History RePPPeated II

LIBERIA
SCOTLAND
SPAIN
INDIA
MEXICO
PERU
NEPAL

Why Public-Private Partnerships are not the solution

EXECUTIVE SUMMARY

In 2018, our report *History RePPPeated – How Public-Private Partnerships are failing* challenged the increasing promotion of Public-Private Partnerships (PPPs) as a silver bullet to finance development projects. It showed that PPPs often come at a high cost for the public purse and citizens, an excessive level of risk for the public sector and have a negative impact on democratic governance.

Since then, the context for the continued promotion of PPPs has become even more complex and uncertain. In early 2020, the arrival of the Covid-19 pandemic highlighted how market-based models cannot be relied upon to deliver on human rights such as health, education and water provision, and the fight against inequalities. In 2022, the upsurge in the cost of living, the energy crisis and the climate crisis have further highlighted the failures of the current economic model and the urgent need to build a different one.

However, calls for an increasing role for the private sector in the financing of infrastructure and public services, and for PPPs in particular, continue to grow.

Currently, PPPs are being promoted through a vast array of tools and by a wide range of institutions, including bilateral donor agencies, United Nations agencies and multilateral development banks (MDBs). The World Bank Group continues to be at the forefront of the promotion of PPPs, and of the use of private finance in development more generally.

The rationale is that PPPs may help overcome challenges in the financing, implementation and delivery of infrastructure and public services, based on the assumption that the private sector brings additional finance, and that private companies are inherently more efficient than the public sector in delivering high-quality public services. This overlooks evidence that points to the contrary and the fact that decades of structural adjustment programmes and austerity policies have left public services underfunded.

This report is the second in the *History RePPPeated* series and is once again the result of a joint civil society effort from organisations around the world. Through emblematic cases across four continents, the report provides an in-depth analysis of various kinds of PPP projects in both the global south and north. It also analyses emerging trends in the intervening four years since the first report was published, particularly in light of the Covid-19 pandemic and the multiple crises facing the world.

The problem with PPPs

According to Eurodad's estimates, since 2012 the amount of money invested in PPP projects in the global south has been volatile. The onset of the pandemic in March 2020 led to a drastic decline in investments in PPP projects, in line with the slowdown in the global economy – from US$99 billion to US$57 billion, which represents a 42 per cent decline. While in 2021 there were signs of recovery (US$63 billion), this is still not enough to anticipate an upward trend.

However, the intense promotion of private finance in development, and of PPPs in particular, by MDBs – and increasingly also by the International Monetary Fund (IMF) – is leading to substantial reforms in developing countries' laws and regulatory and policy environments at the national and local level. Many developing countries have enacted PPP laws and have set up 'PPP Units' to scale up their capacities to implement PPP projects. This suggests a problematic redefinition of the policy space for public service provision, which seems to be focused on attracting private investors.

In recent years, the evidence of the failures of PPPs has continued to pile up, especially in terms of their fiscal and human impact. The high fiscal cost of PPPs is due to the high cost of capital; the expectation of profit from the private partner; the high transaction costs associated with the negotiation of complex PPP contracts; and the high likelihood of renegotiation. These higher costs are rarely justified by proven efficiency gains in delivering public services. Of serious concern, particularly in the context of a growing debt crisis and a forecast of a global recession, is that they can create a 'hidden debt' for the government, which adds to their overall indebtedness.

The human cost of PPPs is evident around the world, as this report shows, and is affecting different aspects of people's lives. It is especially, but not exclusively, evident in PPPs in public services delivery, and is ultimately due to the fact that private companies, unlike the state, are accountable to their shareholders, and not to citizens. Access to services like health, education and water is increasingly dependent on citizens' capacity to pay, which transforms rightsholders into consumers.

Especially problematic are PPPs in the health sector, where the introduction of commercial imperatives in the delivery of healthcare can undermine the right to health and the achievement of Universal Health Care (UHC). One of the most emblematic examples of the failures of PPPs is the World Bank-supported Queen Mamohato hospital in Lesotho. This project first came under the spotlight for the rapid escalation of its initial cost – up to more than half of the country's health budget. In 2021, at the height of the Covid-19 pandemic, all nurses at the hospital were sacked for their strike action demanding equal pay to government employed nurses. This and numerous other disputes, and financial challenges, led to the premature termination of the PPP contract. Netcare, the biggest company in the PPP consortium, transferred the hospital back to the government.

About this report

In the seven case studies in this report, we find that PPPs have failed on many different levels, with serious negative impacts on the citizens of countries from Spain to Nepal. These impacts have risked compromising the fulfilment of fundamental rights, and undermining the fight against inequalities and climate change.

At a very general level, our findings illustrate some of the most common problems PPPs are associated with. They illustrate the complexity of the PPP phenomenon, as part of the increasing financialisation of infrastructure and public service provision. This evidence raises serious red flags about the capacity of PPPs to deliver results in the public interest and calls for active civil society engagement in demanding a change of course.

Key findings

- **A high fiscal and human cost of PPPs** – All the cases studied came at a high cost for the public purse, an excessive level of risk for the public sector and, therefore, a heavy burden for citizens. This has resulted in a questionable diversion of public resources, particularly when there was a need for an ambitious public response during the Covid-19 crisis.

  In Scotland, in March 2020, the government announced that parking charges were to be dropped in three of its hospitals, in support of patients and public health workers, especially the health sector staff on the pandemic frontline. However, their ability to do so was limited by contracts with a private consortium in charge of the car parks. As a result, the cost of suspending parking charges ended up being borne by the Scottish government – and by extension the Scottish public – rather than by private entities. At the height of the Covid pandemic, rather than buying more equipment to improve conditions for hospital staff and patients, the Scottish government paid £5.6 million (€6.5 milion) to private companies to provide free car parking at three Scottish hospitals for a year.

  In Liberia, like in many other parts of the world, US firm Bridge International Academies (now NewGlobe) 'abandoned' its students and teachers during the height of the Covid-19 pandemic in 2020, shutting down schools and cutting teachers' salaries by 80-90 per cent, despite being paid by the government. And yet, in 2021 the Liberian government indefinitely extended the project, effectively subsidising a US for-profit firm at a cost that is at least double government spending on public schools. This is an unethical inversion of the logic of official development assistance.

In Peru, the Expressway Yellow Line has increased toll rates on at least eight occasions, generating extraordinary income for the private company: almost US$23 million. By contrast, the Peruvian state suffered economic damages of US$1.2 million because it was not compensated for the incorrect implementation of the contract by the private company. Thirteen years after the initial signing of the PPP contract for the toll road, the people of Lima are still struggling to be able to use public infrastructure that cost the public purse millions of dollars.

In Nepal, the Melamchi Water Supply Project (MWSP) was set up to provide safe and drinkable water to Kathmandu Valley residents. However, the project has been immersed in regulatory failures; has accumulated public debt; has inadequately considered environmental aspects in its design; and has lacked effective consultation with – or compensation for – the affected Melamchi Valley communities in Nepal. Overall, it has undermined equitable access to water and high public health standards.

In Spain, the King Juan Carlos Hospital in Madrid is an example of the negative impacts of health privatisation, including additional costs that come at the expense of quality public service provision. The unnecessary construction of the hospital will entail a €2.9 billion expense, plus extra costs, for the Community of Madrid over 30 years for the benefit of a multinational. This amounts to an 'illegitimate debt', as it only benefits the private company managing the hospital, Fresenius, and not the population of Móstoles, where the hospital is located.

- **Women have often suffered the most** – For instance, in Mexico, the Interoceanic Corridor of the Isthmus of Tehuantepec (ICIT) is incompatible with the vision of development for which the women of the Isthmus are fighting, and may actually increase gender violence and inequality. Despite the government's insistence that the ICIT project will bring businesses and jobs to the region, it is likely to increase, rather than reduce, women's exclusion from the labour market, which would require investment in education and social infrastructure.

- **Environmental costs have been overlooked** – The focus on attracting private investors has resulted in the design of projects that undermine environmental protection and the fight against climate change.

  In Nepal, the MWSP has caused irreparable damage to the ecology of the Melamchi Valley, including increased soil erosion, irrigation problems and resource loss in the fish stocks. The project may also reduce the flow of water, to the point that it might no longer be sufficient to guarantee irrigation, fishing and other related activities. The lack of an adequate Environmental Impact Assessment may also have led to massive flooding and landslides in Melamchi in 2021.

  In the case of Mexico, local communities, academics and activists have warned about the severe negative impact on the rich diversity of the Isthmus region. As a result of the PPP contracts, private companies will gain significant power over public natural resources, including minerals, hydrocarbons, water and timber, which they will be able to use for their benefit and to the detriment of the common good.

- **Democratic governance has been at risk** – All seven projects lacked transparency, which has undermined democratic accountability, and/or they have failed and continue to fail to consult with affected communities.

  For instance, affected communities were not adequately informed and consulted in Mexico, India and Nepal, where many people also suffered from insufficient compensation. In Spain, private companies were awarded the PPP contract with no mechanism to ensure transparency and accountability. In Liberia, Bridge International Academies has been collecting data on children enrolled in its schools without their parents' and teachers' consent, with the purpose of selling them. In Peru, the Expressway Yellow Line has been immersed in the most high-profile corruption scandal that has ever taken place in Latin America – the 'Operation Car Wash' (Operação Lava Jato in Portuguese). Company executives and public officials are being prosecuted, or have already been sentenced for collusion, incompatible negotiation, bribery, influence peddling and money laundering, among others.

- **PPPs are a critical part of the efforts to financialise infrastructure and public services** – In India, the Oriental Infra Trust illustrates the increasing interest of private actors and Development Finance Institutions (DFIs) in turning investment in infrastructure into financial assets that are easy to buy and sell on international markets. This poses serious challenges for DFI accountability as the institutions end up being detached from the project implementation and the serious social and environmental impacts of the PPP projects, since the DFIs only invest *after* the PPPs have already been built.

A call to action

This joint CSO report raises a call to action to all concerned with justice, equality and sustainability. In the wake of multiple and interconnected crises, the promotion of PPPs is a false solution that needs to be challenged with a strong call for public services.

The following policy recommendations align with civil society and trade union demands aimed at national governments and development finance institutions. They seek to influence discussions on the financing of infrastructure and public services at the national, regional and global levels.

Recommendations

- **Halt the aggressive promotion and incentivising of PPPs.** We call on UN Member States and the shareholders of the World Bank, the IMF, regional development banks and all development finance institutions (DFIs) to ensure that these institutions halt the aggressive promotion and incentivising of PPPs, with a particular emphasis on PPPs in social services – the right to health, education and water and sanitation cannot be subject to market practices, nor to people's capacity to pay.
- **Public recognition of the fiscal and other significant risks that PPPs entail is essential and long overdue.** We invite all United Nations Member States to recognise the poor developmental outcomes of PPPs, and we call on them to refrain from engaging in these financing arrangements. We also invite governments of developed countries – which are often overrepresented in the aforementioned international economic institutions – to ensure that these institutions effectively support the ownership of democratically-driven national plans in a way that is conducive to sustainable development. This means supporting countries to find the best financing method to deliver infrastructure and public services that are responsible, transparent, gender-sensitive, environmentally and fiscally sustainable and in line with countries' human rights obligations and climate-related commitments.
- **Informed public consultations and broad civil society participation, including by local communities, feminist organisations, trade unions and other stakeholders should always be pursued** before any PPP in infrastructure and public service provision is agreed. This includes upholding the right to free, prior and informed consent, and ensuring the right to redress for any affected communities.
- **Apply rigorous government regulation of private actors and high transparency standards**, especially in relation to accounting for public funds, the contract value of a PPP and its long-term fiscal implications for national accounts and project impacts. The public interest must be placed ahead of commercial interests. Contracts and performance reports of social and economic infrastructure projects should be proactively disclosed, and DFIs should not provide support to any projects unless transparency is guaranteed.

It is vital to resist the increasing use of PPPs as a preferred financing tool to deliver infrastructure and public services. Instead, we call for the promotion of high-quality, publicly funded, democratically-controlled, gender-sensitive and accountable public services, based on the fulfillment of human rights and the protection of the environment. The future of our societies depends on it.

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Acknowledgements

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