

# Double standards

How the UK promotes rip-off health PPPs abroad



August 2017

  
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How the UK promotes rip-off health PPPs abroad

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# 1. Executive summary

## The failure of health PPPs in the UK

This report concerns Public Private Partnerships (PPPs) in healthcare, known in the UK as the Private Finance Initiative (PFI). It exposes how such PPPs have been an expensive failure in the UK, attracting criticism from government ministers, and yet those same ministers run departments which promote PPPs, including in health, around the world.

Use of the term PPP is now widespread, but it is very unhelpful given that many different types of economic activity involve the public and private sectors working together in some form of partnership. Proponents of PPPs use the term for a variety of short- and long-term contracts with different forms and degrees of private- and public-sector involvement.

This report covers PPPs which are similar to the UK's PFI, where a private company gets a long term contract to build and/or manage all or a significant amount of a healthcare facility. In return, the government guarantees to pay to use the facility, and/or guarantees to make up any short fall in revenue from user fees, ensuring the project's financial risk remains with the public sector. As the report shows, such PPPs have failed in the UK, and yet the UK government continues to promote them around the world. The costs fall on taxpayers, and patients through increased user fees (where these exist) and/or reduced health services. This reduces access to healthcare, especially for the poor, and increases gender and other inequalities.

Between the mid-1990s and 2008 the UK government used healthcare PPPs extensively, and the results have been widely discredited. Reports by the UK parliament's Treasury Select Committee<sup>1</sup> and National Audit Office<sup>2</sup> found they have cost more – at least double – than if the government had borrowed money directly and then contracted the private companies to build healthcare facilities.

PPPs have been criticised across the political spectrum in the UK, including by current government ministers. The UK's Secretary of State for International Trade Dr Liam Fox said as recently as April 2017: “NHS hospitals owe over £80 billion in PFI loan unitary charges, leaving the taxpayer a legacy of debt repayment that will amount to up to 7 times the original capital cost.”<sup>3</sup>

Boris Johnson, now Foreign Secretary, speaking when Mayor of London, said “In other countries this would be called looting, here it is called the PPP.”<sup>4</sup> Secretary of State for Health, Jeremy Hunt, has said: “One of my biggest concerns is that many of the hospitals now facing huge deficits are seeing their situation made infinitely worse by PFI debt.”<sup>5</sup> Meanwhile Secretary of State for International Development Priti Patel has criticised health PPPs saying “It is outrageous that our local hospital is tied down to paying these excessive [PFI] costs while there is an unacceptable shortage of healthcare provision elsewhere in Essex”.<sup>6</sup>

## UK government departments promoting health PPPs

Despite these criticisms, the UK government has been promoting health PPPs extensively around the world, including in the global South.

Dr Liam Fox's Department for International Trade and Jeremy Hunt's Department of Health promote health PPPs through the public body Healthcare UK. This markets PPPs as “efficient” and “cost effective” to other governments at the same time as Dr Liam Fox and Jeremy Hunt criticise their huge costs.<sup>7</sup> One marketing example Healthcare UK uses is the St Bartholomew's Hospitals PPP, which has an investment cost of £1.149 billion but has left the public sector having to pay six times more – £7.194 billion – between 2007 and 2048.<sup>8</sup> These costs have led to cuts in health services and care quality.<sup>9</sup>

The Department for International Development (DfID), now headed by Priti Patel, has used UK aid money to

1 Treasury Select Committee. (2011). *Private Finance Initiative. Treasury – Seventeenth report*. 18/07/11. <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114608.htm>

2 National Audit Office. (2015). *The choice of finance for capital investment*. March 2015. <http://www.nao.org.uk/wp-content/uploads/2015/03/The-choice-of-finance-for-capital-investment.pdf>

3 Fox, L. (2017). Speech delivered by Secretary of State for International Trade, Dr Liam Fox at the UK-GCC PPP Conference in London. 19/04/17. <https://www.gov.uk/government/speeches/unlocking-the-full-potential-of-the-uk-gcc-trade-and-investment-relationship>

4 Milmo, D. (2010). London Underground ordered to plug £460m PPP funding gap. *The Guardian*. 10/03/10. <https://www.theguardian.com/business/2010/mar/10/london-underground-ppp-funding-gap>

5 Hansard HC Deb, 2 June 2015, c449 <http://www.theyworkforyou.com/debates/?id=2015-06-02a.448.3&s=debt#g449.2>

6 <http://priti4witham.com/content/mid-esssex-nhs-trust-risk-costly-pfi>

7 Healthcare UK (2013). *Public Private Partnerships* [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/266818/07\\_PPP\\_28.11.13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266818/07_PPP_28.11.13.pdf)

8 HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

9 Lister, J. (2015). *Bart's: a flagship hits the rocks of PFI*. *New Democracy*. 18/03/15. <https://www.opendemocracy.net/ourhhs/john-lister/bart%E2%80%99s-flagship-hits-rocks-of-pfi>

promote PPPs through various schemes. It funded the IFC's health PPP advisory facility via the partnership 'Harnessing non-state actors for better health for the poor' (HANSHEP). The programme, which ran from 2012 to 2016, aimed to promote health PPPs and disseminate lessons learned.<sup>10</sup> This dissemination has not gone very far as DfID has refused to release its evaluation of the programme.<sup>11</sup>

Other programmes DfID funds include the Private Infrastructure Development Group (PIDG), which DfID has provided 71% of the funding for,<sup>12</sup> and Public Private Infrastructure Advisory Facility (PPIAF), half of whose budget DfID provides.<sup>13</sup> Both bodies promote PPPs across a range of infrastructure.

This report details how DfID also promotes PPPs through its country programmes, and how the Foreign Office's network of embassies and high commissions regularly holds events to promote PPPs. These are often funded by aid money, out of a fund called the Prosperity Fund, a fast-growing part of the UK's aid budget.

For example, in July 2015 the British High Commission in Zambia held a training event in PPPs. The training was paid for out of the Prosperity Fund and therefore counted as aid.<sup>14</sup> Acting High Commissioner to Zambia Sean Melbourne is quoted on the UK government's website as saying: "*The British Government is keen to promote UK-Zambia trade for the benefit of both countries and to share its expertise in the development and successful implementation of Public Private Partnerships.*"<sup>15</sup> Nowhere is there any indication that, far from being successful, PPPs are widely discredited in Britain.

## The extent of health PPPs in the global South

It is difficult to estimate the full scale of health PPP activity. In total we found 23 countries where PPPs similar to those discredited in the UK have been proposed or implemented.

Of the 23 countries we have identified with active, proposed or stalled health PPPs, the UK government has been promoting PPPs in at least 18. The UK's Foreign Office has done so in 15 countries, DfID in nine countries and UKTI and/or Healthcare UK in six.

We have identified five countries with completed health PPP schemes: Brazil, Lesotho, Nigeria, Peru and Turkey.

In Peru, as part of their development of hospital PPPs, the UK Foreign Office ran an aid-funded project in 2013 to "*Use UK experience of Public-Private Partnerships in the health sector to develop the PPP framework and tendering process for health projects in Peru.*"<sup>16</sup> Two PPP hospitals subsequently opened in 2014. Reportedly, total investment was \$126 million and there are two sets of payments for construction costs – \$11.1 million a year for 15 years and \$9.8 million a year for seven years.<sup>17</sup> This means the average equivalent interest cost is 11.1%, whereas Peru can borrow at 6% through dollar-denominated bonds.<sup>18</sup> The public sector is reported to pay \$176 million a year for running costs<sup>19</sup> which include clinical as well as non-clinical services.

We also found fifteen countries where health PPPs have been reported to be in development: Afghanistan, Bangladesh, Brazil, Fiji, India, Indonesia, Kazakhstan, Liberia, Nigeria, Pakistan, Papua New Guinea, Sierra Leone, Turkey, Vietnam and Zambia.

The UK has promoted PPPs in Vietnam for several years. In October 2010, the UK Embassy organised a workshop for government officials on PPPs. Kate Harrison, Deputy Head of Mission at the British Embassy, said "*I hope that the UK can now share its experience with Vietnam at a time when Vietnam is looking at new ways of finding finance for crucial infrastructure projects.*"<sup>20</sup> DfID and the Foreign Office have also been using aid money in Vietnam to promote PPPs. All this lobbying and promotion may have started to pay-off. In May 2017 it was reported that Vietnam "*is attempting to attract private investment in healthcare PPPs.*"<sup>21</sup>

There are seven countries where health PPPs have either stalled or been cancelled: Benin, Egypt, Ghana, Grenada, Honduras, Namibia and Nigeria. There are therefore more countries with stalled projects than completed ones. In terms of preventing governments from being trapped in expensive PPP schemes this is a good thing. However, it also shows that promoting PPPs wastes time and money, distracting from real solutions to providing better and more widespread healthcare, through fair tax and appropriate borrowing for investment. In the UK, the European Services Strategy Unit has shown that

10 <http://www.hanshep.org/our-programmes/pilot-health-ppp-advisory-facility>

11 DfID. (2017) Response to Freedom of Information Request F2017-020 02/02/17. And DfID. (2017). Response to request for internal review of response to Freedom of Information Request F2017-020 07/03/17.

12 PIDG Annual Report 2015. [http://www.pidg.org/resource-library/annual-reports/pidg-ar-2015-report-digital-1.pdf/at\\_download/file](http://www.pidg.org/resource-library/annual-reports/pidg-ar-2015-report-digital-1.pdf/at_download/file)

13 Calculated from PPIAF Annual Report 2016. <https://ppiaf.org/documents/4155/download>

14 British High Commission Lusaka. (2015). *UK specialists to offer Zambia Public Private Partnership Training*. 24/07/15. <https://www.gov.uk/government/world-location-news/uk-specialists-to-offer-zambia-public-private-partnership-training>

15 British High Commission Lusaka. (2015). *UK specialists to offer Zambia Public Private Partnership Training*. 24/07/15. <https://www.gov.uk/government/world-location-news/uk-specialists-to-offer-zambia-public-private-partnership-training>

16 FCO. (2013). *PPP framework & tendering process in the health sector* [GB-GOV-3-PPY-LAM-1309] <https://devtracker.dfid.gov.uk/projects/GB-GOV-3-PPY-LAM-1309>

17 Mitchell, J. (2015). *In good health: how the PPP model has revolutionised Peru's hospitals* <http://www.fdiintelligence.com/Locations/Americas/Peru/In-good-health-how-the-PPP-model-has-revolutionised-Peru-s-hospitals?ct=true>

18 See <http://www.reuters.com/article/peru-bonds-idUSL1NOSP36U20141030> and <https://www.investing.com/rates-bonds/peru-government-bonds>

19 Mitchell, J. (2015). *In good health: how the PPP model has revolutionised Peru's hospitals* <http://www.fdiintelligence.com/Locations/Americas/Peru/In-good-health-how-the-PPP-model-has-revolutionised-Peru-s-hospitals?ct=true>

20 <http://www.dtinews.vn/en/news/018/5243/uk-shares-public-private-partnership-experience-with-vietnam.htm>

21 <http://www.partnershipsbulletin.com/news/view/118873>

seven abandoned PPP hospital projects still cost the government £51.2 million.<sup>22</sup>

Egypt signed initial contracts for a hospital PPP in 2012, but the project has still not received final sign-off. The UK government has continued to push PPPs in Egypt. In 2015/16 DfID spent £1.75 million of aid money on courses to promote PPPs, saying “*PPPs are one way for Egypt to fund its infrastructure without worsening the fiscal deficit*” (emphasis added).<sup>23</sup> In reality, any PPP with contractual payments from the government will contribute to the fiscal deficit – given the UK’s experience, probably more so than direct government borrowing.

## How can health investments be funded?

Proponents of PPPs speak as if they are the only way that governments can access otherwise unobtainable private investment to fund public healthcare. This is not true.

PPPs work by a private company borrowing money<sup>24</sup> to invest in a healthcare facility, while the government guarantees to pay to use it, or guarantees a certain level of income from user fees. If instead a government borrows money<sup>25</sup> to invest in a healthcare facility, guaranteeing to make debt payments, it accesses exactly the same source of finance – public or private lenders – and repays the debt using exactly the same source of funds – government spending (and/or user fees if these exist in the country’s health system).

Neither do PPPs give access to private ‘expertise’ that would not otherwise be available. For instance, governments can still hire a construction firm to build a hospital if they borrow money themselves rather than through a PPP.

While PPPs offer no new access to finance or way of paying for it than previously existed, in the UK they have been hugely more expensive. There are various reasons why PPPs are likely to be an expensive way for governments to invest in healthcare. These include:

- 1) **Cost of investment:** The interest rate on PPP debt is higher than for direct government borrowing
- 2) **Lack of competition:** With a PPP, the only possible competition is for the initial contract (though often even this does not happen), whereas for non-PPP investment there can be competition at numerous points during construction and operation
- 3) **Lack of transparency:** PPPs hide behind ‘commercial confidentiality’, and so are ripe for rent-seeking and corruption

- 4) **Profit for private companies:** Across the few cases where there is evidence the average annual profit on investment has been around 25%
- 5) **Complexity of contracts:** Under-resourced governments can be out-maneuvred by private companies in contract negotiations
- 6) **High transaction costs:** Governments must hire expensive lawyers and consultants
- 7) **Reduced budget flexibility:** PPPs commit a government to paying for a service for decades, restricting its ability to alter services in response to changing requirements or economic circumstances

The extra cost of health PPPs falls either on taxpayers, and/or directly on patients (through user fees) or through reduced services. Whilst PPPs do not require user fees to operate, their escalating costs may lead to pressure to increase and spread user fees and/or reduce services. These will reduce access to healthcare, especially for the poor, and increase gender and other inequalities.<sup>26</sup>

The reason PPPs are attractive to governments is that they mean investment can take place without new debt appearing on the government books. This allows governments to circumvent national budget rules and accountability processes, or rules and analyses from lenders on debt sustainability. A widely-acknowledged reason for the UK government’s extensive use of PPPs was to invest without increasing official public debt figures.

Ultimately the best source of funds to pay for healthcare infrastructure and services is progressive taxation. Ideally enough tax income would be collected to fund both ongoing services and investment in health infrastructure, so there would be no need to borrow and pay interest. Across many countries, and most in the global South, tax collection rates need to rise to fund decent public services, through the collection of fair taxes, including tackling tax avoidance and evasion.

However, the reality is that for many countries in the global South, government revenue levels are currently well below what is needed to meet basic health needs. Changes to taxation systems also take time and require international action, including by rich countries, like the UK, that preside over tax havens. Borrowing for health investment can enable more needs to be met now, but means governments pay more in the future. Unfortunately, the history of debt crises over the last four decades shows that when debt payments are high, public services are cut. There are currently 29 governments in the global South which spend more on external debt payments than they do on healthcare.

22 Whitfield, D. (2017). *PF1/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts in UK*. European Services Strategy Unit Research Report No. 9. <https://www.european-services-strategy.org.uk/wp-content/uploads/2017/02/pfi-ppp-buyouts-bailouts-and-terminations.pdf>

23 DfID. (2015). *CSSF Strand document: Economic stability in Egypt*. [http://iati.dfid.gov.uk/iati\\_documents/5184074.odt](http://iati.dfid.gov.uk/iati_documents/5184074.odt)

24 From the public or private sector

25 From the public or private sector

26 Nanda, P. (2002). Gender dimensions of user fees: implications for women’s utilization of health care. *Reprod Health Matters*. 2002 Nov;10(20):127-34. <https://www.ncbi.nlm.nih.gov/pubmed/12557649> And Johnson, A., Goss, A., Beckerman, J. and Castro, A. (2012). Hidden costs: The direct and indirect impact of user fees on access to malaria treatment and primary care in Mali. *Social Science & Medicine* XXX (2012) 1-7 <https://www.musohealth.org/docs/articles/HiddenCostsJohnsonetal2012SSM.pdf>

Government borrowing is likely to be a cheaper way to fund health investment than PPPs, but governments should still exercise caution to ensure that it will not lead to unsustainable finances, and so reduced healthcare, in the future. But borrowing for healthcare investment can provide an economic as well as social return, as a healthier population can be more productive and skilled workers are more likely to stay in countries with decent healthcare.

## Recommendations

As campaigners in the UK, we focus our recommendations on what the UK government and institutions in which it plays a large role, such as the World Bank, should do.

The UK government has consistently criticised the expense of health PPPs in the UK, yet continually promotes them globally. The main reason it does so is presumably to create opportunities for UK companies with PPP experience to win contracts. The UK government should stop this dishonest promotion and instead tell the world the true cost of health PPPs.

1. **UK aid should stop funding schemes which solely promote PPPs.**

2. **UK aid and the World Bank should only support health investments which are accountable and have been shown to be the best solution from the point of view of cost, quality and providing universal access to healthcare.**
3. **DfID and the World Bank should only support health investments which are fully included in the government accounts, including all realised and contingent liabilities which arise from them.**
4. **The IMF and World Bank should include all PPPs costs in their Debt Sustainability Analyses.**
5. **UK government aid should not be spent through the Foreign Office.**
6. **The UK Foreign Office, UK Trade and Investment, Healthcare UK and DfID should tell partner governments and citizens in the global South the truth about PPPs in the UK.**
7. **The UK government should urgently advance measures to tackle tax avoidance and evasion.**
8. **When lending money for any health investments, the UK and World Bank should ensure this is done responsibly, in line with UNCTAD principles on responsible lending and borrowing.**

# 2. The UK's experience of PPPs

This report concerns Public Private Partnerships (PPPs) in healthcare, known in the UK as the Private Finance Initiative (PFI). Use of the term PPP is now widespread, but it is very unhelpful given that many different types of economic activity involve the public sector and private sector working together in some form of partnership. Proponents of PPPs use the term to refer to a huge variety of short- and long-term contracts with different forms and degrees of involvement of the private and public sector.

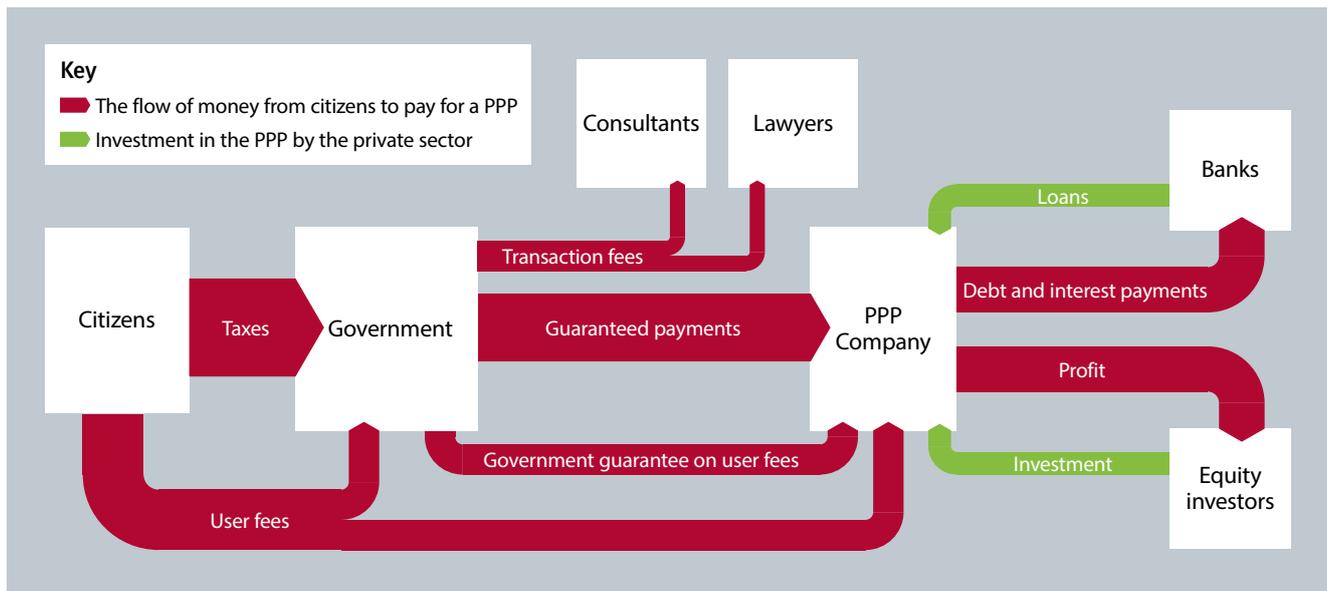
This report covers PPPs which are similar to the UK's PFI, where a long-term contract exists for a private company to build and/or manage all or a significant amount of a healthcare facility such as a hospital. In return, the government guarantees to make payments to use the facility and/or guarantees to make-up any short fall in revenue from user charges, ensuring any financial risks associated with the project remain with the public sector. The report looks at how, even though such PPPs have failed in the UK, the UK government continues to promote them around the world.

## How a PPP works

Figure 1 illustrates how a typical PPP might work. In the UK there are largely no user fees in the public health system and so they have not been a feature of PPPs. PPPs do not have to involve user fees, as public funds collected via taxation can be the source of revenue for the private companies. Where user fees do exist as part of a PPP, these are either passed to the PPP company indirectly via the government, with the government committing to make guaranteed payments to the company, or the private company collects them directly, in which case the company usually insists on the government guaranteeing to make-up any 'shortfall' in income.

UK healthcare PPPs were developed from the mid-1990s as part of a general programme by the UK government to use PPPs to invest in public infrastructure, also including schools, housing, the military, prisons, offices, roads, railways and waste. It is now widely accepted that one of the main reasons the government used PPPs was to avoid the investments appearing in official government debt figures, even though they cost the government more

Figure 1: How a typical PPP works



than if it had borrowed directly to fund the infrastructure. Professor Dieter Helm of Oxford University told a UK parliament investigation PPPs in the UK had been “an exercise to get investment off the public balance sheet so that the debt numbers look better than they otherwise would have done”.<sup>27</sup>

As the IMF’s Fiscal Affairs Department says, “in many countries, investment projects have been procured as PPPs not for efficiency reasons, but to circumvent budget constraints and postpone recording the fiscal costs of providing infrastructure services”.<sup>28</sup> The World Bank’s PPP Reference Guide states that “whether or not PPP commitments are recognized as expenses or liabilities can (...) influence a government’s decision to pursue PPPs, or how to structure them, in a way that is not driven by the fundamental objective of achieving value for money”.<sup>29</sup>

£13.8 billion was invested in UK hospitals through PPPs between 1992 and 2015, accounting for 24% of UK PPPs by value. In return, in order to use these hospitals the UK government has committed to paying £88.1 billion between 1992 and 2050.<sup>30</sup> This figure is not directly comparable to the investment value as it includes operating costs as well as the investment, although the UK’s Secretary of State for International Trade Dr Liam Fox said as recently as April 2017: “NHS hospitals ow[e]

over £80 billion in PFI loan unitary charges, leaving the taxpayer a legacy of debt repayment that will amount to up to 7 times the original capital cost.”<sup>31</sup>

PPPs have cost far more in the UK than if the government had borrowed money directly to invest, and then contracted companies to build the hospital. In 2011 a review by the UK parliament’s Treasury Committee found that “The use of PFI has the effect of increasing the cost of finance for public investments relative to what would be available to the government if it borrowed on its own account.”<sup>32</sup> A 2015 review by the UK National Audit Office, the independent public body responsible for investigating government accounts, found that PPP investment more than doubles a project’s cost to the public sector.<sup>33</sup> A 2008 study found that the average interest rate on PPP debt was 8%,<sup>34</sup> whilst the average rate, fixed for 30 years, on UK government borrowing between 2000 and 2007 was 4.5%.<sup>35</sup>

Health economist Allyson Pollock has said that PPPs are a “one hospital for the price of two” policy.<sup>36</sup> The higher interest alone has doubled the cost of PPP hospitals compared to alternatives, and other costs such as transaction fees, high private sector profits and high service charges mean their cost is probably even higher.

27 <https://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114605.htm>

28 <http://www.imf.org/external/np/fad/publicinvestment/>

29 <https://pppknowledge.org/guide/sections/37-fiscal-accounting-and-reporting-for-ppps>

30 HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

31 <https://www.gov.uk/government/speeches/unlocking-the-full-potential-of-the-uk-gcc-trade-and-investment-relationship>

32 <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114608.htm>

33 National Audit Office. (2015). *The choice of finance for capital investment. March 2015*. <http://www.nao.org.uk/wp-content/uploads/2015/03/The-choice-of-finance-for-capital-investment.pdf>

34 Shaoul, J., Stafford, A. and Stapleton, P. (2008). The Cost of Using Private Finance to Build, Finance and Operate Hospitals. *Public Money and Management*.

35 Calculated from <https://uk.investing.com>

36 [http://www.allysonpollock.com/wp-content/uploads/2013/09/AP\\_2013\\_Pollock\\_PFI\\_Lewisham.pdf](http://www.allysonpollock.com/wp-content/uploads/2013/09/AP_2013_Pollock_PFI_Lewisham.pdf)

## Box 1: UK government senior minister's criticism of PPPs

**“In other countries this would be called looting, here it is called the PPP.”<sup>37</sup>**

BORIS JOHNSON MP, FOREIGN SECRETARY

**“It is outrageous that our local hospital is tied down to paying these excessive [PFI] costs while there is an unacceptable shortage of healthcare provision elsewhere in Essex”.<sup>38</sup>**

PRITI PATEL MP, SECRETARY OF STATE FOR INTERNATIONAL DEVELOPMENT

**“One of my biggest concerns is that many of the hospitals now facing huge deficits are seeing their situation made infinitely worse by PFI debt.”<sup>39</sup>**

JEREMY HUNT MP, SECRETARY OF STATE FOR HEALTH

**“We all know from reports that have gone to parliament the cost that [PFI] has ultimately given the taxpayer.”<sup>40</sup>**

DR LIAM FOX MP, SECRETARY OF STATE FOR INTERNATIONAL TRADE

The extra cost calculated by the UK Treasury Committee and National Audit Office does not include paying private companies profit under PPPs, nor the possibly more expensive running costs of PPPs compared to the public sector managing a hospital directly. Across all PPP projects in the UK, the average annual rate of return (ie profit) on equity invested in PPP projects has been 29 per cent, double the 12–15 per cent presented in business cases at the start of projects.<sup>41</sup>

The scale of these payments is putting pressure on the delivery of health services in the UK.<sup>42</sup> The payments fall primarily on local National Health Service (NHS) Trusts, which do not tend to be compensated by the central UK government to help meet the higher costs of having PPPs to pay for. This, therefore, leads to critical health services being cut. For example, the Calderdale Royal Hospital PPP (see Box 2 on page 10) is a significant contributor to the closure of the nearby Accident and Emergency Department at Huddersfield Hospital, because they are both part of the same Trust.

Jonathan Fielden, chair of the British Medical Association's consultants' committee, has said that PPP debts are “*distorting clinical priorities*” and impacting the treatment given to patients.<sup>43</sup> Jean Shaoul, Professor at

Manchester Business School concludes that PPPs in the UK have been “*an enormous financial disaster in terms of cost*” adding: “*Frankly, it's very corrupt... no rational government, looking at the interests of the citizenry as a whole, would do this*”<sup>44</sup>

The impact of PPPs on healthcare and government finances in the UK have been heavily criticised across the political spectrum. The current Secretaries of State for Foreign Affairs, Health, Trade and International Development have all criticised PPPs in the UK, including in the health sector (see Box 1 above).

Whilst health PPPs can still be built in the UK, their number and value has declined dramatically in recent years. In the six years from 2004 to 2009, 62 health PPPs were agreed, with a total investment value of £8.5 billion. In the following six years from 2010 to 2015, four health PPPs were agreed, with an investment value of £1.1 billion (see Graph 1 on page 9).<sup>45</sup> This decline is probably due to increased awareness of the costs and to changes in accounting rules which means PPP costs are more likely to appear in some government accounts, though they are still excluded from net government debt figures.<sup>46</sup>

The fall in investment in PPPs is not due to declining public investment in health since the UK's financial crisis

37 Milmo, D. (2010). London Underground ordered to plug £460m PPP funding gap. *The Guardian*. 10/03/10. <https://www.theguardian.com/business/2010/mar/10/london-underground-ppp-funding-gap>

38 Hansard HC Deb, 2 June 2015, c449 <http://www.theyworkforyou.com/debates/?id=2015-06-02a.448.3&s=debt#g449.2>

39 Ball, J. (2016). *The New UK Trade Secretary Said In 2013 That The UK Is Bad At Negotiation*. 26/07/16. [https://www.buzzfeed.com/jamesball/what-does-the-fox-say?utm\\_term=.uu9wOgoqm#.xajaEVJon](https://www.buzzfeed.com/jamesball/what-does-the-fox-say?utm_term=.uu9wOgoqm#.xajaEVJon)

40 <http://priti4witham.com/content/mid-esssex-nhs-trust-risk-costly-pfi>

41 European Services Strategy Unit, PPP equity database <http://www.european-services-strategy.org.uk/ppp-database/ppp-equity-database/>

42 [http://www.allysonpollock.com/wp-content/uploads/2013/09/AP\\_2013\\_Pollock\\_PFIlewisham.pdf](http://www.allysonpollock.com/wp-content/uploads/2013/09/AP_2013_Pollock_PFIlewisham.pdf)

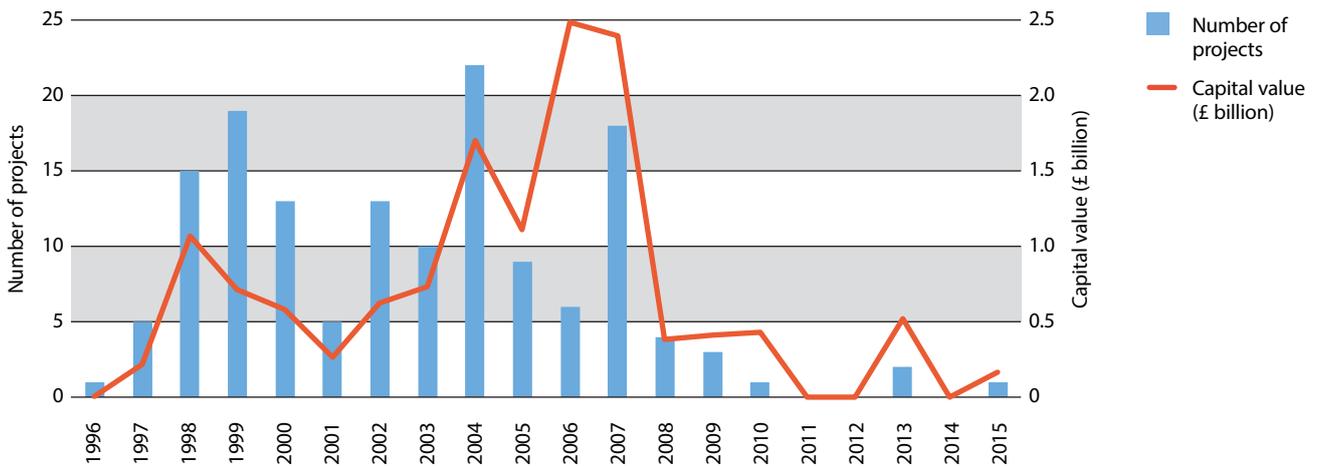
43 <https://www.theguardian.com/healthcare-network/2011/mar/02/pfi-nhs-private-finance-initiative-liverpool>

44 <http://www.independent.co.uk/money/loans-credit/crippling-pfi-deals-leave-britain-222bn-in-debt-10170214.html>

45 These numbers do not include PPPs in local health care facilities under the LIFT programme, as the UK Treasury does not include these in its figures of PFI health facilities. £2.47 billion has been invested in total through LIFT PPPs [http://www.citycare-sharedagenda.co.uk/wp-content/uploads/2016/09/CHP8967-LIFT-Briefin-Documents\\_APPROVED.pdf](http://www.citycare-sharedagenda.co.uk/wp-content/uploads/2016/09/CHP8967-LIFT-Briefin-Documents_APPROVED.pdf)

46 See evidence by David Heald to the UK parliament's Treasury Select Committee <https://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/114605.htm>

Graph 1: Number and value of health PPPs agreed in the UK, 1996–2015<sup>47</sup>



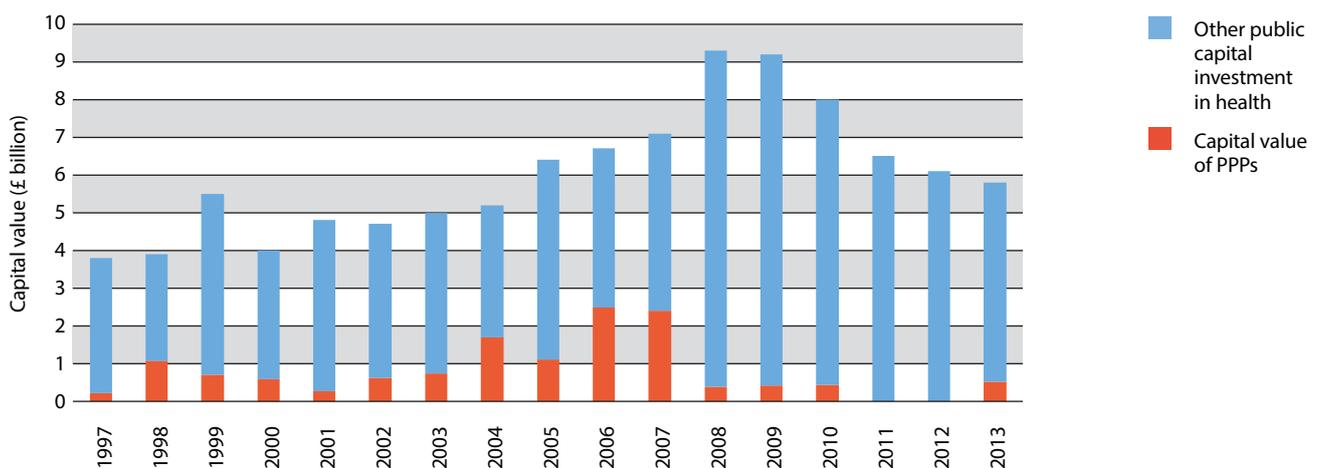
and recession began in 2008. Total public investment in health actually increased in 2008–2010, and while it has fallen since 2010, this does not explain the fall in PPP investment (see Graph 2 below). PPPs made up a much smaller proportion of healthcare investment from 2008–2013 than 2001–2007.

Whilst the UK has completed more health PPPs than any other country in the world, other sources of investment in public healthcare have still been greater. Even at its height in 2006 and 2007, PPPs were only responsible for

35% of UK public health investment. In total between 1997 and 2013 they have been responsible for just 13%, and between 2008 and 2013 just 4% (see Graph 2 below).

For a more detailed review of the problems of PPPs in the UK, see Jubilee Debt Campaign’s briefing *The UK’s PPPs Disaster: Lessons on private finance for the rest of the world* available at <http://jubileedebt.org.uk/reports-briefings/briefing/uks-ppps-disaster-lessons-private-finance-rest-world>

Graph 2: PPP and other public investment in health in the UK, 1997 to 2013<sup>48</sup>



47 Calculated from HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

48 Calculated from HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data> and ONS. *Expenditure on healthcare in the UK* <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthcaresystem/articles/expenditureonhealthcareintheuk/2015-03-26#current-and-capital-healthcare-expenditure>

## Box 2: Calderdale Royal Hospital

Calderdale Royal is a hospital built through a PPP in the West Yorkshire region of northern England between 1998 and 2001. It was initially expected to cost £34 million,<sup>49</sup> but this almost trebled to £98 million by the time it was built.<sup>50</sup> Under the terms of the contract, the local health service has to pay £312 million over 30 years to the private company to cover debt principal and interest payments.<sup>51</sup> In contrast, if the government had borrowed the money directly, with an interest rate at the turn of the millennium of 5%, the total cost over 30 years would have been £127 million.<sup>52</sup> The hospital cost £185 million or 150% more than it should have done. Another hospital and a half could have been built instead.

The local health service also has to pay an additional charge every year for building and maintenance services. This totals £488 million over 30 years, bringing the total cost to £800 million.<sup>53</sup> Local Conservative Member of Parliament Jason McCartney has called the PPP deal “scandalous”<sup>54</sup> whilst local Labour Member of Parliament Barry Sheerman has said: “*What sort of a deal was it when a relatively standard hospital was built but then left with*

*enormous long term debt. Who are these sharp people from the city in suits that have run rings round the hospital trust when it was constructed?*”<sup>55</sup>

The huge payments for Calderdale Royal have contributed to a funding crisis for the local health service, which covers both Calderdale Royal Hospital and Huddersfield Hospital, because the money given to the hospitals by the UK government is not enough to cover all the payments. In response, the decision has been taken to close one of the hospitals’ Accident and Emergency Department. Furthermore, because the local health service is legally obliged to make the high payments to use Calderdale Royal, it has chosen to close the Accident and Emergency at Huddersfield Hospital instead. 130,000 local people have signed petitions against closure,<sup>56</sup> with widespread demonstrations.

Calderdale Royal Hospital PPP has both increased the cost of healthcare for the UK government and thus the British public, and at the same time forced a reduction in health services in the area.

49 Lavigueur, N. (2016). The cost of PFI – Calderdale Hospital was supposed to be built for just £34m. *The Huddersfield Daily Examiner*. 18/01/16. <http://www.examiner.co.uk/news/west-yorkshire-news/cost-pfi-calderdale-hospital-supposed-10753207>

50 HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

51 Some facts and figures about Calderdale Royal Hospital PFI debt repayments <http://www.energyroyd.org.uk/archives/11434>

52 This assumes a mortgage style payment system, where the same total amount is paid every year, with principal being paid off from the start. This replicates the kind of payment schedule as exists under the PPP deal.

53 HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

54 Hansard. (2016). *Huddersfield Royal Infirmary debate*. 02/02/16. <https://hansard.parliament.uk/commons/2016-02-02/debates/1602027000001/HuddersfieldRoyalInfirmary>

55 Lavigueur, N. (2016). *A&E latest: Hospital chiefs have spent years trying to solve Calderdale PFI quandary*. 19/01/16. <http://www.examiner.co.uk/news/west-yorkshire-news/ae-latest-hospital-chiefs-spent-10753165>

56 BBC. (2016). *Huddersfield Royal Infirmary: A&E move a step closer*. 20/10/16. <http://www.bbc.co.uk/news/uk-england-leeds-37718167>

# 3. How the UK is promoting healthcare PPPs

Despite the expensive failure of PPPs in the UK, the UK government continues to promote them around the world. The UK government tells other countries PPPs have been a success, whilst criticising their record in Britain, thus painting an unfair, unbalanced picture of their impact. The promotion of PPPs by the UK government is part of a wider effort being undertaken by international agencies and other governments.

## 3.1 Department of Health and Department for International Trade

In 2013 the Department of Health, NHS England and UK Trade and Investment created Healthcare UK, a public body whose purpose is to promote British companies working in healthcare around the world, including on PPPs. Healthcare UK has promoted PPPs in UK hospitals as being successful, for example in one promotional brochure saying: “Through partnership with the private sector, PPPs enable the delivery of efficient, cost-effective and measurable public services within modern facilities whilst minimising the financial risk. The UK is the acknowledged world-leader in healthcare PPPs, harnessing the best in public and private sector skills and innovation to provide outstanding healthcare facilities.”<sup>57</sup>

An example Healthcare UK uses to promote PPPs is the St Bartholomew’s and The Royal London New Hospitals PPP.<sup>58</sup> This is the largest hospital PPP in the UK, with a huge investment cost of £1.149 billion, and the government committing to pay over six times more – £7.194 billion – to use it between 2007 and 2048.<sup>59</sup> As of 2017, annual payments have reached £135 million and continue to increase each year.

These payments are contributing to huge pressure on local health care services. Managers have responded by cutting services and quality of care. In March 2015, the local health service was found to have serious failings in

quality of care, partly because of the huge costs imposed by the PPP scheme.<sup>60</sup> By 2016, the local health service had the largest financial deficit of any local service in UK history.<sup>61</sup> Professor Chris Ham, chief executive of the health thinktank the King’s Fund said “In the case of Barts, these [financial] pressures have been exacerbated by the costs of a major PFI development.”<sup>62</sup>

The Department for International Trade and Department of Health have promotional literature aimed at other countries saying: “The UK is a world-leading innovator in project financing, particularly through its pioneering approach to public private partnerships (PPPs). These partnerships harness the best in public and private-sector skills for the cost-effective provision of modern, high-quality public services. You can work with UK organisations to develop your own models of PPP, assured by our track record of delivering successful programmes for acute, primary, community and mental health facilities. You can use our integrated PPP offering as a one-stop service, from strategic advice and project management to securing finance.”<sup>63</sup>

Healthcare UK also uses government money to hold events to promote PPPs and UK companies seeking to win contracts linked to health PPPs in other countries. For example, in April 2017, Healthcare UK hosted an event for government officials from Colombia, Mexico and Peru to “inform delegates of the UK’s experience in developing public-private-partnerships” and to help UK companies win contracts on an expected £1.5 billion of healthcare PPPs being developed in Latin America.<sup>64</sup>

## 3.2 Department for International Development

DfID uses UK aid money to promote PPPs through various schemes. Among these was the IFC’s health PPP advisory facility, via the partnership ‘Harnessing non-state actors

57 Healthcare UK (2013). *Public Private Partnerships* [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/266818/07\\_PPP\\_28.11.13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266818/07_PPP_28.11.13.pdf)

58 Healthcare UK (2013). *Public Private Partnerships* [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/266818/07\\_PPP\\_28.11.13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266818/07_PPP_28.11.13.pdf)

59 HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

60 Lister, J. (2015). Bart’s: a flagship hits the rocks of PFI. *New Democracy*. 18/03/15. <https://www.opendemocracy.net/ournh/john-lister/bart%E2%80%99s-flagship-hits-rocks-of-pfi>

61 Campbell, D. (2016). London hospital trust heading for biggest overspend in NHS history. *The Guardian*. 07/02/16. <https://www.theguardian.com/society/2016/feb/07/barts-london-hospital-trust-biggest-overspend-nhs-history>

62 Campbell, D. (2016). London hospital trust heading for biggest overspend in NHS history. *The Guardian*. 07/02/16. <https://www.theguardian.com/society/2016/feb/07/barts-london-hospital-trust-biggest-overspend-nhs-history>

63 Department for International Trade and Department of Health (2016). *The UK: your partner for healthcare infrastructure services*. 03/03/16. <https://www.gov.uk/government/publications/the-uk-your-partner-for-healthcare-infrastructure/the-uk-your-partner-for-healthcare-infrastructure--2>

64 Department for International Trade. (2017). *LATAM Healthcare PPP Networking Event*. 21/04/17. <https://www.events.trade.gov.uk/latam-healthcare-ppp-lunch--networking-event-london/>

for better health for the poor' (HANSHEP). HANSHEP itself, which ran from 2012 to 2016, specifically aimed to promote health PPPs and disseminate lessons learned.<sup>65</sup>

DfID contributed £3.6 million to a total budget of £10.25 million for HANSHEP. The aim was *“to test the possibility to use PPP as an innovative finance mechanism to leverage private sector investment for better delivery of health services to the poor”*.<sup>66</sup> This was set up well after the high costs of UK health PPPs were known and widely publicised.

The project was also meant to collect *“evidence on the adaptation and implementation of health PPPs in low income countries (LICs) and disseminate this evidence together with success stories and lessons learned amongst health and finance policy makers in the developing world”*.<sup>67</sup> However, if this evidence has been collected it has not been disseminated as DfID has refused to release the evaluation of what the Pilot Health PPP Advisory Facility actually achieved.<sup>68</sup>

More generally, DfID has been using aid to fund the institutions pushing PPPs across all sectors. Between 2002 and 2015 DfID disbursed \$832 million from its aid budget to the Private Infrastructure Development Group (PIDG), covering 71% of the contributions by all donors.<sup>69</sup> PIDG works through various subsidiaries to promote PPPs to finance infrastructure in developing countries.

DfID also funds the Public-Private Infrastructure Advisory Facility (PPIAF) which was created by the governments of the UK and Japan in 1999, and is housed in the World Bank. PPIAF works to increase private sector participation in infrastructure, primarily through PPPs.<sup>70</sup> PPIAF says that in 2016 and 2017, DfID will give it \$18 million, just over 50% of its income of \$34.8 million over the two years.<sup>71</sup>

DfID also work with other parts of the UK government to promote health PPPs through their country programmes. For example, in May 2016 DfID and UK Trade and Investment organised a PPP workshop in Istanbul for officials from the government of Afghanistan, including Deputy Ministers for many departments including health. The British Embassy in Kabul later stated that the *“Ministry of Public Health is considering PPP for hospitals”*. UK law firm DLA Piper was one of the companies paid by the UK government to be advisors at

the event.<sup>72</sup> In November 2016 Afghanistan advertised for an advisor to develop the use of PPPs.<sup>73</sup>

### 3.3 Foreign and Commonwealth Office

Through UK embassies and high commissions, the Foreign Office has been playing a key role in promoting health PPPs. This work is often funded by the Prosperity Fund, the Foreign Office's part of the aid budget. The Cross-government Prosperity Fund has a budget of £1.3 billion between 2016 and 2021. This is £55 million a year for 2016–17, rising to £350 million a year by 2019–20.<sup>74</sup> The Institute for Fiscal Studies has warned that the impact of UK aid on reducing poverty is being diluted by the government using it to promote the interests of British companies, and channelling more aid through departments other than DfID, such as the Foreign Office.<sup>75</sup>

The Foreign Office has been using some of this aid to promote PPPs. For example, in July 2015 the British High Commission in Zambia held a training event in PPPs. Acting High Commissioner Sean Melbourne said: *“We are inviting experts from the UK as well as participants from around Zambia to hear about our [the UK's] experience with PPPs, and indeed the Zambian experience, and to see where there are lessons to be learnt. There are, in Zambia, good prospects for a number of projects using the PPP model. Zambia needs to continually look for alternative sources of funding for infrastructure development in order to spur its economic development.”* The training was paid for out of the Prosperity Fund and therefore counted as aid.<sup>76</sup>

Sean Melbourne is quoted on the UK government's website as saying: *“The British Government is keen to promote UK-Zambia trade for the benefit of both countries and to share its expertise in the development and successful implementation of Public Private Partnerships.”*<sup>77</sup> Nowhere is there any indication that PPPs have been widely discredited in Britain, including by government ministers. In April 2016 the British High Commission in Zambia hosted a further training workshop on Public-Private Partnerships.<sup>78</sup>

For the last ten years there has been talk of developing health PPPs in Zambia, though none have actually been completed. Two are listed on the website of the Zambia Development Agency.<sup>79</sup> One of these is listed

65 <http://www.hanshep.org/our-programmes/pilot-health-ppp-advisory-facility>  
66 DfID. (2012). Project Title: Support to Harnessing Non-State Actors for Better Health for the Poor (HANSHEP), 2010-2015. May 2012 [http://iati.dfid.gov.uk/iati\\_documents/3506629.odt](http://iati.dfid.gov.uk/iati_documents/3506629.odt)

67 <http://www.hanshep.org/our-programmes/pilot-health-ppp-advisory-facility>

68 DfID. (2017) *Response to Freedom of Information Request F2017-020 02/02/17*. And DfID. (2017). *Response to request for internal review of response to Freedom of Information Request F2017-020 07/03/17*.

69 *PIDG Annual Report 2015*. [http://www.pidg.org/resource-library/annual-reports/pidg-ar-2015-report-digital-1.pdf/at\\_download/file](http://www.pidg.org/resource-library/annual-reports/pidg-ar-2015-report-digital-1.pdf/at_download/file)

70 <https://ppiaf.org/about-us>

71 *PPIAF Annual Report 2016*. <https://ppiaf.org/documents/4155/download>

72 <https://www.facebook.com/ukinafghanistan/posts/10154086860405631>

73 Partnerships Bulletin. (2016). *Adviser sought for Afghanistan PPPs* <http://www.partnershipsbulletin.com/news/view/109565>

74 <http://icai.independent.gov.uk/html-report/prosperity-fund/>

75 Krutikova, S. and Warwick, R. (2017). *The changing landscape of UK aid*. *The Institute for Fiscal Studies*. <https://www.ifs.org.uk/publications/9201>

76 British High Commission Lusaka. (2015). *UK specialists to offer Zambia Public Private Partnership Training*. 24/07/15. <https://www.gov.uk/government/world-location-news/uk-specialists-to-offer-zambia-public-private-partnership-training>

77 British High Commission Lusaka. (2015). *British High Commission launches PPP training in Zambia*. 27/07/15. <https://www.gov.uk/government/world-location-news/british-high-commission-launches-ppp-training-in-zambia--2>

78 Partnerships Bulletin. (2016). *Zambia road PPP 'close'*. 07/04/16. <http://www.partnershipsbulletin.com/news/view/99805>

79 <http://www.zda.org.zm/?q=content/public-private-partnership-ppp-projects>

as being a hospital in Lusaka. Austrian company AME International conducted consultancy on a PPP hospital for Lusaka between September 2007 and March 2008.<sup>80</sup> In April 2016 the Health Minister, speaking in parliament, indicated a PPP would be pursued for services at part of the University Teaching Hospital in Lusaka, but this would not involve any construction.<sup>81</sup>

In 2013, a PPP hospital was being considered in Solwezi, with scoping for the project funded by HANSHEP (ie, UK aid from DfID) in which a private company would upgrade a hospital, and receive guaranteed minimum amounts from the government and mining companies to use it.<sup>82</sup> So far, there is no evidence of any of these health PPPs in Zambia progressing.

The Foreign Office's use of aid money to promote PPPs both uses UK companies and seeks to win contracts for other UK companies. For example, between 2013 and 2017,<sup>83</sup> UK company LSE Enterprise was contracted by the Foreign Office to "*share with Brazil the UK's expertise and experiences in how to implement an efficient policy and frameworks related to Public-Private Partnerships (PPPs)*"<sup>84</sup> £184,000 was paid out of the Foreign Office's Prosperity Fund to LSE Enterprise and recorded as aid.<sup>85</sup>

The Foreign Office's assessment of this work says that sharing the "*UK experience with PPPs*" led to "*social infrastructure PPPs in areas such as health*" being set as a priority in north-eastern Brazil and that this "*will create significant business opportunities for UK companies*".<sup>86</sup>

The Foreign Office's use of the Prosperity Fund to channel aid money into PPP promotion is likely to continue under current government policy. For example, in January 2016 the Southern Africa Prosperity Fund called for bids from companies for interventions to increase PPPs in infrastructure in Angola, Malawi, Namibia, South Africa and Tanzania.<sup>87</sup>

### 3.4 International Finance Corporation, World Bank

The World Bank, in which the UK plays a major role and is a significant donor, is often central to PPP deals, including in the health sector. Most often this is through

the International Finance Corporation (IFC) part of the World Bank, which exists to fund private companies. For example, the IFC played a central role in arranging the now notorious Queen 'Mamohato Memorial Hospital in Lesotho.

Oxfam and the Consumers Protection Association of Lesotho have exposed the scandal of the hospital where, under the 18-year contract, the private company Tsepong – which was set up to run the PPP (led by South Africa's Netcare) built a new public hospital and delivers all clinical services for it. By 2014 the hospital was already costing the government \$67 million a year, three times more than the old public hospital would have cost, while costs were expected to increase by 64% over the following three years. Oxfam say that shareholders in Tsepong are expecting an annual 25% return on their investment,<sup>88</sup> though the company says it is "*only*" 17% when accounting for inflation.<sup>89</sup>

The IFC played a central role in the project design, including acting on behalf of the Lesotho government in the planning, tendering and contract negotiation. This included being paid a \$720,000 'success fee' when the contract between the government and Tsepong was signed. UK company Turenne Consulting also worked on the PPP.<sup>90</sup>

As well as being paid for concluding PPP deals, the IFC judges its performance on whether deals are completed, rather than assessing their impact on government finances and the quality and coverage of services provided. For example, between 2012 and 2013 the IFC spent \$270,000 advising on two PPP dialysis centres in Bangladesh. The "*Development results*" of the project are listed by the IFC as being that one bid has been conducted and one concession signed, rather than any benefits to the people of Bangladesh.<sup>91</sup>

The UK has also been involved with promoting PPPs in Bangladesh, with the DfID-funded body PPIAF running a programme since 2014 to develop PPP projects in infrastructure and basic services.<sup>92</sup> In September 2014 UK law firm Eversheds were appointed as legal advisors to the Bangladesh government's PPP office.<sup>93</sup>

80 [http://www.ame-international.com/category/projects/consulting\\_engineering/](http://www.ame-international.com/category/projects/consulting_engineering/)

81 <http://www.parliament.gov.zm/node/5303>

82 Mining Health Initiative. (2013). *A novel PPP arrangement to strengthen primary and secondary services in north western province, Zambia: Concept note*. 28/02/13. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210172/Zambia-concept-note.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210172/Zambia-concept-note.pdf)

83 Foreign and Commonwealth Office. (2017). *Response to freedom of information request from Jubilee Debt Campaign*, 15/06/17. Ref: 0496-17

84 <http://www.lse.ac.uk/businessAndConsultancy/LSEEnterprise/news/2014/ppp.aspx>

85 Foreign and Commonwealth Office. (2017). *Response to freedom of information request from Jubilee Debt Campaign*, 15/06/17. Ref: 0496-17

86 Foreign and Commonwealth Office. (2017). *Response to freedom of information request from Jubilee Debt Campaign*, 15/06/17. Ref: 0496-17

87 British High Commission Pretoria. (2016). *Southern Africa Prosperity Fund: Call for Project Bids for 2016/17 19/01/16*. <https://www.gov.uk/government/world-location-news/southern-africa-prosperity-fund-call-for-project-bids-for-201617>

88 Marriot, A. (2014). *Public-private health partnerships: a warning from Lesotho*. Oxfam. <http://policy-practice.oxfam.org.uk/blog/2014/04/ppp-hospital-ilesotho>

89 Netcare (2015) 'Right to reply: "A study in financial extraction: Lesotho's National Referral Hospital"', response from Netcare and Tsepong to draft chapter of Licensed Larceny, letter to the author, 9 December 2015. Available at: <http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Netcare%202015.pdf> (accessed December 2015).

90 <http://turenne.co.uk/projects/lesotho-queen-mamohato-memorial-hospital/>

91 IFC Project Information Appraisal. (2013). Bangladesh Dialysis Centers PPP <https://disclosures.ifc.org/#/projectDetail/AS/598387>

92 <https://ppiaf.org/activity/bangladesh-bangladesh-ppp-program>

93 <http://www.eversheds.com/global/en/what/publications/shownews.page?News=en/uk/appointed-legal-advisors-to-Bangladesh-PPP-Office>

The World Bank’s failure to consider the financial and poverty impact of PPPs was revealed in an evaluation by the Bank’s own Independent Evaluation Group in 2014. This found that of 442 PPPs supported by the World Bank across numerous sectors, assessments of their impact on poverty were conducted for just nine of them (2%), and of their fiscal impact for just 12 (3%).<sup>94</sup>

In 2016 the Independent Evaluation Group also conducted an investigation into World Bank support for health PPPs. This found that the World Bank does not present all options for the provision of health services in a country, with public procurement being considered as an alternative to PPPs in just 8% of cases. The IEG concludes that “the efficiency and desirability from a social perspective of the PPP cannot be established without a comparison with the alternatives, the main one being the public option.”<sup>95</sup>

The IEG also again found that “There is little evidence that fiscal implications are assessed consistently, even if the proposed PPP could have significant fiscal implications” and that there is “inadequate” monitoring and evaluation of health PPPs to be able to track results and learn from experience.<sup>96</sup>

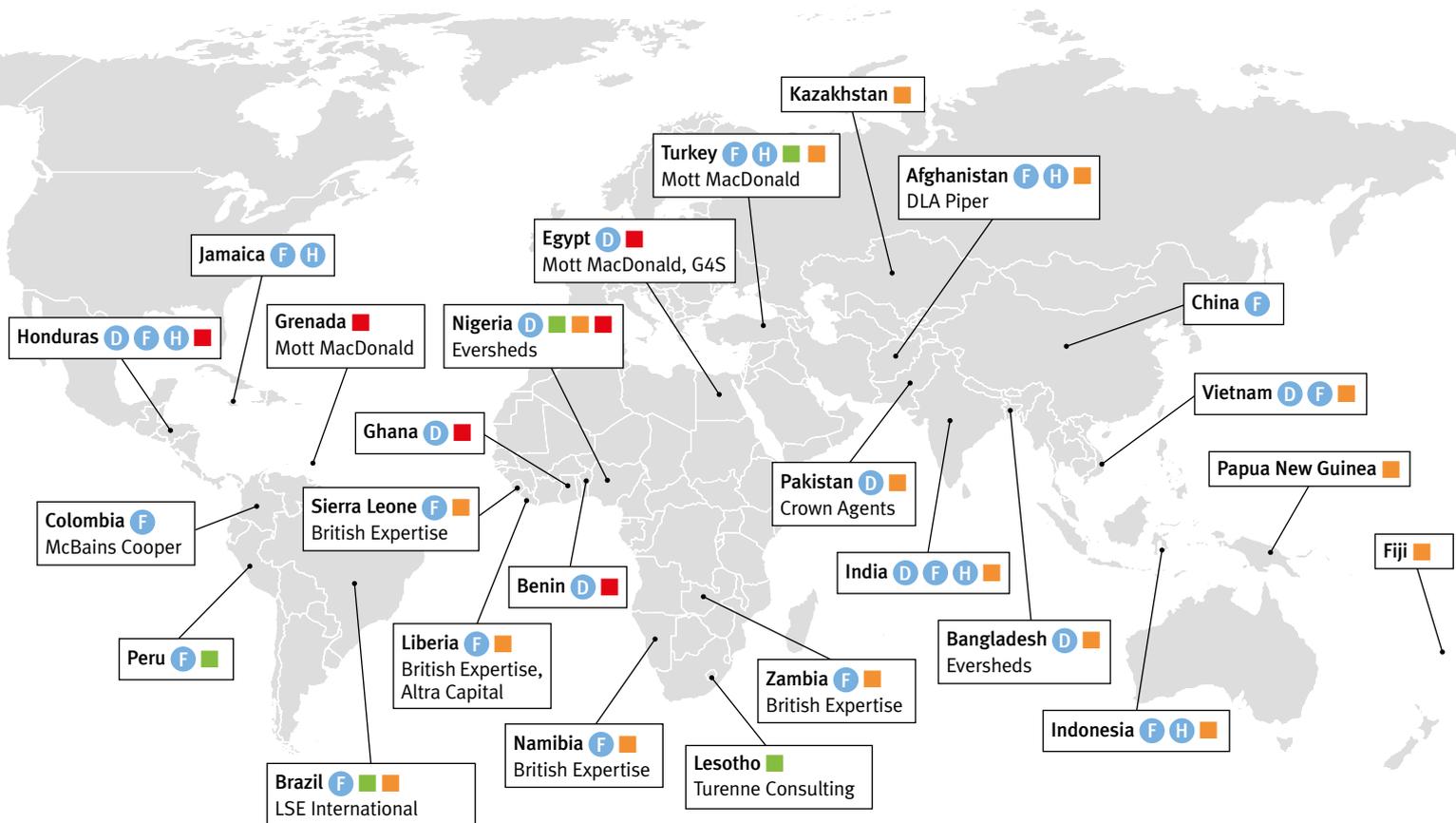
DfID has worked closely with the World Bank on promoting PPPs, as is seen through programmes it has funded bilaterally and set up within the World Bank such as HANSHEP and PPIAF. The UK government also holds 4.5% of the votes at the IFC and is one of just seven countries which have their own Executive Director at the IFC<sup>97</sup> (other countries have to share).<sup>98</sup> Figure 2 below gives details of the UK’s promotion of PPPs and the companies involved.

Figure 2: UK’s promotion of PPPs and the companies involved

**UK promotion of PPPs:** D DfID F Foreign Office H Healthcare UK

**Status of PPPs in health:** ■ Completed ■ Proposed / in development ■ Stalled / cancelled

Detailed information on all the country cases is available online at: [www.jubileedebt.org.uk/appendix](http://www.jubileedebt.org.uk/appendix)



94 IEG. (2014). *World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries*, fy02–1202–12. Page 67.

95 IEG. (2016). *Public-Private Partnerships in Health: World Bank Group Engagement in Health PPPs*. An IEG Synthesis Report. [https://ieg.worldbankgroup.org/Data/reports/lp\\_Health\\_PPP\\_1116.pdf](https://ieg.worldbankgroup.org/Data/reports/lp_Health_PPP_1116.pdf)

96 IEG. (2016). *Public-Private Partnerships in Health: World Bank Group Engagement in Health PPPs*. An IEG Synthesis Report. [https://ieg.worldbankgroup.org/Data/reports/lp\\_Health\\_PPP\\_1116.pdf](https://ieg.worldbankgroup.org/Data/reports/lp_Health_PPP_1116.pdf)

97 The other six are the US, Japan, Germany, France, China and Saudi Arabia.

98 IFC voting power of directors <http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IFCEDsVotingTable.pdf>

## 4. Country cases: The extent of health PPPs in the global South

Because the PPP concept is broad and ill-defined – perhaps deliberately – and is used to refer to many types of relationship between the public and private sectors, it is difficult to estimate the true scale of what is happening in health PPPs. In our analysis we have tried to identify health PPP schemes which are similar to those in the UK – a long-term contract for a private company to build and/or manage all or a significant amount of a healthcare facility. In total we have found 23 countries in which such PPPs in health have been completed, are proposed or in development, or are stalled or cancelled.

We have identified five countries where such schemes have been completed: Brazil, Lesotho, Nigeria, Peru and Turkey.

In Peru, the UK's Foreign Office had a project to *“Use UK experience of Public-Private Partnerships in the health sector to develop the PPP framework and tendering process for health projects in Peru.”* The project was funded with UK aid money.<sup>99</sup>

Two PPP hospitals subsequently opened in Peru in 2014. It has been reported that the total investment was \$126 million and that there are two sets of payments for construction costs – \$11.1 million a year for 15 years and \$9.8 million a year for seven years.<sup>100</sup> This works out at an average equivalent interest cost of 11.1%, compared to Peru being able to borrow at 6% interest through dollar-denominated bonds.<sup>101</sup> However, in addition it has been reported that \$176 million a year is paid by the public sector for the running costs<sup>102</sup> which include clinical as well as non-clinical services.

Alexandro Saco from Peruvian health campaign ForoSalud says that 40 health PPP projects were proposed but *“thanks to campaigning by various sectors they fortunately were not implemented”*.<sup>103</sup> A 2014 study by ForoSalud said: *“There is no evidence to suggest that the greater participation of private finance in health will improve the health conditions of the population. On*

*the contrary, there are studies that point out that PPPs complicate the management of the system and generate greater inequality.”*<sup>104</sup>

In addition, we have found fifteen countries where health PPPs have been proposed or are in development: Afghanistan, Bangladesh, Brazil, Fiji, India, Indonesia, Kazakhstan, Liberia, Nigeria, Pakistan, Papua New Guinea, Sierra Leone, Turkey, Vietnam and Zambia.

The UK has been actively promoting PPPs in Vietnam for several years. The UK Embassy organised a workshop on PPPs for Vietnamese government officials on PPPs in October 2010. Kate Harrison, Deputy Head of Mission at the British Embassy, said PPPs have been a cornerstone of the modernisation of the public service delivery in the UK. She continued: *“I hope that the UK can now share its experience with Vietnam at a time when Vietnam is looking at new ways of finding finance for crucial infrastructure projects.”*<sup>105</sup>

The UK monarchy's Prince Andrew was at the same event and said: *“we see the concept of Public Private Partnerships as being a key ingredient to deliver the necessary infrastructure which will bring increased trade and investment.”*<sup>106</sup>

Between 2012 and 2015 DfID spent £1.4 million of aid money on a project to develop PPPs in Vietnam.<sup>107</sup> Since July 2016 the Foreign Office has been using aid money to *“fund expert analysis of the Public Private Partnership (PPP) financing framework in order to develop the ground rules for government support in financing PPP projects”*.<sup>108</sup>

All the lobbying and promotion by the UK government may have started to pay-off. In May 2017 it was reported that Vietnam *“is attempting to attract private investment in healthcare PPPs”*.<sup>109</sup>

There are also seven countries in which health PPPs have been in development and have either stalled or been

99 FCO. (2013). *PPP framework & tendering process in the health sector [GB-GOV-3-PPY-LAM-1309]* <https://devtracker.dfid.gov.uk/projects/GB-GOV-3-PPY-LAM-1309>

100 Mitchell, J. (2015). *In good health: how the PPP model has revolutionised Peru's hospitals* <http://www.fdiintelligence.com/Locations/Americas/Peru/In-good-health-how-the-PPP-model-has-revolutionised-Peru-s-hospitals?ct=true>

101 See <http://www.reuters.com/article/peru-bonds-idUSL1N0SP36J20141030> and <https://www.investing.com/rates-bonds/peru-government-bonds>

102 Mitchell, J. (2015). *In good health: how the PPP model has revolutionised Peru's hospitals* <http://www.fdiintelligence.com/Locations/Americas/Peru/In-good-health-how-the-PPP-model-has-revolutionised-Peru-s-hospitals?ct=true>

103 Interview with Alessandro Saco, 10/05/17

104 ForoSalud. (2014). RELACIÓN PÚBLICO PRIVADA EN SALUD.

105 <http://www.dtinews.vn/en/news/018/5243/uk-shares-public-private-partnership-experience-with-vietnam.html>

106 <http://www.dtinews.vn/en/news/018/5243/uk-shares-public-private-partnership-experience-with-vietnam.html>

107 DfID. *Public Private Partnership Support Facility [GB-1-203463]* <https://devtracker.dfid.gov.uk/projects/GB-1-203463>

108 British Embassy Hanoi. (2016). *UK to support Vietnam developing its capital markets and Public Private Partnership financing framework. 22/07/16.* <https://www.gov.uk/government/world-location-news/uk-to-support-vietnam-developing-its-capital-markets-and-public-private-partnership-financing-framework>

109 Partnerships Bulletin. (2017). Vietnam seeks healthcare investors. 10/05/17. <http://www.partnershipsbulletin.com/news/view/118873>

cancelled: Benin, Egypt, Ghana, Grenada, Honduras, Namibia and Nigeria. There are therefore more countries with stalled projects than completed ones. In terms of preventing governments from being trapped in expensive PPP schemes this is a good thing. However, it also shows that the promotion of PPPs is wasting time and money, distracting from real solutions to providing better and more widespread healthcare. In the UK, the European Services Strategy Unit has shown that seven PPP hospital projects have been abandoned, but this has still cost the government £51.2 million.<sup>110</sup>

In Egypt, the World Bank's IFC advised the government on the contracts for two new hospitals to be built as PPPs in Alexandria. Contracts were first signed in 2012 and were expected to be completed by 2014. A consortium called Bareeq Hospitals Company won both 20-year contracts, which includes Egyptian private equity firm Bareeq Capital, as well as Egypt's Detac, British company G4S and Germany's Siemens Healthcare.<sup>111</sup> UK company Mott MacDonald was advisor for the PPPs.<sup>112</sup>

In February 2017 the IFC told us that *"While contracts for this project were signed in 2012, the project has not yet reached financial close [ie, reached final agreement]. This is due to the political events that occurred in Egypt, as well as the significant devaluation of the Egyptian pound. The Government of Egypt and Bareeq consortium continue to discuss proceeding with the project, but no agreement has been reached yet"*.<sup>113</sup>

The UK government has continued to push PPPs in Egypt, as a way to spend government money whilst keeping the debt off the books. In 2015/16 DfID spent £1.75 million of aid on courses to promote PPPs, saying *"PPPs are one way for Egypt to fund its infrastructure without worsening the fiscal deficit"* (emphasis added).<sup>114</sup> In reality, any PPP with contractual payments from the government will contribute to the fiscal deficit, and given the UK's experience, probably cause a greater deficit than interest payments on direct government borrowing.

## 5. Country cases: The UK's promotion of PPPs

Of the 23 countries we have identified with active, proposed or stalled health PPPs, in at least 18 of them the UK government has been promoting PPPs, despite its own experience of how ruinously expensive they are. In addition, the UK government has been promoting health PPPs in a further three countries – China, Colombia and Jamaica – though we have not yet found evidence of UK style health PPPs being proposed. The UK's Foreign Office has promoted PPPs in 15 countries, DfID in nine countries and UKTI and/or Healthcare UK in six.

This includes promoting PPPs to some of the most impoverished countries in the world. In Liberia, the UK Embassy in Monrovia ran a training for Liberian government officials and others in PPPs in January 2016, when the country was still recovering from the devastation of the Ebola epidemic. The training was paid

for by the UK government and run by British Expertise International and the Law Society of England and Wales.<sup>115</sup>

The UK Embassy has also funded a PPP readiness assessment report for Liberia by UK company Altra Capital Limited, which was launched at a further two-day PPP training funded by the UK Embassy. The Liberian media reported that British Ambassador David Belgrove said PPPs have *"benefitted other countries, including the United Kingdom"* though he did hint at the huge costs in the UK saying that *"there were lessons learnt along the way."*<sup>116</sup>

Liberia is now planning to build a National Diagnostics Centre (laboratory and radiology services) under a PPP deal at the JFK Medical Centre in Monrovia. The World Bank's IFC *"is advising MoH to develop this health*

110 Whitfield, D. (2017). *PI/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts in UK. European Services Strategy Unit Research Report No. 9*. <https://www.european-services-strategy.org.uk/wp-content/uploads/2017/02/pi-ppp-buyouts-bailouts-and-terminations.pdf>

111 IFC. (2012). *IFC Helps Build Two Hospitals in Alexandria, Improving Health Services in Egypt* <http://ifcext.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/B44B8CE9C05BFE41852579F000349AD9>

112 <https://www.mottmac.com/article/2501/alexandria-hospitals-ppp-egypt>

113 Email from IFC to Jubilee Debt Campaign, 28/02/17.

114 DfID. (2015). *CSSF Strand document: Economic stability in Egypt*. [http://iati.dfid.gov.uk/iati\\_documents/5184074.odt](http://iati.dfid.gov.uk/iati_documents/5184074.odt)

115 <https://www.facebook.com/UKinLiberia/posts/1707313472873351>

116 Daily Observer. (2017). Liberia: 'GOL Spends U.S.\$100 Million On Public Investment Infrastructures' 15/02/17. <http://allafrica.com/stories/201702150468.html>

projects [sic] as a Public Private Partnership".<sup>117</sup> The IFC told us at the end of February 2017 that the project has not yet been tendered, but that bidding for the project will take place in "coming months".<sup>118</sup>

The UK Foreign Office has also been using British Expertise International to promote PPPs in neighbouring Sierra Leone. In January 2016 the UK High Commission funded a two-day PPP workshop for Sierra Leone government officials, run by British Expertise International and the Law Society of England and Wales. Speaking at the opening address, the Deputy High Commissioner, Paul McGrade, emphasised the role of private sector finance in the delivery of the Government's six post-Ebola recovery priorities, which the UK supported. He highlighted the potential for PPPs to "create a partnership approach that can bring in investment" and he hoped the workshop would "identify practical ways of improving the business environment, in which partnership with private sector investment can be made more attractive".<sup>119</sup>

In May 2016, it was announced that a consultant is being sought for a proposed health PPP in Sierra Leone. The IFC is again "advising the department to develop the health project as a PPP".<sup>120</sup>

Another country receiving such training is Namibia. In February 2016, the British High Commission in Namibia held a two-day training session "to share key lessons arising from UK experience" in order "to support the development of PPP" in Namibia. The training was again run by UK company British Expertise alongside the Law Society of England and Wales.<sup>121</sup>

The government of Namibia has shown interest in PPPs in the health sector,<sup>122</sup> and a PPP sub-unit has been created in the Ministry of Health.<sup>123</sup> In February 2017 the National Council (Parliament) rejected a PPP Bill. The Standing Committee chairperson Lebbius Tobias expressed concern that PPPs might be too costly for the country and would result in the country moving into further financial

strain.<sup>124</sup> However, the Act was subsequently passed in June 2017.<sup>125</sup>

In some cases the UK has even tried to promote healthcare PPPs by bringing over officials from other governments to visit UK PPP hospitals it otherwise regards as unaffordable. In December 2015, the British Embassy held a three-day seminar to promote PPPs in Honduras. The British Embassy for Honduras said: "The United Kingdom encourages the development of PPPs".<sup>126</sup> This was followed-up in September 2016 when the Foreign Office, along with the UK Treasury, held a workshop on PPPs for 14 officials from the governments of El Salvador, Guatemala and Honduras. The workshop visited UK PPP projects including West Middlesex Hospital.<sup>127</sup>

West Middlesex Hospital PPP was completed in 2003 with an investment cost of £55 million, yet government guaranteed payments for the hospital total £458 million between 2004 and 2036.<sup>128</sup> West Middlesex Hospital PPP was criticised by then Conservative Secretary of State for Health Andrew Lansley in 2013 as one of several hospitals which "have been landed with PFI deals they simply cannot afford".<sup>129</sup> In 2011 the right-wing Daily Telegraph newspaper listed the deal as one of 22 health PPPs which could lead to hospitals closing because of excessive costs.<sup>130</sup>

The DfID funded PPIAF also have a programme to help Central American countries, including Honduras, "to develop, manage and implement PPP investment projects",<sup>131</sup> across different sectors.

Turkey is one of the countries more advanced in implementing healthcare PPPs, and again the UK government has been very active in promoting them. For example, Turkish officials have been brought to the UK to visit PPP hospitals.

In 2013, Turkey passed a law to allow Build-Lease-Transfer hospital PPPs, a very similar model to the UK, with private companies given public land on which to

117 World Bank National Diagnostic Center (lab and radiology services) PPP Project, Liberia #1209998 <https://nl4worldbank.files.wordpress.com/2016/01/1209998-national-diagnostic-centerlab-and-radiology-servicesppp-project-liberia.docx>

118 Email from IFC to Jubilee Debt Campaign, 28/02/17.

119 British High Commission Freetown. (2016). *British High Commission Supports PPP Training in Sierra Leone*. 26/01/16. <https://www.gov.uk/government/world-location-news/sierra-leone-mdas-private-sector-trained>

120 Partnerships Bulletin. (2016). Eol for Sierra Leone health PPP. 18/05/16. <http://www.partnershipsbulletin.com/news/view/101872>

121 British High Commission Windhoek. (2016). *UK delivers Public Private Partnership (PPP) workshop in Erongo*. 16/02/16. <https://www.gov.uk/government/world-location-news/uk-delivers-public-private-partnership-ppp-workshop-in-erongo>

122 Republic of Namibia Ministry of Health and Social Services. (2014). *Public Private Partnership Framework: Discussion Paper*. 31/03/14. [http://www.mhss.gov.na/files/downloads/c68\\_PPPF\\_A5\\_Booklet\\_Correction\\_REPRO2.pdf](http://www.mhss.gov.na/files/downloads/c68_PPPF_A5_Booklet_Correction_REPRO2.pdf)

123 <https://pppknowledge.org/countries/namibia>

124 Konstantinus, E. (2017). *Why the PPP Bill was rejected*. New Era. 21/02/17. <https://www.newera.com.na/2017/02/21/why-the-ppp-bill-was-rejected/>

125 Kahiurika, N. (2017). PPP Act is like a marriage – Geingob. *The Namibian*. 13/06/17. <http://www.namibian.com.na/55565/read/PPP-Act-is-like-a-marriage-%E2%80%93-Geingob>

126 British Embassy Guatemala City (for Honduras). (2015). *UK encourages the development of public-private partnerships in Honduras and Central America*. 01/12/15. <https://www.gov.uk/government/world-location-news/uk-encourages-the-development-of-public-private-partnerships-in-honduras-and-central-america>

127 British Embassy Guatemala City. (2016). United Kingdom hosts UK – Central America PPP conference. 03/10/16. <https://www.gov.uk/government/world-location-news/united-kingdom-hosts-uk-central-america-ppp-conference>

128 HM Treasury. (2016). *Private Finance Initiative and Private Finance 2 projects: Current projects as at 31 March 2015* <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2015-summary-data>

129 Cumber, R. (2011). *West Middlesex Hospital identified as 'being at risk'*. 28/09/11. <http://www.getwestlondon.co.uk/news/local-news/west-middlesex-hospital-identified-being-5983702>

130 *The Telegraph*. (2011). PFI fiasco: the hospitals under threat of closure. 22/09/11. <http://www.telegraph.co.uk/news/health/8779695/PFI-fiasco-the-hospitals-under-threat-of-closure.html>

131 <https://ppiaf.org/activity/latin-america-and-caribbean-central-america-regional-ppp-program-phase-i-years-1-and-2>

build hospitals which are then leased back to the state using fixed contracts for 25–30 years, after which the hospital comes into state ownership.<sup>132</sup>

In September 2014, the UK government organised a three-day mission in the UK for Turkish officials from the Ministry of Health, and Turkish business people, – called “*Healthcare is GREAT*” – to learn about PPPs in the health sector. According to a spokesperson for Healthcare UK, the mission: “*spent three busy days ‘seeing and doing’, getting together for formal and informal meetings, having in-depth discussions on a range of topics including talking about how PFI and PPP has worked well in the health sector, and where it has been more of a challenge. In Britain, we’ve been there and done it, so the Turkish contractors and officials were very interested in learning from our experiences. The objective of the visit was to give the contractors some insight into what British companies have to offer.*”<sup>133</sup>

The continued development of healthcare PPPs in Turkey suggests officials were not given the opportunity to learn from the UK’s real experience of healthcare PPPs. In October 2016, the consultancy Frost & Sullivan listed 15 hospitals in Turkey for which PPP contracts have been signed, with a total ‘investment value’ of \$8.4 billion.<sup>134</sup> The IFC states that the programme is expected to consist of 50 projects with investment totalling €20 billion. For one hospital, in Adana, in a conflict of interest the World Bank’s IFC both acted as an advisor to the Turkish government, and an investor alongside the private sector.<sup>135</sup> Contracts have been signed and the hospital is currently being built.

In January 2017, the British Embassy funded UK company Strategic Healthcare Planning to run a “*series of two-day workshops for the Turkish Ministry of Health on the subject of PPP in healthcare*”.<sup>136</sup> The workshop coincided with the opening of Turkey’s first PPP hospital at Yozgat, a scheme in which Strategic Healthcare Planning had been previously involved.<sup>137</sup>

The private equity investors in both Yozgat and Adana appear to be three Turkish companies alongside French company Meridiam. The private bank lenders to Yozgat are Mitsui Banking Corporation and the Bank of Tokyo Mitsubishi (both Japanese), Germany’s Siemens and Italy’s Intesa. The UK government says British company Mott MacDonald has acted as an advisor on the first six hospital PPPs (Kayseri, Etlik, Bilkent, Ikitelli, Gaziantep and Adana).<sup>138</sup>

DfID has also joined Healthcare UK in specifically pushing healthcare PPPs. In Pakistan, the Punjab health department say DfID consultants have been helping prepare PPPs in healthcare.<sup>139</sup> UK company The Crown Agents were funded by the UK government to run a project with the Pakistan government, part of which was “*to promote public private partnerships*”.<sup>140</sup> The Crown Agents reported that as a result of this “*The government is now pursuing PPP strategies by enacting a new law and taking steps to launch PPP initiatives in some sectors.*”<sup>141</sup> The government of Punjab province has now proposed using PPPs to build new hospitals.<sup>142</sup>

132 Frost Perspectives. (2016). *An Analysis of Public-Private-Partnership (PPP) Hospital Campuses Construction Programme of Turkey*. 03/10/16. <https://www2.frost.com/frost-perspectives/analysis-public-private-partnership-ppp-hospital-campuses-construction-programme-turkey/>

133 Barr, A. (2014). *How we’re helping Turkey deliver its massive £8bn healthcare initiative*. 05/09/14. <https://healthcareuk.blog.gov.uk/2014/09/05/how-were-helping-turkey-deliver-its-massive-8bn-healthcare-initiative/>

134 Frost Perspectives. (2016). *An Analysis of Public-Private-Partnership (PPP) Hospital Campuses Construction Programme of Turkey*. 03/10/16. <https://www2.frost.com/frost-perspectives/analysis-public-private-partnership-ppp-hospital-campuses-construction-programme-turkey/>

135 IFC. (Undated). *Public-Private Partnership Stories. Turkey: Turkish Healthcare PPP Program Adana Hospital Complex* <https://www.ifc.org/wps/wcm/connect/90df2d804a5fb6b19cfedd9c54e94b00/IFC+PPP+Stories+Turkey+Adana.pdf?MOD=AJPERES>

136 Strategic healthcare planning. (2017). *PPP Workshops in Ankara*. 24/01/17. <http://www.shp-uk.com/ppp-workshops-ankara/>

137 Strategic healthcare planning. (2017). *PPP Workshops in Ankara*. 24/01/17. <http://www.shp-uk.com/ppp-workshops-ankara/>

138 Department for International Trade and Department of Health (2016). *The UK: your partner for healthcare infrastructure services*. 03/03/16.

<https://www.gov.uk/government/publications/the-uk-your-partner-for-healthcare-infrastructure/the-uk-your-partner-for-healthcare-infrastructure--2>

139 Gillani, W. (2015). From public to public-private. *The News on Sunday*, 28/06/15. <http://tns.thenews.com.pk/from-public-to-public-private-health-facilities/#.WRXEDLyuUn>

140 <http://www.crownagents.com/our-work/projects/detail/strengthening-pakistan-governance>

141 <http://www.crownagents.com/our-work/projects/detail/strengthening-pakistan-governance>

142 Dawn (2017). *Public-private partnership to be introduced in health sector*. 24/01/17. <https://www.dawn.com/news/1310355/public-private-partnership-to-be-introduced-in-health-sector>

# 6. The funding of health investments

## 6.1 PPPs do not provide new sources of funding and are generally more expensive than direct borrowing by public bodies

Proponents of PPPs speak as if they are the only way that governments can access otherwise unobtainable private investment to fund public healthcare. This is not true.

Investment in healthcare has to be paid for either by user fees or government spending. Moving towards greater use of user fees has consistently been shown to reduce access to healthcare, especially for the poor, and increase gender and other inequalities.<sup>143</sup> Of course, where public health services are lacking, those who can afford it resort to private provision. But the aim of public policy should be to improve that provision to achieve what exists (at least for the moment) in the UK – healthcare free at the point of use.

PPPs work by a private company borrowing money<sup>144</sup> to invest in a healthcare facility, while the government guarantees to pay to use it, or guarantees a certain level of income from user fees. If instead a government borrows money<sup>145</sup> to invest in a healthcare facility, guaranteeing to make debt payments, it accesses exactly the same source of finance – public or private lenders – and repays the debt using exactly the same source of funds – government spending (and/or user fees if these exist in country's health system). PPPs are no magic alternative source of funding public healthcare, they have exactly the same source of finance and means to repay as government borrowing. As an IMF working paper on PPPs says: *“From the perspective of cash-based government budget, PPPs may seem to allow for infrastructure ‘off-budget’ and ‘for free’ in the short term. Such a misperception results in a common government bias in favor of PPPs. Many governments even set up PPPs to take advantage of the feature and circumvent budget constraints. However, ceteris paribus, PPPs only change the timing of government cash spending, but not the total net present value.”*<sup>146</sup>

PPPs also do not give access to any private ‘expertise’ that would not otherwise be available. For instance, governments are still likely – and fully able – to use

borrowed money to hire a construction firm to build a hospital if they borrow money themselves rather than through a PPP.

Furthermore, while PPPs offer no new access to finance than previously existed, in the UK they have been hugely more expensive. As an IMF Working Paper says more widely: *“Large fiscal costs and fiscal risk have arisen from PPPs in both developing and advanced countries. Both traditional procurement and PPPs share common project risks, such as construction and demand risks. However, the above government bias and possible manipulation of PPPs add an important layer to the common project risks. An inadequate budgetary and/or statistical treatment may allow governments to ignore the impact of PPPs on public debt and deficit. In practice, governments often end up bearing more fiscal costs and risks than expected in the medium and longer term.”*<sup>147</sup>

Maximilien Queyranne from the IMF Fiscal Affairs Department warns that the fiscal risks of PPPs are *“potentially large”* because they can be used to *“move spending off budget and bypass spending controls”* and *“move debt off balance sheet and create contingent and future liabilities”*.<sup>148</sup>

There are various reasons why PPPs are likely to be more expensive for the government than direct borrowing:

### 1) Cost of investment

Whether investment is through a PPP or direct government borrowing, the main determinant of the interest rate paid should be the confidence in the government's ability to repay. However, in the UK's case the interest rate on PPPs has been more than double the rate the government pays on its own debt. Adding the private intermediary appears to increase the interest rate paid by making the government one step removed, even though the PPP repayments are guaranteed by the government or public body.

### 2) Lack of competition

With a PPP contract there is only one possible moment of competition – the bidding for the long-term contract. The benefits of any efficiency improvements after this point

143 For example see Nanda, P. (2002). Gender dimensions of user fees: implications for women's utilization of health care. *Reprod Health Matters*. 2002 Nov;10(20):127-34. <https://www.ncbi.nlm.nih.gov/pubmed/12557649>  
And Johnson, A., Goss, A., Beckerman, J. and Castro, A. (2012). Hidden costs: The direct and indirect impact of user fees on access to malaria treatment and primary care in Mali. *Social Science & Medicine* XXX (2012) 1-7 <https://www.musohealth.org/docs/articles/HiddenCostsJohnsonetal2012SSM.pdf>

144 From the public or private sector

145 From the public or private sector

146 Jin, H. and Rial, I. (2016). *Regulating Local Government Financing Vehicles and Public-Private Partnerships in China*. IMF Working Paper WP/16/187 <http://www.imf.org/external/pubs/ft/wp/2016/wp16187.pdf>

147 Jin, H. and Rial, I. (2016). *Regulating Local Government Financing Vehicles and Public-Private Partnerships in China*. IMF Working Paper WP/16/187 <http://www.imf.org/external/pubs/ft/wp/2016/wp16187.pdf>

148 Queyranne, M. (2014). *Managing Fiscal Risks from Public-Private Partnerships*. Presentation in Yaounde, March 2014.

go entirely to the private company, with no savings being passed on to the public. In contrast, if the government retained control over the project and brought in private companies for selected parts of it, such as different elements of the construction, there would be competitive bidding at each such step. Not using PPPs can be significantly more competitive than the monopoly of a long-term PPP contract.

Furthermore, even for the initial contract there are often very few bidders. Then, real negotiations only really begin at the ‘preferred bidder’ stage where one company has already been selected, and so therefore has already become a monopoly.

### 3) Lack of transparency

Similarly, one long-term contract with one company allows payments related to a public service to be hidden behind the mask of ‘commercial confidentiality’. This lack of transparency of PPPs increases the opportunity for corruption between the private and public sectors, and the inflated costs this puts on the public sector.

Public officials can benefit in various ways from favouring private companies, some less direct than others. One way PPPs are particularly susceptible to corruption is through the negotiation or renegotiation which takes place after the initial bids. In the Odebrecht corruption scandal in Latin America, the Brazilian company won contracts “by making low bids and then corruptly secur[ing] big increases in costs through addenda—in some cases when the ink on the contract was barely dry”.<sup>149</sup> *The Economist* reports that “José Luis Guasch, formerly at the World Bank, has found that 78% of all transport PPPs in Latin America have been renegotiated, with an average of four addenda per contract and a cost increase of \$30m per addendum ... Such contract changes can be ‘fertile ground for corruption’, Mr Guasch says.”<sup>150</sup>

The UK is not immune from links between government officials and private companies. Alan Milburn was UK Secretary of State for Health between 1999 and 2003, and therefore oversaw much of the healthcare PPP programme. Since leaving government he has been given jobs with consultancy PwC to “grow its presence in the health market”<sup>151</sup> and Bridgepoint Capital which has been involved in financing private health care companies moving into the UK’s NHS.<sup>152</sup>

### 4) Profit for private companies

Private companies of course seek a profit on their involvement in PPPs. In the UK and Lesotho healthcare PPPs, the annual return on equity investments has been around 25%. If a government borrows directly there are no high profits to be paid on equity invested, because all the investment comes from borrowing, and so the cost is only the interest rate paid by the government. Hence more public funds are available to be invested in healthcare provision.

### 5) Complexity of contracts

The long-term and all-encompassing nature of PPP contracts makes them highly complex, covering a huge range of construction and operational issues and eventualities over 20 or more years. This leaves under-resourced or inexperienced governments at risk of being completely out-manoeuvred by the experienced private companies and their consultants and lawyers who, as has been seen in the UK, are adept at ensuring they get a high return at low risk to themselves. Gordon Brown, former UK Finance Minister and Prime Minister who oversaw the healthcare PPP programme in the UK, said at a conference in London in November 2015: “the private sector try to transfer all the risk of PPPs back to public sector, as we found to our cost in the UK with PFI schemes”.<sup>153</sup>

### 6) High transaction costs

This complexity also means expensive lawyers and consultants are hired in by both sides of a deal, pushing up the transaction costs. Research for the European Investment Bank has found that such transaction costs for PPP deals have not received much attention, but amount to “well over 10% of the total project capital value”.<sup>154</sup>

### 7) Reducing budget flexibility

Finally, signing a long-term contract for a PPP ties a government in to paying for the service provided for the contract’s length. In the UK’s case this has been at least three decades. There is no flexibility to change services in response to changes in the population and / or improvements in government capabilities, experience and policy. Similarly, where projects go wrong, the risk remains with the public sector, rather than being passed on to the private sector. Maximilien Queyranne from the

149 *The Economist*. (2017). The Odebrecht scandal brings hope of reform. 02/02/17. <https://www.economist.com/news/americas/21716105-revelations-wholesale-bribery-may-mark-turning-point-latin-americas-battle-against>

150 *The Economist*. (2017). The Odebrecht scandal brings hope of reform. 02/02/17. <https://www.economist.com/news/americas/21716105-revelations-wholesale-bribery-may-mark-turning-point-latin-americas-battle-against>

151 Reed, K. (2013). *Alan Milburn takes PwC health role*. *Accountancy Age*. 24/05/13. <https://www.accountancyage.com/aa/news/2270407/alan-milburn-takes-pwc-health-role>

152 Walker, T. (2014). ‘Poverty tsar’ Alan Milburn makes a million. *The telegraph*. 24/01/14. <http://www.telegraph.co.uk/news/10593106/Poverty-tsar-Alan-Milburn-makes-a-million.html>

153 Brown, G. (2015). Speaking at the CAPE 2015 conference, Overseas Development Institute, London, 11 November 2015.

154 Dudkin, G. and Väilä, T. (2005). *Transaction costs in Public-Private Partnerships: A first look at the evidence*. European Investment Bank. [http://www.eib.org/attachments/efs/efr\\_2005\\_v03\\_en.pdf](http://www.eib.org/attachments/efs/efr_2005_v03_en.pdf)

IMF Fiscal Affairs Department warns that PPPs “reduce budget flexibility in the long term”.<sup>155</sup>

Despite this extra expense, the reason PPPs are attractive to governments is that they enable investment to take place without the debt appearing on the government books. This allows governments to circumvent national budget rules and accountability processes, or rules and analyses from lenders on debt sustainability. A widely acknowledged reason the UK government undertook so many PPPs was in order to invest without the debt being added to the official public debt figures.

## 6.2 Public borrowing and taxation

Ultimately the best source of funds to pay for healthcare investments and ongoing services is government revenue raised from taxation. This allows for service provision to be universal – ensuring equal treatment for all regardless of income or wealth – and cost effective, through efficiencies of scale and not needing to run complex and costly insurance schemes.

Ideally enough income would be collected in taxes to fund both ongoing services and investment in health, and so there would be no need for borrowing and paying interest. However, the reality is that for many countries government revenue is well below what is needed to provide a decent health service to meet basic needs. Increasing taxation of those who can most afford it, including tackling tax avoidance and evasion, is key to being able to fund sustainable health services. Borrowing for health investment can enable more needs to be met now, but the interest paid on borrowing means a higher cost to governments in the future. Unfortunately, the history of debt crises over the last four decades shows that when debt payments are high, public services including health are cut. There are currently 29 governments in the global South which spend more on external debt payments than they do on healthcare (see Table 1 opposite).

While government borrowing is likely to be a cheaper way to fund health investments than PPPs, governments should still exercise caution that borrowing will not lead to unsustainable finances and runaway public debts, and so reduced funding for healthcare, in the future. But borrowing for healthcare investment can provide an economic as well as social return, as a healthier population can be more productive and skilled workers are more likely to stay in countries where decent healthcare is provided.

**Table 1: Countries in which external debt payments are higher than health expenditure, as a proportion of government revenue, as of 2016**

	External debt payments as proportion of government revenue <sup>156</sup>	Public health expenditure as proportion of government revenue <sup>157</sup>
Angola	44.0	6.0
Lebanon	42.0	14.0
Chad	39.2	11.1
Ghana	36.8	11.6
Bhutan	27.1	7.8
Montenegro	26.8	8.4
Sri Lanka	23.7	16.0
Grenada	23.5	11.5
Jamaica	23.1	10.7
Fiji	21.5	10.7
Belize	20.9	13.4
Mozambique	20.2	12.4
Lao P.D.R.	18.2	4.1
Tunisia	16.6	15.4
Gabon	16.1	9.0
Central African Republic	14.9	13.1
Georgia	14.7	5.5
Pakistan	13.7	6.0
Mauritania	12.4	7.4
Democratic Republic of the Congo	11.2	11.0
Morocco	10.3	7.1
Senegal	10.1	9.8
Yemen	9.7	5.4
Côte d'Ivoire	9.7	8.6
Ukraine	9.2	8.9
Bangladesh	8.6	7.2
Tajikistan	7.8	7.0
Cameroon	7.7	5.2
Azerbaijan	5.3	3.2

<sup>155</sup> Queyranne, M. (2014). Managing Fiscal Risks from Public-Private Partnerships. Presentation in Yaounde, March 2014.

<sup>156</sup> Where they are available, the figures for government external debt payments as a proportion of revenue come from IMF and World Bank Debt Sustainability Assessments conducted for individual countries since the start of 2016. In total these cover 44 countries in the global South. <http://www.imf.org/external/pubs/ft/dsa/lic.aspx?t=0&pg=0> For other countries government external debt payments are from the World Bank's International Debt Statistics 2017 and

figures for government revenue are calculated from the IMF's World Economic Outlook Database, October 2016 <http://blogs.worldbank.org/opendata/2017-edition-international-debt-statistics-out> <http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx>

<sup>157</sup> Calculated from World Bank World Development Indicators database and IMF World Economic Outlook database, October 2016 <http://blogs.worldbank.org/opendata/2017-edition-international-debt-statistics-out> <http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx>

When governments borrow, there are two crucial decisions to be made – whether to borrow from domestic savers or external lenders, and whether to borrow in foreign currencies such as dollars, or in the local currency.

For many countries in the global South, government borrowing is one of the main sources of foreign currency, and foreign currency is needed to buy imports. Borrowing from external, rather than domestic, sources is therefore ultimately needed to fund imports of equipment and expertise from outside the country. But where investment can be sourced locally domestic borrowing can and

should be used. Any health investment is likely to be able to use significant local materials and workers, for example by using local construction firms. But imports of certain equipment and expertise are also likely to be needed, suggesting mixed sources of lending. Such decisions currently tend to be taken at a macro-level across all government borrowing. However, the more the requirements of individual projects are used to determine these macro-level decisions, the more clearly they can be tied to the rationale behind investment projects, and the more likely the lending will be invested well.

## 7. Recommendations

As campaigners in the UK, we focus our recommendations on what the UK government and institutions in which the UK government plays a large role, such as the World Bank, should do.

The UK government has consistently criticised the expense of health PPPs in the UK, yet spends considerable resources promoting them globally. It should stop this immediately, and tell the world the true cost and risks of health PPPs.

### 1) UK aid should stop funding schemes which solely promote PPPs.

It is right for UK aid money to be spent on helping countries work out the best solutions to providing quality, sustainable healthcare which reaches the poor.

This should be done by being willing to fund the option that works best in the country. However, DfID money for schemes such as HANSHEP, PPIAF and PIDG by definition promote PPPs rather than making money available to be spent on other forms of healthcare investment. Money should be put into funds that are open to a range of solutions that are nationally and locally appropriate.

### 2) UK aid and the World Bank should only support health investments which are accountable and have been shown to be the best solution from the point of view of cost, quality and providing universal access to healthcare.

No health investment should be supported unless it is shown beforehand that it is cheaper than alternative means of investment. This would maximise the amount of public funds that go directly into healthcare investment rather than being channelled out of the health sector

as profits to investors. Any health investment should also meet a set of principles around increasing access for the poor, being a step towards providing universal health coverage, maintaining respect for human rights, preserving the right to redress, ensuring the project does no harm, and maximising social benefit.<sup>158</sup>

Whether or not PPPs are introduced should be determined by policy processes in the country concerned. Donors should only support schemes which meet the criteria above, and they should never require PPPs as a policy condition of wider programmes such as IMF loans and World Bank and bilateral donor direct budget support.

### 3) DfID and the World Bank should only support health investments which are fully included in the government accounts, including all realised and contingent liabilities which arise from them.

The obligations from all health investments should be included in national accounts to ensure accountability and that all mechanisms are treated on a level playing field. Governments and financial institutions should not support any investments which hide liabilities.

### 4) The IMF and World Bank should include all the costs of PPPs in their Debt Sustainability Analyses.

At present, the contingent and realised liabilities from PPPs are not fully included in Debt Sustainability Analyses. They should be, to ensure that PPPs are not used as a way to hide liabilities, and to ensure all mechanisms for investment are accounted for in the same way.

<sup>158</sup> For example see <http://www.eurodad.org/files/pdf/55379eda24d40.pdf>

### 5) UK government aid should not be spent through the Foreign Office.

It has been shown that where aid spending is influenced by the desire to win business for British companies, it reduces its effectiveness in delivering genuine inclusive, pro-poor, sustainable development outcomes.<sup>159</sup> The Foreign Office's use of aid money to promote PPPs in the hope of creating contracts for British companies is part of this reduction in the effectiveness of aid. Because the department's role is to promote British interests, rather than reduce poverty, this is always likely to be the case.

### 6) The UK Foreign Office, UK Trade and Investment, Healthcare UK and DfID should tell partner governments and citizens in the global South the truth about PPPs in the UK.

Where they do offer advice and publicity on healthcare in the UK to other governments, they should tell the truth about how ruinously expensive health PPPs have been in the UK. This means their literature needs to be rewritten. If they do offer trainings related to investment in healthcare, these should truthfully set out how health PPPs have been more expensive to the government than alternatives and are now harming the provision of services. They should also provide a range of options for funding healthcare, with a fair and accurate analysis of their advantages and disadvantages, including from the point of view of value for money for the public sector.

To undo the damage they have already done, the Foreign Office, UKTI and Healthcare UK should fund a tour, out of non-aid money, to all the countries in which they have promoted PPPs, and tell the truth about the UK's experience of health PPPs and the cost to the UK public.

### 7) The UK government should urgently advance measures to tackle tax avoidance and evasion.

Collecting tax from those who can most afford to pay, ie progressive taxation, is the key solution to being able to finance good quality, sustainable health services. Measures needed to increase progressive tax revenue collection will vary country by country. As a key global

financial centre, the UK has a particular responsibility to help tackle tax avoidance and evasion. This includes:

- Supporting the creation of an intergovernmental body on tax matters with universal membership under the auspices of the UN.
- Toughening the UK's anti-tax haven rules so they deter tax-dodging abroad and at home, and reviewing other UN tax rules to assess whether they undermine the ability of governments in the global South to raise vital tax revenue.
- Requiring UK-registered companies operating beyond the UK to publish their taxes, profits and other key economic data for each country where they do business, so the public can see what tax they pay and where.
- Toughening up the tax regime by making tax-avoidance schemes riskier for those promoting and benefiting from them and giving the UK tax collection authority (HMRC) the means to crack down harder on tax-dodging.

### 8) When lending money for any health investments the UK and World Bank should ensure it is lent responsibly, in line with the UNCTAD principles on responsible lending and borrowing.

This should include public scrutiny of loans before contracts are signed, abiding by any parliamentary regulations in the country concerned about loan approvals, and independent evaluation of the projects before, during and after completion. A good start would be to sign up to the UNCTAD principles on responsible lending and borrowing.

<sup>159</sup> Krutikova, S. and Warwick, R. (2017). *The changing landscape of UK aid*. The Institute for Fiscal Studies. <https://www.ifs.org.uk/publications/9201>



## Our vision

Inspired by the ancient concept of 'jubilee', we campaign for a world where debt is no longer used as a form of power by which the rich exploit the poor. Freedom from debt slavery is a necessary step towards a world in which our common resources are used to realise equality, justice and human dignity.

## Our mission

Jubilee Debt Campaign is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system that puts people first.

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