent still is lacking. While SAGCOT is a very different type of PPP, similar conclusions emerge from the controversies over land-titling and the power balance among different actors, where large agribusinesses may outplay smallholder farmers. This element of capacity may be difficult to address through guiding principles or standards.

The Lesotho case suggests that a manifest lack of capacity of a public actor involved in a PPP deal may result in a power imbalance that is detrimental to the public interest supposedly served by the PPP. Consequently, this risk should be taken into account when weighing the pros and cons of a PPP and comparing them to other options. The involvement of the IFC during the negotiation phase of the Lesotho PPP and even capacity building assistance to the GoL did not manage to prevent this power imbalance from affecting the GoL's control on the evolution of the deal. In contrast, in the case of the BFC programme, the ILO acted as a third party that brought the required expertise and credibility to the PPP process to allow it to function up to standards. One difference with the IFC here may be that ILO remained involved as a key partner and stakeholder in the PPP.

Another interesting aspect is the **power dynamics** within a large international consortium involved in a PPP, and the position and influence of local businesses compared to international ones. In both the SAGCOT and the Lesotho case, critics argue that international businesses are better resourced and positioned to minimise the risks they carry while maximising their benefits. Existing criteria and standards pay only limited attention to this aspect.

In the case of BFC the situation is slightly different. International brands are expected to pay for the independent monitoring of Cambodian factories and therefore carry part of the costs for the running of the PPP. The question remains whether the enforcement cost is not largely pushed onto the suppliers, with buyers remaining reluctant to take the full cost of garment that is produced under fair conditions. In addition, the BFC process is designed in such a way that it guarantees international brands secrecy about the interactions with their suppliers, something, which is critiqued by several observers and advocacy groups. In their view, brands should take full responsibility over their supply chains, and should be more pro-active, transparent and cost-conscious in how they engage with their suppliers, especially regarding working conditions.

Beyond these, the Lesotho and SAGCOT cases show that **time is an issue** with regard to visible impact, attracting the 'right' investments and regional development for instance. As with all major projects, whether public or private, having an impact and getting a clear image of that impact will take time. Most current reviews do not take this aspect into account, whether promoting or criticising the case. Calling a deal a major success in an early stage, for example like IFC did even before the hospital was finished, is very premature. The same goes for Oxfam's critiques regarding the limited student training in the hospital after only 1.5 years of operation. Similarly SAGCOT has yet to fulfill its grand ambitions: it faces many hurdles in its successful implementation before stated objectives turn into reality and the PPP benefits local farmers and their integration into regional value chains. With such challenges ahead, the very fact that there is private sector involvement and a profit interest may prove to be the driving force to see it through, possibly with the additional development benefits foreseen.

The analyses suggest that two basic questions need to be addressed when evaluating a PPP: Firstly, is the PPP the best tool to address the identified needs in a specific context, in comparison to the alternative options. Secondly, does the PPP deliver what it promised to deliver?

To go beyond ideological answers, the former question requires a thorough and transparent mapping, analysis, evaluation and comparison of all the different policy options to address a specific need. What does the public partner actually gain from a PPP and how does this compare to the other options? As it is now, the argument for a PPP often gets stuck in the assumption that there are no real other options, and wishful thinking on how a PPP will draw in additional private resources and expertise. For the latter question, the study suggests that a stronger emphasis on power dynamics and how they are affecting provisions regarding payment, accountability and monitoring is needed.

A common lesson, confirmed by all three cases as well as the consulted literature, is that improving transparency, analysis and access to information and data remain a key issue. This relates to both the arguments and the process underlying the government's decision to engage in a PPP as well as the financial-technical information during the entire implementation of the PPP on both the private and the public side.

Different sets of standards and principles, such as the CAFOD principles discussed in this paper, offer an overview of important development aspects to take into account when assessing a PPP. However, a comprehensive grid, with clear definitions of the proposed principles and how they can be operationalised depending on the type of PPP would be a valuable addition. Additionally, as the cases suggest, the inclusion of a power analysis of the PPP structure and all the partners involved would help to get a better insight in what the deal on paper looks like on the ground and why.

Annex 1: A detailed overview of some guiding PPP principles

UN Global Compact

Human Rights:	
1.	Businesses should support and respect the protection of internationally proclaimed human rights
2.	Make sure that they are not complicit in human rights abuses
Labour:	
3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4.	The elimination of all forms of forced and compulsory labour
5.	The effective abolition of child labour
6.	The elimination of discrimination in respect of employment and occupation
Environment	
7.	Businesses should support a precautionary approach to environmental challenges
8.	Undertake initiatives to promote greater environmental responsibility
9.	Encourage the development and diffusion of environmentally friendly technologies
Anti-corruption	
10.	Businesses should work against corruption in all its forms, including extortion and bribery

Source: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

SIDA - 10 key principles for public-private development partnerships

1.	A social problem and an area of developmental improvement as the point of departure. Projects should be anchored in defined problems and needs in partner countries, and not be driven by company's supply desires (although the latter might be the basis of interest by the company).
2.	Country focus. The programme addresses projects that take place in Sida's partner countries in Africa, Asia, Latin America, the Middle East and Eastern Europe.
3.	Country strategy and sector alignment. The project should be within the parameters of the country's existing national policies. Preferably, the PPDP should be focused on the key sectors defined in Sida's development assistance in line with the Paris agenda but is not limited to these sectors.

4.	Rights based approach. The project shall align with a rights-based approach, strengthening key principles such as participation, transparency and accountability. Operations should support and complement existing local democratic and institutional management systems rather than be contra productive to these.
5.	Local partner. Close cooperation with relevant local bodies is as fundamental as in any other form of development cooperation. Local commitment to the project is critical in the form of a formal partnership and strong interest from relevant local national bodies, such as local public sector institution, a ministry, department or a trade union.
6.	Scaling-up potential. PPDPs which potentially can have considerable scale effect, and a greater impact will be given priority.
7.	Market creation, not distortions. The PPDP is designed and shall be conducted in a way which does not imply subsidies to individual enterprises. Thus, the support should be provided neutral to different existing or potential market players, not favouring one company over another.
8.	Transparency. The company should be willing to share information, results and outcomes from the projects as it is an important part of improving methods for development partnerships.
9.	Additionality. The Sida support shall have a strong degree of additionality by stimulating pro-poor developmental impact of business and economic activities which would not have emerged to the same extent without Sida support.
10.	Corporate Social Responsibility (CSR). Assurances that business is conducted under high social and environmental standards and is complying with international conventions and standards including environmental and climate sustainability. Environmental impact assessment for the business venture is mandatory as for all Sida engagements.

Source: <http://www.sida.se/English/partners/our-partners/Private-sector/Collaboration-opportunities/Public-Private-Development-Partnerships-PPDP/Ten-key-principles-and-criteria/>

OECD - Principles for public governance of public-private partnerships

A. Establish a clear, predictable and legitimate institutional framework supported by competent and well-resourced authorities
1. The political leadership should ensure public awareness of the relative costs, benefits and risks of PPPs and conventional procurement. Popular understanding of PPPs requires active consultation and engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality.
2. Key institutional roles and responsibilities should be maintained. This requires that procuring authorities, PPPs units, the Central Budget Authority, the Supreme Audit Institution and sector regulators are entrusted with clear mandates and sufficient resources to ensure a prudent procurement process and clear lines of accountability.
3. Ensure that all significant regulation affecting the operation of PPPs is clear, transparent and

enforced. Red tape should be minimised and new and existing regulations should be carefully evaluated.
B. Ground the selection of public-private partnerships in value for money
4. All investment projects should be prioritised at senior political level. As there are many competing investment priorities, it is the responsibility of government to define and pursue strategic goals. The decision to invest should be based on a whole of government perspective and be separate from how to procure and finance the project. There should be no institutional, procedural or accounting bias either in favour of or against PPPs.
5. Carefully investigate which investment method is likely to yield most value for money. Key risk factors and characteristics of specific projects should be evaluated by conducting a procurement option pre-test. A procurement option pre-test should enable the government to decide on whether it is prudent to investigate a PPPs option further.
6. Transfer the risks to those that manage them best. Risk should be defined, identified and measured and carried by the party for whom it costs the least to prevent the risk from realising or for whom realised risk costs the least.
7. The procuring authorities should be prepared for the operational phase of the public-private partnerships. Securing value for money requires vigilance and effort of the same intensity as that necessary during the pre-operational phase. Particular care should be taken when switching to the operational phase of the PPPs, as the actors on the public side are liable to change.
8. Value for money should be maintained when renegotiating. Only if conditions change due to discretionary public policy actions should the government consider compensating the private sector. Any re-negotiation should be made transparently and subject to the ordinary procedures of PPP approval. Clear, predictable and transparent rules for dispute resolution should be in place
9. Government should ensure there is sufficient competition in the market by a competitive tender process and by possibly structuring the PPP programme so that there is an ongoing functional market. Where market operators are few, governments should ensure a level playing field in the tendering process so that non-incumbent operators can enter the market
C. Use the budgetary process transparently to minimise fiscal risks and ensure the integrity of the procurement process
10. In line with the government's fiscal policy, the Central Budget Authority should ensure that the project is affordable and the overall investment envelope is sustainable.
11. The project should be treated transparently in the budget process. The budget documentation should disclose all costs and contingent liabilities. Special care should be taken to ensure that budget transparency of PPPs covers the whole public sector.
12. Government should guard against waste and corruption by ensuring the integrity of the procurement process. The necessary procurement skills and powers should be made available

to the relevant authorities.

Source: <http://www.oecd.org/governance/budgeting/PPP-Recommendation.pdf>

Committee of World Food Security (CFS) - Principles for Responsible Investments in Agriculture and Food Systems

1. Contribute to Food Security and Nutrition
2. Contribute to sustainable and inclusive economic development and the eradication of poverty
3. Foster gender equality and women's empowerment
4. Engage and empower youth
5. Respect tenure of land, fisheries, and forests, and access to water
6. Conserve and sustainably manage natural resources, increase resilience, and reduce disaster risks
7. Respect cultural heritage and traditional knowledge, and support diversity and innovation
8. Promote safe and healthy agriculture and food systems
9. Incorporate inclusive and transparent governance structures, processes, and grievance mechanisms
10. Assess and address impacts and promote accountability

Source: <http://www.fao.org/3/a-au866e.pdf>

EU Commission - 7 principles for engaging with private sector + 12 actions points for private sector activities

7 principles for engaging with the private sector
1. focus on employment creation and poverty reduction
2. take a firm-level differentiated approach;
3. create market-based opportunities;
4. follow clear criteria for support;
5. allow for local contexts and fragile situations;
6. put strong emphasis on results;
7. observe policy coherence in areas affecting the private sector in developing countries.

12 action points for private sector activities	
1.	Finance advisory services and diagnostic tools for policy formulation
2.	Co-finance market-based schemes for business support services to MSMEs
3.	Support company-trainer alliances for TVET programmes
4.	Use grants and blending to improve credit access
5.	Support financial inclusion, especially for youth, women
6.	Increase risk capital through private investment for energy
7.	Link farmers to markets through support coalitions, risk management instruments, inclusive PPPs
8.	Leverage private sector capital for infrastructures
9.	Promote eco-entrepreneurship and green job creation through dialogue & co-funding
10.	Promote international CSR guidelines and principles through dialogue and procurement
11.	Support replication & scaling up of inclusive business through private-sector oriented networks & platforms, match-making etc
12.	Endorse the Busan Joint Declaration on public-private cooperation

Source: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0263&from=EN>

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About ECDPM

ECDPM was established in 1986 as an independent foundation to improve European cooperation with the group of African, Caribbean and Pacific countries (ACP). Its main goal today is to broker effective partnerships between the European Union and the developing world, especially Africa. ECDPM promotes inclusive forms of development and cooperates with public and private sector organisations to better manage international relations. It also supports the reform of policies and institutions in both Europe and the developing world. One of ECDPM's key strengths is its extensive network of relations in developing countries, including emerging economies. Among its partners are multilateral institutions, international centres of excellence and a broad range of state and non-state organisations.

Thematic priorities

ECDPM organises its work around four themes:

- Reconciling values and interests in the external action of the EU and other international players
- Promoting economic governance and trade for inclusive and sustainable growth
- Supporting societal dynamics of change related to democracy and governance in developing countries, particularly Africa
- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

Approach

ECDPM is a “think and do tank”. It links policies and practice using a mix of roles and methods. ECDPM organises and facilitates policy dialogues, provides tailor-made analysis and advice, participates in South-North networks and does policy-oriented research with partners from the South.

ECDPM also assists with the implementation of policies and has a strong track record in evaluating policy impact. ECDPM's activities are largely designed to support institutions in the developing world to define their own agendas. ECDPM brings a frank and independent perspective to its activities, entering partnerships with an open mind and a clear focus on results.

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ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

This publication benefits from the generous support of ECDPM's core, institutional and programme funders: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Sweden, Switzerland and Austria.

ISSN 1571-7577

European Centre for Development
Policy Management

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HEAD OFFICE SIÈGE

Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE BUREAU DE BRUXELLES

Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

info@ecdpm.org
www.ecdpm.org
KvK 41077447