WHY PUBLIC-PRIVATE PARTNERSHIPS DON'T WORK

The many advantages of the public alternative

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// PREFACE

BACK TO THE FUTURE

For decades the failures of water, energy, rail and health privatisations have made clear across the globe that those who promote privatisation offer false promises. Elections have been fought and won on promises to keep public services in public hands. In sectors like health, education, water, energy and transport, community attitudes strongly support universal public provision.

Yet privatisation and so-called public-private partnerships are coming back in fashion. Many governments are turning to public-private partnerships (PPPs) in the hope that the private sector will finance public infrastructure and public services which been savagely hit by the financial crisis. This hope has long run through the World Bank and OECD, but is now emerging in the G20 and the ongoing negotiations at the United Nations for the Sustainable Development Goals and the linked Financing for Development. If successful, privatisation could become official UN policy.

Why such a resurgence when the past 30 years experience shows that privatisation is fundamentally flawed?

In the context of the economic crisis, governments are under increased pressure to find quick answers to hard questions about maintaining public services and funding infrastructure. The longer the crisis extends the more pressure mounts to find answers, but so do the risks of forgetting the root causes: greed, deregulation, and excessive faith in private corporations.

PSI's report "Why we need public spending"[1] explores the importance of public investment and complements this report.

"Why public-private partnerships don't work" is the culmination of thirty years' experience with and assessment of privatisation, in countries both rich and poor. It demystifies the shadowy PPP processes, most of which hide behind confidential negotiations to protect commercial secrecy. There are no public consultations, lots of false promises, and incredibly complex contracts, all desigend to protect corporate profits. There is also a fair amount of bribery, as privatisation contracts can be extremely valuable.

> PPPs are used to conceal public borrowing, while providing long-term state guarantees for profits to private companies. Private sector corporations must maximise profits if they are to survive. This is fundamentally incompatible with protecting the environment and ensuring universal access to quality public services.

The report concludes that PPPs are an expensive and inefficient way of financing infrastructure and services.
The report is an excellent working paper that PSI is proposing to affiliates to better understand privatisation and its dangers. The different arguments need to be considered on their own merits and in conjunction with the others, as privatisation is an inherently complex process. Unions can extract information from this reference document and apply it to their specific contexts.

Regrettably, most politicians and senior civil servants never access this type of information. Local and national governments and the UN are heavily influenced by the powerful lobby of the biggest services and financial corporations, global consulting and law firms, all intent on reaping profits from basic public services such as health, water, energy. It is our job, in alliance with social movements, to raise the alarm bells, to demand transparency and accountability of our public officials and elected politicians and to create mechanisms for systematic participation in decision making.

These privatisation policies are also linked to the new wave of trade negotiations (TISA, TPP, TTIP), also secretive, without public consultation, agreed behind closed doors and heavily influenced by business interests. These trade deals not only facilitate PPPs but will also lock them in, making it next to impossible to reverse them, regardless of outcomes.

A further danger is the recent effort by the World Bank, the G20, OECD and others to 'financialize' PPPs in order to access the trillions of dollars held by pension funds, insurance companies and other institutional investors.

To access these funds, governments are advised to do a whole lot of PPPs at the same time in order to create a pool of assets that can then be bundled and sold on to long-term investors. This is exactly what the financial services companies did with home mortgages at the turn of the century, which brought us the global financial crisis of 2008.

The PSIRU report also points to the public alternative to privatisation, in which national and local governments continue to develop infrastructure by using public finance for investment, and public sector organisations to deliver the service. This provides numerous benefits to the public such as greater flexibility, control, and comparative efficiency – because of reduced transaction costs and contract uncertainty, as well as economies of scale – and the efficiency gains of more democratic accountability.

PSI engages with national unions and with social movements. Our work on trade has brought new attention to the issue and has provoked a number of serious debates as to the merits of the ongoing negotiations. In the utilities sector, our work has helped provoke a wave of remunicipalisations around the world, most strongly in the water sector. And, our alternative to PPPs, public-public partnerships, based on solidarity and not profit, is having an effect in the development community.

Our work to protect the public interest is unending, but this report provides a boost to the evidence base and a shot in the arm to those seeking to defend public services for the benefit of all. As one of our powerful slogans clearly indicates : People and Planet Before Profits.

Rosa Pavanelli
General Secretary of Public Services International (PSI)

// SUMMARY

A public-private partnership (PPP) is a contract between government and a private company under which:
- A private company finances, builds, and operates some element of a public service; and
- The private company gets paid over a number of years, either through charges paid by users, or by payments from the public authority, or a combination of both.

PPPs are now being promoted worldwide by global institutions and consultants. Development banks, national governments, the EU and donor agencies are providing subsidised public finance specifically for PPPs. Countries subject to IMF regimes, and other developing countries, are being subjected to political pressures and marketing campaigns.
But experience over the last 15 years shows that PPPs are an expensive and inefficient way of financing infrastructure and divert government spending away from other public services. They conceal public borrowing, while providing long-term state guarantees for profits to private companies.
This report looks at the scale of PPPs, and the institutions promoting them; the lessons of experience with PPPs; and a process for systematic evaluation of PPPs against public sector options. It also sets out some ways of challenging PPP policies and programmes, and offers advice to pension funds considering investing in PPPs.

1. INTRODUCTION TO PPPs

1.1. THE INVENTION OF PPPs: BENDING FISCAL RULES FOR PRIVATE PROFIT

> "If you're a good public sector, you shouldn't need PPPs. If you're bad, you shouldn't go near them."
>
> (Interviewee quoted in Robert Bain, 'Review of Lessons from Completed PPP Projects Financed by the EIB,' May 2009)

A public-private partnership (PPP) is a contract between government and a private company under which:

- A private company finances, builds, and operates some element of a public service; and
- The private company gets paid over a number of years, either through charges paid by users (often called a concession), or by payments from the public authority, or a combination of both.[*] [2]

The concept of PPPs was not used before the 1990s, but concessions have existed for many centuries. The principle was that the private company agreed to invest its own money in return for which the state guaranteed a monopoly to the company on supplying that service in the area covered, and so the company could expect to get a return on its capital by charging users. Concessions were often used in the 19th century to develop water, gas, and electricity systems, and railways, which involved high capital investment. But they were unable to deliver the required scale of investment for universal services at affordable rates, and so were generally replaced by public ownership using public finance.

The modern version of PPPs, whereby the private company is paid by the government rather than by consumers, was invented in the UK in the 1980s, by the Thatcher government.[**] The introduction of neo-liberal fiscal rules limited government borrowing, but the government still wanted to be able to invest in public infrastructure. PPPs were the solution, under the heading of the private finance initiative (PFI). Although the government is committed to paying for the investment, just as if it had borrowed the money itself over a period of 25 years or more, the accounting rules allow them to be treated as private borrowing, not public borrowing – and so the money can be borrowed without breaching the fiscal rules. The policy was also attractive to the Thatcher government as it was another form of privatisation, allowing private

> PPPs originated as an accounting trick, a way round the government's own constraints on public borrowing. This remains the overwhelming attraction for governments and international institutions. Just as companies like Enron had tried to conceal their true liabilities by moving them 'off-balance-sheet', so governments started using PPPs as "tricks.... whereby public accounts imitate the creative accounting of some companies in the past."

[*] The phrase 'public private partnerships' has been used with two other meanings. Firstly, it is used, especially in the EU, to refer to utility companies whose shares are partly owned by a government or municipality, and partly by a private company. Secondly, the phrase has also been loosely used since the late 1990s by governments and institutions as a euphemism for 'privatisation' which by then had acquired a widespread bad reputation. By 2014, however, there are already signs that international institutions now want to avoid using the phrase PPPs, because it has gained as bad a reputation as 'privatisation.'

[**] Like privatisation, PPPs were also developed at the same time by the military dictatorship in Chile, e.g. through PPPs for technical and vocational education: see http://www.unevoc.unesco.org/e-forum/GTZ_PPP-in-TVET.pdf

companies to profit from public expenditure, and requiring public services to provide profitable market opportunities.

Since the collapse of Enron, these tricks have been outlawed for companies, but PPPs – based on the same principles of hiding liabilities – are enthusiastically promoted as the way forward for governments.[3]

For the private companies involved – the banks, the builders and the service companies – they represent an extremely attractive business opportunity. A single contract gives them a flow of income for 25 years or more – usually underwritten to a great extent by the government itself. The companies can lobby politicians to ensure that governments create PPPs, and renegotiate them as necessary during the long years of the contract. From the outset, the PFI was criticised from both right and left for being far more costly than using public finance, undermining services, and a 'scam' to conceal real public borrowing and expenditure. It was nevertheless adopted and accelerated by subsequent UK governments, and a special unit, mainly staffed by the executives from the private sector, was created within the Treasury to act as a permanent centre inside government for the promotion of PFI projects. This has become the model for PPPs units established by many governments around the world.[4]

The UK has used PPPs for a wide range of buildings and infrastructure – hospitals, schools, roads, rail, defence, and government offices. As neoliberal limits on government borrowing spread, so did PPPs – for example in Europe, where EU rules started to limit government borrowing to 3 per cent of GDP. New Zealand, Australia, Canada and the USA all began using PPPs as an element of privatisation policy, and as a way of balancing budgets by concealing borrowing.

> "In developing countries, the development banks and multinational companies encouraged the spread of PPPs in the 1990s, especially in the water and energy sectors, as part of the general promotion of privatisation – and as a way around the fiscal limits which the same IFIs were imposing on developing countries. The main form of privatisation in water was concessions or lease contracts, which are a classic form of PPP."

In developing countries, the development banks and multinational companies encouraged the spread of PPPs in the 1990s, especially in the water and energy sectors, as part of the general promotion of privatisation – and as a way around the fiscal limits which the same IFIs were imposing on developing countries. The main form of privatisation in water was concessions or lease contracts, which are a classic form of PPP. In energy, there has been widespread introduction of independent power producers (IPPs) with long-term guaranteed purchase of electricity by the public sector. These have met strong public resistance in many countries, leading to the termination of many water concessions in particular.

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THE UNEASE OF THE EU AND THE IMF

There is a dilemma for fiscal rule-makers, such as the EU and the IMF, between enforcement of fiscal discipline – which would require much stricter rules for PPPs – and a desire to promote privatisation in general, which would imply making it easier to use PPPs.

The European Commission (EC) has taken various views on the relations between PPPs and fiscal discipline. The 2003 report on the European Economic and Monetary Union (EMU) (produced before the Eurostat ruling) said, "There is the risk that the recourse to PPPs is increasingly motivated instead by the purpose of putting capital spending outside government budgets, in order to bypass budgetary constraints. If this is the case, then it may happen that PPPs are carried out even when they are more costly than purely public investment."[5]

In October 2005, PPPs were again being treated with suspicion: "Monetary Affairs Commissioner Joaquin Almunia accused national governments of using 'tricks' to artificially cut budgetary deficits, as member states try to be seen to be following the Eurozone's rules.... He particularly referred to so-called Public-Private Partnerships (PPP), which share the financial burden of large infrastructure projects. According to Mr. Almunia, it has become increasingly difficult for the EU executive, in charge of monitoring member states' budgetary performance, to look through such tendencies and figure out the real height of the countries' deficits. ... The commissioner stressed that Europe should avoid the situation where public accounts imitate the creative accounting of some companies in the past."[6]

The dilemma was solved, for supporters of PPPs, by a ruling of Eurostat, the Statistical Office of the EC, that the assets involved in a PPP should be classified as non-government assets, and therefore recorded off balance sheet for government, as long as (a) the private partner bears the construction risk, and (b) the private partner bears either availability or demand risk.[7]

The IMF was unimpressed with this ruling, seeing this as an invitation to creative accounting to avoid the fiscal rules. In March 2004 it described the Eurostat decision as "problematic,"[8] declaring that the "recent Eurostat decision on accounting for risk transfer gives considerable cause for concern, because it is likely to result in most PPPs being classified as private investment. .... Since most PPPs involve the private sector bearing construction and availability risk, they will probably be treated as private investment, even though the government bears substantial demand risk (e.g., when it guarantees to the private operator a minimum level of demand for the service provided through the PPP). ...the recent decision .... thus could provide an incentive for EU governments to resort to PPPs mainly to circumvent the Stability and Growth Pact (SGP) fiscal constraints."[9]

1.2. RISE AND FALL: CAUGHT OUT BY THE CRISIS

There was a growth in the number of PPPs in many countries until the late 2000s, but this has been badly affected by the financial crisis which has made it very difficult for private companies to borrow money. Companies always had to pay higher interest than governments on loans – but after the crisis the gap has widened as banks are not willing to lend to private companies for such large long-term projects.

In Europe, the number and value of PPPs in 2012 was the lowest for at least 10 years, with 66 new deals worth €11.7 billion. Half of this was in the UK, and most of the rest was in France and Netherlands: the rest of Europe made very little use of PPPs. The average interest rate on the borrowing of PPPs increased. The main factors behind this decline, according to the EIB, were changes in the political climate, the lack of government guarantees, and austerity measures leading to general cuts in public spending plans.[10]

Although PPPs are often promoted as a solution for countries under fiscal constraints, the evidence suggests rather that they worsen fiscal problems. According to the EIB, the six countries which have made the greatest use of PPPs in recent years are Cyprus, Greece, Ireland, Portugal, Spain and the UK.

Four of these are subject to 'Troika' rescue packages, and the other two – Spain and the UK – both face large fiscal problems. In both Portugal and Cyprus, the IMF/EU 'troika' packages have identified PPPs as a contributory cause of the countries' fiscal problems, and required an audit and renegotiation of existing PPPs and a freeze on new PPPs.[11] (see case study)

In Latin America, PPPs are also concentrated in very few countries. Brazil and Mexico account for 65 per cent of all PPPs; Colombia, Peru, and Chile account for a further 15 per cent.

PPPs FUNDED 1985-2009: BY REGION

	NUMBER OF PPPs	VALUE USD $ BILLION
Europe	642	302.9
Asia	346	155.0
Latin America	253	82.4
USA and Canada	440	75.4
Africa/MENA	66	29.2
World total	1747	644.8

Source: OECD 2012[12]

PPPs FUNDED 1985-2009: BY SECTOR

	NUMBER OF PPPs	VALUE USD $ BILLION
Roads	567	306.7
Rail	153	138.2
Water	564	105.3
Other (schools, hospitals etc.)	463	94.6
World total	1747	644.8

Source: OECD 2012[13] [note: energy PPPs not covered]

1.3. PPPs IN PERSPECTIVE: A VERY SMALL CONTRIBUTION

Despite the massive promotion effort, PPPs struggle to provide more than a tiny portion of the infrastructure investment in the world. Public finance remains the overwhelmingly predominant model worldwide, providing for well over 90 per cent of infrastructure investment.

This shows the limitations and dangers of PPPs. The scale of investment required for infrastructure in all countries, especially developing countries, is far too large for private companies to provide. The development of infrastructure depends on governments committing themselves to spend large amounts of money for many years. PPPs do not add to this – rather, they select a small number of the most profitable projects, and persuade governments to prioritise spending on these projects, even if this distorts the development of public services. In Africa, for example, they finance high-tech hospitals in a few urban centres where there are enough wealthy people to support private medicine, but not the universal networks of clinics or the salaries of staff needed to provide healthcare for the poor. In Europe, they finance some lucrative toll roads on existing busy routes, but not the extension of toll-free roads to improve rural or peri-urban areas.

Even in countries which make most use of PPPs, such as UK and Australia, PPPs only account for about 15 per cent of all infrastructure investments; for most OECD countries the proportion is less than 5 per cent, or close to zero; the median is 4 per cent. Sweden has explicitly decided against making any use of PPPs. Within Europe, PPPs represent little more than 5 per cent of all infrastructure investment – the overwhelming majority comes from public finance or investment by companies which are state-owned or operating under a public service obligation.[14]

GERMANY: PPPs NO HELP FOR INFRASTRUCTURE CRISIS

Germany is suffering from major under-investment in its infrastructure. Government is investing too little, and borrowing less than nothing, while private companies and households are investing abroad. Investment in fibre-optic cables and renewable energy currently depends strongly on co-ops and other local initiatives.[15] PPPs have shown the usual problems. A PPP for the new Berlin airport was abandoned; a new concert hall in Hamburg was originally estimated to cost €114 million and be finished in 2010, but the private construction company Hochtief now expects it to be completed in 2017 at a cost of €780 million. The total rents of a 15 year PPP project for 90 schools in Offenbach increased from an initial forecast of €780 million to €1.3 billion. The proposed PPP to redevelop the A7 autobahn was shown by campaigners to be €25 million more expensive than normal public procurement.[16]

The same is true in developing countries. Despite substantial efforts by IFIs and donors to promote private investment in healthcare, energy, water and sanitation, the results are very limited.

- A World Bank research paper in 2006, reviewing actual private investment from 1983 to 2004, concluded bluntly that:

  "PPI [private participation in infrastructure] has disappointed – playing a far less significant role in financing infrastructure in cities than was hoped for, and which might be expected given the attention it has received and continues to receive in strategies to mobilize financing for infrastructure... PPI is inherently limited in scope for financing urban infrastructure for the wide array of non-commercial infrastructure services cities need. Even for commercial services like water supply, subsidies are prevalent all over the world... Local governments need good sources of public finance to fund those services, and some form of government borrowing is needed for major investments in these areas to avoid inter-generational inequities."
- A World Bank study of infrastructure in sub-Saharan Africa in 2010 found that in water and sanitation, $2.5 billion was invested annually by the public sector and aid agencies, while the private sector hardly made any investment at all – less than $0.01 billion. In electricity, the public sector and aid agencies invested $4.1 billion per annum, while the private sector invested $0.5 billion – only 11 per cent of the total.[17]
- In India, central and state governments are responsible for 99.6 per cent of the $22.3 billion invested in water and sanitation between 2007 and 2012.[18]
- In electricity, a report by the International Energy Agency argues that "in most developing countries upfront public investment in developing national and local capacity is the most important ingredient" for attracting any private investment at all – and even then it will only take place "where a commercial return can be reliably earned on the investment."[19]
- In water, the only significant investments made by the private sector are in water and wastewater treatment plants, and desalination plants, using BOT models. But these are frequently based on exaggerated forecasts of need, so that public authorities find themselves liable to pay for unnecessary capacity or excessive volumes of treated water.[20]

INDONESIA: DECLINING PRIVATE INFRASTRUCTURE INVESTMENT

In Indonesia, PPPs have been promoted and used for the last 20 years in electricity, with a series of corrupt contracts signed in the 1990s, and in water, where the equally corrupt water concessions in Jakarta are close to being terminated.

Indonesia's current plans assume that the private sector will provide 51 per cent of the finance for infrastructure investment, but this is wildly unrealistic. In the last 15 years, despite heavy promotion by the World Bank and others, the proportion of infrastructure privately financed, according to the World Bank, has fallen to only 10 per cent. The only growth in infrastructure has come from public sector investment – for example, the continuing investment of public money in extending the electricity network and increasing generating capacity.

1.4. PPS – A DESPERATE CAMPAIGN?

The global pressure for PPPs described in the next section arises from a network of global institutions dominated by corporate interests and ideologies. But it is driven by a number of problems facing PPPs and the companies who promote them, which became apparent during and since the financial crisis.

- 'The market' is slowing down in the global north, as e.g. the UK ends its PFI scheme.
- While the brief use of Keynesian policies in 2009 demonstrated that government spending does have the capacity to revive growth, current austerity policies mean that the private sector needs to fight to get a higher share of this spent on profitable contracts for infrastructure.
- The crisis has weakened the economic and political credibility of the policies of western governments and the performance of multinational corporations.

These fears were lucidly expressed in 2009 at a conference of international institutions, where a presentation from UNECE argued that PPPs were becoming dysfunctional and discredited because of the crisis: [21] [22]

> "Discontent, even outright hostility, among the general public against the capitalist system has gained ground during the crisis.... The 'system' is mistrusted, and confidence in capitalism and its future is low... The crisis appears to have had its roots in the era of deregulation and is replaced by the growing role of the state in managing financial capitalism and exercising accountability previously absent in the system... PPPs are equated with the now discredited privatisation and financial liberalisation."

It went on to argue that the Keynesian reflationary programmes being adopted in 2009 also brought opportunities for potential PPPs because of the economic, social and environmental needs for public spending:

> "The potential demand for social infrastructure such as public lighting, hospitals, and schools, is amplified in volatile times when financial and economic crises negatively affect low-income people's life. The social infrastructure can not only serve as a safety net but also generate economic flow-on effects with increased human resource investment.... There are ongoing needs to restore and replace much of the existing physical infrastructures, to accommodate population growth and to deal with the threats of global warming in response to the call for sustainable development."[23]

It concluded that there was a need for "tools to bring back the banks and new institutions able to articulate a pro-PPP policy in the crisis (and those in the future)... a global advocate to spread support and the message around the globe: an alliance of PPP units."[24]

The next section describes the global advocacy network, and the large scale public guarantees, that have been developed to try and maintain the scale of PPPs.

2. THE PUBLIC PROMOTION OF PPPs

2.1. PROPAGANDA AND SUBSIDIES: THE GLOBAL MARKETING NETWORK

The financial crisis has made it very difficult for private companies to raise finance except at very high interest rates. Although most countries have reduced official interest rates to very low levels in order to stimulate the economy, banks are insisting that private companies pay much higher interest rates than governments because of perceived risk and general economic uncertainty. Banks are also less willing to offer long-term loans. As a result, the difference between corporate and government interest rates has grown larger. By mid-2009 companies had to pay interest rates about 4 per cent higher than governments.[25]

Left to market forces, PPPs would have become prohibitively expensive, even for their greatest supporters. But the adoption of austerity policies means that governments are constrained from borrowing or spending more: so, in order to build infrastructure, PPPs remain an attractive way of concealing the long-term public liabilities. The result is a very expensive contradiction: instead of scrapping PPPs and using cheaper public finance, governments and international public sector bodies are supporting PPPs through substantial state aid, in the form of privileged access to government guarantees or public finance.

So a remarkable network of international institutions, governments and corporate bodies has been actively promoting PPPs. This promotion takes two forms: a marketing and propaganda campaign on a global scale; and the use of public money to subsidise the private borrowing of PPPs. This network functions at global, regional, sectoral and national levels:

- The international financial institutions (IFIs) play a leading role: the World Bank, and its private sector funding arm, the IFC; the other regional development banks, including the European banks EIB and EBRD; and the IMF. The IFIs not only promote PPPs, they use their (public) funds to sustain and subsidise them.
- As well as the IFIs, PPPs are heavily promoted through other intergovernmental bodies such as the G20 and G8, and through international corporate events like the World Economic Forum (WEF).
- The development arms of the EU, its member states, the USA and other donor countries also promote and finance PPPs in developing countries, including through aid conditionalities as well as trade agreements. Governments create special units to promote PPPs, and provide subsidised loans and guarantees for PPPs; the European Union actively encourages and subsidises PPPs in member states.
- These public bodies sponsor a stream of publications and advice from international consultancy, accountancy and legal firms, such as McKinsey and PWC. These consultancies themselves make further profits from legal and consultancy work arising from the complex contractual processes involved in PPPs.

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2.2. INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)

The role of international financial institutions (IFIs) is crucial for PPPs financially. They lend money at the low rates which public sector bodies can obtain, for projects which commercial banks would not finance. A high proportion of all PPPs rely on such loans. Many of these loans now go directly to private companies, which represents a much higher proportion of IFI loans.

2.2.1. WORLD BANK

The World Bank plays the same role as it did in relation to privatisation. The most direct is by applying conditionalities to its projects, so that money is made available for infrastructure only if governments use PPPs. There are currently 26 active projects worth over $4.1 billion which include some form of PPP.

It also publishes a stream of reports, and organises conferences promoting PPPs. It led the production of the report on financing investment for the 2013 G20 summit (with inputs from the IMF, OECD, UNCTAD) which emphasised the importance of PPPs and the need to support them with public guarantees and subsidies:

> "To interest private investors in infrastructure projects may require closing the financial viability gap between costs and expected revenues, using public resources complemented by legislative and institutional provisions supporting private financing of infrastructure."

The World Bank again produced the central economic policy report for the UN post-2015 agenda , which has an entire section devoted to private finance, calling for "mainstreaming the use of guarantees and risk insurance."[26] It also maintains a database on PPPs and privatisation in infrastructure, which is widely referenced, although it exaggerates the role of the private sector by recording 'promises' as actual investments.

2.2.2. IFC

The International Finance Corporation (IFC) is the private sector funding arm of the World Bank. Whereas the WB itself lends directly to governments, the IFC lends only to private companies. Every IFC loan in infrastructure or public service sectors, such as water, energy and healthcare, therefore automatically comes complete with a conditionality of privatisation. The IFC has taken an increasingly large proportion of World Bank funds; and an increasing proportion of IFC loans has been directed into infrastructure or public service areas.

Since the financial crisis, the IFC has created special funds which channel over $2 billion of public money into private equity funds operating in developing countries, or into PPPs which the private sector is reluctant to finance.

- In the last 20 years, it has worked on over 350 PPPs in 99 different countries.
- In 2013, it invested $1.6 billion for health, education and 'consumer services', and $2.2 billion in infrastructure – over 20 per cent of the IFC's total investments.[27]
- It actively promotes PPPs, including a special newsletter 'Handshake'

The IFC reports 'success stories' in all sectors and regions, simply because potentially profitable PPPs have been created.[28] But there are major problems with these PPPs, for example:

In water:

- The IFC has invested $62 million in AEGEA Saneamento, a private water company in Brazil which bought two existing privatised water concessions, Prologaos and Aguas Guariroba. But this only finances takeovers, not any new investment. The IFC only expects the company to obtain "brownfield municipal water concessions" – i.e. to maintain and operate systems which have already been constructed – and buy up other privatised systems: "acquisition of existing private concessions and sub-concessions."[29]

In energy:

- The proposed Central Java IPP in Indonesia has already been postponed twice for a total of two years delay, because of financing difficulties and public and political opposition (see below).
- The privatisation of Olongapo City electricity utility in the Philippines, under a 25-year concession, left the city council with the accumulated debts, as a result of which the city was cut off for non-payment of bills in July 2013.[30]
- Four hydro power plants in Albania were sold to Turum, a Turkish steel company, for €109 million – all of which was financed by an IFC loan. The company thereby gets access to much cheaper electricity for its own operations. The sale has been attacked for corruption, for being sold at too low a price, and for causing a loss of €27 million because

of power purchase obligations. In addition, the company has been fined for tax evasion; and the privatisation of the distribution company to the Czech firm CEZ was terminated earlier in 2013 because it was financially unable to continue.[31]

In 2008 the IFC tried to create an 'Infrastructure Crisis Facility' fund of $1.5 billion to $10 billion to finance PPPs which 'cannot obtain commercial financing or re-financing of existing loans as a consequence of the global financial crisis and the tightening of commercial bank lending.' In practice, the fund has only managed to attract $500 million from the German aid agency KfW, and this public money is being used to finance 12 PPPs.[32] These include two energy PPPs:

- Addax Bioenergy, owned by the Swiss company AOG, has a combined bio-fuel and IPP project in Sierra Leone involving a 10,000 hectare sugar-cane plantation which feeds an ethanol factory which will export ethanol to Europe, and a 32MW power plant, of which 15MW is sold to the national grid under a PPA. The total cost of the project is €267 million, over 60 per cent of which is financed by loans or equity from public sector bodies – the development agencies of European countries (UK, Germany, Netherlands, Sweden, Belgium), the African Development Bank, and the South African Industrial Development Corporation. In addition, the income of the power plant is effectively guaranteed by the PPA, signed by the president, whose terms have not been published.

A report by international NGO ActionAid has denounced the project as unsustainable, breaching community rights, worsening the food supply of the local population, and paying below-subsistence wages. The company took far more land than necessary for the sugar plantation alone, claiming 'exclusive possession' of the rivers as well as the land.

The lawyer who signed the leases, claiming to represent the local people, also represented companies involved in similar land-acquisitions, and has since become Minister of Justice, where he is also responsible for deciding what prosecutions go ahead for corruption.[33]

- Calidda Peru, a private gas company jointly owned by Colombian public sector companies Promigas and EEB, has the concession for Lima's gas network. An extension to the network costs $235 million, of which $50 million is financed by a loan from the IFC and $50 million from the 'infrastructure crisis fund' on the grounds that banks and pension funds were unwilling to finance it, and other IFIs did not have time to complete due diligence.[34]

2.2.3. PPIAF

The Public-Private Infrastructure Advisory Facility (PPIAF) was set up in 1999 by the World Bank to promote all forms of privatisation. The PPIAF operates in three ways: by paying for the development of new laws and policies promoting the private sector; by delivering targeted propaganda to 'build awareness'; and by designing new PPP projects. It gets money from donors and other development banks, but its funding was halved when the UK stopped contributing in 2010.

It publishes general reports and training materials on how to introduce PPPs, including the Public Private Partnerships Reference Guide (2012). It also publishes detailed summaries of its activities in various countries . The PPIAF is entirely concerned with creating PPPs, rather than assessing whether they are a good way of achieving public objectives: as the graphic below shows, the creation of a PPP is treated as the final outcome.

It has a strong focus on North Africa, the Middle East, sub-Saharan Africa and the Caribbean. Examples of its activities include:[35]

- Drafting regulations, setting up a central PPP unit, and identifying PPP projects in Tanzania.
- Encouraging the use of PPPs for public toilets, electricity, water and tax-collection in Ghana.
- Promoting PPPs in waste and transport in Egypt, the privatisation of electricity distribution networks in Iraq, PPP legislation and unit in Jordan, and PPPs in sanitation in Tunisia.
- Encouraging municipalities and regional governments to borrow money through selling bonds to local and international financiers in Kenya, Indonesia, Turkey and other countries.

2.2.4. REGIONAL DEVELOPMENT BANKS: ADB, IADB, AFDB

The regional development banks also promote PPPs through policy advice and through conditionalities.

The ADB published a strategy paper in 2012 which "emphasizes the promotion of PPPs in all of ADB's core operations" and explicitly links it to the strategies of other global institutions. "This approach is aligned with the Group of 20 perspective that multilateral development banks need to promote project financing in cooperation with the private sector, especially where partial or full cost recovery is possible." (ADB 2012)[36] It sees its role under four headings: promoting PPPs through advocacy and capacity development; creating an enabling policy and legal environment in countries; supporting the selection of projects for PPPs and financing the costs of arriving in contracts; and finally lending money to the projects themselves.

The bank is currently lending nearly $7 billion to subsidise, support and promote PPPs across a number of countries, with proposals for further loans worth over $1 billion. The largest of these loans are for supporting and promoting PPPs, rather than for desirable infrastructure projects themselves. Most recently, a new $700 million loan was agreed in 2013 to help India provide public finance for PPPs which might otherwise not be financially viable or economically prioritised. This followed similar loans totalling over $2 billion over the previous seven years. Loans have been made to create supportive frameworks for PPPs in most countries in Asia including Bangladesh, Indonesia, Kyrgyzstan, Mongolia, Nepal, Pakistan, the Philippines, Tajikistan, Thailand, and Vietnam, with further similar loans proposed for Cambodia and Myanmar.

The Inter-American Development Bank (IADB) is also providing finance to develop PPPs in general. It has agreed to give Colombia $25 million dollars, of which $21 million will be used for 'promoting private participation' at public expense through detailed market research and marketing: "the preparation of studies to formulate and develop policies and policy and/or regulatory frameworks in different infrastructure sectors showing potential for private sector investment, at both the national and/or subnational levels and technical studies for the identification, conceptualization, pre-investment, structuring, and/or implementation of projects involving the private sector.... Private participation experiences will also be evaluated, and activities will be undertaken to promote, monitor, raise awareness, communicate, and disseminate structures for private participation, specific projects, and program-related information."[37]

The African Development Bank (AfDB) is also incorporating PPPs into its policies in all sectors. In 2011, two-thirds of its loans for infrastructure supported PPPs, mostly in a series of electricity generating projects, as well as roads and railways. It is supporting a new Africa Health Forum, described as 'the first public-private forum on Africa's health economy,' to be held in Geneva, Switzerland.[38]

2.3. OTHER GLOBAL BODIES: WEF, G20, OECD, UN BODIES

2.3.1. WEF

The World Economic Forum (WEF) is an annual event held at the ski resort of Davos, in Switzerland, at which international corporations and consultants develop policy ideas with governments and international organisations.

In 2013 the WEF produced reports promoting PPPs in general Strategic Infrastructure Steps to Prepare and Accelerate PPPs (2013) and in specific regions: Strategic Infrastructure in Africa: A business approach to project acceleration (2013). It has also produced a series of reports on specific sectors : 'Development-Driven PPPs' in Education (2005), Health (2005) , PPPs in Health (2008), and a series of reports on water: Water Security (2012); water resources (2012); Charting our Water Future (2009); Realizing the Potential of PPP projects in Water (2008); water partnerships (2011), water resources and a report on water security (2012) as part of the water-food-energy nexus theme.

The WEF has also created a network of permanent 'Global Agenda Councils' (GACs) which it describes as 'thought leaders:' "a community of more than 1,600 thought leaders drawn from academia, business, government, international organizations and society who are the foremost experts in their fields. Grouped into 88 Councils… we believe it has become the world's foremost intellectual network…. They are creating engaging thought-leadership, including policy papers, journal articles, op-eds, blogs and other content that influences global public policy." There is no GAC devoted specifically to PPPs, but there are GACs on Fiscal Sustainability, Infrastructure, Climate Change, Water Security, Catastrophic Risks, Education and Skills, Digital Health, and, alarmingly, 'the Future of Government.' The WEF has also promoted the idea of the 'water-food-energy-climate nexus' which sets out a framework of market-based planning in these sectors in a report from McKinsey.[39]

2.3.2. G20

The G20 has steadily promoted PPPs since 2010. In 2013, 'Financing for investment' was a central part of its policy programme, and PPPs were at the centre of this. The 2013 umbrella policy paper was also an exercise in global policy coordination. It was jointly prepared by the G20, World Bank, OECD, IMF, UNCTAD, and UN-DESA.

The paper argued that:

- PPPs have to be central to financing infrastructure because austerity limits public borrowing and IFIs have limited funds, so: "The bleak outlook for traditional financing means that governments must consider alternative financing models to leverage private capital into infrastructure."
- Governments have to make their laws and institutions more friendly to PPPs.
- Pension funds and insurance companies are "a major additional source of long-term capital," and so a key source of funds for private finance in infrastructure.[40]

The support for PPPs was strongly challenged at the 2013 summit by civil society groups, who supported democratically-led infrastructure development which delivered best value-for-money on economic, environmental and social co-benefits. They argued that "the VFM approach would require the G20 to relinquish its bias in favour of PPPs."[41]

The Australian government which is hosting the 2014 G20 continues to promote this same line, asserting that the scale of infrastructure needs means that "Funding requirements of that size demand that governments work with the private sector. But the private sector will only become involved if projects are economically and financially viable. Working together to improve investment environments in G20 countries through a package of collective and individual actions will make it easier to get infrastructure projects off the ground."[42]

CHALLENGING THE G20 POSITION ON PPPs AND INFRASTRUCTURE

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The G20 studies centre at the Lowy Institute in Australia – responsible for co-ordinating academic inputs for Australia's 2014 presidency of the G20 – has produced some challenges to the G20s uncritical promotion of PPPs. Its 'Think Papers' for the 2014 G20 summit point out that the G20's obsession with austerity distorts policy discussion, refusing to consider public financing of infrastructure even though the private sector's focus on high short term profitability means that "it does not seem to make much sense to emphasise public–private partnership (PPPs) so much."[43]

Other articles published by the centre argue that PPPs are especially bad ways of financing investment, because they are more expensive than public funding, and the notion of risk transfer is a myth. "The universal experience is that the private sector is particularly skilled at shifting residual risk to the public sector. When, after long experience, risk transfer was more firmly tied down (the Sydney cross-city and Lane Cove tunnels, for example) the experience led the private sector to withdraw from this PPP model." Private sector operation also makes projects more expensive. "The funding cost for a risk-free project (eg. the Sydney desalination plant, which is already operating, has a take-or-pay contract) is around twice that of a simple bond issuance."[44]

The obsession with austerity also means that "infrastructure has fallen victim to sovereign-debt phobia. In advanced countries viable infrastructure projects are either left unimplemented or funded with more expensive private borrowing. In emerging economies the result is a debilitating lack of vital infrastructure." The centre calls for a complete revision of this 'sovereign-debt phobia' by the IMF, credit rating agencies and others.[45]

Lowy Institute G20 Studies Centre http://www.lowyinstitute.org/programs-and-projects/g20-studies-centre

2.3.3. OTHERS: OECD, UNECE, UNDP

The OECD and various UN agencies play a mixed role in respect of PPPs.

The OECD publishes a number of reports about PPPs and how they can be delivered, and organises an annual meeting on PPPs to review progress and prospects for more PPPs (one of the few meetings at which trade unions are represented through the OECD's Trade Union Advisory Committee).[46] It has however published guidelines on PPPs which clearly present some of the major problems, and it has agreed an official set of "Principles for Public Governance of PPPs" which include recommendations on disclosure of information and focussing on value for money (see annexe).

The UN Economic Ccommission for Europe (UNECE) has played an important role in the global promotion of PPPs since 2009, when it argued for a coordinated global promotion of PPPs at an international conference involving the World Bank, ADB, UNECE and various Asian governments – as noted at the end of the introduction. Since 2010, it has organised conferences to promote PPPs in Russia and central Asian countries, in Ukraine, and in South-East Europe.[47]

2.4. EU, GOVERNMENTS AND AUSTERITY: SUBSIDISING/ENCOURAGING PPPs

2.4.1. EUROPEAN UNION

The European Commission is also actively promoting PPPs, despite the experience of Portugal and Cyprus where PPPs were identified as part of their fiscal problems. This promotion and support includes:

- The biggest attraction of PPPs for governments is that they can be classified as private not public debt, and the EU makes this easy by a Eurostat rule which specifies that, as long as the private sector bears construction risk and availability risk, then the finance will not count as government debt. This is an easy test to meet, as the IMF has warned, and so PPPs are always attractive to governments as a way of hiding borrowing, even if they are providing guarantees (although the Eurostat now takes some account of such guarantees as well).[48]
- Project bonds, which enable PPPs to raise finance underwritten by an EU/EIB guarantee, which effectively raise money at low-risk public finance rates for private companies which could not raise such finance themselves. The stated aim is "to enhance the credit standing of private entities that need to raise private funds for the infrastructure projects they promote."[49]
- Further guarantees for transport projects which fit into the EU transport or energy schemes (TEN-T or TEN-E), through Loan Guarantee Instrument for ten-T Projects (LGTT).[50]
- Making it easier for PPPs to access €55 billion of EU structural funds, which are intended to help governments develop necessary infrastructure.[51]
- Increasing the capital of the EIB by €10 billion to enable it to make more loans at low-interest public finance rates.[52]
- Grants for construction cost for projects which fit into the TEN-T or TEN-E schemes.[53]
- The EC and the EIB jointly fund the European PPP Expertise Centre (EPEC) to advise on how to set up and implement PPPs.

2.4.2. THE EU DEVELOPMENT BANKS: EIB, EBRD

The European Investment Bank (EIB) is an EU-wide development bank, 100 per cent owned and guaranteed by all the member states of the EU. It was created under the founding treaty of the EU, the Treaty of Rome, in 1958. Its objective is "to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States." Thanks to its public sector ownership and guarantees, the EIB can raise funds at the lowest possible rates. Because it does not try to maximise profits, it also lends at rates very close to its own cost of borrowing.[54] The EIB now provides about 13 per cent of all the finance for PPPs in Europe – as much as all the equity capital invested by the private partners themselves.[55] The EIB is also a key vehicle for promoting and advising on PPPs beyond the EU, as shown in the case of North Africa (see below).

The European Bank for Reconstruction and Development (EBRD) was created to finance development in the former communist countries of Eastern Europe. In 2011, in the wake of the Arab uprisings, its remit was specifically extended at the G8 meeting to include North Africa. The EBRD uses a set of indicators of development which are defined to show that privatisation or liberalisation is always beneficial. For example they assume that additional privatisation is always better; higher foreign ownership of banks is better; and price liberalisation is always better. It has funded many PPPs in Central and Eastern Europe, and pressures countries into adopting PPPs. In 2005, it criticised transition countries for not adopting laws more favourable for PPPs, for using a standardised concession agreement – and for not providing sufficient state guarantees for PPPs. An EBRD-funded review of PPPs in 2013 found that they were "pretty on paper, but poor in practice."[56]

2.5. GOVERNMENTS AND DONORS

Governments have also taken specific measures to promote, subsidise and facilitate PPPs. Their most obvious role is to introduce legislation enabling PPPs, but they have also created PPP units as encouraged by the international institutions. These have played a key role as internal advisors to governments and are able to use public resources to promote PPPs.

PPP units invariably consist of private sector executives with a vested interest in promoting PPPs, usually with some civil servants, established inside governments. This enables them to have privileged access to government information, and privileged access to ministers and public officials for lobbying for profitable PPPs. The World Bank publishes a global list of PPP units.

> Governments have also started providing subsidies for PPPs, mainly by lending public money at low rates of interest that the private sector could not otherwise obtain – despite the obvious intrinsic contradiction of using public finance to finance PPPs.

The UK, France, Spain, Portugal, Australia, India, South Korea and Kazakhstan have already set up schemes which rescue PPPs through the simple device of providing government guarantees, or by government borrowing money at low rates and then lending it on to PPPs at similar rates. They then pretend that this is 'private finance.'[57]

BRAZIL: STATES PROVIDE GUARANTEES FOR PPPs

Despite a 2004 law enabling PPPs, by 2013 only 11 PPP projects were in operation in Brazil – three of them for world cup stadiums. A further 19 have been signed, of which five are for stadiums. Most of the rest are in energy or public transport, and President Roussef has announced plans for roads PPPs.

The states are now developing PPPs more rapidly, and providing public finance and guarantees on a large scale to make the PPPs viable. The state of Minas Gerais, which has set up five of the 30 state-level PPPs, has injected over USD $500 million of public money into PPPs in 2013. Sao Paulo has signed six PPPs, and intends to sign a further nine in 2013 for projects costing over $20 billion; the state has injected a total of USD $670 million. Bahia has made USD $300 million available for PPPs. Parana, which so far has no PPPs, is legislating to create a fund to guarantee future PPPs.

In healthcare, the only PPP which has been in operation for some time is the Hospital do Suburbia in Bahia. Sao Paulo state has just awarded a PPP for generic drugs manufacture to the only bidder. Bahia is now inviting bids for another, for diagnostic imaging services; Sao Paulo is planning a PPP for three hospitals; the City of Rio de Janeiro is planning a PPP for an information system for municipal health services; and Minas Gerais is consulting on a USD $110 million PPP for social care services. The Distrito Federal, which includes Brasilia, set up a PPP in social housing in 2009, for 9,500 units, and is planning a second. There are a number of proposals to create PPPs to develop sewerage or water services. The City of Rio de Janeiro is also planning a PPP for its cemeteries.

Other PPPs are running into various problems. A proposal by Sao Paulo for a PPP in social housing was suspended by a court judgment on the grounds that community organisations were excluded from the plan; no companies bid for PPPs in waste management for Belo Horizonte, Minas Gerais. A court case brought by opponents of PPPs has frozen an attempt to issue tenders for waste management in Ribeirão Preto municipality, Sao Paulo, because of multiple irregularities. Sao Paulo state has dropped a plan for a PPP for interactive learning.[58]

In total, governments have given well over USD $100 billion of guarantees and loans to PPPs.

- Despite agreeing to terminate the use of the PFI programme, the UK government has nevertheless committed up to £40 billion of public money to subsidise future infrastructure PPPs through a new "UK Guarantees" scheme. These are "unconditional and irrevocable financial guarantees of scheduled principal and interest in favour of a lender to a UK infrastructure project."[59]
- In France, the government of Nicolas Sarkozy created a special budget to provide state guarantees (worth €10 billion) and subsidised loans from the government itself (€8 billion, via the Caisse de Dépôts) to help finance PPPs.
- The Spanish government gave general guarantees to transport PPPs, worth up to €15 billion.[60]
- India is using public finance to bail out existing PPPs which are now unable to find private finance. The India Infrastructure Finance Company Limited (IIFCL) has lent over USD $4 billion, mostly to roads and energy PPPs, helped by a World Bank loan of more than USD $1 billion.[61]
- South Korea set up an Infrastructure Credit Guarantee Fund (KICGF), which guarantees up to 50 per cent of large PPPs, and provides other support for its PPPs "even in financially difficult times."[62]
- In Australia, the state of Victoria guaranteed over $4 billion of a PPP for a desalination plant.[63]
- In the USA, the Transportation Infrastructure Finance and Innovation Act, or TIFIA, was increased to $1 billion a year in 2013. TIFIA loans to private road operators offer below-market rates – 3.87 per cent as of Nov. 22 – with 35-year terms and deferred payments. The deals often include an equity investment, bank loans and bonds issued through state public finance agencies.[64]

PUBLIC GUARANTEES FOR PPPs

Guarantor	TOTAL AMOUNT GUARANTEED (USD $)
UK	65 billion
France	13 billion
Spain	20 billion
India (and W Bank)	4 billion
S Korea	7 billion
Australia (Victoria)	4 billion
USA*	1 billion
TOTAL	114 billion

Sources: see text
* annual value of Subsidised loans

2.6. CONSULTANTS: UNRELIABLE AND UNACCOUNTABLE

International consultancy firms play a large role in promoting the principle of PPPs. They write reports for international institutions and governments, design national PPP policies, implement specific PPPs – and accumulate large fees at every stage of the process.

The most active of all is McKinsey, which has produced a series of reports for international organisations and governments. Its influence is so widespread that it is in effect a global re-designer of public services for the benefit of private capital. Other consultancy firms, such as PWC, Ernst and Young, KPMG, Deloitte, do the same kind of work.

The quality and accuracy of their reports is rarely challenged, but they are often superficial, prone to publishing extremely unreliable forecasts, and may lead to extremely damaging policy decisions. The deputy chair of India's Planning Commission has criticised them because "their exposure to, and concern for policy is usually limited."[65] Despite this, they are never accountable for their errors, and accumulate substantial fees for their work. For example:

- In the UK, lawyers and consultants were paid over £400 million for one reason or another during the creation of the London underground PPPs, which collapsed at great expense to the public.
- This included a key report by PricewaterhouseCoopers which was unreliable and wildly inaccurate. "As the partnership

[Metronet] was being put together, PWC predicted that the private sector could extract savings of up to 30 per cent, a figure that informed the entire project. But the consultancy published no adequate evidential basis for that figure." [66]

- McKinsey published a 2007 report which claimed that the private sector could provide over half of the $30 billion investment needed to develop healthcare in Africa over the next 10 years. This was used to justify IFIs and donors financing private equity funds, rather than public sector healthcare, but by 2012 it had resulted in almost no private finance at all.[67]

MCKINSEY

McKinsey are extremely active in international forums and at the national level in promoting and profiting from PPPs. The firm works for both private companies and for public sector and governments and international institutions. In 2012 and 2013 alone McKinsey has produced reports on PPPs focussed on global themes including Infrastructure, Cities, urban development including water, and natural resources; on sectors, for example in water, energy and climate change, public health and development; and on specific regions and countries, for example Latin America, India , Myanmar/Burma, USA, and UK.

At the national level, McKinsey and its partners wield great influence over government policies. For example:

In Colombia, a McKinsey partner became director of the government's PPPs unit, and pushed through a decision to triple government spending on roads, and borrow $23 billion by issuing government bonds to help finance PPPs.[68]

In the UK, McKinsey was paid £14 million to advise on the commercialisation of the NHS, while a former McKinsey partner became head of the NHS regulator, and McKinsey acted as liaison between international private healthcare companies and the government about privatising 26 hospitals.[69]

In all cases the objective is to maximise the number of profitable PPPs:

"We serve both private and public entities on PPP financing, origination, development, operations, and stakeholder and regulatory management. We support private investors in the following activities: analyzing the value of infrastructure opportunities and PPPs, structuring and securing economically-sound bids, effectively and efficiently operating assets to generate value, and managing stakeholders and regulators to bolster long-term collaborative relationships…. We assist public entities in framing the case for PPP participation, developing the economic model and risk transfer solution for PPPs, managing PPPs and their various stakeholders, designing and staffing government units to review and manage PPPs, and optimizing the PPP process. Whether serving the public or private sector, we work closely with our clients to build their skills to evaluate and manage PPPs."[70]

The biggest consultancies – Deloitte, PricewaterhouseCoopers (PwC), KPMG and Ernst & Young – are accountancy firms who also audit multinational companies and advise them on tax avoidance. Their performance and public accountability is also poor on these issues:

- They failed to record any concerns over the accounts of banks and financial institutions which became unviable as part of the financial crisis in 2008 and received massive public support.[71]
- Deloitte, PricewaterhouseCoopers (PwC), KPMG and Ernst & Young are "are at the heart of the worldwide web of tax avoidance, with offices in all the main tax havens." In the USA, "KPMG was fined $456 million (£284 million) for facilitating tax evasion and a number of its former personnel have been sent to prison, as have some of the former personnel of Ernst & Young."[72]

SNAPSHOT OF CONSULTING FIRMS

CONSULTANCY	ACTIVITIES
Castalia	Castalia has produced a number of reports for the PPIAF, including advice on setting up PPP units, and wrote the reference guide to PPPs in 2012. At the national level, they have promoted the use of PPPs in schools in New Zealand, designed a framework for PPPs in Jamaica, and in Uganda.
Deloitte	A 2012 report on the global PPPs market included a survey which showed that the biggest single issue for businesses was "Consistent political support for PPP structures." Another political question, "government funding for infrastructure" was third. The other big concern was their inability to raise private finance: "Availability of affordable debt"... "Lack of return available to contractors / investors," and "Appetite of pension funds."
Ernst and Young	"Power to the People" July 2013 is a typical report looking at the general growth in spending on infrastructure in developing countries, with specific reference to power, roads and healthcare. E&Y also produced a 2011 report on water engineering in India "with the active support of the water team of the Royal Danish Embassy."
PWC	PWC has been a leading adviser and promoter of privatisation and PPPs for over 20 years, across regions and sectors. It promoted PPPs in public transport in Europe in 2005, recommending streamlining of procurement; infrastructure PPPs in the USA and infrastructure in CEE, both in 2010; healthcare PPPs in south east Asia in 2012; and the potential for PPPs in Pakistan in 2012 amongst many others.

PRIVATE COMPANIES AND PRIVATE EQUITY – LEVERAGING PUBLIC FUNDS

The multinational companies operating in each sector also promote PPPs as part of their marketing efforts in order to capture as much business as possible from the public sector. There are now also many private equity and infrastructure funds aiming to invest in PPPs.

The practices of these private funds have been the subject of much criticism. For example, the Economist magazine said in 2008, "Their entire business models now seem headed for the scrap heap.... [Macquarie's] long-standing practice of paying out more in distributions to shareholders than it received from the underlying investments worked when it was cheap to borrow money. It no longer is."[73]

They also rely heavily on public sector institutions to support their activities in PPPs. Many of the private equity firms themselves have been created by governments and continue to be financed by governments using public money and guarantees. The two largest private equity firms operating in developing countries are Actis, which was created by the UK government through the CDC, and Abraaj, which incorporates Aureos, created by UK and Norwegian government funds.

International donors and IFIs collaborate directly with private firms to create infrastructure funds which channel both public and private finance into PPPs, along with public subsidies and government guarantees. This network is mapped in detail by The Cornerhouse, in its 2013 report "Bricks and Mortar."[74]

While donors like to claim that PPPs are a way of 'leveraging' private finance into supporting public projects, the greatest flows are exactly the other way around. Private companies and private equity funds use a small amount of their own capital as equity, and manage to leverage extra equity investment from international public donors and IFIs, as well as raising debt which is either guaranteed by the public sector, or even provided directly as a loan by the public sector.

2.7. IMPACT OF GLOBAL PPP NETWORKS IN SECTORS AND REGIONS

This coordinated promotion of PPPs operates not only at the global level, but also in specific sectors and regions. Public money from donor agencies and IFIs is used to create mechanisms which direct sector policies towards the use of PPPs, and persuade governments to adopt policies more friendly to PPPs in general. The result is that policy-making becomes saturated with a relentless storm driving in a single direction, while democratic decision-making is drowned out.

2.7.1. PPPs IN HEALTHCARE – HANSHEP AND IFC INITIATIVES

HANSHEP (Harnessing non-state actors for better health for the poor) was created in 2010 by a group of Aid agencies – led by the UK's DFID, USAID, and Germany's KFW – together with the World Bank and IFC, and the Gates and Rockefeller Foundations.[75] The programme has a number of elements:

- It is helping the IFC create a special PPP advisory facility 'to support governments in developing and implementing public-private partnerships.'
- Providing $60 million to finance the African Health Markets for Equity (AHME) to 'increase the scale and scope of franchised health care' in Africa over a five year period from 2012-2017, in 'family planning and sexual and reproductive health, malaria, acute respiratory infections, diarrhoea, nutrition, maternal care, HIV and TB.' It involves international NGOs including Marie Stopes International, Population Services International, and the Society for Family Health. It aims to cover 2,734 provider outlets.
- Training 150 public servants from developing countries to use PPPs in healthcare.
- A programme to help mining companies run healthcare programmes in developing countries.
- It has created a private equity fund, the Global Health Investment Fund (GHIF), using public aid money from the IFC, Canada, Germany, and Sweden. The fund is managed by Lion's Head Group, a London-based finance company created by former employees of Goldman Sachs. The 'sponsors' include drugs multinationals GlaxoSmithKline, Merck and Pfizer, as well the international banking group JP Morgan Chase. The Gates Foundation and Sweden's development agency are providing risk guarantees for private investors in the fund. It aims to finance companies 'to accelerate the development of products to address global health challenges.'[76]

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There is as yet no evidence of the impact of HANSEP, but it follows the complete failure of the Health in Africa initiative. This initiative was launched by the World Bank and IFC in 2007 following a report by McKinsey which claimed that the private sector could provide over half of the $30 billion investment needed to develop healthcare in Africa over the next 10 years.[77] The IFC declared it would mobilise $1 billion in private investment within the next five years, feeding private equity funds – Aureos and IFHA – with public and charitable finance from the IFC itself, the AfDB, the Gates Foundation, and German development bank DEG.

But in terms of new healthcare facilities, this initiative delivered almost nothing. The only investments by the funds were $93 million in shares of an existing private healthcare company in South Africa (Lifecare), $16 million in two private hospitals in Kenya and Ghana, and very little else. And it raised no private finance at all – the only money put into the 'private' equity funds came from public sector IFIs, donors, and charities.[78]

At the end of 2013 the IFC promised to provide more public finance for yet another private equity fund, the Abraaj Global Health Fund, run by the same group who took over the failed Aureos fund. It aims to raise $1 billion, and the IFC has promised to provide 20 per cent of the first tranche of this. The fund will be registered in the Cayman Islands to avoid paying tax.[79]

The IFC itself has financed a number of individual PPPs in healthcare, all of which are single hospitals, clinics within hospitals, or specific technical services within hospitals. Their impact on public healthcare systems as a whole is inevitably very small and patchy, and the results – for example in Lesotho – may be very poor.

LESOTHO HOSPITAL PPP: UNDERSTAFFING, DELAYS AND REDUCED SERVICES

One major healthcare PPP has been created in Sub-Saharan Africa, the Queen 'Mamohato Memorial Hospital in Lesotho. It is owned by a South African private healthcare company (Netcare) which runs the healthcare services as well as the hospital. It opened in 2011, replacing a larger state-run hospital. It was given a $6.25 million grant by the World Bank and advice from the IFC.[80]

There are already major financial and performance problems – from the perspective of Lesotho's health services – though it is very profitable for the new owners. In the first year of operation, the government had to pay a $32.6 million annual charge – almost double the annual budget of the old hospital.

The PPP was persistently understaffed for over a year after its opening, failed to recruit enough doctors, and pays staff less than their former salaries. It did not prepare its admission systems or its drugs licenses properly, as a result of which it "was unable to provide tuberculosis treatment or antiretroviral drugs, leaving a significant care gap" and "patients were troubled by long waits due to new triage procedures and new data entry requirements."

The level of services was deliberately reduced, including the exclusion of some services, as well as a cut in the number of beds, and limits on the number of patients.

A newly elected government in 2012 pledged to improve services. A report by PWC saw this as a challenge – not to improve services and show that a PPP can provide affordable universal healthcare – but rather to set up a programme of re-education for the new ministers: "the PPIP (public-private investment partnership) must educate and navigate the new Government leadership structure and build new working relationships quickly." [81]

2.7.2. PPPs IN RENEWABLE ENERGY, WATER AND WASTE – THE GLOBAL GREEN GROWTH FORUM

The Global Green Growth Forum (3GF: http://3GF.dk) was set up in 2011 by the governments of Denmark, China, Kenya, South Korea, Mexico, and Qatar together with "businesses, investors and international organisations to act together for inclusive green growth." These other partners include public international institutions such as the OECD, IFC, IEA; the consultancy firm McKinsey; and multinational corporations including Siemens, ABB and General Electric (all three of whom have recently paid millions of dollars to settle indictments in the USA for bribery); and the World Resources Institute, a research NGO.[82]

The objectives of 3GF are almost exclusively concerned with promoting PPPs: "to demonstrate ways to realize the potential for long term green growth through the development and show casing of concrete public-private partnerships that can bring green growth to scale... to provide a platform for carrying forward major public-private initiatives like G2A2, Friends of Rio, SE4All etc."

In 2012 3GF published a report prepared by McKinsey on 'Accelerating Green Growth through Public-Private Partnerships' which is described as "an analytical tool for 3GF to identify and focus on PPPs with a scalable, transformative growth potential." It focusses on business opportunities in six areas: food waste, energy efficient motors, water leakage, electricity transmission grids, industrial wastewater, and biofuels. Much of the opportunity lies in identifying potential streams of public spending that could be captured, for example IFC/World Bank funding, municipal spending on water systems, and subsidies for biofuels.

The 3GF organises annual forums. The theme of the 2013 forum was 'greening the value chain' in the energy-water-food sectors – with the emphasis on 'developing and launching new PPP's,' discussing 'opportunities... barriers... the design of partnerships to overcome those barriers... (and) who should be involved.' The forum helped address the last question when it co-opted NGOs and public officials to act as designated 'PPP contact persons' for specific sub-sectors.

BUSINESS OPPORTUNITIES AND POLITICAL LOBBYING FOR PPPs IN ENERGY, WATER, AND WASTE (MCKINSEY FOR 3GF)

AREA	POTENTIAL ANNUAL VALUE OF MARKET (USD $BILLION)	KEY ACTORS
Food waste	$340	Food industry players, government, logistics providers, government
Motor systems	$240	Government, motor manufacturers, manufacturing industry representatives
Municipal water leakage	$170	Municipal water, equipment manufacturers, multilateral bodies
Grid integration	$45	TSOs, NGOs, regulators, utilities, and equipment suppliers
Industrial waste water	$35	Wastewater utilities, water-intensive industry, regulators
Bio-based fuels & chemicals	$10	Government, biofuel producers, academics

Source: McKinsey Accelerating Green Growth through Public-Private Partnerships

2.7.3. PPPs IN THE CARIBBEAN

The International Finance Corporation (IFC) told a Caribbean conference in 2013 that the 'challenges' in developing PPPs in the region included 'lack of political will.' It identified collaboration between IFIs as the key factor in fostering the necessary 'political support by host country,' and explained that the World Bank, IFC, PPIAF (the World Bank's privatisation promotion agency), the IADB, the Commonwealth Development Bank (CDB), and donors USA, Canada, EU and UK were all 'collaborating closely' to achieve this.

Jamaica, like other Caribbean countries, has been experiencing this pressure for some years. In 2007, a report by the World Bank and the PPIAF criticised the country for failing to deliver PPPs. The IADB later paid a private consultancy, Castalia, to formulate a new procedure on PPPs for Jamaica, under which the World Bank and the PPIAF identify and screen potential projects, while the IFC helps Jamaica prepare the projects, manage the tendering process, evaluate the bids, and award the contracts. In addition, the IADB is spending $347,000 to train civil servants in the benefits of PPPs, and the IFC in 2013 offered further training in the benefits of PPPs, at a regional centre of PPP excellence, to be funded by the CDB.

The government subsequently tried to set up PPPs, including one for a completely new port, to be built and operated by a Chinese firm, CHEC (China Harbour Engineering Company), which was expected to take advantage of the planned new canal across Central America. But in 2013 CHEC pulled out saying it no longer suited their corporate strategy. Jamaica is now in the process of tendering for another port PPP, Kingston Container Terminals, for which companies from France, Dubai and Singapore have been short-listed.

The Jamaica Civil Society Coalition published a damning critique of the policy, under the title 'Whose plan for Jamaica is it anyway?' The report said, "It appears that Jamaica has no plan of its own, but is prepared to go wherever the investor wind blows. This is no way for a country to manage its resources."[83]

2.7.4. PPPs IN NORTH AFRICA

The USA, the EU and the IFIs, especially the European Investment Bank (EIB), had been promoting PPPs in North Africa for many years before the democratic uprisings of the Arab spring in 2011. PPPs were being developed on a large scale, and by 2008 "the PPP 'pipeline' in health, education, social infrastructure and medical facilities was up to 32 projects and $15.3 billion."

With the help of the IFC, "The Mubarak regime launched a 'Supportive Legislative Environment' for PPPs, including a PPP Authority, which promoted use and administered tenders." This included "paying companies for the costs of preparing tenders, a fund for lending to PPP projects, and a 'viability gap fund' to subsidise PPPs."[84]

In February 2011, in the midst of the uprisings, the EIB and the OECD organised a workshop on PPPs in the Mediterranean region, which was also attended by the IFC. It was advertised as the "launch of an ambitious PPP programme in the region by the EIB." Presentations identified IPPs in electricity, renewable energy projects, water treatment plants and desalination plants as the main sectors for PPPs. The EIB produced a detailed review of laws and practices on PPPs in Mediterranean countries, while no less than two conferences were organised in Morocco in May 2011 on the subject of PPPs, one of them by the EIB's Facility for Euro-Mediterranean Investment and Partnership (FEMIP).[85] The USA promised an extra $1 billion in aid from the Overseas Private Investment Corporation (OPIC) to be used "to identify Egyptian government owned enterprises investing in publicÐprivate partnerships (PPPs) in order to promote growth in mutually agreedÐupon sectors of the Egyptian economy." The USA had earlier promised that OPIC would invest "up to $2 billion in financial support to catalyze private sector investment in the Middle East and North Africa region."[86]

In May 2011, a conference of the richest countries in the world (the G8) was held in Deauville, France. It agreed to encourage loans worth $20 billion by development banks to Egypt and Tunisia. But it was also agreed that the IMF would provide a framework for the coordination of loans from the World Bank, the African Development Bank, the European Investment Bank / FEMIP, the European Bank for Reconstruction and Development (EBRD), the Islamic Development Bank and aid from donor countries.

As a result, Arab countries are now faced with a consolidated international consortium of international financial institutions led by rich countries and the IMF. This group effectively controls access to the great majority of the world's development funds, and is in a powerful position to impose policy conditions on access to these funds, including the privatization of infrastructure through PPPs.

The IMF offer of a loan has been strongly resisted by social movements. This resistance forced the post-uprising military government to withdraw from their planned agreement with the IMF in 2011. President Morsi finally announced he would agree to the loan in 2013, and one day later granted himself extensive immunities and powers "to take any measures he sees fit to protect the country's national unity, national security and the revolution." However, this led to the second uprising, which led to the overthrow of Morsi himself – as a result of which the IMF loan is once again uncertain. And meanwhile, the EU has dropped a reference to PPPs in the conditions of its aid for the water sector, partly because of the resistance:[87]

- "A number of factors have brought the initiation of PPP operations to a virtual halt:
- "Cancellation of ongoing or already attributed tenders on suspicions of frauds.
- "Deteriorated investment climate due to political and financial uncertainties.
- "Lack of long term visibility on the policies of future governing bodies towards private investors."

DEMANDS ON TUNISIA

When President Hollande of France visited Tunisia in July 2013, he was accompanied by a group of leading French companies who met with the ministers of economy and finance. Their priority was PPPs:

"The first speaker was Denis Simonneau of GDF Suez, who asked about Tunisia's plans for public-private partnerships (PPP), which he wanted to be implemented as quickly as possible. Saidi [minister for the economy] said that a bill on PPPs is before the National Constituent Assembly and is one of the government's 10 top legislative priorities: We really want to see it adopted, he added, especially as we have a series of major projects to start as soon as possible, for example the logistics hub of the port of Rades... The international vice-president of Sanofi wanted to work with PPPs in healthcare programmes, for example for cancer or diabetes...."

Leaders 2013-07-05 Ce que les chefs d'entreprise français demandent à la Tunisie

2.8. RESISTANCE

In the past years, many international NGOs concerned with development have published a series of reports critical of the effect of PPPs in developing countries. They raise a number of concerns:

- PPPs add to the long-term debt of developing countries, at the same time as undermining the public sector provision of services.
- Private finance and PPPs focus on profitable projects at the expense of the needs of the poor.
- Channelling public money through private funds leads to a loss of transparency, and 'leveraging' private finance may just mean reinforcing private investment strategies.
- PPPs are a comparatively expensive way of raising money.
- Countries have poor capacity to negotiate PPP contracts, expected impacts are unclear and monitoring weak.
- The international promotion of PPPs undermines local democracy and may reinforce corrupt elites.
- Many PPPs result in expensive failures to deliver the expected investments.

This PPP-promoting network is facing increasingly vocal opposition from many major NGOs at global and national levels, as well as encountering strong national resistance.

Resistance to PPPs can also be seen at national level in both high income and developing countries, for example in the UK, USA, Canada, France, Germany Portugal, Tunisia, Egypt, El Salvador, Brazil, India, Indonesia, and elsewhere. This public rejection and political uncertainty has further effects on the financial sustainability of PPPs, because uncertainty about political support deters investors from lending money to PPPs.

The UK has experienced the most widespread public and political backlash. Although all major political parties agreed on and supported the use of PPPs as a way of avoiding fiscal rules, problems publicised through parliamentary and press reports, including the right-wing press, have led to a massive consensus that the schemes were, in the words of a right-wing mayor of London, simply 'theft.' The UK's PPP programme, known as the private finance initiative (PFI), has been officially terminated.

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EL SALVADOR: RESISTANCE TO PPP LAW

A new PPP law was introduced in El Salvador in 2013, as required by a trade agreement with the USA signed by the previous government in 2011. This also became part of the conditionalities for an IMF loan, under which the government also promised to provide easy state-backed finance through 'a scheme to encourage long-term lending by state financial institutions.' It was further reinforced by the USA threatening to withhold up to $400 million of aid if the law was not passed.[88]

There was a huge campaign: "On May Day 2012 more than 80,000 workers, students, indigenous, feminist and social movement activists marched under the banner 'No More Privatisations, No to Public Private Partnerships with Thieves.' Mass protests also took place outside parliament on the day of the vote….." Although the law was passed, the campaign forced parliament to exclude public healthcare, education, water, public security and prisons from its scope; to establish an auditor to sanction companies who failed to deliver as required under contracts; and to require all contracts over $10 million to be presented to parliament before signing.[89]

The dangers of PPPs in El Salvador have been highlighted by a new investigation of corruption involved in an earlier PPP in energy involving a former president and the Italian energy multinational ENEL.

"The Attorney General of El Salvador has charged 21 former government officials and members of the Salvadoran business elite with embezzlement and falsifying documents in the deal for a 2002 public-private partnership (P3) contract that allowed the Italian energy company Enel Green Power to move to take over the state geothermal energy company. The case marks one of the largest corruption investigations ever carried out against former government officials in the country's history; the Attorney General has calculated the state's losses at $1,824,929.05 as a result of the state's contract with Enel."[90]

INDONESIA: POSTPONED ELECTRICITY IPP

The IFC presents the Central Java 2000MW coal-fired IPP as a success story. The IFC advised on the structure, and persuaded the Indonesian government to provide guarantees through the newly created Indonesia Infrastructure Guarantee Fund (IIGF).

But the power station is already at least two years behind schedule. The construction of the plant was intended to start in October 2012, but was postponed for a year because of "local opposition and environmental studies." It has now "postponed the schedule to finalise funding" for at least another year, until October 2014. This combination of public opposition and inability to find investors has been a problem with all of Indonesia's PPP plans – of 48 PPP proposals announced in 2009, only one, a toll road in Bali, has been completed.[91]

PPP investors also see democratic elections as threats: "Presidential elections in Indonesia are scheduled to take place in July 2014, and this could prompt infrastructure investors to wait for greater political clarity before taking on PPP projects. The election presents considerable risks to the country's political stability and pro-business reforms as the political ideologies of the current frontrunners for the presidency are somewhat opaque. For example, Jakarta Governor Joko Widodo has enjoyed success in reducing red tape and easing business procedures, but has also overseen an aggressive 44 per cent increase in the capital's minimum wage."[92]

2.9. OVERVIEW

This coordinated international promotion of PPPs is an extraordinary use of networks and resources, similar to the promotion of privatisation in the 1990s, and with many of the same actors. Without this enormous propaganda and financing effort, most of it conducted by public sector institutions using public finance, it is certain that very few PPPs would be implemented. This international pressure creates damaging distortions:

- It distorts public debates and decision-making.
- It results in more PPPs being set up than would otherwise be decided (the main objective of the network).
- Public policy is diverted to creating PPPs rather than the optimum infrastructure.
- Projects get prioritised according to their suitability for PPPs, not their importance for the social, environmental and economic objectives of public policy.
- Money used to promote and finance PPPs 'crowds out' other possible uses of it, e.g. to finance actual infrastructure through supporting governments.
- It is arguably an abuse of public money to be offering such financial assistance to lobbyists for PPPs and to the companies themselves.

3. GENERAL PROBLEMS WITH PPPs

This and the next section provide an empirically-based analysis of the problems with PPPs.

This section sets out:

- Reasons why PPPs do not produce the benefits that are promised.
- Systemic problems arising from the process of creating PPPs: corruption, secrecy and unreliable forecasts.
- How PPPs have a damaging effect on public services.

The following section sets out a framework for a systematic evaluation of proposals to introduce PPPs in general, based on a comprehensive comparative analysis of the quantifiable and unquantifiable advantages and disadvantages of using conventional public sector financing of infrastructure.

The empirical evidence in the chapters is strengthened by the major case studies[93], including a detailed account of the failure and cancellation of all the transport PPPs in London.

3.1. PPPs DO NOT 'BRING EXTRA MONEY' – THE EFFECT ON PUBLIC AND CONSUMER SPENDING

Many advocates of PPPs claim that they bring additional private resources into public services or infrastructure. Somehow, the public – or the public authorities – do not have to pay for schools or hospitals developed by PPPs, and so the government or municipality will have more money left to spend on other services; therefore, PPPs mean a reduction in borrowing.

But in PPPs for services like hospitals or schools, the government pays for the cost of the PPP from taxation – by paying for the cost of construction, and then the cost of running the service. So PPPs are paid for by the public sector in just the same way as projects carried out directly by public authorities. Where the PPP is at least partly financed by user charges e.g. water or energy, these charges are still paid by the users in the same way under a PPP as under direct public provision.

In both cases, money is borrowed from the same financial institutions – banks, pension funds and other investors. PPPs do not open access to special 'new' sources of finance. A PPP can spread the cost of a new building over many years, like any form of borrowing. But it does not reduce the overall cost of e.g. building a hospital: it just spreads it into the future, like any form of borrowing.

In reality, over the lifetime of a project, a PPP will invariably involve higher public spending than a conventional project, because of the higher costs of capital, and because in practice there are no efficiency gains (see below). And private operators charge higher prices to users, because they have a monopoly – as shown in the case of France. So the alternative of a conventional public sector project with an in-house service would involve less public spending overall.

HIGHER PRICES IN WATER PPPs – IN FRANCE

One form of abuse of a PPP is when monopoly concessions are used to overcharge customers. This is a well-known problem with monopolies, but there is some recent empirical from the water sector in France which makes it possible to quantify this. A comprehensive study of water PPPs in France, where about three-quarters of the service is delivered by the private sector through PPPs, found that in 2004, after making allowance for all other factors, the price of water under PPPs is 16.6 per cent higher than in places where municipalities provide the service.[94]

3.2. RISK TRANSFER

The notion of 'risk transfer' plays an important role in justifying PPPs. It has been used, especially in the UK, to justify use of PPPs which could not demonstrate that they were better value than a public sector option. And the transfer of risk is a key element in accounting rules which decide whether a debt falls off a government balance sheet.

But transferring risk is not free. PPP contracts normally transfer the risk of construction delays to the contractor – but these 'turnkey' contracts cost about 25 per cent more than conventional contracts (see below).

Nor is risk transfer necessarily the best policy option. Governments are not like companies. Many public services involve governments carrying risks for the rest of us because this works best – the risks of ill-health or unemployment, for example. A recent general analysis of risks and PPPs concluded that it is in general most efficient for demand risk to remain with governments, rather than the private sector, even if a PPP is used – so it would be a waste of money to pay for this risk to be transferred to the private sector. [95]

The IMF has warned that governments may exaggerate the true value of risk transfer. "It is also possible that the government overprices risk and overcompensates the private sector for taking it on, which would raise the cost of PPPs relative to direct public investment."[96] This has certainly happened in the UK. Major hospital PFI projects cost more than the public sector option – but when an estimate of 'risk transfer' was added, this was magically reversed, and the PFI options looked better value[97]. No attempt is made to monitor if this risk transfer happens in reality, or how much benefit it really brings. Out of 622 PFI contracts signed up to 2007, only three of these had been examined to see whether the value of the risk transfer was achieved.[98]

3.3. CORRUPTION, LIES AND SECRETS

3.3.1. CORRUPTION

A long-term concession for water services, or a power purchase agreement for a private power station, or a PPA, is a one-off opportunity to win a stream of government-backed revenue lasting 25 or 30 years. This creates huge incentives for corruption, both to ensure that the work is done through a PPP rather than the public sector, and to take the only opportunity to capture the contract.

Bribes or political donations form the currency with which these benefits are obtained, as summarised by the Nobel-prize winning economist Paul Krugman (talking about the USA): "As more and more government functions get privatized, states become pay-to-play paradises, in which both political contributions and contracts for friends and relatives become a quid pro quo for getting government business... a corrupt nexus of privatization and patronage that is undermining government across much of our nation."[99]

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In energy, for example, there have already been many power stations set up under the IPP model, relying on long-term power purchase agreements. Many of these have been associated with corruption – for example the Enron investments in Nigeria and India, and others in Tanzania, Pakistan, Indonesia and Slovakia – which is an intrinsic hazard of such long-term contracts.[100]

In the water sector, courts in France have convicted executives and public officials for bribes paid by Suez and Veolia subsidiaries in the cities of Grenoble and Angouleme and the island of Reunion. A 1997 report by the Cour des Comptes, France's national audit body, said that the system of 'delegated management' on which Suez and Veolia built their national dominance was systematically flawed: "The lack of supervision and control of delegated public services, aggravated by the lack of transparency of this form of management, has led to abuses." In 2002 a senior executive of Vivendi (now Veolia) was convicted of planning to bribe local politicians in the both the majority and opposition parties of Milan city council in order to win the tender for a wastewater treatment plant in the south of Milan, Italy. The evidence included a floppy disk containing a letter by the Vivendi executive Alain Metz stating that he has "excellent contacts" within the right-wing majority coalition (Polo delle Liberta, whose leader was Silvio Berlusconi), and planned to pay about €2 million to politicians, half of which would go to the majority parties, and the rest to the opposition and other "experts" and "mediators" whose names were not revealed.[101] Both groups "have come under scrutiny in a host of criminal and civil cases, with accusations that include bribery of public officials, illegal political contributions, kickbacks, price fixing, operating cartels and fraudulent accounting."[102]

Such corruption can be observed in a wide range of contracts, involving various services and projects, as shown by the case of Farum, in Denmark.

PPP SCANDAL IN DENMARK

The mayor of the municipality of Farum, a small town in Denmark, was committed to radical use of private contractors and PPPs. This included contracting-out of day care to ISS Servisystem, which led to a storm of complaints from parents and the termination of the contracts in 2001. The mayor also set up three construction projects on a PPP basis, including a sports stadium and a marina, negotiated with the same financial group. The deals were opposed on economic grounds by citizens' groups and even by the business press. One business magazine editorial accused the mayor of gambling in the casino with taxpayers money. The mayor was found to have issued the contracts illegally, without proper competition; to have taken out an illegal loan; and to have used council money to subsidise his football team. Local citizens had to pay an extra 3.2 per cent local income tax to rectify the municipal finances.[103]

CORRUPTION IN PPPs IN INDIA: UN REPORT 2013

"Public private partnerships or PPP projects in India's roads and power sectors are most prone to corruption, with private partners' evasion of revenue-share due to the government emerging as the biggest menace," a United Nations body has found.

The UN Office on Drugs and Crime (UNODC) has also flagged loopholes in Indian laws' ability to curb such graft, and suggested that private partners in PPPs be designated as public officials to make them accountable under the Right to Information Act. This would also bring such projects under the proposed laws to protect whistleblowers and guarantee service delivery to citizens.

The UNODC reviewed India's preparedness to deal with such corruption in its report on 'Probity in Public Procurement' underlining that such spending from the exchequer accounts for 20 per cent to 30 per cent of India's gross domestic product (GDP) – much higher than the 15 per cent of global GDP spent on public procurement.

Between 2012 and 2017, India aims to invest a trillion dollars in infrastructure creation, a bulk of which is to come through the PPP route. "This growing trend merits the need for legislation and procedures to address probity issues in PPPs," the UN report states.

The UNODC reached out to 400 private sector and government officials to assess the ground realities of corruption in PPPs, but just 100 responded. "Most entities were silent, reticent or cautious in their responses to (queries about corruption)... reluctance and fear to talk about corruption is an important area that needs to be addressed," the body has stressed.

Despite its limitations, the survey findings are illuminating. While 42 per cent of firms feel roads and power are the sectors most prone to corruption, 75 per cent of government officials perceived these two sectors as hotbeds of graft. Nearly 87 per cent of private players said that bidding norms and tender criteria were rigged to suit certain bidders, to which over 44 per cent of babus (government officials) agreed."[104]

3.3.2. FORECASTS AND LIES

Private companies systematically underestimate the costs of the investments, and exaggerate the expected demand for the service. A water treatment plant build-operate-transfer (BOT) is more likely to be approved if a municipality is convinced that there will be a much greater need for water than can be covered by existing resources; a toll road is more likely to be approved if the future traffic flows seem much more than existing roads could manage. There is much evidence that this happens universally.

A global study found that in 90 per cent of road and rail projects, the actual costs end up much higher than forecast in the original bids, and actual demand is lower than forecast. The error is always in the same direction, so it cannot be the result of chance – it can only be the result of systematic misrepresentation – i.e. lying. The authors concluded, "The problem of misinformation is an issue of power and profit and must be dealt with as such, using the mechanisms of transparency and accountability."[105]

Road traffic forecasts for toll road PPPs are systematically exaggerated everywhere. In Australia, every toll road constructed since 2005 has had less traffic and less toll revenue than the forecasts. In Central and Eastern Europe the experience has been the same. "The persistent over-estimation of traffic figures by CEE decision-makers not only leads to difficulties with the concessionaire's income or the public budget's expenditures, but also leads to attempts to increase the amount of traffic." [106] In the USA, too, the actual first-year revenue of 26 toll roads that opened between 1986 and 2004 averaged one-third less than projected. A 2013 PPP proposal for a bridge in Oregon forecast publicly that it would be used by 160,000 vehicles a day, enough to cover the cost from tolls – but privately they expected only 78,400 vehicles a day, which would require constant subsidy from the state.[107]

3.3.3. TRANSPARENCY

There is always a loss of transparency with PPPs because private companies can and do withhold much information on the grounds of commercial confidentiality. This angered the UK parliament: "Transparency on the full costs and benefits of PFI projects to both the public and private sectors has been obscured by departments and investors hiding behind commercial confidentiality."[108] In Egypt, and many other countries, one reason why PPPs and other forms of privatisation have been unpopular with many is because of the perceived secrecy and cronyism involved. An OECD report on the business climate in Egypt noted: "With regard to the privatisation process itself, an overall lack of transparency is also problematic."[109]

3.4. DAMAGING PUBLIC SERVICES, ENVIRONMENT AND WORKERS

3.4.1. DISTORTING POLICY PRIORITIES

PPPs have to be commercially viable or private companies will not sign them. This distorts the policy decisions made – some projects get selected which might otherwise not be, others do not get financed because they do not seem commercially attractive. This extends to the detail of projects. The private companies strip out any elements of a service which might reduce their potential profits.

- In the healthcare sector in Italy, the priorities of PPPs effectively displaced consideration of the needs of public healthcare: "Italian health-care trusts…. neither drew up any calculation for weighting their future costs and revenues related to the project, nor did they consider the social consequences for the community. They merely followed the legal requirements and prepared a financial plan from the private partner perspective. In deciding to create a PPP it is expected that public authorities would make the decision by reference to criteria of public benefit and by evaluating alternative ways of delivering the expected product, [but] the methodologies actually adopted in Italian healthcare PPPs focus almost exclusively on the private sector perspective, namely ensuring that the PPP is structured in a way that makes it most likely to be financed at good (low) interest rates by banks. Limits on public borrowing constrain the possible alternatives, and in some sectors a small number of companies may have close relationships with each other and public authorities that make competition between private companies less likely."[110]
- In Ghana, the entire national water service was restructured and split into two: one company covering the capital city, Accra, and one covering the rest of the country. This reorganisation did not make sense for national water policy, as it reduced the ability of the system to cross-subsidise water services in poorer areas – but the private companies could only make a profit in Accra, so it had to be separated for them.
- In the USA, contracts for private road schemes include clauses giving companies "the right to object to and receive compensation for legislative, administrative, and judicial decisions." After a PPP toll road in Orange County, California, was given a 35-year concession in 1995, other roads remained clogged by traffic, so the county decided to expand other roads as well – but the private company won a court order preventing that as it might reduce their profits. The only escape for the county was to re-municipalise the road – for 50 per cent more than the cost of building it.[111]

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SKEWED PPPs AND THE IMF: CLOSING SCHOOLS IN MUBARAK'S EGYPT

"As a former employee of the PPP Authority in Egypt which is under the mandate of Ministry of Finance (MoF), I know first-hand how these deals work and how the IMF and World Bank use these neo-colonial programs to enslave us. First, the IMF and World Bank are main consultants on almost all projects. During negotiation meetings with the main private sector bidders on the Project, the IMF team would side with almost all of the private companies' requests when it came to contract drafting, payment mechanisms and responsibility and services provided.

"I worked on a project that was supposed to build nearly 345 public schools in 18 governorates (has not been implemented so far to the best of my knowledge). The main bidder on the Project had high profile lawyers that would continuously twist the arm of the MoF and the General Authority for Educational Buildings (GAEB).

"Most of the time, the bidders' requests would be approved and drafted in the contract. For example, and this is one of many, schools usually have after school and weekend programs for their students. This was unacceptable to bidders and their high priced Dubai stationed lawyers. Schools in the contract were only to be open from 7 am to 4 pm. According to the lawyers, "The opening of schools on weekends or later on in the evening during the week would be a security threat to the investors and if such programs were to be implemented that would come with an extra cost." An extra cost the MoF could not afford. Further, the investors wanted to expand their "revenue streams" by having "cultural events" at the schools at night, such programs would inhibit the "cultural events" from taking place. Also, no students could be at school after 4 pm. This means a child that was waiting for their older brother or sister to pick them up would have to stay out in the street and wait if the person responsible for picking them up was late for any reason.

"My point is this, the process and discourse to making money is unethical in its essence, especially on large scale projects. The maximization of profits always comes at the cost of people closest to the business operation, whether cutting costs, reduced services, unethical treatment of students...etc. If we want to build a new Egypt that meets the demands of its people we should not allow these types of aid programs to operate. These investors don't build schools to improve education, they build schools to make money. They don't build hospitals to provide decent health care, they build hospitals to overprice medical care that us the tax payers and generations after us will have to pay.

"I believe the motivation and financing behind a project can always provide a good indicator of who will benefit most. Investors' one and only goal is to make a profit, this in my view is not the motivation we need as Egyptians to build a country we fought for and will continue to fight for as this article clearly points out."

Comment by Ahmed Tarik on Jadaliyya website 12 June 2011[112]

3.4.2. LOADING AUSTERITY ONTO OTHER SERVICES

In a context where there are political demands to cut public spending, the existence of PPPs creates greater threats to other spending on public services. This is because PPPs create long-term contractual rights to streams of income, and so governments are legally constrained from reducing payments to PPPs. That in turn means that reductions in spending are concentrated on non-PPP areas. This is made worse because PPP/PFI schemes have much longer contractual periods (25-30 years or more) than conventional service contracts e.g. for refuse collection, 3-5 years.

The size of PPPs means that the potential displacement effect can be huge. In Portugal, the annual payments to just two major road PPPs cost €800 million, larger than the entire national transport budget of €700 million.[113]

A report on PPPs in central and Eastern Europe warns that:

"There are wider and more systemic issues that have not been sufficiently taken into account by PPP advocates and governments, particularly in terms of the cumulative impacts of PPPs on public budgets during the coming decades.... Not only are there an unacceptably high number of 'bad apples' but using a large number of PPPs in itself is likely to lead to affordability problems.... The attempted PPP [for the Trakia Highway, Bulgaria] only delayed the implementation of the project, and has involved spiralling costs that are causing an increased burden on the state budget." [114]

PPP policies sometimes deliberately aim at getting a high proportion of government budgets. In Colombia, the new director of the PPP unit pushed through a decision to triple government spending on roads and to borrow $23 billion by issuing government bonds to help finance PPPs.[115]

PPPs IN UK: CROWDING OUT OTHER SPENDING, FORCING CUTS IN HEALTH SERVICES

In the UK, the total amount of capital investment delivered by over 700 PPPs under the PFI scheme is about £55 billion – but by the end of the contracts, the government will have paid over £300 billion – including £10 billion each year for the next decade. This huge fixed expenditure for many years ahead, which cannot be adjusted in response to changing circumstances, means that the PPPs will 'crowd out' the space for spending on other public services in general.

Individual PPPs already have this impact on public services, forcing cuts and closures in healthcare and other services, because the binding contracts of PFI transfer unforeseen risks onto that part of expenditure providing services. "Many of the building projects impose costs that are not justified in terms of income under payment by results.... [NHS] trusts which have much less contracted expenditure – current as well as capital – are going to be much better placed in the near future to cope with the rigours of the reform agenda as it will be easier to adjust to variation in revenue."[116] The capital costs of hospitals with PFI contracts were 2.5 per cent more than their funding.[117]

The South London Healthcare Trust had three hospitals with PFI schemes, and was declared bankrupt by the government. One of them, at Greenwich, found that the costs rose to 11.3 per cent of its entire budget – nearly double the government allocation for capital costs. A report by the strategic health authority warned that other local trusts in a similar situation would "incur recurrent [income/expenditure] and cash flow deficits even if they operate as efficiently as the average hospital trust in England. A high proportion of their underlying [income/expenditure] and cash flow deficits are attributable to this effect." The hospitals were forced to merge with other local hospitals, services were reduced, the number of nurses and doctors reduced, and accident and emergency services cut back – prompting a massive local campaign.[118]

3.4.3. IMPACT ON ENVIRONMENT

In the energy sector, the most common form of PPP is the private power station, known as independent power producers (IPP), which depend on long-term contracts backed by governments to purchase their outputs. The energy policies of all countries are now expected to shift away from using fossil fuels such as coal, oil and gas to using renewable energy sources, including hydro-electricity – but the great majority of IPPs do the opposite. A World Bank review in March 2013 found that IPPs invest mainly in coal, gas and oil-fired generation, including diesel, rather than renewables.[119]

The same kind of problem can be seen in waste management. In three cities in Egypt, PPPs were signed with international waste management companies from 2002. There were a number of problems with these, partly because the requirement for recycling was fixed too low at 20 per cent, with too much reliance on landfill.[120]

3.4.4. IMPACT ON WORKERS

The effects can be categorised under five broad headings:[121]

- Security of employment is reduced, because it is related to the contract itself and/or the private company, rather than the public authority. The private company has a greater incentive to reduce employment in order to increase profit margins, and has less incentive to maintain 'overheads' such as training. The terms of a contract and the profit-maximising incentives of the private company may lead to further casualisation through the use of short-term contracts or secondary sub-contracting.

PPPs also generally worsen the employment conditions of workers and their collective organisation in unions. These effects are caused by firstly, the employees being transferred to a separate private employer, and secondly, by the dominant role of the PPP contract itself, which forces public authorities to prioritise payments to the PPP company over all other expenditures.

- Workers normally lose their status as public employees. Possible future returns to public sector employment become more complex. Workers may lose the benefit of public sector pension schemes.
- It is more difficult to protect and improve pay and working conditions. This depends on the enforceability of indirect mechanisms such as fair wages clauses or legal rules on sectoral pay agreements. The PPP contract itself may not guarantee funding for nationally agreed pay increases. Private employers may apply different employment conditions for new entrants compared with transferred workers, creating a 'two-tier' workforce.
- Union organisation is weakened because employees are divided into smaller units with different employers, thus weakening solidarity and forcing unions to deal with a number of different employers. The management of private companies is not directly subject to considerations of public policy in relation to employment issues, and may thus be less supportive of union organisation and workers' rights.
- Other public service workers may also be affected as a result of the existence of the contract. If the income of a public authority is reduced, or if the PPP itself becomes more expensive than expected, the cuts are concentrated on the remaining direct employees, because the PPP contract cannot be broken.

4. EVALUATING PPPs

The previous section showed general reasons for not accepting the arguments usually made for PPPs. This section sets out a rational framework for comparing the advantages of public sector provision and PPPs.


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4.1. THE NECESSITY FOR COMPARISON WITH A PUBLIC OPTION

This section sets out a framework for a comparative assessment of economic and public service impacts, and evidence from international experience on the key issues, including the cost of capital, cost of construction, efficiency, transaction costs, the uncertainties created by 'incomplete contracts,' and the impact on public policy, public services and wider communities.

Evaluation of PPPs needs to be based on a comparison with public sector options. Even the IMF insists that the evaluation of a PPP must always be a comparative exercise with the public sector option:

> "When considering the PPP option, the government has to compare the cost of public investment and government provision of services with the cost of services provided by a PPP."[122]

HOW GOVERNMENTS AVOID COMPARISONS WITH THE PUBLIC SECTOR OPTION

Governments often try to avoid these comparisons. They want to use PPPs, regardless of their cost, to reduce the apparent level of government borrowing and debt – they are not interested in the comparative value for money. So it is often claimed that 'there is no alternative' to a PPP, because of the constraints on government borrowing, and a reluctance to increase taxes or charges.'

- In the UK a parliamentary committee complained that, "For too long PFI has been the 'only game in town' in some sectors which have not been provided with adequate capital budgets for their investment needs. This problem is likely to get worse in the future with capital budgets cut significantly at the Spending Review. If PFI is the only option for necessary capital expenditure then it will be used even if it is not value for money."[123]
- A state audit office report in Estonia reported that Estonian public authorities did not use proper public sector comparators in assessing the relative attractions of PPPs. The consequences of a PPP have been assessed "by primitive investment accounting, measuring the benefits in terms of cost savings and profits.

" As a result "non-transparent, costly and unfavourable contracts" have been signed. These contracts have included inflated costs, due to excessive profit margins, risk premia, or depreciation allowances. Proper evaluations would have led to many PPPs being rejected: in reality, long-term PPPs cost 25 per cent more than public ownership.[124]

- An evaluation of EIB loans to ten different PPPs across Europe "found that the key impact of the PPP mechanism was that the projects were implemented at all. In all of the projects evaluated in-depth, public-sector budgetary constraints meant that the alternative to a PPP project was no project, or at least no project within the foreseeable future, rather than a public-procurement project."[125] But the 'budgetary constraints' are political rules, not set in stone, as the EIB evaluation also notes, "The extent to which government spending limits could have been adjusted to accommodate these projects [without using a PPP] can be debated...."[126]
- In Ireland, the government preference for PPPs "led local authorities to reject its own VFM assessments or preliminary reports where they were found to favour traditional procurement methods."[127]

4.2. A COMPARATIVE FRAMEWORK – VFM AND THE PUBLIC IMPACT

The table below sets out a framework for a value for money (VFM) comparison covering all the economic elements of a PPP – finance, construction, operation, and the contract itself. These comparative evaluations should be carried out on any PPP proposal before it is implemented. If the result is that the PPP looks like a worse option, then the public sector alternative should be preferred.

In addition to an accurate VFM assessment of relative costs, a comparison needs also to take account of multiple public interest objectives. These include the impact of a PPP on public services, the wider economic effects – for example on employment, and the relative willingness to pay of citizens.[128]

The New York State report on assessing proposals for PPPs spells out the importance of addressing these issues as part of a comparative evaluation:

> "The more basic question of the value of the asset not just to the State but to the public itself... in terms of performance, user satisfaction and the overall viability of the project. This type of valuation is sometimes called a 'qualitative value for money assessment' because many of the factors have not and cannot be quantified. What is the value of ensuring that a public facility is affordable or available to all? What is the cost of locking the public in to a particular pattern of consumption when alternatives might serve them better in the future? Other concerns, beyond the financial aspects of P3s, should also be considered by policy makers, [including] community issues, labour issues, environmental issues"[129]

4.3. THE NEED FOR EVIDENCE-BASED COMPARISONS

Many PPP assessments only consider whether the PPP is economically feasible for a private consortium. Sometimes a comparison is made using a notional 'public sector comparator' rather than a real public sector alternative proposal. Public auditors in the Netherlands and elsewhere have questioned whether such comparators are adequate.[130] A real comparison is important to avoid the use of PPPs simply as a way of moving borrowing off the public sector balance sheet, even when they are more costly.[131]

UK: INADEQUATE COMPARISONS AND AVOIDANCE OF EVIDENCE

PPP proposals in the UK are supposed to be compared with a 'public sector comparator' before being authorised, but these comparisons have been the subject of much criticism by academics, auditors and parliamentary committees. In the UK these comparisons have been badly done, not exposed to proper challenges and debate, and systematically biased in favour of PPPs. "The use of PFI has been based on inadequate comparisons with conventional procurement which have not been sufficiently challenged."[132]

"We are concerned that the VfM appraisal system is biased to favour PFI. Assuming that there will always be significant cost over-runs within the non-PFI option is one example of this bias…. The Treasury should seek to ensure that all assumptions in the VfM assessment that favour PFI are based on objective and high quality evidence."[133]

But, despite the biggest and longest programme of PPPs, the UK government has not collected data on actual performance, nor carried out a systematic evaluation of results. "There has not been a systematic value for money evaluation of operational PFI projects by departments. There is, therefore, insufficient data to demonstrate whether the use of private finance has led to better or worse value for money than other forms of procurement."[134]

Despite so much experience, the government has not built up any expertise of its own to deal effectively with PPPs. "Departments should have developed commercial experience from using PFI but we still see some examples of projects and contracts which are clearly lacking in commercial awareness."[135]

4.4. COST OF CAPITAL – CHEAPER THROUGH GOVERNMENTS

Governments can nearly always borrow money more cheaply than private companies or private individuals. This is because there is very little risk of defaults. Governments are always there, with large tax revenues whereas no private company is immune from the risk of going bankrupt. Lending to private companies is therefore more risky, and so the interest rate is higher.

The OECD, the IMF and the senior economics journalist on the Financial Times all state this very clearly:

- OECD 2008: "The cost of capital of the private partner is usually higher than that of government, i.e. the interest rate on private sector loans usually exceed the interest rate on public sector loans…. If the efficiency gain of a PPP falls short of the additional interest cost, the minimum unit price at which the private partner can deliver the service will not be lower than the price government will pay in the case of traditional procurement."[136]
- IMF 2004: "The government's power to tax reduces the likelihood that it will default on its debt, and the private sector is therefore prepared to lend to the government at close to the risk-free interest rate to finance risky projects. This being the case, when PPPs result in private borrowing being substituted for government borrowing, financing costs will in most cases rise even if project risk is lower in the private sector. Then the key issue is whether PPPs result in efficiency gains that more than offset higher private sector borrowing costs."[137]
- Martin Wolf 2008: "It seems obvious that the finance of assets is a suitable function for the public sector, which has one huge advantage – the ability to borrow cheaply…."[138]

The evidence from the UK and the USA shows this differential in practice in high income countries. And the same is true in developing countries. This is why PPPs in Brazil and Indonesia, for example, are only viable if the states provide loans and guarantees, because they are more credit-worthy than the private companies. When two of the largest multinationals in the world, Shell and Bechtel, set up a private power station in the Philippines, their credit rating was bolstered by the Philippine government – the multinationals could not get bank loans for the project without the government guarantee.

4.4.1. UK

In 2011 a representative of the UK private companies involved in PPPs estimated that the average extra cost of private sector capital over conventional borrowing had been 2.2 per cent a year. The Financial Times calculated that this means that the UK taxpayer "is paying well over £20 billion in extra borrowing costs – the equivalent of more than 40 sizeable new hospitals – for the 700 projects that successive governments have acquired under the private finance initiative…."[139]

The gap is now larger, with the cost of PPP finance estimated as 8 per cent, compared with government bonds at 4 per cent. "The difference between direct government funding and the cost of this finance has increased significantly since the financial crisis. The substantial increase in private finance costs means that the PFI financing method is now extremely inefficient. Recent data suggests that the weighted average cost of capital of a PFI is double that of government gilts (bonds issued by the UK government)."[140]

In August 2011 the parliamentary select committee monitoring the Treasury concluded that this was an expensive and wasteful way of financing infrastructure investment. They recommended not only that the PFI system should be ended, but also that the government should take over the financing of existing PPPs – effectively renationalising them – because it would lead to a large reduction in costs:

- "The price of finance is significantly higher with a PFI. The financial cost of repaying the capital investment of PFI investors is therefore considerably greater than the equivalent repayment of direct government investment…. Recent data suggests that the weighted average cost of capital of a PFI is double that of government gilts…. We have not seen evidence to suggest that this inefficient method of financing has been offset by the perceived benefits of PFI from increased risk transfer. On the contrary there is evidence of the opposite."
- "The most straightforward way of dealing with current PFI contracts is for the government to buy up the debt (and possibly also the equity) once the construction stage is over. This would result in an increase in the headline level of government debt but…. it would become more affordable to service the visible government debt rather than the hidden PFI debt. Every one percentage point reduction in the interest rate paid on the estimated £40 billion of PFI debt would realise annual savings of £400 million."[141]

4.4.2. USA

A new report on PPPs in water in the USA compares the total cost of financing the same amount of infrastructure through public borrowing and private finance. Private finance costs between 50 per cent and 150 per cent more. In Rialto, California, the annual cost of private finance in a new water concession PPP is $16 million, more than double the cost of financing the same debt and investment by the public authority.

ALASKA: PUBLIC FINANCE IS BETTER THAN PPP

The Republican governor of Alaska – successor to Sarah Palin – is now proposing to abandon a PPP plan for a bridge across Knik Arm, in favour of commissioning and running it publicly because it's better value. An analysis by the state's department of revenue analysis showed that the public-private model is unlikely to work and attract private investors without very high costs or government guarantees for potential liabilities of $2.5 billion. Having the state, rather than a private developer, fund the project could save hundreds of millions of dollars."[142]

4.4.3. EXCESS PROFITS FROM PPPs – TAKEN INTO TAX HAVENS

The cost of private capital is even higher than the difference between the interest rate on loans, because the private companies also take profits through dividends on their shares in the project. These are substantially higher, and so raise the average cost to the public of using private finance. In the Jakarta water concessions, for example, the private companies obtain a return on capital of 22 per cent, guaranteed by the public authorities. In the UK, a study has shown that the profits made by private companies in health service PPPs are roughly double those of private investors in other activities of similar risk. "Returns to investors on this group of PFI projects are shown to be much higher than would be sufficient to remunerate investors for the risk they bear."[143]

Governments sometimes claim that this should be offset by the tax revenues from the profits made by companies, and build this assumption into their assessments of the cost of PPPs – the UK does this, for example. But many of the private companies involved in PPP projects are based in tax havens, and so this tax never materialises. A UK parliamentary committee commented, "Some PFI investors reduce their exposure to UK tax through off-shore arrangements. Yet the Treasury assume tax revenue in their cost-benefit analysis of PFI projects. The Treasury could not tell us if PFI investors had paid tax in the UK on profits and on equity gains, or whether corporation taxes had been collected from PFI companies…. The public sector has insufficient information on the returns made by PFI investors and no mechanism for sharing in gains when the investors sell their shares."[144]

4.5. CONSTRUCTION COSTS: ON TIME AND ON BUDGET?

It is frequently argued that the construction stage of PPP projects is invariably completed on time and within budget, and that this is a crucial advantage of PPPs over conventional public sector projects. The UK government claims that 76 per cent of PFI projects are completed on time, compared with only about 30 per cent of traditionally procured projects, A review of EIB funded PPPs across Europe also found that the projects evaluated "were largely completed on-time, on-budget and to specification."[145]

But the construction element of PPP projects is much more expensive. An EIB report compared the cost of PPP road projects across Europe with conventionally procured road projects, and found that the PPPs were on average 24 per cent more expensive than the public sector roads.[146] In 2007 the Polish government cancelled a motorway PPP for exactly this reason. They realised that the A1 Motorway from Grudziadz-Torun could be built for about €5.6 million per kilometre using conventional procurement, compared with €7.4 million per kilometre using the PPP.[147] The EIB report also notes that this premium of 24 per cent is about the same as estimates of cost overruns on public procurement projects, and so the extra cost of PPP projects reflects the payment required by the contractor to accept construction risk.

This is achieved by "the use of fixed-price, fixed-term turnkey construction contracts" which make the building contractors responsible for any delays. The certainty of completion is achieved as a result of the contractor accepting responsibility for a wider range of risks, and contractors have to be paid more for doing this.

Why are turnkey contracts used in PPP projects when they are rarely used in conventional public sector projects?[148] The key reason is not because governments have decided it is worth paying more for higher standards of punctuality for public service infrastructure, but for the benefit of the PPP financier. As the International Federation of Consulting Engineers (FIDIC) notes, "Among such [turnkey] projects can be found many projects financed by private funds, where the lenders require greater certainty about a project's costs…. Often the construction project is only one part of a complicated commercial venture, and financial or other failure of this construction project will jeopardize the whole venture."[149] The private financier in a PPP project requires greater certainty about completion date, because the returns on investment only begin when the building is completed – but it is the public which has to pay extra for this certainty.

The lengthy process involved in negotiating PPP contracts also means that they are not quicker in delivering infrastructure. "There is no convincing evidence to suggest that PFI projects are delivered more quickly and at a lower out-turn cost than projects using conventional procurement methods. On the contrary, the lengthy procurement process makes it likely that a PFI building will take longer to deliver, if the length of the whole process is considered."[150]

Experience in the UK also suggests that PPPs may not generate better designs than normal procurement. "In the area of design innovation and building quality we have seen some evidence to suggest that PFI performs less well than traditionally procured buildings…. The fact that consortia are formed to bid for projects also limits choice and competition. For example an architects' firm may have the best design or there may be one contractor that has produced the best proposal, but unless these designs and proposals are part of the chosen consortium's bid they will not be used."[151]

4.6. EFFICIENCY

® Timothy Vogel

As noted in the section on costs of finance, the private sector has to demonstrate greater efficiency – not just in theory, but sufficiently large and certain to offset the large and certain extra cost of private capital.

Most governments, politicians, consultants and commentators assume and assert that the private sector is always more efficient – but the empirical evidence of numerous studies shows that this assumption is incorrect. In reality, private operators are no more efficient, and often create inefficiencies. In evaluating proposals for PPPs there cannot be any general assumption of superior private sector efficiency – the assumption should be of neutrality.

The evidence comes from many studies.

- A global review of empirical evidence on efficiency of public and private utilities in 2005 by the World Bank concluded, "For utilities, it seems that in general ownership often does not matter as much as sometimes argued. Most cross-country papers on utilities find no statistically significant difference in efficiency scores between public and private providers."[152] Other studies have confirmed these results.
- In healthcare, public health services are far more efficient than private ones at ensuring universal quality healthcare and better life. The overwhelmingly private system of the USA costs about twice as much as public sector systems in European countries, but the life expectancy in the USA is lower, and the infant mortality rates higher, than in Europe.
- A study of cities with different types of bus operators found that the most efficient cities were equally likely to be public or private (Pina and Torres 2006).[153]
- Even in telecoms, a sector where the private sector is assumed to be performing better than the public sector, a global study comparing private and public companies found the opposite. While there was indeed "efficiency growth following privatizations… it is significantly smaller than growth in public sectors." (Knyazeva, Knyazeva and Stiglitz 2006)[154]

The same results emerge from studies of PPPs in the UK.

- A study of the use of PPPs in defence in the UK concluded that PPPs do not necessarily lead to efficiency gains and that there are significant costs and disadvantages. The UK defence sector illustrates that PPPs involve significant transaction costs which must be set against any benefits in terms of economic efficiency incentives."[155]

> "The conclusion of the analysis is that the use of PPPs will not necessarily lead to improved economic efficiency in defence procurement and that considerable care will need to be taken both in terms of negotiating PPPs, monitoring their performance, and in their renewal.

- A similar result emerged from a study of PPPs in the health and municipal services sectors in the UK. It found there was "a vicious circle of monitoring and distrust between partner organizations, in place of the old faith in bureaucratic process." The study also concluded that PPPs present a significant threat to the 'public service ethos.'[156]
- Demoralisation and inefficiency were also observed in a study of a UK hospital with a PFI scheme, where non-clinical staff were subject to four different sets of employment conditions – national, local trust, conditions created by a private contractor following competitive tendering, and new conditions of the private PFI contractor. This created problems and animosity, with some staff receiving shift premia for weekend work, and others receiving none. Changes in working practices also had a destabilising effect. For example, the churn of catering staff rose from 10-15 per cent per annum to over 100 per cent following the PFI, largely due to a change from cooking in kitchens to distribution of pre-cooked meals. (Earnshaw and Ellis 2004).

The experience of re-municipalisation demonstrates that the public sector can dramatically improve efficiency. Since water services in Paris were re-municipalised, the price of water has been reduced by 8 per cent, because the public authority, Eau de Paris, has been able to make great improvements in coordination and planning. Transport for London (TfL) has been able to make similar large efficiency gains since re-municipalising its PPPs, saving about £2 billion in total (see case study).

4.6.1. COMPETITION: WORSE WITH PPPs

The complexity of PPPs means that few companies can submit tenders, because of the cost of preparing bids. As a result, there is less competition.

- In the UK, a recent parliamentary report observed, "The nature of PFI means that competition is likely to be less intense compared to other forms of procurement. We believe the barriers to entry to be too high, resulting in an uncompetitive market. The long, complex and costly procurement process limits the appetite for consortia to bid for projects and also means that only companies who can afford to lose millions of pounds in failed bids can be involved."
- This also means that the process is more vulnerable to collusion and cartels between the few companies able to bid. In the water sector, both in France and elsewhere, the leading companies often submitted either joint tenders, or agreed to divide cities between them.

After a PPP is awarded, there is further lack of competition. Instead of the sub-contracts being put out for competitive tender, as they would be if the public sector was running the project, the private companies involved in the PPP are able to award contracts to their own subsidiaries without competition – so they can charge much higher fees.

- This practice is common in water PPPs in France. The same practice was replicated internationally. For example in Szeged, Hungary, when Veolia first won the water concession, they awarded all works contracts to their own wholly owned subsidiary. The bidding for the concession of the water contract in Santiago, Chile, was heavily influenced by the knowledge that the winner would be responsible for awarding a $300 million build-operate-transfer contract to build a wastewater treatment plant (La Farfana – then the largest wastewater treatment plant in Latin America).
- In the UK, there have been similar practices. In the Connect Communications PFI/PPP project for TfL (now terminated) the major shareholders of Connect – Thales, Fluor and Motorola – awarded their own subsidiaries the new build contract, and the operation and maintenance contract.[157]

4.7. TRANSACTION COSTS

4.7.1. PROCUREMENT AND MONITORING

PPPs do not create themselves or monitor themselves. There are costs involved in setting them up, negotiating and renegotiating the details, and the monitoring and liaison between the public authority and private company, including legal processes. These 'transaction costs' are a key reason why it is often more efficient for public and private organisations to do things themselves, in-house, rather than contract an outside specialist to do so. PPPs are much more complicated than ordinary contracts, and so the transaction costs are expected to be higher.

- An EIB study of roads in central and Eastern Europe found that roads built under traditional public sector methods were much better value than roads procured under PPPs, with transaction costs especially important. "Traditionally procured highway projects outperformed PPPs on three counts: traditionally procured projects were often implemented faster than PPPs; they were less costly when all costs, notably transaction costs, were accounted for; and they resulted in lower distortions of modal and route choice, largely because toll-free, traditionally procured highways did not, by definition, divert traffic to other (toll-free) roads."[158]

- An OECD report on Egypt acknowledged that procuring PPP projects is more complex and costly than ordinary procurement, and so attempts to develop PPPs imposed a significant extra cost on the limited budgets of government departments.[159]

A study by EIB researchers of projects across Europe found that the procurement costs averaged over 10 per cent of the total value of each PPP contract. Evidence from the USA suggests that monitoring the performance of the private sector partner in PPP type of arrangements entails extra costs of between 3 and 25 percent of the contract value. As a consequence, it is recommended in the USA that monitoring costs of 10 percent of the contract value be budgeted in such arrangements.[160] If the EIB and the USA data are combined, then the total transaction costs for PPP projects could average over 20 per cent of the total project value.

4.7.2. LAWYERS AND CONSULTANTS

The complexity of PPPs means that there are very high legal and accountancy expenses involved for both government and companies, with tendering periods lasting an average of 34 months.[161]

- Lawyers were paid over £400 million in fees for the London transport PFI/PPPs alone. The Financial Times estimates that on all PFI deals in the UK: "Consultants and lawyers have earned at least £2.8 billion and probably well over £4 billion advising on the deals."[162]
- A UK businessman has stated that the growth of PPPs in developing countries provides profitable opportunities for such advisers. "PFI isn't just an opportunity for UK construction companies; it's also a huge opportunity for lawyers, advisers and banks."[163]
- Contract disputes increase these transaction costs. "The development of quasi-markets has already led to a contractual culture… the health sector is becoming increasingly more of a playground for lawyers and legal firms."[164]

4.8. UNCERTAINTY

PPP contracts, like other contracts, are imperfect (or 'incomplete'). They cannot cover all the unknown circumstances and possible problems with delivery of service – especially over 25 to 30 years, a common lifetime for a PPP contract. These changes lead to renegotiations, which are opportunities for the companies to increase their charges. The private partner may exploit a monopoly service to the detriment of the people it should be serving. The contract itself is uncertain – it may turn out to have been illegal or corrupt in some way, with possible expensive consequences for the authority and the public at a later stage. The contractor might fail to perform satisfactorily, or abandon the contract because it is not profitable enough, or go bankrupt. Governments ultimately take responsibility for maintaining the service and repaying bankers whatever happens to the private partner. These 'contingent liabilities' may never happen, but they are expensive when they do.

Renegotiations are nearly always to the benefit of the private contractor, at the expense of the public – allowing higher prices or lower investments.[165]

- In the UK, renegotiations occurred in 33 per cent of PFI projects signed between 2004 and 2006, and each change was equivalent to 17 per cent of the project value – on average, £4 million per year. In one year in the UK, 2006, changes were made to PFI contracts costing a total of about £180 million – and the companies charged an extra £6 million to make these changes.[166]
- In France, the cost of a PPP hospital near Paris, l'Hopital Sud-francilien, has increased by €115 million above the original estimate, resulting in cuts in services.[167]
- In Chile and Colombia, three-quarters or more of roads PPPs were renegotiated, increasing costs by between 20 per cent and 140 per cent. (See case study [168]).

4.9. VALUE FOR MONEY: A SUMMARY OF THE EVIDENCE

The evidence from international experience and studies of PPPs can be summarised as follows:

- The cost of capital is always cheaper without a PPP, for high income and developing countries alike.
- The cost of construction is higher under a PPP, because the financiers require a turnkey contract, which is about 25 per cent more expensive.
- The private sector is not more efficient in operation, and the public sector has the advantage of greater flexibility.
- The transactions costs of tendering and monitoring PPPs add 10-20 per cent to their costs.
- The public sector faces real risks from PPPs including incomplete contracts, the likelihood of renegotiations, and the potential public liabilities in case of bankruptcy or default by the private company.
- There are negative impacts on public services, the environment and workers, from cost-cutting or from distorted selection of projects to suit the need for profitability in PPPs.

5. CONCLUSION: THE PUBLIC ALTERNATIVE

Governments and local governments can continue to develop infrastructure by using public finance for investment, and public sector organisations to deliver the service. This gives the public sector a number of advantages, including flexibility, control, and efficiency.

The public sector can raise long-term, cheap finance at lower interest rates and over far longer time periods than could any private company, by using tax revenues, or user charges, as security to raise loans or issue bonds to be repaid out of future income. It can decide on the balance between user charges and taxes to finance a service, and vary this balance over time according to changing circumstances. It can also choose to finance investment directly out of current revenues or taxes. The benefit of low borrowing costs can be gained by local as well as central and federal governments. Many countries have developed special mechanisms for financing municipal investment at low rates.

The public sector also gains greater flexibility, control, and comparative efficiency – because of reduced transaction costs and contract uncertainty, as well as economies of scale – and also the efficiency gains of more democratic accountability.

By using direct employees to operate and maintain systems and provide services, while procuring other goods and services from contractors, governments and local governments have long-term capacity to plan and deliver infrastructure services, and retain much greater flexibility to respond to changes in needs or technology, with relatively low transaction costs.

And the creation and maintenance of a public sector workforce creates a pool of decent, formal jobs, as an alternative to the precarious employment which is increasingly characteristic of the private sector, especially in the contracting industry.

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