

Quality Assurance

- **Four Criteria** must be met, before we can enter into a partnership:
 1. The project must be in line with the development-policy goals set by the German Federal Government.
 2. The interests of both partners must be compatible.
 3. The private partner must make a key contribution to the project, as a rule, 50% of the project costs.
 4. GTZ provides only those services to a project that the partner firm would not itself in any case render.

Guidelines for Development Partnerships with the Private Sector (Public Private Partnerships – PPP) financed under budget items 68711, 68712, or 68788

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1. Objective of the measures

The aim of PPP measures is to implement projects that make good development and business sense as a contribution to economic and social development in the partner countries. The public involvement aims to enhance the positive external effects that arise as a result of private business initiative. Through examples of successful partnerships, private firms and development-cooperation executing organizations demonstrate that the effectiveness and sustainability of PPP measures can exceed that of purely public measures. At the same time, firms should come to realize that extensive consideration of the social and ecological aspects of their activities also makes business sense, at least in the medium to long term, and should be an integral part of their business policy. Development partnerships with the private sector are to be an integral part of German development cooperation. Thus, the measures financed by PPP funds have a model and preparatory function. According to the multisectoral concept to promote the private sector (German Federal Ministry for Economic Cooperation and Development, 1996), the support of private firms cannot be the goal of the measure. In each individual case, development-policy objectives must be the basis for the PPP measure.

2. Implementation of the measures

The PPP measures are implemented by sectoral organizations with proven development-policy and private-sector know-how – these are subsequently referred to as *organizations*. They include the German Investment and Development Company (DEG), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (German Technical Cooperation), Kreditanstalt für Wiederaufbau (KfW) (German Financial Cooperation), and the Foundation for Economic Development and Vocational Training (SEQUA).

Development partnerships with the private sector offer the latter previously unavailable access to the instruments and know-how of German development policy. Particularly, small and medium-sized enterprises often find it difficult to find an appropriate public partner. Therefore, the organizations in the PPP program work in close cooperation; responsibilities of individual organizations are not strictly defined. Nevertheless, the organizations are able to orient their special PPP contribution to their key competencies in the framework of their statutory objectives (for example, DEG: measures in the area of investment; GTZ: measures in the area of technical-cooperation projects; KfW: infrastructure; SEQUA: cooperation with institutions of the organized business community) and draw on their comparative advantages. Because the organizations can implement PPP measures in all development-policy areas, they must advise the companies in the choice of appropriate partner, inform each other about rejected measures, and ensure that private partners in the same project do not cooperate with several organizations at the same time.

In evaluating the complete range of measures carried out by the organizations and the related future budget decisions, the German Federal Ministry for Economic Cooperation and Development (BMZ) places emphasis on the following criteria, among others (the weight of individual indicators cannot be quantified, but the order of the listing gives an indication of relative importance):

- Development-policy quality of the projects (broad impact and institution building, size of project, degree of difficulty in the partner country, long-term involvement of the firm

in the partner country, relative importance of public and private contributions, interconnections with other measures of the organization, degree of innovation, term of the public contribution)

- Lowest possible management costs for the organization
- Highest possible mobilization of private contributions
- Adherence to the agreed funding framework
- Quality of reporting and graphics
- Flexible partner cooperation with the BMZ
- Balanced regional and sectoral distribution of the measures
- Proportion of failed to successful studies.

3. The private partner and the PPP measure

Private firms are contracted by the organizations within the legal framework for awarding public contracts and are usually the executing agencies for the PPP measures. Drawing on their many years of experience and their country-specific, sectoral, and technical know-how, the organizations advise the partner firm and together with the firm develop the concept for the PPP measure. Thus, using their own key competencies, the organizations ensure the development-policy orientation of the PPP measure and are responsible to the BMZ for the technical design of the project. The contracts are to specify the output expected from the project, as far as possible in terms of concrete operations. In order to broaden the effectiveness of the measure, a meso-institution of the partner country should be included as a project partner wherever feasible. Care must be taken that this institution makes a specific contribution.

Taking into account the various core competencies, the enterprise – as executing agency of the joint measure – is to decide how to carry out the individual activities. At the executing agency's request, the public contribution can also be rendered exclusively through the organizations' own inputs, or as commissions awarded to third parties by the organizations. The organizations document this separately. The partner firms must contractually agree to the publication of the PPP measure and commit themselves to providing three meaningful photographs of the project (exception: studies in the area of infrastructure).

The firms and the project must meet a number of requirements in order to qualify as a partner. Given the existing financial limitations, potential partners are at present selected from the pool of European firms. Local firms, in which European citizens can decisively influence the managing board and/or hold more than 25% of the company's shares may also apply. The PPP measure must foresee a long-term, sustainable involvement of the company in the partner country. Therefore, export business (supply, installation, plant operating instructions, mobile pilot installations for marketing purposes) cannot be considered for PPP measures. The commercial character and the intention of the project to earn a profit must be clearly spelled out. As a general rule, the private share is not to be less than 50% of the total project costs. Only for measures with special development-policy relevance is a smaller share possible. For projects that are already close to commercial viability the public share should be significantly less than 50%. Fundamentally, the organizations should agree to the smallest possible public contribution. Investment costs that are part of an original investment that continues to provide economic benefits to the firm after termination of the project cannot be considered as part of a PPP measure. The form of the private contribution to the PPP measure must be clearly documented in the contracts. All monetary valuations must stand up to subsequent audit (for example by PricewaterhouseCoopers Deutsche Revision or the German Federal Court of Audit).

Principally, no activities that prepare the way for economic cooperation are to be carried out - only concrete measures that can be directly implemented. Nevertheless, studies in the area of infrastructure can be co-financed up to 50% if they are contracted to an external consultant or up to 33% in the case of an own contribution by the project developer if, despite the preparation of a study, the envisioned project fails to materialize for reasons for which the project developer is not responsible (insurance settlement). The PPP financial contribution consists of a maximum of 150,000 euro in the case of an insurance settlement.

Similar projects with the same private firm within a period of three years are grouped together under the category of multiple promotions. Whether the projects are carried out in the same or different countries is not decisive. Projects that are with the same company but are dissimilar, i.e. they are in another sector with a different promotional

approach, are not included under multiple promotions. In the case of multiple promotions an especially careful consideration of development-policy advantages and disadvantages is required. Multiple promotions can only be considered when they result in special development-policy benefits. The findings from the preceding projects and a justification for the multiple promotions must be explicitly outlined in the status report. To aid the continued development of the multiple-promotion concept, every semi-annual report should include a summary of the multiple promotions. In the case of multiple promotions, the achievements and findings of the preceding project must be utilized. The share of the public partner should be significantly less than in the preceding project.

4. Project decisions

With respect to technical cooperation, narrowly defined, the funds of the PPP facilities have a subsidiary character. Every contract concluded with a private firm must therefore be preceded by an evaluation to determine whether the measure could be financed in the narrow framework of technical cooperation. Only when this is not possible due to the small-scale, short-term, or supraregional nature of the measure, can financing in the framework of PPP funds occur. Small-scale is as a rule understood to mean measures with a public-sector share of around 100,000 euro.

Projects with a public contribution of over 200,000 euro may be financed with PPP funds only in certain, exceptional cases, for example, when they involve innovative uses of the PPP approach, as pilot projects with particular development-policy relevance. In these cases, the written consent of BMZ Section 410 must be obtained before conclusion of the contract, after review of a statement outlining the advantages and disadvantages of a public tender.

The decision on the project is taken in the organizations, which must evaluate the compatibility of all measures with BMZ directives. In the case of projects that clearly do not conform to BMZ directives, the BMZ reserves the right to demand the return of the public share of the measure from the organization.

The evaluation of the projects must be oriented to the basic principles of the German Federal Government's development policy: respect for human rights, participation of the

population in political decision-making, the rule of law and guarantee of legal security, the introduction of a social market economy, and the development orientation of government action. This catalogue of criteria is supplemented by the following points, which ensure that the interests of all parties are represented in the planned project.

- **Compatibility with development-policy objectives:** The project must fundamentally correspond to the promotional focuses of the country concepts and the basic principles of the sectoral promotion policies (especially the multisectoral concept for the promotion of the private sector). Projects outside the list of priority countries (see attachment) or outside the sectoral priority areas of the BMZ country concepts in their respective current forms, may only be carried out in well-founded cases and after previous consent of BMZ Section 410. All projects must demonstrate clear development relevance and be environmentally and socially compatible. Cooperation with firms in the areas of tobacco and alcohol production and other sensitive areas is not possible in the framework of the PPP program.
- **Complementarity:** The public and private contributions must so complement each other that both partners achieve their objectives at a lower cost, more effectively, and more quickly as a result of the cooperation. PPP measures must be concluded within a maximum of three years in order to be continued subsequently by the private partner alone. If the contract term is over one year, the public share must decline and in the third year may not exceed a maximum of 50% of the total sum of the first year.
- **Subsidiarity:** A public PPP contribution shall be made only when the private partner would not undertake the PPP measure without the public partner and the PPP measure is not required by law. The private partner's PPP share includes only that part which would not have to be financed in any case in the framework of the original investment (see also Section 3). Projects that are already being implemented cannot be subsequently co-financed as PPP measures.
- **Fair competition:** The PPP measure shall not lead to the case that a private partner selected as the result of a non-transparent and incomprehensible process gains a competitive advantage over competitors from its own industry, with the result that competition is distorted or potentially threatened. Therefore, the organizations must be open to cooperation with all firms, with no barriers to access. The possibility of

PPP cooperation and the individual PPP measures must be made public and brought to the attention of as many companies as possible. The process of selecting the private partner must be clearly understood. The choice of private firm must be carried out on the basis of uniform criteria. Enterprises are not entitled to PPP cooperation.

- **The contribution of the private sector:** The private firm must provide a key financial and/or human resources contribution to the PPP measure. It must be ensured that the greatest possible contribution to the solution of problems in the partner country is made with the least possible public expense.

The organizations are required to evaluate the projects proposed by private partners, to promptly inform the private partner of its decision, and to clearly document the entire process. Furthermore, in the framework of their core competencies, the organizations actively develop projects that are not oriented to the corporate proposals, but to the development-policy priority areas of the BMZ.

5. Reporting

5.1 General

The organizations present a semi-annual report to the BMZ by 15 July and 15 January of each year (the progress report and funding overview can be also be filed 14 days later, if necessary). Within six weeks after filing the semi-annual report, the organizations inform the embassies (by way of the Federal Foreign Office) of new individual PPP measures. This information must include a title page, the key data sheet, and the text, but not the attachments.

The semi-annual report must be presented both in printed form and as an electronic file. It consists of the following elements:

- Progress report
- Funding overview
- Individual reports (status reports)
- Statistics

- Summary lists of the measures of the corresponding half-year
- Monitoring lists of all measures with implementation status.

Within a maximum of two months after the BMZ has received the semi-annual report, the individual PPP measures, together with the entire portfolio of measures presented, will be jointly evaluated in a meeting with the BMZ, which will also include feedback from the BMZ regional divisions.

5.2 Technical details

The status report is to present the context from both development-policy and private-sector points of view, the design of the PPP measure, and the development-policy impacts (each point taking up a maximum of 1.5 pages, font: Arial 11, line spacing: 1.5). The attachment is to describe the objectives, results, indicators, and activities (each accompanied by the names of relevant actors in parentheses). For the purpose of statistical analysis, only one of the prescribed priority areas is to be selected for each PPP measure.

The status reports are to be presented as a Winword document only for new projects and after completion of the measures (final report). (File name, for example: 2000-1-2000.doc, 2002-12-2001, the first year number refers to the contract conclusion, the second year number to the first registration with the organization). In addition, the organizations are to post the text of the report, including the photographs with captions, in the Extranet within 14 days.