THE PERVERSE PUSH FOR PPPS AND WHAT WE CAN DO ABOUT IT

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INTRODUCTION

Public-private partnerships, often referred to as PPPs, are increasingly being promoted as a way to finance development projects and bridge infrastructure gaps. Donor governments and financial institutions, such as the World Bank and European Investment Bank (EIB), have set up multiple donor initiatives to promote changes in national regulatory frameworks to allow for PPPs, as well as provide advice and finance to PPP projects.

PPPs can be best described as contractual arrangements between the public and the private sector in which the latter essentially replaces the role of the state as a financier and provider of traditional public goods, such as schools, hospitals and roads.

PPPs are nothing new to many countries in the global north. Yet the last decade has particularly seen a growing use of PPPs in global south countries. Eurodad previously found that from 2004 to 2012, investments in PPPs in global south countries increased by a factor of six, from US$22.7 billion to US$134.2 billion. Although investments fell in 2013 to US$84 billion, data from 2014 again showed an increase in the amount of money invested in PPPs, as well as the highest-ever average project size of US$419 million. This is consistent with the World Bank's pledge to move "from billions to trillions" by converting billions of official assistance into trillions in total financing, as well as a decade-long trend towards large-scale 'mega-projects'. Bent Flyvbjerg, professor at the University of Oxford, UK, found that spending on mega-projects already amounts to approximately US$6-9 trillion a year, or eight per cent of total global GDP, making this the "biggest investment boom in human history."

FISCAL RISKS

Proponents of PPPs often argue that the participation of the private sector will lead to higher quality investments and allow states to spread the costs instead of having to raise funds upfront, as in the case of traditional public procurement.

However, our 2015 report, ‘What lies beneath?’, found that PPPs are in most cases the most expensive method of financing, significantly increasing the costs to the public purse. Costs can be twice as high as a result of the fiscal implications coming from non-transparent contingent liabilities: potential debts arising in the medium and long term. If a project fails – and this is not infrequent – the costs are shouldered by the public sector, which most times has to rescue the PPP project, or even the company behind it, resulting in private debts being shifted to the public sector. PPPs have already left lasting fiscal legacies in countries such as Ghana, Hungary, Portugal, Tanzania and Uganda. Peru alone clocked up PPP liabilities estimated at U$6.5 billion in 2012. In Lesotho, a PPP hospital swallowed half of the country’s healthcare budget while giving a high return of 25 per cent to the private sector provider.

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PERVERSE ACCOUNTING

So why do countries still prefer PPPs over public borrowing when the liabilities that arise can have a detrimental effect on their fiscal sustainability? The reason has little to do with efficiency gains, and much more with non-transparent accounting measures that allow them to keep PPP projects off the public balance sheet. This means that governments do not have to register the costs and liabilities of PPPs in the state accounting books, enabling them to circumvent budgetary constraints. It also explains why PPPs are a particularly attractive financing mechanism in times of public funding cutbacks.

Eurodad describes off-balance sheet accounting standards as ‘perverse’ because they allow governments to hide the true costs of PPPs, creating the dangerous illusion that PPPs are cheaper than they really are. In addition, off-balance sheet accounting also serves political interests because it permits elected officials to greenlight projects that they have promised to their electorate, without having to think about the debt burden for future generations.

The reality is that the true costs of PPPs can be enormous, because governments are often obliged to guarantee above-average income streams if they want to attract private investors, which include pension funds and insurance companies that are looking for stable cash flows following the financial crisis. The few contracts that have come to light indicate that the list of guarantees offered to firms in order to make PPPs look ‘bankable’ is substantial to say the least, ranging from loan repayments, minimum income streams, guaranteed rates of return, guaranteed currency exchange rates and guaranteed compensation should new legislation affect an investment’s profitability. A recent study by Counter Balance, a European coalition of civil society organisations (CSOs) working on development finance and international financial institution issues, found that in the case of the EIB, PPPs – of which the bank supported 215 between 1990 and 2015 – generate annual return rates of typically 12 per cent. In addition, for PPPs in the global south, where the risks are perceived to be higher, investors expect annual returns of 25 per cent or more. Counter Balance’s report rightfully calls PPPs “a rent-seeker’s dream.”

It is also worth noting that it is not only CSOs that are concerned about this trend. Even the European Commission warns European Union (EU) member states in its 'Guide to the Statistical Treatment of PPPs' about an:

> *"'...affordability illusion' which tends to be exacerbated when a project is found to be off balance sheet."*

The International Monetary Fund's (IMF) Fiscal Affairs Department meanwhile developed and published in 2016 a PPP Fiscal Risk Assessment Model (P-FRAM), an analytical tool to assess the potential fiscal costs and risks arising from PPP projects. Experts within the department stress that:

> *"...an inadequate budgetary and/or statistical treatment may allow governments to ignore the impact of PPPs on public debt and deficit. In practice, governments often end up bearing more fiscal costs and risks than expected in the medium and longer term."*

Yet so far they have not been successful in making their voices heard by the main promoters of PPPs in the global arena: the World Bank Group (WBG) and the G20.

THE WORLD BANK AND THE G20'S OPPORTUNISTIC AGENDA

A wide range of institutions, donor governments and corporate bodies have been actively promoting PPPs in both global south and global north countries. This has resulted in multiple donor facilities and initiatives that have the objective of enabling the business environment for PPPs to flourish. At global level the WBG as well as the G20 have been active players in this agenda. During the last couple of years, the WBG in particular has served as the G20's go-to agency on PPPs by producing several policy papers, among them a 'project checklist for PPPs', a 'Framework for Disclosure for PPP Projects' and a 'Report on Recommended PPP Contractual Provisions'. In 2014 the WBG also created the PPP Unit, which is aimed at harmonising the PPP agenda across the Group, and set up the Global Infrastructure Facility, a platform to facilitate the preparation and structuring of complex infrastructure PPPs.

In 2016 the WBG hosted the first Global Infrastructure Forum and committed to serving as the secretariat of the Global Infrastructure Connectivity Alliance, which was launched at the China-led G20 summit that took place in September 2016. In addition, with the signing of a 'Joint Declaration of Aspirations on Actions to Support Infrastructure Investment', 11 multilateral development banks made a pledge to invest a minimum of US$350 billion from 2016 to 2018 in infrastructure development, particularly to attract and partner with the private sector in the energy, ICT, transportation and water sectors.

Most of these initiatives have not paid sufficient attention to the hidden debts of PPPs and fail to recognise off-balance sheet accounting as one of the key problems. Even the 'project checklist for PPPs', a long list of questions developed by the WBG to be used by public sector decision-makers, only asks governments if there is a clear process for the accounting treatment of PPPs in terms of their classification as on or off-balance sheet assets. It does not address what should actually happen if a government decides to hide the costs and liabilities from its books.

This has been the general experience of CSOs thus far. At a side event that Eurodad organised during the 2016 World Bank and IMF annual meetings, the World Bank argued that it would not necessarily disapprove a PPP in cases where the partner country decides to keep the project off the books. This confirms once more that the current push for PPPs has much more to do with the self-preservation of donor country and private interests than with achieving sustainable development and reducing inequality.

CSOS HAVE A CRUCIAL ROLE TO PLAY IN HOLDING MULTILATERAL DEVELOPMENT BANKS AND G20 MEMBER STATES ACCOUNTABLE

THE ROLE OF CIVIL SOCIETY: CHALLENGES AND OPPORTUNITIES

CSOs have a crucial role to play in holding multilateral development banks and G20 member states accountable and ensuring people's participation in decision-making processes related to PPPs. This is not always an easy task, because PPPs, and the legislative changes that favour them, are usually being negotiated behind closed doors, far away from the public eye. At the same time, the actors advising governments on how such legislation should be structured are often drawn from the private sector. Trade unions, environmental groups and human rights activists are typically excluded.

Understandably, this has led to some fatigue among CSOs. It remains challenging to fight against such a strongly biased paradigm led by undemocratic institutions, particularly in today's turbulent political landscape where civil society space is shrinking at an alarming rate. Therefore, more than ever, CSOs need to join forces and offer a collective and coordinated campaign to tackle the upward trend of PPPs. Eurodad strongly believes that one of the core demands of such a campaign should be transparent accounting. While at first sight this issue might look like a technical footnote in a much larger debate, it is actually one of the most fundamental challenges of PPPs and it deserves the attention of anyone interested in removing the perverse incentives that uphold the bias towards PPPs. The reason for this is simple: if PPPs had to be accounted for transparently, very few would go ahead, and this would allow global south countries to select the best financing methods for their needs.

CSOs are already demonstrating good practice by calling on countries to adopt sensible accounting practices, i.e. by registering PPPs as government debt rather than keeping them off the balance sheet, and by explicitly recognising the risk of hidden contingent liabilities should a project fail. But many of these countries base their judgement on guidelines, standards and toolkits coming from the G20, WBG, Organisation for Economic Co-operation and Development (OECD) and United Nations (UN). While these tools fail to call explicitly on states to only pursue PPPs if they are registered on the books, PPPs will continue to cause more harm than good.

As a result of CSO pressure, the World Bank has already allowed CSOs to comment on its PPP disclosure framework, PPP reference guide and report on contractual clauses. However, more pressure is needed to ensure that these documents are not only opened up to the public, but also explicitly endorse transparent accounting practices.

In 2017, Eurodad will therefore continue to explore joint campaigning opportunities and support civil society in the global north and global south, including trade unions, to increase their advocacy and campaigning on transparent accounting for PPPs. A first big opportunity for CSOs to join forces will come in the upcoming months, when Public Services International launches ‘The Fight Against Privatisation’, a new information and campaigning platform. This platform will provide a space for information sharing on anti-privatisation initiatives, and for the launch of campaign activities, including on transparent accounting. Eurodad encourages you to participate.