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History RePPPeated II

Why Public-Private Partnerships are not the solution





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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 million) 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 fulfilment of human rights and the protection of the environment. The future of our societies depends on it.

Why PPPs are a false solution to the multiple crises facing the world

By Océane Blavot, Chiara Mariotti, María José Romero and Farwa Sial, Eurodad

"The reversal is nearly universal as over 90 per cent of countries registered a decline in their Human Development Index score in either 2020 or 21 and more than 40 per cent declined in both years, signalling that the crisis is still deepening for many."

United Nations Development Programme (UNDP), *2022 Human Development Report*[1]

In 2018, our report *History RePPPeated – How Public-Private Partnerships are failing*[2] challenged the increasing promotion of Public-Private Partnerships (PPPs) as a silver bullet to finance development projects. Since then, the context for the continued promotion of PPPs has become even more complex, uncertain and problematic. As the UNDP put it in its *2022 Human Development Report*, "we live in a world of worry".[3]

In early 2020, the outbreak of the Covid-19 pandemic exposed the failures of austerity policies and the detrimental consequences of systemic underfunding of public services.[4] It also 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 increasingly frequent extreme weather events associated with the climate emergency further highlights the failures of the current economic model, and the urgent need to build a different one.[5]

The necessity for public investment in goods, services and infrastructure is more evident than ever before. And yet, calls for an increasing role for the private sector in the financing of infrastructure and public services continue to grow.

PPPs as a silver bullet for development

The involvement of the private sector in public service provision is not new. However, its promotion has increased in recent decades, particularly after the adoption of the Sustainable Development Goals (SDGs) in 2015. SDG17, in particular, refers to PPPs as a "means of implementation" of the goals, including a call to "encourage and promote effective public, public-private and civil society partnerships".[7] The importance of PPPs in support of development objectives was also established in the 2015 Addis Ababa Action Agenda, at the Third UN Conference on Financing for Development.[8]

PPPs are being promoted as a financing tool to deliver infrastructure, social services and increasingly climate change-related projects, relying on the rationale that they may help overcome some key challenges, including insufficient funds, poor planning and project selection, inefficient implementation and inadequate maintenance.[9] Arguments in support of PPPs focus on the capacity of the private sector to deliver high-quality investment and efficiency in infrastructure and social services delivery, while private finance also reduces the need for the state to raise funds upfront to develop and manage these projects,

Box 1: What are Public-Private Partnerships (PPPs)?

There is no universally agreed definition of PPPs. The most accepted definition, and the one we use in this series of reports, is that PPPs are long-term contractual arrangements where the private sector provides infrastructure assets and services that have traditionally been provided by governments, such as hospitals, schools, prisons, roads, airports, railways and water and sanitation plants, where there is some form of risk sharing between the public and private sector.

The vast literature on the subject describes up to 25 different types of PPPs, depending on the arrangement or sharing of responsibility between the public and private sector partner. The use of specific types varies greatly across sectors and countries. In the last decade, an increasing number of countries have included their own definition of PPPs in national laws and policies.[6]

particularly in a context of budget constraints.[10] Notably, the role of the private sector in financing development is promoted in conjunction with repeated allegations about the limitations of the public sector's capacity to deliver high-quality public services, which cannot be dissociated from decades of structural adjustment and austerity policies, and inadequate public finance for development. The latter is exacerbated by the unmet commitments from rich countries to spend 0.7 per cent of national income on Official Development Assistance (ODA) and their unwillingness to tackle tax dodging and illicit financial flows effectively.

The promotion of PPPs is happening through a vast array of tools and by a wide range of institutions, including bilateral donor agencies, multilateral development banks (MDBs), United Nations' agencies, global accounting firms and the World Economic Forum, among others.

The World Bank, in particular, continues to be at the forefront of the promotion of PPPs, and of the use of private finance in development more generally.[11] Far from using the Covid-19 and subsequent crises as an opportunity to rethink a broken economic model and put public services at the core of its response, the World Bank has continued to adhere to its blueprint for development: a vision that reserves a central role for private finance, and puts macro-economic stability and fiscal balance ahead of human rights.[12]

In 2022, the World Economic Forum placed PPPs at the heart of the pandemic-recovery. As they argued in January, "again and again, private-public-partnerships have created change where policy alone would have fallen short. With so many climate transition and inclusive growth challenges facing us today, such innovation is not a 'nice to have,' it's a 'must have'."[13] The United Nations Economic Commission for Europe (UNECE)'s 6th International PPP Forum reinstated its ongoing support for the global promotion of PPPs as a means for achieving sustainable infrastructure. The Forum "concluded on the need to deliver green, circular, inclusive, and resilient infrastructure projects to meet the SDGs".[14] And, former Inter-American Development Bank (IDB) President Mauricio Claver-Carone argued in July that: "public-private partnerships offer a major opportunity to expand markets, create jobs, and contribute to the region's economic recovery and growth, since they foster sustainability, efficiency and innovation".[15]

As the detailed cases in this report illustrate, this positive image of PPPs is not reflected in the experiences of many communities around the world who live with projects on a daily basis. In fact, PPPs represent a very concerning policy trend and risk compromising the urgent need to deliver for people and the planet.

What the figures on global trends of PPPs show...

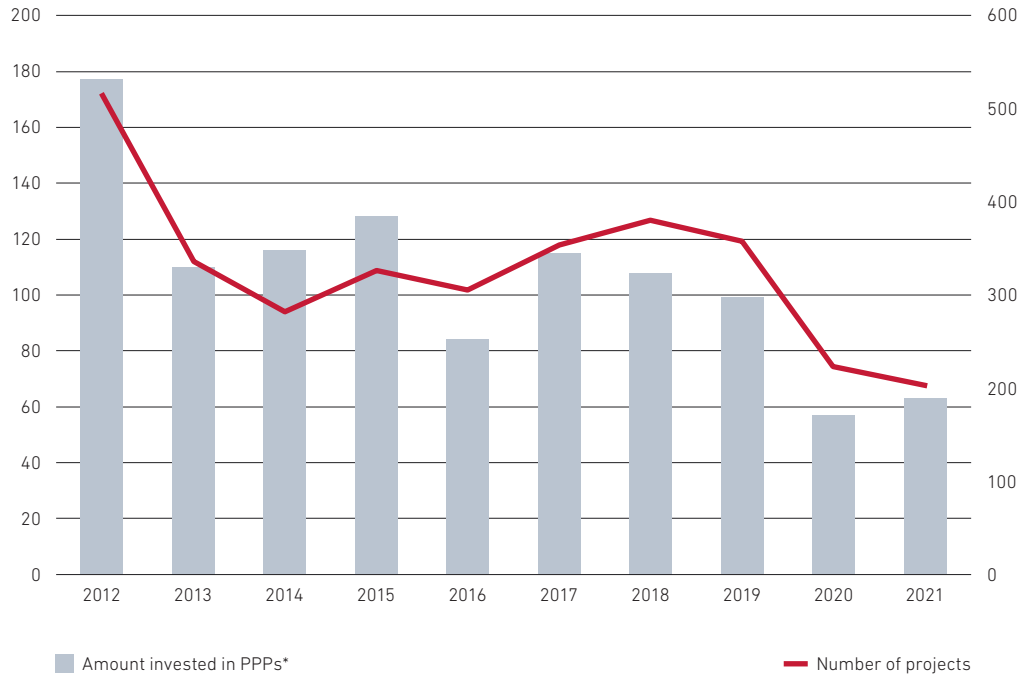
Reliable data on the total volume of PPPs around the world – and the public and private funds allocated to them – is hard to find. Different definitions of PPPs result in confusing and fragmented reporting practices. For developing countries, the World Bank's 'Private Participation in Infrastructure Projects Database' collects data on 137 low- and middle-income countries. However, this only includes data on so-called economic infrastructure, such as energy, transport, water and sewerage.[16] For Europe, the European Investment Bank (EIB) conducts an annual review of the PPP market, as it hosts the European PPP Expertise Centre. However, the situation becomes even more challenging when analysing social sectors. Relevant data on PPPs in social sectors may be available at a national level, but reliable data on a global scale for PPPs in health and education is difficult to obtain as no official institution compiles this information.

Previous Eurodad analysis of the World Bank's 'Private Participation in Infrastructure Projects Database' showed that global trends of money invested in PPPs experienced two clear waves in the global south. The first wave occurred during the early 1990s, in times of deregulation and heavy reliance on private finance; while a second wave started in 2004 and peaked in 2012.[17] Today's analysis shows that, since 2012, the amount of money invested in PPP projects in the developing world has been volatile (Figure 1). The onset of the pandemic in 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 a recovery (US$63 billion), this does not indicate a substantial upward trend.

The impact of the pandemic on PPPs was noted at several stages of the PPP project cycle: planning, preparation and procurement.[18] However, the World Bank also admits that the reasons for cancellation and delay were not limited entirely to the impact of the pandemic, but could also have resulted in Covid-19 triggering the inevitable decline for projects that were already in trouble.[19]

Figure 1: Total investment in PPPs in infrastructure, and number of projects. Developing world, 2012-2021 (billion US$)

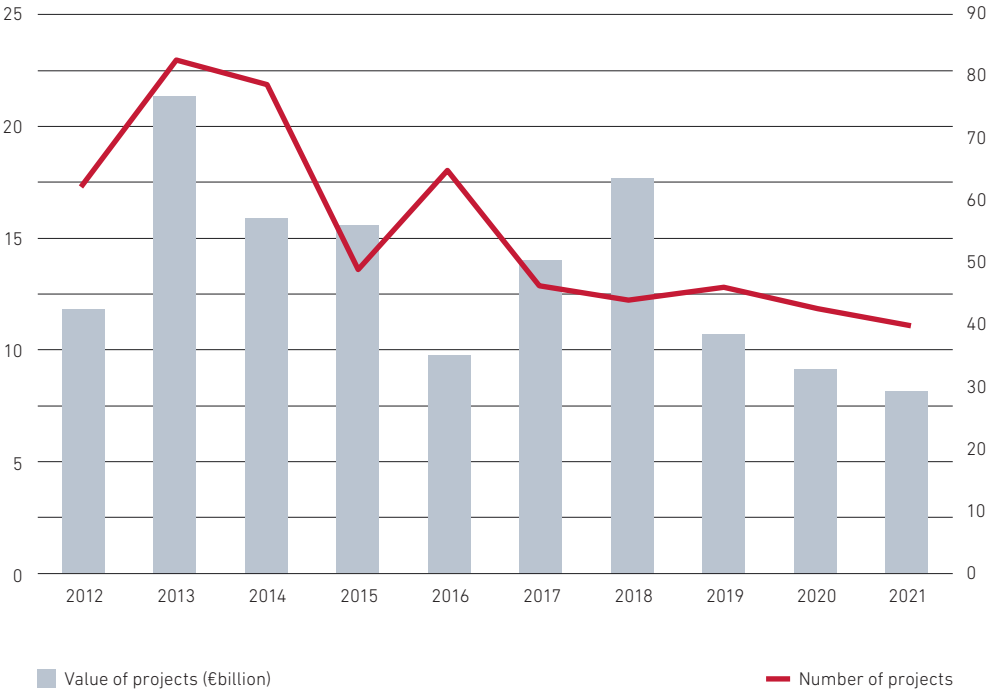
Source: Eurodad's own calculations. World Bank's Private Participation in Infrastructure Database (*amounts adjusted by US Consumer Price Index as of October 2022).20



Meanwhile, over the past decade the amount of money invested in PPP projects in Europe experienced a different pattern (Figure 2). While it was also volatile, peaks were seen in both 2013 and 2018,[21] years in which there was a decline in investment in developing countries. In the case of Europe, the decline due to the Covid-19 crisis was less severe.

Figure 2: PPP market by value and number of projects in Europe (2012-2021)

Source: EIB Market Update (2022)22



While these figures help to illustrate the scale of the PPP phenomenon in the infrastructure sector, the reality indicates that – despite the efforts of donors and governments – the financial impact of PPPs to date has been small and the public sector continues to dominate.[23] Little private investment takes place in low-income countries, with just a handful of large projects in a select number of countries. For instance, the World Bank reported that, in 2019, private participation in infrastructure projects in sub-Saharan Africa stood at US$6.2 billion, representing just 6.4 per cent of the total in that year.[24] This is consistent with previous World Bank figures – in 2017, 95 per cent of all investment in infrastructure in sub-Saharan Africa was publicly financed.[25] That does not come as a surprise. PPPs tend to be more common in countries with large and developed markets to allow for a faster recovery of costs and more secure revenues. As the literature on PPPs shows, this implies a selective bias in PPPs, known as 'cream-skimming', which also occurs within countries, with investment directed towards affluent urban areas.[26]

...and what is beyond the global figures

The rise in the promotion of private finance, and of PPPs in particular, has implications that reach far beyond the relatively small value of funds raised, and the impact of each single project.[27]

MDBs, led by the World Bank Group, are devoting considerable attention to advising countries in their use of PPPs. They are not putting the same (visible) effort into improving the quality and effectiveness of publicly financed infrastructure and public services. Over the years, the World Bank Group has produced different tools,[28] including model language for PPP contracts, which have been criticised for favouring private sector interests, often to the detriment of the public partner.[29] Regional development banks, such as the Asian Development Bank,[30] the African Development Bank,[31] and the Inter-American Development Bank,[32] have approved strategic frameworks, set up networks or dedicated offices to support countries on how to deliver PPP projects.

As a result, PPP advocacy has led to concrete changes in laws, and regulatory and policy environments at the national and local level. Many developing countries have enacted PPP laws,[33] and set up 'PPP Units'[34] to scale up their capacities to implement PPP projects, including in health and education, in line with loan conditionalities and policy guidance emanating from the World Bank,[35] the International Monetary Fund,[36] and regional development banks.[37] Developing countries have also included PPPs in national development plans that seek to scale up infrastructure and public service provision.[38] As this report will illustrate, all this has entailed a problematic redefinition of the policy space for public service provision, prioritising attracting private investors – an agenda that Professor Daniela Gabor terms the 'Wall Street Consensus'.[39] As Gabor argues, the Wall Street Consensus implies "an elaborate effort to reorganize development interventions around partnerships with global finance", in which PPPs play a central role.[40]

What is the problem with PPPs?

The reality of PPPs is far more complex than what is suggested by the narrative put forward by its promoters. In 2018, our report *History RePPPeated – How Public-Private Partnerships are failing* highlighted the negative impacts of the PPP model for the delivery of infrastructure and public services. Through ten cases, from different regions and sectors, we illustrated that PPPs often come at a high cost for the public purse, an excessive level of risk for the public sector and, therefore, a heavy burden for citizens. We also illustrated the negative impacts of PPPs on democratic governance, as they often lack transparency, are prone to corrupt practices, and/or fail to consult with affected communities.

Box 2: Why Public-Private Partnerships (PPPs) are still not delivering

PPPs are a real buzzword in Europe and globally. We are surrounded by claims that the private sector is more efficient and better placed to deliver public services like energy, education, health, water and sanitation. But is this really the case? A 2020 study commissioned by the European Federation of Public Service Unions (EPSU) and Eurodad reviewed the experience of PPPs in Europe and argued that, in fact, the contrary is true. There are eight main reasons why PPPs are not working:

1. PPPs do not bring new money – they create hidden debt.
2. Private finance costs more than government borrowing.
3. Public authorities still bear the ultimate risk of project failure.
4. PPPs do not guarantee better value for money.
5. The search for efficiency gains and design innovation can result in corner-cutting.
6. PPPs do not guarantee projects being on time or on budget.
7. PPP deals are opaque and can contribute to corruption.
8. PPPs distort public policy priorities and force publicly run services to cut costs.

Source: Lethbridge and Gallop (2020)[41]

In recent years, the evidence of the failures of PPPs has continued to pile up. Indeed, there is mounting evidence of the fiscal and human costs of PPPs, which in the current context can exacerbate existing vulnerabilities – including climate vulnerabilities – and lead to social unrest, as citizens feel the need to claim back their rights.

The fiscal cost of PPPs

PPPs have increasingly been in the spotlight for their high fiscal costs. The empirical evidence shows that PPPs are, in most cases, an expensive and risky way of financing projects and delivering public services, and there is poor evidence in support of the claimed efficiency gains.

The high costs of PPPs come from: 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.[42] Importantly, the evidence shows that the borrowing costs of the sovereign government are lower than those of a private borrower of the same jurisdiction, and that, in the case of developing countries, the returns required by investors are higher than in developed countries, due to more perceived risks.[43]

The problem of hidden indebtedness of PPPs to the host governments remains unaddressed, and is a source of concern, particularly in the context of a growing debt crisis,[44] and a forecast of a global recession.[45] PPP operations are often recorded off-balance sheet and they frequently lack transparency and accountability, in part due to the cloak of commercial confidentiality.[46] This helps create a 'fiscal illusion' that prevents a careful assessment.[47]

Several reviews, including from the IMF Fiscal Affairs Department, concluded that the fiscal risks of PPPs 'are sizeable' and have to be managed properly.[48] For instance, a 2018 staff note from the IMF Fiscal Affairs Department referred to a survey of 80 advanced and emerging market economies showing that "the average fiscal cost of PPP-related contingent liabilities that crystallized during 1990–2014 was about 1.2 percent of GDP, while the maximum cost was 2 percent of GDP".[49] In a context where there are political demands to cut public spending, including through IMF programmes,[50] the high costs associated with PPPs creates greater threats to spending on public services. As the authors of the IMF note also state, "while spending on traditional public investments can be scaled back if needed, spending on PPPs cannot. PPPs thus make it harder for governments to absorb fiscal shocks, in much the same way that government debt does."[51] This is a particular source of concern in the context of austerity programmes,[52] as the high costs of PPPs can drain governments' resources to the extent that they can result in further cuts in public spending, constraining even more fiscal resources to face climate change.[53]

These warnings, however, have not prevented the IMF from backing PPPs at the country programme level, advocating austerity measures that push governments towards expanding PPPs because of constrained budgets,[54] and even raising the potential of PPPs to address the climate crisis.[55]

The focus on PPPs as a tool to fight climate change is a relatively new but problematic trend, as it implies – among other things – the creation of climate asset classes, which can increase financial vulnerability in the global south, while doing little to achieve climate-aligned development and address climate justice issues.[56] This trend is also present in the 'MDB reform agenda' that has emerged to respond to the climate crisis, recently included in the COP27 outcome statement. The statement encourages MDBs to "define a new vision and commensurate operational model, channels and instruments that are fit for the purpose of adequately addressing the global climate emergency". Given the evidence, new public finance instruments must rule out PPPs as a solution to climate finance.

Furthermore, while PPP promoters claim that they deliver better 'value for money' than traditional public procurement, the empirical literature shows inconclusive (or even negative) evidence of efficiency gains,[57] as it is illustrated in recent research by Afrodad on the Ghana's Sankofa gas project.[58] Where efficiency gains are made, they are very context specific, as they depend on the design of the project, the scale and the regulatory and governance environment of the country.[59] In some cases, efficiency gains come at a very high cost, for example, as a result of a lack of investment by the private sector partner to deliver services to an adequate standard or by lowering costs, which in some cases mean cutting jobs, and hiring unqualified employees to deliver services like education.[60]

The human cost of PPPs

Academics and CSOs around the world have been pushing against the use of PPPs for the delivery of infrastructure and public services because of the human cost they entail. Private sector participation in public service provision usually puts private profit ahead of the common good. Private companies are ultimately accountable to their shareholders, and not to citizens, while regulating and monitoring private sector practices can be a difficult task for public sectors that are already constrained and, in some cases, prone to corporate capture.

A growing body of evidence demonstrates that PPPs usually imply higher direct and indirect costs for citizens in accessing services. A major reason for this is that public services delivered through PPPs usually come with user fees[61] – i.e. a payment required for the primary purpose of covering the cost of providing a service. This is particularly problematic in the case of social services because it makes the right to health, education and water,

for instance, dependent upon people's capacity to pay for that service. As a result, there are growing concerns that PPPs could become a mechanism for maximising private sector accumulation, rather than reducing poverty, thereby further increasing existing inequalities,[62] and compromising global commitments to deliver on the SDGs.

Research also suggests that PPPs may exacerbate gender inequality in various ways.[63] Their high fiscal cost can usher in cuts in public services, which are more often used by women and which are also a source of decent work for them. PPPs are less likely to provide equal access to quality services, focusing on more profitable services and easy-to-serve communities.

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.[64,65,66] Before the pandemic, a study found that there is weak evidence that health PPPs are able to address the challenges that most Latin American countries face to deliver on Universal Health Care (UHC), including fragmentation and inequalities within the health system. [67] In fact, the reliance on health PPPs risks undermining progress on UHC altogether, as PPPs are likely to worsen people's access to essential health services. The insistence on PPPs in healthcare provision is even more misplaced in light of the poor performance of private health providers in ensuring equitable access to quality healthcare during the Covid-19 pandemic. Countries that relied more on private health financing tended to do worse in reducing Covid-19 mortality.[68] In some countries, patients were refused by private hospitals when they could not afford the costs, while others were overcharged.[69] During the 2021 Covid-19 surge in Uganda, private actors charged exorbitant prices before providing emergency care, and held patients and dead bodies hostage until fees were cleared, undermining the country's overall pandemic response.[70]

In the education sector, the Covid-19 pandemic resulted in a crisis of unprecedent proportions. Continuity of PPP-based education facilities was severely disrupted during the pandemic, with a considerable amount of education providers choosing to close shop and lay off teachers to cut their losses. Significantly, the World Bank – a lead financier of the education sector – has recently taken an important decision that could mark an important shift in its approach to public education. In June 2022, it announced that the IFC, will permanently end its investments in K-12 (kindergarten through grade 12) private schools.[77] The decision followed a critical report by the World Bank's Independent Evaluation Group (IEG) arguing that the IFC's business model as applied to schools overlooked important measures of education access, equity and quality.[78] This decision was welcomed by CSOs that have been monitoring and raising awareness for years about the negative impact of for-profit commercial schools on the achievement of the right to education, especially for the most disadvantaged and vulnerable groups and for girls.[79]

About this report

In 2017, more than 150 CSOs and trade unions from all over the world raised the alarm about the problematic nature of PPPs, with a *Global Manifesto on PPPs* that gave rise to a campaign.[80] Our 2018 report, *History RePPPeated*, illustrated the failures of PPPs and became a critical tool to sensitise a larger audience to some of the issues. More recently, in November 2021, more than 200 organisations backed the Global Manifesto for Public Services, *The Future is Public*,[81] which emphasises that public services should be built on a solid foundation of long-term public financing, reflective of the state's redistributive function.

Now, it is time for a fundamental overhaul, for a system change focused on economic justice and

Box 3: The premature termination of the Queen Mamohato PPP hospital in Lesotho

One of the most emblematic examples of the failure of the PPP model is the World Bank-supported Queen Mamohato hospital in Lesotho, one of the countries with the lowest human development in the world.[71] The project first came under the spotlight due to the rapid escalation of its initial cost, to the point that the hospital PPP ended up consuming more than half of the country's health budget.[72] In 2021, at the height of the Covid-19 pandemic, all nurses at the hospital were sacked for their strike action that was calling for equal pay to government employed nurses.[73] This and numerous other disputes, and financial challenges, led to the premature termination of the PPP contract.[74] Netcare, the biggest company in the PPP consortium, was accused of sabotage and looting equipment as the hospital was being transferred back to the government.[75] The significant financial and health sector ramifications of the PPP collapse have still not been investigated. However, the International Finance Corporation (IFC), the World Bank's private sector lending arm, shows no signs of publicly questioning this model.[76]

human rights. The prevailing narrative in support of PPPs must be countered by on-the-ground experience. This report aims to contribute to this by providing in-depth, evidence-based analysis of the impact of seven cases that have taken place across four continents in both developed and developing countries. These are emblematic cases as they illustrate the problems of the PPP model, but also show how complex these projects have become in recent years.

To produce this report, we joined forces with organisations around the world that worked with us for almost nine months to collect the evidence. Together with them, we looked at the impact of these projects on public budgets, and on people's needs, and more generally on whether financing through private investors has delivered results in the public interest. We examined the impacts on democracy, equality and fundamental rights, including environmental rights. We also analysed the performance of these projects in the context of the crisis triggered by the Covid-19 pandemic, as arguments for more private finance, including through PPPs, are abundant. Although we do not intend to generalise our conclusions, we draw lessons from these case studies, and we deliver key policy recommendations to maximise the use of public money to deliver quality public services in a sustainable, transparent and responsible way.

The seven case studies featured in the report are arranged alphabetically by sector. They appear in the report as follows:

1. **The scandal of PPPs in education**
   Bridge International Academies/ NewGlobe and the Liberia Education Advancement Programme (LEAP)
2. **Shameless PPProfiteering in Scotland**
   Making money from hospital parking during the Covid-19 pandemic
3. **King Juan Carlos Hospital in Madrid, Spain**
   The cost of handing public healthcare to the private sector
4. **The Oriental Infra Trust in India**
   Accountability vs Financialisation: Who loses?
5. **Interoceanic Corridor of the Isthmus of Tehuantepec, in Mexico**
   The real human cost of the shining 'new development model'
6. **A highway to nowhere**
   The scandal of Peru's Expressway Yellow Line
7. **A basic human rights violation**
   The failure of Nepal's Melamchi Water Supply Project

1

By Anderson Miamen, Coalition for Transparency and Accountability in Education (COTAE), Zikora Ibeh and Akinbode Oluwafemi, Corporate Accountability and Public Participation Africa, Ashina Mtsumi and Zsuzsanna Nyitray, Global Initiative for Economic, Social and Cultural Rights, Nimi Hoffmann, University of Sussex, and Rui da Silva, University of Porto

The scandal of PPPs in education

Bridge International Academies/NewGlobe and the Liberia Education Advancement Programme (LEAP)

Country
Liberia

Region
Africa

Sector
Education

The Liberia Education Advancement Project (LEAP) is a Public-Private Partnership (PPP) set up in 2016 to outsource pre-primary and primary education in the country. It initially aimed to outsource all schools to the for-profit US firm Bridge International Academies. However, after widespread criticism, the scope of this PPP was reduced to a three-year pilot study and expanded to include other private actors. The external evaluation found that Bridge violated children's right to education and generated high costs, with minimal improvements in learning outcomes. Bridge resisted government oversight and independent external scrutiny in Liberia. During the height of the Covid-19 pandemic in 2020, Bridge closed schools and cut teachers' salaries by 80-90 per cent, in contravention of government directives and despite being paid by government. Instead of sanctioning Bridge and monitoring LEAP more closely, in 2021 the Liberian government indefinitely extended LEAP.

Over the years, Bridge has received investments from several public institutions, including from the International Finance Corporation (IFC) – the World Bank's private sector lending arm – and the UK's development finance institution. Human rights organisations and trade unions from dozens of countries have campaigned to hold Bridge to account for its human rights abuses and to ensure public funds were not used to support commercial actors in education. After sustained pressure, in March 2022 the IFC finally withdrew its funding to Bridge. The dramatic failures of Bridge call for other development partners to follow suit.

Project overview

In 2016, the Liberian Ministry of Education announced its intention to outsource all pre-primary and primary schools – under the title Partnership Schools for Liberia (PSL), which was later changed to the Liberia Education Advancement Project (LEAP). This PPP initially aimed to outsource all schools to one private company, Bridge International Academies, a for-profit US firm (see Box 1).[82] After widespread domestic opposition[83] and international criticism,[84] the scope of this PPP was reduced to a three-year pilot study and expanded to include seven other private actors.[85]

Several civil society organisations (CSOs) and academics examined the pilot in its first year and found that Bridge schools were prohibitively expensive, lacked transparency and accountability, and expelled large numbers of students, while also firing 74 per cent of teachers.[86] By this point, there had also already been a range of complaints regarding Bridge's violations of human rights in Uganda and Kenya. However, these complaints were ignored[87] and, after less than one year, the Minister of Education doubled LEAP from 93 to 191 schools.[88] This contradicted his promise that the project would only be scaled up on the basis of the initial pilot results in the second year,[89] and ignored an open letter by technical advisors and evaluators who publicly warned against a decision to scale up without evidence.[90] External evaluations found that this was part of a broader pattern of programme implementation that was conducted without evidence, transparency, democratic participation or oversight.[91]

In 2020, the full three-year pilot evaluation was released.[92] It found that Bridge achieved negligible learning gains,[93] had high operating costs, and violated children's right to education through mass expulsions.[94] In addition, Bridge resisted government oversight and independent external scrutiny in Liberia.[95] This was a pattern of behaviour that was also documented in its operations in Uganda and Kenya.[96]

During the height of the Covid-19 pandemic in 2020, like many private schools in other parts of the world,[97] Bridge 'abandoned' its students and teachers in Liberia, shutting down schools and cutting teachers' salaries by 80-90 per cent, in contravention of government directives and despite being paid by government.[98]

Instead of sanctioning Bridge and monitoring LEAP more closely, in 2021 the Liberian government indefinitely extended the programme and increased its coverage from 191 to 525 schools, covering 95,000 students.[99] Bridge now operates 350 of these schools.[100]

Box 1: The history of Bridge International: A failed private school model and the move to PPPs

The US firm Bridge was founded in 2007 as a chain of low-fee for-profit schools in Africa and Asia. Its business model relied on hiring unqualified community members as teachers on wages below the legal minimum to teach scripted curricula via digital tablets.[101] But by 2017, despite reportedly raising US$140 million in investment from public and private investors, its net losses were estimated at about US$12 million per year.[102] Faced with the failure of its private school model, Bridge began turning to PPPs. By managing public schools, it argued that it would be able to scale up rapidly and tap into the US$179 billion "publicly-funded charter school movement for low-income countries" so that it could turn a profit.[103]

From 2016, Bridge entered into PPPs with government education departments in Liberia, Nigeria, China, Rwanda and India.[104]

As Bridge grew, human rights organisations and trade unions from dozens of countries campaigned to hold it to account for its human rights abuses and to ensure public funds were not used to support commercial actors in education.[105] They also campaigned to raise human rights violations with Bridge's investors and development partners, including the World Bank's private sector lending arm (IFC), several large corporations and the UK's development finance institution (British International Investment, formerly known as Commonwealth Development Corporation, CDC).[106] In 2020, the IFC announced that it would freeze all investment in private schools "in response to concerns about the impact of private schools on education quality and access".[107] In March 2022, it finally withdrew its funding to Bridge.[108]

Alongside the drive towards PPPs, Bridge has also sought to use the data that it has gathered from children and teachers in its schools for new commercial opportunities (see Box 2). It has also rebranded with a new name – NewGlobe.

How could a partnership with the Liberian people include "abandoning them in crisis and showing least support to the communities....?"

Discrimination against girls and poor children

The evaluation of the pilot PPP in Liberia found that, relative to other schools, Bridge increased dropout rates by more than 50 per cent by expelling girls and poor children. Despite claiming to value girls' education,[109] girls in these schools were more likely to drop out due to pregnancy.[110] Poor children who could not pay school fees were also forced to drop out of school.[111] This contravened Liberian law requiring primary schools to be free.[112]

Bridge also closed down secondary schools on its sites and reassigned them as primary schools. Faced with the closure of the only secondary school in their area, poorer children were unable to travel to distant secondary schools, and secondary school transition rates declined markedly.[113]

When confronted with this evidence, Liberia's former education minister, who was one of LEAP's architects, continued to defend the programme as a success.[114]

'Abandoning' schools during the Covid-19 pandemic

After schools closed due to the Covid-19 pandemic, in early March 2020, Bridge stated that it would support staff and teachers in LEAP schools and continue to pay them a monthly salary.[115] However, following the confirmation of three cases of Covid-19 in Liberia, Bridge reportedly shut down its operations and expatriate management left the country. This was followed by a directive to all employees demanding that they go on 'compulsory leave' without pay for the month of April, subject to an extension "[i]f the situation in the country persists".[116] It then reduced staff salaries by 80-90 per cent, while continuing to receive government funding for LEAP, even though a government directive had prohibited pay cuts larger than 50 per cent, as well as redundancies.[117] This led to a public outcry by the Liberian government, the National Teachers Association of Liberia and non-governmental organisations (NGOs).[118] Similar behaviour was reported in Kenya, where Bridge cut teachers' wages by 90 per cent during the pandemic.[119]

Bridge eventually paid teachers after orders came from the Liberian Ministry of Labour. However, there were no reported penalties for violating their contract, and while Parliament summoned Bridge's Country Director several times to respond to questions regarding its conduct, he refused to attend.[120] In the end, the Minister of Education appeared instead before Parliament to answer questions about Bridge.[121] As one Liberian commentator asked, how could a partnership with the Liberian people include "abandoning them in crisis and showing least support to the communities where at least two hundred schools operate making millions in donors' money?".[122]



A Bridge International school in Liberia. The for-profit US firm has received investments from several public institutions over the years, but Human rights organisations and trade unions from dozens of countries have campaigned to hold Bridge to account for its human rights abuses and to ensure public funds are not used to support commercial actors in education. Image: COTAE

An unjust, unsustainable and untransparent subsidy to the global north

The total value of LEAP is secret but it was initially forecast to cost US$3.9 million each year.[123] A third of this would be paid by the Liberian government itself, a third would be paid by unnamed donors via government, and a third would be paid directly to providers by unnamed private funders.[124]

However, it is estimated that the true annual cost of LEAP more than doubled because the initial forecast excluded a range of substantial recurring costs, including costs that operators claimed were due to "a lack of economies of scale".[125] In the first year alone, Bridge reported spending an additional US$6 million, while other contractors reported an additional US$3 million.

While the true cost of LEAP continues to be unknown, Liberia's Education Sector Plan provides enough information to estimate a cost of at least US$10.25 million per year. Of this, the government likely provides at least US$4.75 million per year from its budget,[126] while external funding provides the additional US$5.5 million.[127] This amounts to US$108 per child – more than double the current budget. However, this is probably an underestimate since Bridge controls the majority of schools in LEAP, and self-reports spending more than triple the government budget, at around US$170 per child.[128]

The conservative US$5.5 million estimated additional cost to run LEAP is equivalent to employing 2,619 additional public sector teachers, which would increase the number of teachers in Liberia by nearly 40 per cent. It is also close to the number of teachers (3,311) who are currently working in government schools without receiving a government salary, and who are therefore paid illegally through school fees, which many parents cannot afford to send their children to school.[129] School fees are ultimately subsidising LEAP, and through this, a commercial firm from the global north.

The government has claimed that LEAP will need to become independent of donor funding, which contributes 47 per cent of government's education spending through a mix of loans and grants.[130] If LEAP was scaled up to all students, however, the government would need to increase the 2022/23 budget for lower basic education from US$57 million to about US$123 million.[131] The resulting shortfall of approximately US$66 million would likely need to be funded through further loans and grants taken on by the state. This would lock the country more deeply into donor dependence and debt bondage.

Furthermore, Bridge is wholly owned by NewGlobe Education Inc, which is registered in Delaware, a tax haven. NewGlobe pays no corporate taxes in Delaware and its financial information – including ownership, income, assets and expenses – is shielded from public view.[132] This makes it difficult to obtain essential information about the operations of the firm, even though it is publicly funded and should therefore be subjected to public oversight. It also makes it easier to avoid taxes, potentially depriving poor countries, like Liberia, of critical tax revenues to fund public services.[133]

Box 2: Mining children, families and teachers for data without their knowledge or consent

Bridge claims to collect one billion data points each year from impoverished children, teachers and families.[134] This information is derived from "hundreds of short-cycle randomised controlled trials" conducted on children in its schools, household surveys, teachers' tablets and parents' financial payments.[135]

Using this, they can build a detailed picture of a child, including their test results and their views on politics and society,[136] as well as information about their family's assets and income, their Global Positioning System (GPS) location and contact data. Bridge also has a large amount of behavioural data on teachers, including their minute-by-minute GPS location from the tablets that teachers are required to carry and use at all times.[137]

It has told its investors that it will monetise this sensitive data, by selling it to insurance and credit providers, and brokering health insurance.[138] And it tells governments that its use of big data allows it to adopt a 'scientific' approach to education.[139]

For this report, 13 teachers and parents from three Bridge schools in Liberia were asked if they were aware of this data collection process.[140] None of them was aware or had given consent for themselves or their children to be studied in randomised controlled trials, or for non-administrative data to be collected. They were not aware of the potential to use or sell data for profit and had not consented to this.

This violates the right to informed consent as embodied in the International Covenant on Civil and Political Rights.[141] It also violates children's rights to privacy as embodied in the Convention on the Rights of the Child.[142]

There appears to be little regulatory oversight to prevent Bridge from selling sensitive data to other corporations and governments that could monitor and target vulnerable children and adults. This is a serious concern, given a documented history of corporations and governments around the world using personal data to manipulate voters[143] and target activists.[144]

LESSONS LEARNED

- The Covid-19 pandemic highlighted this PPP's fragility and lack of resilience. At the height of the pandemic, and like many for-profit operators of schools in other parts of the world,[145] Bridge 'abandoned' its students and teachers in Liberia, shut down schools and cut teachers' salaries by 80-90 per cent, despite being paid by government. It did the same in Kenya. Prior to this, Bridge engaged in mass retrenchments of teachers in Liberia.[146] This demonstrates the ways in which education PPPs can weaken systems and undermine the right to education.
- Liberia, one of the poorest countries in the world, is 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.

2

By Dr Line Kikkenborg Christensen, Jubilee Scotland

Shameless PPProfiteering in Scotland

Making money from hospital parking during the Covid-19 pandemic

Country
Scotland

Region
Europe

Sector
Health

At the height of the Covid-19 pandemic, rather than buying more equipment to improve conditions for hospital staff and patients, the Scottish government paid £6.5 million to private companies to provide free car parking at three Scottish hospitals for a year. After this scandalous payout, the Scottish government has since struck deals to buy two of the car parks and is negotiating to take over the third site to bring it into public ownership. The payments sparked widespread criticism as private companies continued to profit while the country faced what First Minister Nicola Sturgeon called the "biggest challenge of our lifetimes".[147]

Project overview

The Scottish National Health Service (NHS) provides healthcare 'free at the point of use', meaning that people living in Scotland have the right to receive NHS services free of charge. However, research shows that for the past 30 years "most new capital investment in the NHS has been undertaken through Private Finance Initiative (PFI) schemes where the private sector finances the design, build and operation of hospitals [which] are then leased back to the NHS Trust over a period of decades".[148] As such this has increased the role of the private sector in the UK[149] to such an extent that the co-chair of Keep Our NHS Public, Dr Tony O'Sullivan, fears that free healthcare is being undermined by government underfunding and the priority given to investment in private health companies.[150]

In 2008, the Scottish National Party (SNP) removed car parking fees from nearly all hospitals in Scotland after a review concluded that "the provision of car parking at NHS Scotland hospitals is a service for patients and, in general, should be provided free of charge".[151] However, the review also concluded that the government would only be able to implement this on publicly owned hospital car parks. Car parks covered by existing PFI contracts (the UK version of Public-Private Partnerships (PPP)) "needed to be considered further",[152] essentially allowing private companies operating the car parks at Edinburgh Royal Infirmary,[153] Glasgow Royal Infirmary[154] and Dundee's Ninewells Hospital[155] to continue to charge fees.[156]

With no incentive to drop parking charges, the private companies continued to profit from parking fees at these hospitals. For a full day of parking at the Edinburgh Royal Infirmary, patients, visitors and staff have to pay £7.20 (€8.37),[157] and at the Glasgow Royal Infirmary this can cost up to £18 (€20.92).[158] The steep charges are a particularly weighty burden for staff, for whom parking could cost as much as £1,500 (€1744) a year (see Box 1).[159]

Box 1: Parking pressures at Edinburgh Royal Infirmary

"I started working at the Edinburgh Royal when it opened in 2001. I got a parking permit, but not all staff members got that. Those without staff parking permits had to pay the full amount! I had to arrive 45 minutes before my shift to get parked [due to the long queues of staff having to pay for parking]. It took so long to get through the barrier, for it to lift and close, and for people to get their tickets. Patients also had to pay and often those in the maternity would ask for parking passes because they had to stay for so long. We had to say no, but you felt bad because they were spending a lot of money."

Former midwife at Edinburgh Royal Infirmary[160]



In order to provide free parking for a year at the Royal Infirmary of Edinburgh and two other Scottish hospitals, the Scottish government paid more than £5 million to private companies at the height of the Covid pandemic. Image: Jubilee Scotland

Shameful profiteering

In March 2020, at the same time as the country was registering its first confirmed Covid-19 case, the Scottish government announced that parking charges were to be dropped at the Edinburgh Royal Infirmary, Glasgow Royal Infirmary and Ninewells in Dundee. The move was to help staff, visitors and patients avoid having to take public transport.[161] However, the government's ability to secure optimal conditions for public health and reward the frontline health sector staff was limited by contracts with private consortiums in charge of the car parks, whose contracts would entitle them to compensation for any changes to their profit-making abilities. 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 the private entities.

A Freedom of Information (FOI) request revealed that, in April-September 2020, the government paid a total of £357,000 (€415,000) per month to these private companies in lieu of the lost income; this then increased to £557,574 (€648, 203) for the final three months of 2020. In the new year, the monthly fees continued at a rate of £551,656 (€641,323) per month to secure free parking at these three hospitals. Alongside this, additional costs amounted to £126,000 (€146,477). In total the Scottish government paid £5,595,690 (€6,503,993)[162] to private companies to provide free parking at the three hospitals for a year during the height of the Covid-19 pandemic.

To put that sum into perspective, had this money been spent on extra personnel it would have paid the yearly salary for 214 newly qualified midwives[163] or 137 experienced nurses with specialised skills.[164] In other words, these public funds could have been spent on additional staff, much needed safety equipment for hospital staff and urgent patient care at a time when demand for health care was at an all-time high. Instead, the funds lined the pockets of private companies, a move that was criticised across the political spectrum in Scotland,[165] with politicians denouncing the large payments as shameful profiteering.

PFI expert Dexter Whitfield, of the European Service Strategy Unit, also pointed out the lack of responsibility towards the public: "It speaks volumes that it is the Scottish Government and taxpayers that have to fund the reduction in hospital car parking charges. The car parks are clearly such a significant cash cow that the PFI companies are unwilling to even concede a reduction in fees in the middle of a global pandemic (...) continuing to extract profits for wealthy offshore shareholders[166] irrespective of the social and economic consequences for the people of Scotland (...)They believe they have absolutely no responsibility whatsoever to the Scottish NHS or to patients and the public in Scotland."[167]

The challenge of ending the PPP contracts

In 2021, the government struck deals worth £35 million (€40.6 million)[168] to buy out the car parks in Dundee[169] and Glasgow.[170,171] Negotiations are also progressing regarding the site at the Edinburgh Royal Infirmary, run by Consort Healthcare. According to the Scottish government response to a FOI Request in June 2022,[172] a buyout figure has been agreed and this "reflects lost income from April 2021 until the end of the contract".[173] NHS Lothian – one of the 14 regions of NHS Scotland – is tied to a £50 million-a-year contract (€ 58 million) with Consort Healthcare to run and maintain the hospital. This contract expires in 2028, and health chiefs will have to negotiate a price with Consort Healthcare to either: (i) buy the hospital at that point; (ii) extend the lease by another 25 years; or (iii) leave the hospital and its contents to the firm.[174] There is no right to buyout in the contract between NHS Lothian and Consort Healthcare, and the contract for the car park is part of the wider contract for the Royal Infirmary hospital itself. This makes a buyout of this one part of the contract complex. NHS Lothian is currently seeking further legal advice on the contractual position with respect to car parking.[175]

Hopefully, paying for parking at Scottish hospitals will soon be a thing of the past.[176] However, transparency, accountability and value-for-money will continue to be an issue for as long as the Scottish government maintains PPP contracts. Moreover, the government's ability to implement improvements to public services will continue to be limited unless alternatives for PPPs – rather than new versions of them – are developed.

Box 2: PPPs in Scotland

Long championed as a means of securing new or maintaining existing infrastructure in the UK, PPPs have become a vital part of the UK privatisation model through the Private Finance Initiative. Yet, as with many such schemes around the world,[177] PPPs have saddled the Scottish public sector with high levels of debt, poor service provision, lack of accountability and unsafe buildings.[178,179] In fact, in January 2020, Audit Scotland published a review of the PPP schemes in use in Scotland. The review found them to be expensive and in need of greater oversight.[180]

Scotland has had various versions of PPPs over the years,[181] and despite the name changes, they have largely operated under the same economic mechanisms.[182] Currently, there are 136 active PPP contracts[183] with a capital value of assets totalling £9 billion (€10.4 billion). And yet, the Scottish public has paid £13.1 billion (€15.2 billion) up to 2018/19, with another £27 billion (€31.3 billion) due before 2047/48.[184]

Due to "changes to the interpretation of national accounting rules",[185] the Scottish government has moved away from using the latest version of PPPs – a move that could have been the perfect opportunity to explore alternative financing models, as Jubilee Scotland[186] and numerous others, including unions,[187] researchers[188] and civil society organisations (CSOs)[189] have recommended. However, the Scottish government is instead developing yet another version of PPPs – the Mutual Investment Model (MIM), a private financing initiative akin to past models.[190] According to Jim Cuthbert, former Scottish Office Chief Statistician, the MIM "represents a retrograde move back to something which has many of the flaws of the old private finance initiative, with the attendant risks of poor value for money and excess private sector profits".[191]

LESSONS LEARNED

- PPP contracts can limit a government's ability to implement initiatives in the best interest of the public and to secure optimal conditions for public health – which is particularly critical during a pandemic.
- While public institutions and the public can band together in times of emergency (such as a global pandemic), private companies are only accountable to their shareholders.
- Scandals like the profiteering on hospital parking in Scotland may push governments to seek ways to end existing PPP contracts.
- Even in the light of PPP scandals and damning reviews by Scotland's National Public Audit Agency, the Scottish government has developed new versions of PPP models, instead of exploring real alternatives to them.

3

By Auditoría Ciudadana de la Deuda en Sanidad (Audita Sanidad),[i] Spain

King Juan Carlos Hospital in Madrid, Spain

The cost of handing public healthcare to the private sector

Country
Spain

Region
Europe

Sector
Health

The Madrid Health Service (*Servicio Madrileño de Salud*, SERMAS) is the regional health system of the Community of Madrid where the capital of Spain is located. It includes an integrated network of public and private providers. All healthcare services provided, by both public and Public-Private Partnership (PPP) hospitals, are free at the point of use.[192] This includes the King Juan Carlos Hospital (known as HRJC, its acronym in Spanish), which is the result of a PPP agreement signed in 2010.[193] Citizens can access healthcare services in the HRJC on the same terms as in a public hospital. However, the HRJC is also an example of the negative impacts that health privatisation can lead to, and the additional costs that come at the expense of quality public service provision.

Project overview

The King Juan Carlos Hospital (HRJC) is located in the town of Móstoles,[194] in the Community of Madrid (CM), one of the 17 autonomous communities – or regions – of Spain. Each autonomous community has its own regional health service, funded with transfers from the national budget.[195] Altogether the 17 regional health services constitute the Spanish National Health System.

The process of health privatisation started in Spain at the end of the 1990s, through a 1997 law that allowed the introduction of privatisation schemes.[196] This has effectively impoverished the health system, although not in a uniform way in each autonomous community. This was strongly opposed by civil society in Spain, and push backs came through strikes and demonstrations by healthcare workers and communities.[197]

The PPP contract for the HRJC was awarded in 2010 for 30 years to the private consortium CAPIO MÓSTOLES.[198] The contract established that the company was responsible for the construction and management of the new hospital, along with the provision of specialised healthcare for the population of Móstoles (171,478 inhabitants).[199] The consortium was composed of four Spanish companies: Ibérica de Diagnóstico y Cirugía (IDC Salud), Hospital Sur (also part of IDC Salud), Lener Grupo Asesor, and Ghesa Ingeniería y Tecnología.[200] The total cost of the project was €2.9 billion.

In 2014, IDC Salud merged with another private health provider, the Grupo Hospitalario Quirón, and together they created Quirónsalud, which has become one of the leading private hospital groups in Spain and beyond.[201] It operates in Spain, Colombia, Peru, Portugal and the United Arab Emirates. In 2017, the group was acquired by the German multinational Fresenius Helios, a global healthcare group operating in more than 100 countries around the world.[202]

Expensive financing and cost overruns

At the time of the PPP contract, the CM committed to paying the private consortium until 2040, with annual instalments starting in 2012. The contract established that the payments would be divided as follows:

Table 1: Annual instalments (2012 -2040)

Year	Amount in EUR
2012	71,406,609.69
2013	102,969,338.43
2014-2039	104,069,998.20 (yearly)
2040	27,776,458.40

Source: PPP contract[203]

i Audita Sanidad – Audit Healthcare was launched in 2013 as a citizen platform to work on a healthcare debt audit, https://auditasanidad.org/



The King Juan Carlos Hospital in Móstoles, Spain. Image: © Comunidad.Madrid

As compensation for the services provided by the private consortium, three different types of financing flows were agreed with the CM:

1. A pre-agreed sum for each patient assigned to the HRJC.
2. Compensation for all non-health services provided, such as the management and the maintenance of the health infrastructure associated with the hospital.
3. Compensation depending on the balance between the number of patients who, using their right to 'free choice', opted for the HRJC, and those who opted out.

The principle of 'free choice' (*libre elección*) allows patients to be treated in a different hospital to the one originally assigned to them based on geographical criteria. Its stated objective is to increase patients' autonomy over their healthcare, and it is extended to all public and private providers that are part of the SERMAS. However, 'free choice' has become the key mechanism to turn healthcare into a profitable opportunity for privately managed public hospitals, and a substantial source of cost overruns for the public sector.

Shorter waiting times in those privately managed hospitals are the main factor driving this choice. This is made possible by the increasing flow of public funds being diverted to them, leaving public hospitals underfunded and understaffed. As stated above, every time a patient moves to a privately managed public hospital, the private company receives money from the CM. However, when the opposite happens – i.e., a patient moves from privately managed to public – the money is not transferred to the public hospital but to a public common fund.

As with other SERMAS privately managed hospitals, the HRJC has seen an increase in the number of patients due to the mechanism of 'free choice' (see Table 2). No estimate of the total cost of this move has been made publicly available. However, the case of the Fundación Jiménez Díaz Hospital (also owned by the German company Fresenius) can be taken as a reference.

According to an audit report by the Chamber of Accounts of the Community of Madrid,[204] the Fundación Jiménez Díaz contracted by the SERMAS was paid €58 million for the 'free choice' that 20,450 patients made for this hospital. Although the amounts corresponding to the HRJC are not included, we could estimate with a 'rule of three' calculation that €123.64 million was paid by SERMAS in 2019 to the HRJC for caring for the patients who chose it that year.

Table 2: Evolution of the number of patients who choose the King Juan Carlos Hospital (HRJC)

	2015			2017			2019		
	Subscribed	**Unsubscribed**	**Balance**	**Subscribed**	**Unsubscribed**	**Balance**	**Subscribed**	**Unsubscribed**	**Balance**
Patients	20,484	4,191	16,293	38,250	3,883	34,367	48,049	4,455	43,594

Source: Memoria del SERMAS[205]

Although we have no reliable information, given the opacity of the Madrid administration, all this entails significant cost overruns. These are a reality due to SERMAS' payment commitments to the HRJC. If these patients had been treated in their nearest public hospitals, the costs would be included in their respective budgets and there would be no extra expenses.

Behind this apparent 'preference for privately managed hospitals', there are at least two deliberate and hidden strategies of the Madrid Public Health Administration: (i) the abandonment and budgetary deterioration of public hospitals, which is reaching remarkable extremes; and (ii) the privatisation of the management of the computerised system for the allocation of appointments, which puts pressure on patients to accept appointments to privately managed hospitals. For the time being, we have no studies to prove its impact on the health of the population, as in principle the care is the same.

Lack of transparency and accountability

The health administration of the CM (*Consejería de Sanidad*) was supposed to create a separate unit (**Unidad Técnica de Control**) tasked with supervising and monitoring the administration of the privately managed SERMAS hospitals. However, this unit never fully complied with the control and monitoring functions that were initially foreseen. In fact, these functions were soon sub-contracted through a tender process to Hill International, an American consulting company specialised in the management of construction projects and with no experience in hospital management.[206] A new tender has recently been announced by the Madrid administration for €4 million, which will delegate an even wider range of supervisory functions to the private sector, including the budget surveillance of SERMAS' privately managed hospitals.[207]

According to the PPP contract, the construction and management of the HRJC should have been accompanied by three types of audits: evaluation reports on compliance with quality objectives, information and patient care; health audits; and non-health audits. Evaluation reports were published every year, but the health audits were either carried out only for a few years or were carried out but not made public, demonstrating a significant lack of transparency that has undermined democratic control.

In compliance with the PPP contract, only accessory services can be subcontracted, and with prior authorisation from the SERMAS. However, according to a 2017 audit on availability of human resources,[208] the HRJC has been subcontracting some critical healthcare services to three different private companies, such as anaesthesia services, paediatric surgery and dialysis nursing. There is no evidence regarding how these basic health services were considered 'accessory services'. Yet this happened without the required prior authorisation from the health administration, and with additional costs. The HRJC has also been employing specialised staff (62 out of 527 workers) belonging to other Quirónsalud hospitals. There is no record of any action taken by the administration in response to this failure to fulfil the award contract.

All these data raise the firm hypothesis that the CM health administration has neglected its responsibility to control and monitor these centres. Additionally, this policy could show collusion and perhaps even fraud with the multinational Fresenius that is detrimental to the public interest, especially since these hospitals do not offer the portfolio of services or staff they claim to have.

An unnecessary hospital

Prior to the construction of the HRJC, people living in Móstoles relied on the public University Hospital of Móstoles (HUM, its acronym in Spanish) and another nearby hospital (Fundación Hospital Universitario de Alcorcón) for healthcare provision. The information available for the tender does not provide satisfactory justification for the decision to open a new privately managed hospital to attend to the population of Móstoles. No feasibility study was provided, and the decision to carry out the investment was not based on a thorough cost-benefit and cost-effectiveness analysis.[209] Moreover, the criteria used to move patients away from their old hospital and assign them to the HRJC were not made public.

Since its opening, the number of beds available in the HRJC has increased, but the number of those available in the HUM has declined (see Table 3).



Protestors in Madrid march in support of the public health system. The process of privatisation began at the end of the 1990s and has, as a result, impoverished the health system in Spain. Image: © One Love One Photo/Shutterstock.com

Box 1: What happened during the Covid-19 pandemic?

Quirónsalud hospitals are public hospitals managed under PPP agreements signed with the Community of Madrid Public Healthcare administration. Therefore, they theoretically offer the same healthcare services as any public hospitals. During the Covid-19 pandemic, they offered the same treatments to their patients. However, Quirónsalud has been reported to have somewhat mismanaged the situation. In April 2020, three hospitals managed by Quirónsalud through PPP agreements in Madrid – the HRJC, the Jiménez Díaz Foundation Hospital, and the Villalba Hospital – were accused of forcing chronic patients to pay to have their medicines delivered to their homes (these patients usually get their medicines freely delivered at the hospitals, but this could not be done due to the risk of contagion).[214] And, in May 2020 health workers in the HRJC also raised concerns about poor labour conditions.[215]

Table 3: Evolution in the number of beds in the HUM y HRJC

Description	2012	2020
HUM	411	328
HRJC	300	364

Source: Memoria del SERMAS[210]

The unnecessary construction of the HRJC will incur a €2.9 billion expense for the CM over 30 years to the benefit of a multinational corporation. Not only do these extra costs entail a significant increase in the CM's debt, the debt created could also be considered illegitimate,[211] as it only benefits Fresenius and not the population of Móstoles. If a possible lack of resources due to population growth had been a concern, an increase in the HUM's budget would have been sufficient, since a significant increase in the Móstoles population was not projected. In fact, its population grew by just 4,278 (INE)[212] between 2012 and 2020.

Additionally, the consortium was also obliged to construct access ways to the HRJC, according to the original contract.[213] However ultimately the Móstoles City Council had to pay for them with public funds following the company's refusal to do so and the obvious need for patients to have access to the hospital. The resulting cost of €675,129 to the City Council also represents an illegitimate debt.

LESSONS LEARNED

- The HRJC illustrates that PPPs are an expensive, ineffective and unjust way to provide healthcare, which benefits private companies while weakening the public healthcare system and eroding public spending.
- It is critical to conduct feasibility studies and a cost-benefit analysis before embarking on the construction of a hospital that involves the private sector in any substantial way. It is also key to ensure public capacities to control and monitor performance.
- Transparency and accountability are crucial in any health project where the private sector is brought in.
- PPP projects result in a substantive increase in the public debt and this amounts to an illegitimate debt.
- The decision of the health authority to build hospitals using the PPP model can only be understood as a strategy of commodification of health at a global level, in accordance with neoliberal policies.

4

By Anuradha Munshi and Gaurav Dwivedi, Center for Financial Accountability, and Kate Geary, Recourse

The Oriental Infra Trust in India

Accountability vs Financialisation: Who loses?

Country
India

Region
Asia

Sector
Infrastructure Financing

The Oriental Infra Trust (OIT) is an infrastructure investment trust that bundles together five existing Public-Private Partnership (PPP) toll road projects located across four Indian states. The PPP projects have led to environmental and social impacts, including loss of livelihoods, impacts on indigenous peoples and on biodiversity-rich forests, home to tigers and pangolins. Local communities have suffered from inadequate consultation and insufficient and unjust compensation. The OIT has received financial support from various development finance institutions, such as the International Finance Corporation, the Asian Infrastructure Investment Bank and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). Yet the evidence shows that it is not truly an investment in public works – intended to result in road construction that respects the rights and needs of local communities and nature – but rather a financial investment designed to free up capital for further infrastructure investment.[216]

Project overview

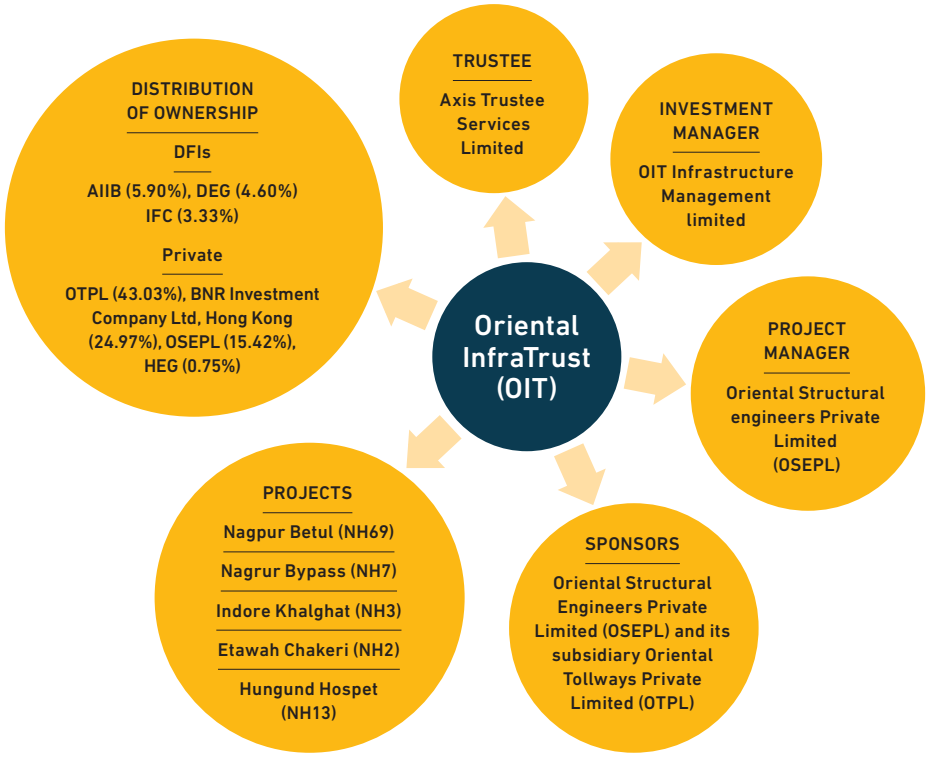
India is a country that has embraced the privatisation of public infrastructure through PPPs. In 2018, three major development finance institutions (DFIs) – the World Bank's International Finance Corporation (IFC), the Asian Infrastructure Investment Bank (AIIB) and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG)[217] – financed the creation of the Oriental Infrastructure Trust (OIT),[218] which is an infrastructure investment trust (InvIT). An InvIT is a collective investment vehicle that allows investors to participate in infrastructure projects grouped together into a single investment entity, allowing them to monetise their assets[219] (see Box 1 for more details on infrastructure as an asset class).

In 2019, the OIT was set up by the Oriental Structural Engineers Private Limited (OSE) and its subsidiary, the Oriental Tollways Private Limited (OTPL).[220] It is listed on the National Stock Exchange (NSE) of India. The same year, the OIT acquired five PPP contracts to take over the operation and maintenance of five roads[221, 222] across four Indian states. The contracts range from 17 to 25 years in duration.[223] The projects are as follows:

- Indore – Khalghat Highway project (2009-2026): an approximately 72km section of National Highway (NH)-3 between Indore and Khalghat in Madhya Pradesh.
- Nagpur Bypass Highway project (2012-2037): an approximately 117km section of NH-7 including the Madhya Pradesh/Maharashtra border to Nagpur section and the Nagpur to Hyderabad section in Maharashtra.
- Hungund – Hospet project (2012-2029): an approximately 97km section of NH-13 between Hungund and Hospet in Karnataka.
- Nagpur – Betul Highway project (2015-2032): an approximately 175km section of NH-69 between Nagpur and Betul in Madhya Pradesh.
- Etawah – Chakeri Highway project (2016-2030): an approximately 160km section of NH-2 between Etawah and Chakeri in Uttar Pradesh.

The government authority is the National Highways Authority of India (NHAI), which operates under the control of the Ministry of Road Transport and Highways, and is tasked to develop, maintain and manage the national highways[224] (see Figure 1).

Figure 1: Ownership structure and financing of the OIT



Box 1 – Infrastructure as an asset class

Investment in infrastructure is expensive, often risky and likely to generate profits only in the medium to long term. This is especially the case with investment in public infrastructure such as roads and highways, and even more so when these are located in developing countries. The solution devised by the World Bank Group, the G20 and other multilateral development banks to make investment in infrastructure more appealing to private capital has been to turn them into financial instruments, or, more specifically, into an 'asset class'.[225, 226]

Transforming infrastructure into an asset class means repackaging money invested in an infrastructure project into financial instruments that are easy to buy and sell on international financial markets, and that provide a short-term revenue stream (additional to the profit that the real investment may generate in the medium to long-term.

Infrastructure Investment Trusts (or InvITs) are a type of infrastructure asset class that is increasingly attracting the interest of international financial institutions (IFIs) and potentially opening a new phase of private finance mobilisation. With this new trend, IFIs provide finance to infrastructure investment funds, which in turn acquire PPPs, therefore actively promoting the monetisation of these projects as financial investments.

The key role of DFIs

The OIT is backed by major DFIs, following the prevailing narrative that calls for public finance to leverage private finance to fill infrastructure investment gaps.[227] Currently, almost 40 per cent of OIT is in the hands of financial investors, which include the IFC, the AIIB and the German DEG. Both the IFC and the AIIB approved investments in the OIT in 2018, before it was formally registered as an InvIT in 2019.

In June 2018, the IFC approved over US$100.15 million in financing in order to demonstrate "the feasibility and sustainability of large scale de-risked infrastructure assets in the country,"[228] which could be replicated in other sectors across India, helping to attract investments from large pension funds and insurance companies.[229]

In August 2018, the AIIB acquired OIT equity for US$50 million, with the objective of mobilising long-term private institutional capital to finance roads and highways in India, in both greenfield infrastructure development and operational infrastructure assets. Crucially, the AIIB intended to use the investment to demonstrate a proof-of-concept of InvIT as a new type of financing vehicle.[230]

In June 2019, the DEG invested €34 million (US$35.1 million)[231] in the OIT, primarily to broaden the InvIT's investor base and provide a signalling effect for other (commercial) investors.[232]

Project risks and the (invisible, but expensive) fiscal costs for the state

The OIT faces the typical risks of all toll road projects, such as low traffic growth; user resistance to accept (or pay) any increase in toll rates; toll leakages; development or improvement of alternative routes or alternate modes of transportation, which can reduce traffic on the OIT's roads. Moreover, they also face the sensitivity of revenues to the overall economic growth and inflation. In the case of the PPPs under management of the OIT, there is a possibility that these risks are transferred to the state agency as delays and defaults in payments.

The Covid-19 pandemic is a clear example of an unexpected situation in which some of these risks materialised. The lockdowns and travel restrictions implemented throughout 2020 and 2021 severely reduced traffic volumes and caused various disruptions in the transport sector. While exact data were not available when this report was written, the cost of the reduced traffic on PPP roads would most likely have been borne by the state. Moreover, the majority (67 per cent) of the OIT revenues come from only two of the five road projects that it owns. This increases its financial vulnerability, because it implies that its credit profile is dependent upon the performance of these two projects. Its operational and financial risk profile could vary if the OIT were to acquire additional projects in the future.[233]

The human cost of highway PPPs

Roads and highway projects are land intensive and often require acquisition of large tracts of land, including agricultural land and forest land belonging to indigenous and marginalised communities. Table 1 illustrates the extent of this.

Table 1: Highway PPPs, land acquisition and loss in livelihoods

Project	Total land acquired for the project		Affected people and villages	
Indore Khalghat Highway[234]	469.578 Hectares (Ha)		2,171 titleholders affected	
Nagpur Bypass Highway[235]	384 Ha	Of which: 300 Ha of private land, 53 Ha forest land, 31 Ha government land	51 villages affected	1,782 land titleholders compensated
Hungund – Hospet project[236]	206.02 Ha			15,480 land titleholders affected
Nagpur Betul Highway[237]	723 Ha	40 Ha of forest land		5,968 land titleholders affected
Etawah – Chakeri Highway[238]	100 Ha		103 villages received compensation	Over 7,000 land titleholders affected

> **The cost of the reduced traffic on PPP roads [during the Covid-19 pandemic] would most likely have been borne by the state.**



House partially razed in order for the highway to be built. The part that was demolished was a storage space for the pots they sell to earn a living. As a result, they have been left with no space for storage. Image: The Center for Financial Accountability.

In the case of the Indore Khalghat Highway, local sources in the villages alongside the highway suggest that the land acquisition process has been marred by the violation of due process. In certain areas, people were not given sufficient, or any, notice for land acquisition; compensation was reported to be highly inadequate and not comparable to prevailing land market rates. The project developers did not value agricultural lands accurately, with irrigated lands valued at the same price as non-irrigated land. There were reports that people who lost their agricultural land, houses and shops were not provided with livelihood rehabilitation, while some were compensated for loss of crops, trees, wells and other resources.[239]

The Nagpur Betul Highway and the Indore Khalghat Highway are built in areas inhabited by many tribal communities, some of whom lost their agricultural land and houses to highway construction. The Indian Constitution includes special provisions for tribal people, which are referred to as 'Scheduled Tribes',[240] especially in reference to acquisition of tribal land (referred to as Schedule V areas).[241] However, there is no clarity regarding the extent to which the project developers applied these special provisions. For example, no Resettlement Action Plan or Indigenous Peoples Development Plan was prepared for the project.[242] According to the IFC Environmental and Social Due Diligence Report, this is due to the fact that the overall impact of the project on the loss of pastureland was estimated as insignificant.

Tribal families losing land were paid cash compensation, but the impact on their overall livelihood was not assessed, and "the significance of the residual impacts and vulnerability of these households is not known."[243] However, direct testimonies from people affected do suggest that the project disrupted their livelihood. For example, one small-holder farmer from the Bhil-Scheduled Tribe, from a village along the Indore Khalghat Highway, said that the compensation that he received for his 1 *bigha* of land (this is equivalent to 12,000 ft^2) acquired for the project was insufficient to build a new house. In addition, he incurred a loss of INR 40,000 to 50,000 (US$490-$610) every year from his reduced agricultural produce due to a portion of his land being acquired.

> **In certain areas, [the highways] run through the villages, dividing them into two parts. Access to vital public services [...] has become difficult.**

Box 2: The destruction of people's homes

Mahima Devi *(name changed),* a 62-year-old tribal woman, has been living in the village along the Indore Khalghat Highway for 20 years, sharing a house with her two sons and daughter-in-law. Her son had a tea shop on the road, but it was demolished during the construction works.

She held the lease of the land where she lives. During the construction of the four-lane road, her home and 1 *bigha* (12,000 ft^2) of land was acquired but she has received no compensation. The road construction did not allow her to rebuild her house. With great effort and struggle she built a small hut. After the land acquisition, the forest department has given the lease of another piece of land to her but the lease documents have not been provided as yet. She worries that, when the expansion of the road to become a six-lane highway begins, her home will be demolished again. Being on the side of the road, there is always a risk that a speeding vehicle may crash into the house. She said: "There is no electricity and water in the house. And water has to be brought from far away. On the road, there was a temple; the road constructors shifted the temple first."

Another significant impact of the highways has been that, in certain areas, they run through the villages, dividing them into two parts. Access to vital public services, which are spread on the two sides of the highway, has become difficult and dangerous. With no way to cross the highways, children's access to school and *Anganwadi* (government supported free nutritional centres for infants and their mothers) has been badly affected.

During the Covid-19 pandemic these Anganwadi centres were providing primary health services as well. When the highways were built, they acted as a barrier to people and Anganwadi workers to either access or provide services. Also, with heavy traffic on the highways, there has been a considerable increase in road accidents. Absence of proper service lanes, bridges and underpasses has added to the risk of accidents, as documented by an IFC report.[244]

The environmental cost of highway PPPs

Nagpur Bypass Highway and Nagpur Betul Highway pass through important biodiversity areas, including wildlife corridors that are home to tigers and pangolins. Given the potentially serious impacts on wildlife habitats and forest land, the construction required clearance from the National Board for Wildlife (NBWL) and the Forest Advisory Committee (FAC). Both agencies raised objections to the construction of the highway, nonetheless the developers went ahead with the construction work. After a long legal battle, FAC approved the construction with the recommendation of implementing several mitigating measures in the sensitive part of the state,[245] which have not been fully complied with at the time of writing. As a result, there has been an increase in wildlife fatality, especially of leopards and tigers, in the affected areas.[246,247]

Challenges to DFIs' accountability

The fact that the DFIs invested in the projects *after* they had already been constructed presents a significant challenge to holding these project, accountable for the adverse social and environmental impacts of the roads.

The AIIB, which was created in 2016,[248] set up the Project Affected People's Mechanism (PPM) in 2018[249] with the aim "to receive submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement the Environmental and Social Policy[250] (ESP)". However, since its inception, the AIIB's PPM has received only one complaint – regarding the Bhola gas plant in Bangladesh – despite a portfolio of 194 approved projects.[251] According to analysis by CSOs, the limited use of the AIIB's PPM results from numerous policy and practice barriers to filing complaints, including lack of transparency over which projects are supported.[252]

Another major constraint is AIIB's policy of excluding complaints pertaining to co-financed projects, which have to be directed to the accountability mechanism of the co-financing institution. However, the AIIB does not have such agreement for projects co-financed by the IFC, which means that the OIT projects are eligible for complaint to both the AIIB's PPM and the IFC's Compliance Advisor Ombudsman (CAO). As the lead financier, the IFC's safeguards – the Performance Standards (PS) – apply to the project, for which



Heavy traffic on the highways has led to a considerable increase in road accidents. Furthermore, the absence of proper service lanes, bridges and underpasses has added to the risk of accidents. Image: The Center for Financial Accountability.

the AIIB can also be held accountable. Although its standards are largely similar to the IFC's, they differ on how the two banks require their borrowers to relate to indigenous peoples and tribal communities. The IFC recognises the right of indigenous peoples to give or withhold their Free, Prior and Informed Consent (FPIC) for a project under Performance Standard 7 in line with international law.[253] The AIIB's ESP, however, dilutes this right to the weaker Free, Prior and Informed Consultation (FPICon).[254] Such a distinction could be crucial for any complaint over the InvIT project, where Scheduled Tribes have potentially been severely affected, and whose consent was likely not gained for the acquisition of their lands and properties.

This case calls into question the role of DFIs in supporting this type of investment, especially as they hope to replicate this approach more widely. Investing in infrastructure is particularly high risk, and for this reason, IFIs have put in place environmental and social protections to ensure their investments do no harm. The problem with the InvIT model is that, because the banks only become involved *after* the projects are built, these vital protections are not applied during construction. To approve financing into an InvIT, such as OIT, the shareholders of the IFIs must somehow believe that their standards can be applied *in retrospect*. This case questions whether this is even possible: a question DFIs must address before they continue to expand this new financing model, bringing further harm to communities.

LESSONS LEARNED

- PPPs are increasingly becoming part of the financialisation of infrastructure, and are not often acting as an instrument of the state to direct development.
- The OIT might be illustrative of a trend of investing in infrastructure as an asset class, which is increasing in India. It shows that infrastructure is no longer seen as a public good but rather as a potential source of financial profit. InvITs are being embraced by DFIs – yet another false solution to the financial gap in development investment. This is a step further away from direct IFI project oversight, involvement and application of standards.
- This case turns DFIs' usual involvement on its head: instead of investment in infrastructure coming with environmental and social standards, which project developers should adhere to, in the InvIT model, DFIs become involved only after projects have been built, undermining accountability and threatening harm to local communities.
- Further scrutiny and regulation of financial instruments is needed. It is key to reorient IFI policies and practices to deliver inclusive, sustainable and equitable investments that put people and planet at the heart of development.

5

By Óscar Pineda y Daniel Castrejón, PODER[255]

Interoceanic Corridor of the Isthmus of Tehuantepec in Mexico

The real human cost of the shining 'new development model'

Country
Mexico

Region
Latin America

Sector
Infrastructure

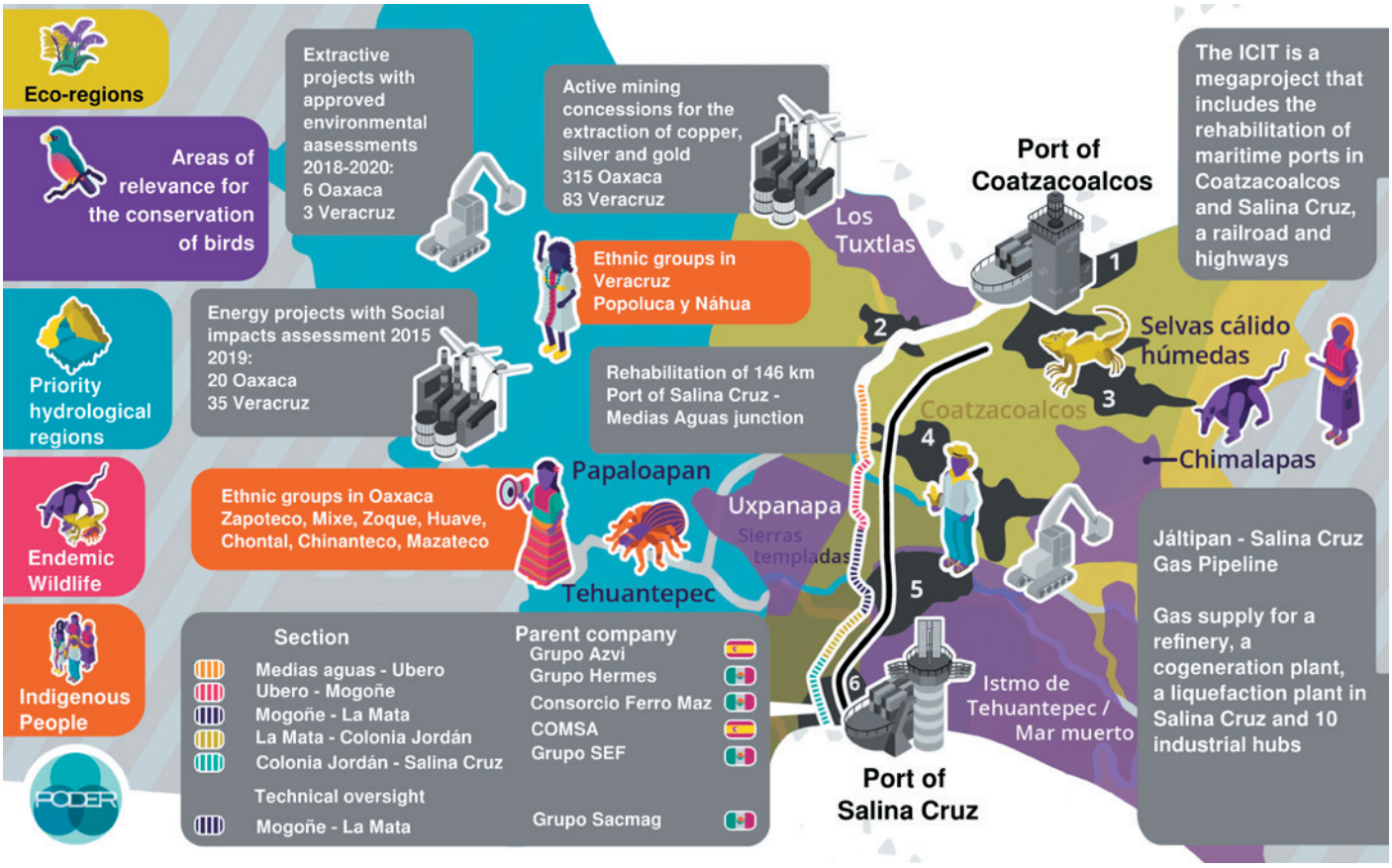
Hailed by the government as a shining example of a 'new development model', the Interoceanic Corridor of the Isthmus of Tehuantepec (ICIT) plan has come under fire from local communities, who have warned of severe negative social and environmental effects. This plan, which includes several Public-Private Partnership (PPP) projects, seeks to connect the Gulf of Mexico to the Pacific Ocean by modernising an existing railway line and building four new highways. Multiple free zones are to be set up along the corridor to incentivise private sector investment, a move that may have a severe negative impact on women given their history of being dangerous and threatening places. Ultimately, the vision of development embodied in the plan, and operationalised through PPPs, is incompatible with the one for which the women of the Isthmus of Tehuantepec have been fighting.

Project overview

Stretching 200 kilometres across the narrowest part of Mexico and covering 79 municipalities,[256] the Interoceanic Corridor of the Isthmus of Tehuantepec (ICIT) stems from a now-rescinded 2015 plan to develop two Free Economic Zones in the area.[257] It has grown in size and complexity since then. It was included in the National Development plan 2019-2024,[258] and it incorporates historic public-private investments.[259] It includes a set of PPPs to implement infrastructure projects, such as railway, ports, roads and energy (see Table 1). The total cost of the projects included in the ICIT is not clear yet, due to the fact that many of the contracts are yet to be awarded. This adds to the plan's opacity and the uncertainty for the affected population.

The ICIT seeks to modernise transit infrastructure along the corridor, including one railway line and two maritime ports, as well as the construction of a natural gas pipeline and a regasification plant in Salina Cruz. Ten industrial free zones will be established along the corridor to attract private sector investment, with the government offering infrastructure, energy and water supply to meet these industries' needs. People living in the affected municipalities will benefit from low tax rates and low fuel prices.[260]

The total cost of the projects included in the ICIT is not clear yet, due to the fact that many of the contracts are yet to be awarded. This adds to the plan's opacity.



Source: PODER[261]

Table 1: Projects included in the ICIT and current status

Project	Government authorities involved	Consortium	Amount	Year contract began
Rehabilitation of railway	Isthmus of Tehuantepec Railway	AZVI, Hermes, Ferro Maz, Comsa, SEF	US$130 million	2019[262]
Rehabilitation of two ports	API Salina Cruz	Infraestructura Marítima y Portuaria, S.A. de C.V. y GAMI Ingeniería e Instalaciones, S.A. de C.V.	US$200 million	2020[263]
Rehabilitation of four roads	Communication and Transport Secretary (SCT)	-	-	-
Maritime terminal in Salina Cruz	CFE	Open call	-	-
Ten development hubs	SCT	-	-	-
Regasification plant	CFE	Open call	US$3 billion	-
Gas pipeline	CFE	Open call	-	-

Source: Own calculations with public information from the Secretary of Finance and Public Information National Institute.

Rehabilitating infrastructure using public resources

In June 2019, the federal government established the Authority of the Interoceanic Corridor of the Isthmus of Tehuantepec (ICIT), as a de-centralised public body with the objective of implementing a logistics platform integrating port management service provision at the Coatzacoalcos port in Veracruz and the Port of Salina Cruz (PSC) in Oaxaca, along with the management of interconnecting rail transport. This is to be delivered through public and private investment.[264]

This part of the ICIT has been financed with public resources through a modality called 'Contract for the Provision of Services (CPS)', where the private company is responsible for design and construction. In the first phase of the ICIT, the Isthmus of Tehuantepec Railroad (ITR) was put in charge of carrying out public bids for modernising the railway, which was then allocated to six business groups: Grupo Azvi (Spain), Hermes (Mexico), Ferro Maz (Mexico), Comsa Corporation (Spain), Grupo Sacmag (Mexico) and SEF (Mexico). This project has paid out close to MX$2.6 billion (US$130 million) to date.[265] Meanwhile, the Mexican company GAMI Ingeniería e Instalaciones was awarded a contract for MX$4.8 billion (US$215 million) to build a breakwater at the PSC.[266] Recently, the government decided on the Ministry of the Navy to operate the train.[267]

According to local organisations' calculations, the rehabilitation of the railway is approximately 60 per cent completed, while the works at the PSC have reached almost 80 per cent.[268] The Communications and Transport Secretary (SCT) will be in charge of building four highways[269] in the region as part of the whole plan, relying on a mix of public resources and PPPs.[270]

Recently, the Interamerican Development Bank (IDB) showed its intention to inject between US$1.8 billion and US$2.8 billion from IDB Invest, the IDB's private sector lending arm, to stimulate different companies to relocate within the ICIT area of influence. This financing is in addition to the US$200 million earmarked for small and medium-sized enterprises, which will be channelled through Nacional Financiera (the development banking institution in Mexico) and the Ministry of Economy.[271]

Ten industrial parks and an interoceanic gas pipeline will be built under the PPP model by the Federal Commission of Electricity (FCE, a state-owned productive enterprise).[272]

To this end, the FCE's subsidiary CFEnergía has issued a call for bids for three projects:

a. a pipeline for transportation of natural gas along the corridor from Chinameca to the PSC
b. the installation, operation and maintenance of a liquefaction and export plant to commercialise liquid natural gas (LNG) with third parties
c. a maritime service terminal through a partnership with ICIT, which will provide permission for the use of the port for 25 years to provide services to the liquefaction and export plant.[273]

This part of the ICIT will be critical to provide the energy necessary for industrial parks to operate and more broadly to supply the Central American markets with any surplus energy generated.[274]

The ICIT has been presented by the current government as a prime example of a 'new development model' to bring progress to an area characterised by high concentrations of indigenous populations as well as biodiverse and hydrologically rich ecosystems. Furthermore, of the 79 impacted municipalities, 33 are in Veracruz and 46 in Oaxaca, which include some of the poorest communities in the country. Specifically, the ICIT's stated objectives are to re-start the regional economy and increase Mexico's international competitiveness by speeding up the transportation of goods and fuel across the country and attracting foreign and national investment.[275]

However, the ICIT is also underpinned by a model of territorial and economic planning that exploits the abundance and diversity of the area for commercial and profit-making purposes. As such, far from representing a new approach to development, the plan is the last in a long line that have been implemented with little regard for their social and environmental impact.

Devastating social and environmental impacts

Local communities, academics and activists have warned that the ICIT will have severe negative social and environmental effects. According to more than 100 local communities and civil society organisations (CSOs), the ICIT will destroy the rich diversity of the native and afro-descendant cultures that coexist in the Isthmus region.[276] In the words of the biologist Patricia Mora of the Instituto Politécnico Nacional (IPN), the projects realised under the ICIT are changing the daily life of the indigenous people of the region.[277]

The ICIT will give corporations and industries access not only to improved infrastructure but also to the region's natural assets, such as minerals, hydrocarbons, water and timber.[278] As a result of the PPP contracts, private actors will gain significant power over public natural resources, which they will be able to use for their benefit and to the detriment of the common good. In southern Veracruz, close to Mexico's Gulf Coast, the ICIT will cut through an urban-industrial corridor that suffers from water scarcity.[279] Yet, the whole project will require large quantities of water to operate, depriving local communities of those resources.

Local indigenous communities argue that the consultation processes conducted by the government were flawed and therefore



Protestors picket the railway line due to be renovated under the Interoceanic Corridor of the Isthmus of Tehuantepec project. Hailed by the government as a shining example of a 'new development model', the vision it embodies is incompatible with that of local communities. Image: PODER..

illegitimate.[280] In some cases, resistance has led to high levels of conflict and violence and some communities and activists who rejected the project have even faced harassment and attacks from other communities.[281] According to Carlos Beas, member of the Union of Indigenous Communities of the North Zone of the Isthmus, these conflicts stem from the government's failure to implement an effective community participation process.[282]

> ***"The business model where public resources are used to invest in infrastructure, as in the case of the ICIT, to finally favour transnational companies with the flow of goods and private investors with industrial parks and energy infrastructure, is not new for us."***
>
> **Carlos Beas,** member of the Union of Indigenous Communities of the North Zone of the Isthmus[283]

Some testimonies have pointed out that, in some cases, the arrival of companies involved in the projects has coincided with the arrival of organised crime groups, which have threatened community leaders and activists challenging the ICIT.

Threats, attacks and imprisonment, as well as the criminalisation of social protest, have become increasingly frequent.[284] At least three people have reportedly been arrested for opposing the ICIT.[285] In an attempt to reduce tensions, even Mexico's representative to the UN Permanent Forum on Indigenous Issues, Irma Pineda, has asked the federal government to prioritise dialogues with the local indigenous communities.[286]

Impacts on women

The ICIT's impact on women, including gender violence and gender inequality, is also of great concern. Industrial parks and industrialised zones have a long history of being dangerous and threatening places for women in Mexico, where patriarchal violence is exacerbated by organised crime (sometimes with the complicity of businesses and authorities) and women are systematically victims of sexual exploitation.[287] In the 1990s, a 'crisis of femicides' took place in the industrial city of Ciudad Juarez in the north of the country; in more recent years, both Veracruz[288] and Oaxaca have had some of the highest numbers of femicides at the national level.[289]

Mexican women also suffer from systematic exclusion from the labour market: their labour force participation rate was just 44 per cent in 2021 (compared to 76 per cent of men).[290] The Covid-19 crisis has made the situation worse, as 65 per cent of women were employed in sectors at high risk of job losses due to the crisis, such as paid domestic work.[291] Despite the government's insistence that the ICIT 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. Perseida Tenorio, an indigenous woman from Asunción Ixtaltepec, fears that the only jobs that the ICIT would provide would be low-paid, high-intensity and insecure.[292]

Even though women are more likely to be negatively affected by the project, they have been largely excluded from decision-making and consultation processes. The community authorities are predominantly men and, as such, the consultation meetings that did take place mostly involved men as well.[293]

However, women have been at the forefront of resistance against the ICIT and more generally in defence of their land against exploitation from wind, mining or hydrocarbon companies. They are fighting for autonomy and sovereignty over their territory, control over their productive and reproductive life, and participation in decision-making.[294] They have been calling for an alternative development model,

The government should prioritise people and communities' needs and pay particular attention to contexts that impact women's rights.

one that recognises everything is interconnected with nature and spirituality, one that strives for collective wellbeing and the recognition of the right to health, education, food, access to water and environmental protection.

ICIT and the Covid-19 pandemic

Due to the Covid-19 lockdowns, all advocacy and community organising activities were suspended, and the public delivery of information was postponed,[295] with government offices suspending deadlines to deliver public information related to the project.[296] Ironically, construction was allowed to continue. Despite the fact that the lockdown came to an end, the availability of information has not improved, so activists and communities continue to face difficulties in accessing this information.[297]

The pandemic also highlighted how the ICIT project is diverting precious public resources away from critical public spending to benefit the private sector. For instance, the region of Oaxaca lacks adequate housing, health services and other social infrastructure, and it suffers from acute poverty and malnutrition.[298] This made its population especially vulnerable to the pandemic and highlighted the need for additional public spending on these essential services. Instead, this spending is being allocated to developing infrastructure that will benefit companies.

LESSONS LEARNED

- The vision of development for which the women of the Isthmus of Tehuantepec are fighting is not compatible with the ICIT or, more generally, with the PPP model.
- While the government claims that the ICIT was designed in the name of a new development model,[299] the logic remains one where the local population is meant to benefit from the 'trickle down' of the profit that will accrue to the private sector. In fact, the ICIT is not based on an open and meaningful consultation between institutions and communities on their real needs and aspirations, with women and indigenous people at the centre.
- The government should prioritise people and communities' needs and pay particular attention to contexts that impact women's rights. It must carry on adequate mechanisms for people to freely exert their right to self-determination and choose what is best for them and for their territories and environment, according to their specific organising and decision-making models.

6

By Rodolfo Bejarano, Latindadd

A highway to nowhere

The scandal of Peru's Expressway Yellow Line

Country
Peru

Region
Latin America

Sector
Urban Transport

The Expressway Yellow Line is one of the most controversial projects carried out in Lima, Peru's capital city. It is a Public-Private Partnership (PPP) toll road project covering transport between the east and west of the city. The project's stated objective is to reduce travel time for private transport, mainly cars and freight lorries. However, there are no available reports that clearly indicate whether this and other objectives have been achieved. The cost of the project for the public purse has escalated, which has negatively impacted on the local community. As a result, this has meant fewer public resources are available to support other public policy priorities. The project is currently operating amid several accusations of corruption, and there has been a substantial increase in toll rates, which goes against the rights of users.

Project overview

The city of Lima in Peru is notorious for its traffic problems. Addressing this has been a high priority for municipal authorities for decades. In 2009, the Brazilian company Constructora OAS submitted a proposal to the Metropolitan Municipality of Lima for the Expressway Yellow Line (*Vía Expresa Línea Amarilla*) project, as an unsolicited PPP proposal.[300] In practice, this sidelined other public works designed to address traffic issues in the areas most affected by economic activity, prioritising PPP toll roads instead.

The project consisted of the design, construction, operation and maintenance of new urban roads, as well as the improvement and operation of existing highways in the city of Lima. This included expanding the capacity of 16km of existing roads and the construction of a new corridor of 9km of highway lanes, as well as a tunnel that would pass under the Rimac River, which crosses the capital.

In 2009, the project was declared of interest by the Metropolitan Municipality of Lima, which started the adjudication process. As no other expressions of interest were received, on 12 November 2009, the Municipality directly awarded the Yellow Line project to the company 'Línea Amarilla S.A.C.' (Lamsac, a subsidiary of OAS), which was sold to the French group Vinci Highways SAS in 2016.[301] The initial project cost was US$480 million and the duration of the contract was 30 years. The PPP contract was endorsed by the Peruvian Agency for the Promotion of Private Investment (*Proinversión*) through an investment contract[302] – even though it was not part of the National System of Public Investment (SNIP), which would have certified the quality of the project.[303]

Traffic solutions in Lima at a standstill

Lima has been experiencing a transport crisis for decades – suffering from frequent congestion, slow average travel times and traffic accidents.[304] According to International Monetary Fund (IMF)'s recent calculations about the fastest roads in the world, Peru came out in the second group from bottom in the rankings.[305] In addition, high petrol consumption, combined with the high emissions of air pollutants by a growing number of obsolete cars, constitute an increasing health threat and a major source of pollution.[306] The quality of public transport services has been low and a source of concern for the local population – as reflected in opinion polls every year.[307]

Against this backdrop, the stated objective of the Expressway Yellow Line project was both to improve travel times for the population moving from the outskirts of the city to the downtown area and vice versa. It was also designed to improve the transport times of heavy freight that transits between the west – the location of the port of Callao and the international airport – and the east areas of the city. According to the project promoters, this would contribute to greater productivity and well-being across the city.[308]

When the project was inaugurated in 2018, there were claims it would benefit more than 150,000 users who use the highway every day. In addition, a fleet of new buses started to run, with the objective of benefiting 33,000 passengers per day. Part of the investment was also to improve road safety conditions, as well as improving additional services such as vehicle towing, mechanical assistance and medical emergency care.



Cars at standstill on the Expressway Yellow Line in Lima, Peru. The Expressway was intended to improve travel times in and out of the Peruvian capital, however escalating costs and accusations of corruption have negatively impacted the local community. Image: © Peruvian Art/Shutterstock.com

Shifts in favour of private investors

Latin America, and especially Peru, has been in the spotlight for the high number of renegotiations of PPP contracts, especially those in the infrastructure sector.[309] All too often these contracts have been prone to corrupt practices. In Peru, changes in the contract provisions occur through an addendum (or *adenda* in Spanish). In the case of Expressway Yellow Line, there have been three addendums, signed between Lamsac and the Metropolitan Municipality of Lima. According to the Comptroller's Office, these have generated negative impacts on the public purse and on society in general.[310]

One of these impacts occurred with the 2013 Addendum N°1,[311] which eliminated the Lamsac's obligation to carry out infrastructure works to improve public transportation on the road. Instead, the addendum replaced these obligations with works that would benefit private transportation, such as road interchanges and new lanes on existing roads. With this addendum, the project was also reconfigured through the inclusion of special works and urban integration works, which required Lamsac to provide an additional contribution of US$1.5 million for the preparation of the technical file.

However, with the new political administration of the Municipality of Lima, the conditions were changed once again. In 2015, an Addendum N°2 proposed changes in the works, but maintained the contractual relationship between the Municipality and Lamsac for the construction.[312] Instead, it extended the concession term for an additional ten years (until the year 2049), favouring the private company with the longest toll collection time. Moreover, in 2016, Addendum N°3 was signed, replacing work originally planned with new proposals within the concession area, such as vehicular bridge Bella Unión and the underpass in the Avenue Moreales Duárez.[313] Shockingly, in 2020, the Comptroller's Office found that the changes approved in 2015 had a cost overrun of more than US$7.5 million.[314] These resources could have been used to implement other public policy priorities, including the improvement of the public transport system, which is used by a high percentage of people in the city, particularly the working class.

As indicated in a 2022 opinion poll, when considering the population of Lima and Callao that usually moves across the city for work, almost 60 per cent of commuters use traditional public transport and only 11 per cent use a private car.[315] Addressing the need of this high percentage of the population that uses public transport needs to be a priority.

In short, the contract renegotiations were not made for the benefit of the users, but rather were a result of covert practices between the public servants and the private company, causing excessive delays in project implementation and harm to users. As a result, a project that should have been completed in 2016 only became fully operational in mid-2018.

Higher cost for citizens and the public sector

Contract modifications also resulted in an increase in toll rates. This happened through Addendum N°1, which included the concept of 'special events', instead of 'fortuitous cases or force majeure'.[316] This concept does not exist in the Peruvian PPP regulations, and it served to justify the payment of compensation to the private company through the increase in toll rates. In 2014, the private company claimed the higher costs that it had been incurring due to the configuration of 'special events' and began a direct negotiation that resulted in economic compensation of around US$142 million. This resulted in the increase in the cost of tolls to the value of an additional PEN 1.00 – equivalent to an additional 25 per cent of the original cost of PEN 4.00 (approx. US$1.04). Over the following years, the toll rates were increased on at least eight occasions, currently reaching as much as PEN 6.30 (approx. US$1.6).[317]

All this has made access to this service even more difficult for middle- and lower-income private users. To place the toll rates in context, the current cost is equivalent to half the cost of an average restaurant menu, which makes it difficult to imagine that a driver would be willing to use this road every day – particularly if one considers that, from one end to the other, there are four tolls to be paid (two going and two coming back).

Users have also been impacted as a result of other events, such as the procedure for collecting tolls. For instance, the rounding up of the fee was against the consumer (i.e. it implied an additional increase in fees), despite the existence of the Law on Consumer Protection System;[318] and inconsistencies in the implementation of the electronic toll led to additional administrative charges for users.[319]

However, the increases have generated extraordinary income for the private company, which is classified largely as improper income, according to evaluations by state control entities. For instance, an audit report by the Comptroller[320] determined that the private company had made almost US$23 million due to the unjustified increases in toll rates, which happened with the intervention of public officials. In addition, the Comptroller identified economic damage to the Peruvian State of US$1.2 million as a result of the non-application of penalties related to the incorrect implementation of the contract.[321]

Rights of users undermined by corrupt and contested practices

The Expressway Yellow Line project has resulted in social discontent, which has been exacerbated by distrust stemming from the mounting accusations of illegal acts that have stained this project. The events that occurred around the Yellow Line have been the subject of investigation and complaint by the Public Ministry regarding the high-profile 'Operation Car Wash' (or *Operação Lava Jato* in Portuguese) corruption scandal. This is about the illegal contributions that the OAS Construction Company made to former mayors and officials of the Metropolitan Municipality of Lima to favour the execution of the project. 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.[322] Worryingly, reports on the judicial file highlight payments in bribes amounting to "US$ 6 or 7 million to secure the increase in toll rates in the Yellow Line".[323]

However, the story of negotiations and disagreements did not stop there. In 2018, Vinci Highways initiated an international arbitration against the Municipality, since the latter rejected the company's claim to impose its own interpretation of the toll rate readjustment clause of the 2009 contract. In June 2020, the tribunal decided against Vinci Highways, which had to reverse its decision to increase the toll rate.[324] In 2019, when a new administration took office in the Municipality, the case took a new turn. The new municipal authorities asked Vinci Highways to start a contract renegotiation to lower toll rates. As the parties could not reach an agreement, the City Mayor announced, in November 2019, that they would take actions to cancel the contract. This would be done by taking the case to an international arbitration process, which is still in progress at the time of writing.

In May 2020, at the time of the Covid-19 pandemic, the Peruvian Congress approved an exceptional suspension of the toll rates on all the toll roads of the national, departmental and local networks.[325] This was in the context of the state of emergency declared to control the pandemic,[326] and had the objective of avoiding contact with users and of complying with the mandatory isolation. However, Vinci Highways refused to comply with the law, and on 21 June, began to charge for the use of the roads once again.[327]

> **13 years after the initial signing of the contract, users are still struggling to claim their right to use public infrastructure that has cost the public purse millions of dollars.**

Meanwhile, citizens have taken to the streets, and freight carriers have organised stoppages and blockades to protest against the collection of tolls.[328] These protests have occurred not only because of the increase in tariffs, but because citizens living in neighbouring areas to toll booths are requested to pay each time they leave or return to their homes, even if they only live a few metres away from the booth.[329]

In conclusion, 13 years after the initial signing of the contract, users are still struggling to claim their right to use public infrastructure that has cost the public purse millions of dollars.

LESSONS LEARNED

- The Expressway Yellow Line could have benefited a large sector of Lima's population, keeping them connected and saving them time. However, the high costs of the tolls and the questions surrounding the contractual renegotiation process calls for an exhaustive cost-benefit analysis of the relevance of this project. The financing could have been used in other works to improve the supply and quality of mass public transport, as well as providing more and better routes for sustainable mobility, for the benefit of more people and the environment.
- Public servants and private agents have operated in a context of legal and institutional weaknesses, which have framed the selection, adjudication, contracting and supervision processes of these works. Transparency and accountability must be present throughout the lifespan of the project, with drastic sanctions against public servants and businesspeople who commit acts of corruption to ensure that resources are well used and users' rights are not violated.
- The PPP framework does not ensure that projects are implemented and monitored properly. Unsolicited PPP proposals can bypass guidelines for the formulation, execution and supervision of large works. These schemes also do not factor in citizen participation and consultation with the populations that could be affected by the projects. This not only impacts on the rights of individuals, but can also generate social conflicts that affect the execution of the projects where the State is likely to be sued by the private company for profits that are not received.
- A new public investment system must be established to incorporate the participation of citizens throughout the process, with a greater presence of regulatory and supervisory bodies, as well as the review of functions that investment promotion agencies comply with, ensuring that private intervention does not affect the public sphere.

7

By Mae Buenaventura and Alvic Padilla, Asian Peoples' Movement on Debt and Development (APMDD) and Jagdishor Panday, Independent Consultant

The violation of a basic human right

The failure of Nepal's Melamchi Water Supply Project

Country
Nepal

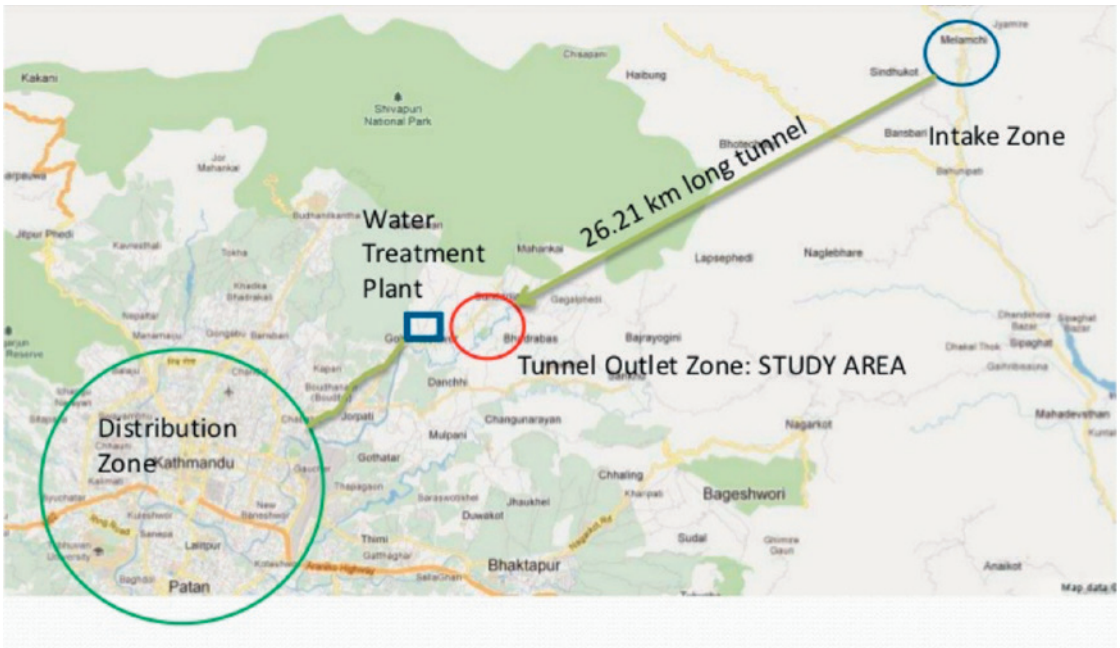
Region
Asia

Sector
Water

The Melamchi Water Supply Project (MWSP) was set up to provide safe and drinkable water to Kathmandu Valley residents, and to adequately compensate Melamchi Valley communities in Nepal. In the 20 years since its inception, these objectives have still not been achieved. In fact, the MWSP may well turn out to be one of the country's greatest project failures due to: a lack of effective consultation with affected communities; failure to consider environmental aspects in its design; accumulated public debts; and regulatory failure in ensuring equitable access and public health standards. Nepal is obliged to respect and fulfil the right to water through the human rights treaties it has signed. Yet Kathmandu residents continue to wait for safe and drinkable water, while Melamchi communities are experiencing adverse impacts on their livelihoods and wellbeing.

Project overview

In 1998, the Melamchi Water Supply Development Board (MWSDB) was established to implement the Melamchi Water System Project (MWSP), which comprises infrastructure development and the operation and maintenance of the facilities through a Public-Private Partnership (PPP) contract. The project was designed to divert 170 million litres of fresh water per day from the Melamchi River in the Sindhupalchowk District (in the central region of Nepal), into Kathmandu Valley through a 26 km tunnel. It was supposed to alleviate a chronic shortage of drinkable water in the Kathmandu Valley with a reliable, affordable, consumer-oriented and sustainable supply for 1.5 million people in 180,000 households. This was designed to improve the health and welfare of the residents, particularly the most vulnerable.[330]



Melamchi Project Layout

Credit: OnlineKhabar[331]

In 2000, international financial institutions were brought in to finance the MWSP. The most prominent was the Asian Development Bank (ADB), which designed the project to introduce "private sector management of urban water supplies from source to consumer, and sewerage from consumer to outfall".[332] A prerequisite for this financing was to introduce a series of institutional reforms, including the appointment of a foreign private operator to manage water supply.[333] Promoting private sector participation in the development of infrastructure – and in the management of distribution – was a major step towards privatisation in the water sector.

The original project cost was US$464 million. This was to be sourced in the following way: ADB (25.9 per cent), World Bank (17.2 per cent), Japan Bank of International Cooperation (JBIC) (11.2 per cent), Norwegian Agency for International Cooperation (NORAD) (6 per cent), Swedish International Development Cooperation Agency (SIDA) (5.4 per cent), Nordic Development Fund (NDF) (1.9 per cent), OPEC Fund for International Development (3 per cent) and Japan (3.9 per cent). The Nepalese government was to shoulder 25 per cent – or US$118 million – including applicable taxes.[334]

MWSP met with serious setbacks within the first six years of implementation, which came at a heavy cost for the public sector. Three co-financing partners – the World Bank, NORAD and SIDA – withdrew in 2002, 2005 and 2006 respectively, due to the failure to appoint a foreign operator to manage the water supply.[335] By 2008 the project was redesigned and split into two major components:

- **Subproject 1**: Melamchi River Water Diversion Subproject, comprising the construction of a water diversion tunnel and all other project activities in the Melamchi area and water treatment plans in Sundarijal.
- **Subproject 2**: Kathmandu Valley Water Supply and Sanitation, covering all water distribution activities in the Kathmandu Valley, including wastewater treatment facilities.

As a result, project financing was restructured (see Table 1). Except for ADB, loan terms for the other lenders are not readily available.

Table 1: Project financing after 2008

Donor	Amount (in US$)
Subproject 1: **Melamchi River Water Diversion**	
Asian Development Bank	120 million
OPEC Fund for International Development	13.70 million
Nordic Development Fund	10.50 million
Ministry of Finance (MOF) Japan	18 million
Japan Bank for International Cooperation (Official Development Assistance)	47.50 million
Asian Development Bank – additional financing	25 million
Subtotal	234.70 million
Subproject 2: **Kathmandu Valley Water Supply and Sanitation**[336]	
Asian Development Bank	80 million
Asian Development Bank – additional financing	90 million
Subtotal	170 million
TOTAL	**404.70 million**

Source: Asian Development Bank (ADB)[337]

These loans required counterpart funding from the government, which added to the cost of servicing them. According to MWSDB, this is equivalent to US$73.16 million, including partial spending for infrastructure development, social and environmental support, and project implementation support. It also included all tax expenses and US$2.97 million in contingencies "for physical and prices" – expenses that the government will have to bear.[338] Over two decades, US$300 million has been spent[339] on the construction of the dam, tunnel and other works in the Melamchi Valley, and another US$263 million for work in the Kathmandu Valley distribution

> **The MWSP has experienced an extraordinarily turbulent 22 years.**



The water treatment plant for the Melamchi Water System Project. Set up to provide drinking water to the Kathmandu Valley, the MWSP may turn out to be one of Nepal's greatest project failures. Image: APMDD

component.[340] Most of these are funded through loans extended by the various lenders. According to ADB's project document, government counterpart funding is already at US$118 million.

In 2008, a public company (with mixed public and private ownership) called Kathmandu Upatyaka Khanepani Limited (KUKL) was created[341] to replace the Nepal Water Supply Corporation. It was to manage the water supply and sanitation system of the Kathmandu Valley, and it was tasked with providing a "reliable service to its consumers at an affordable price".[342] KUKL operates the water supply and wastewater services under a License and Lease Agreement (a PPP modality) with the Kathmandu Valley Water Supply Management Board (KVWSMB), in compliance with a loan conditionality from the ADB, lasting for the next 30 years.

Twenty-eight administrations and a revolving door of private partners

The MWSP has experienced an extraordinarily turbulent 22 years. Table 2 illustrates the withdrawal and reorientation of funders, and the numerous private partners that have come and gone. This started with the British company Severn Trent International in 2006 (cancelled after a year because they did not have a sufficiently strong international track record[343] and because the company was penalised in the UK for lack of transparency and poor performance), right up to the current Chinese company Sino Hydro. It is notable that, at the time of Severn Trent, the public was in support of "trade unions of state-owned company, Nepal Water Supply Corporation, in opposing privatization".[344]

Table 2: Melamchi Water Supply Project Timeline[345]

1998	The MWSP was established. It began collecting the required funds for the project.
2000	On 21 December, the Asian Development Bank approved a loan that became effective from 28 November 2001.
2002	The World Bank withdrew from the project because the board failed to appoint foreign private operators to manage the water supply.[346]
2005	NORAD withdrew from the project for the same reason as the World Bank.
2006	SIDA withdrew from the project for the same reason as NORAD and the World Bank. Although the project was expected to be completed in 2006, it did not happen. The period of the late 2000s was marked by political upheaval, mainly the Maoist insurgency. A British company, Severn Trent International, was appointed to manage the water supply.
2007	In August, the contract with Severn Trent International was cancelled because of poor performance and transparency issues. The government of Nepal and funding partners of the project split or restructured the MWSP into the Melamchi River Water Diversion Subproject and the Kathmandu Valley Water Supply and Sanitation Subproject.[347]
2008	In February, Kathmandu Upatyaka Khanepani Limited (KUKL) was appointed to manage the Kathmandu Valley Water Supply and Sanitation Subproject under the PPP modality.
2009	After the restructuring of the project, the Chinese Railway Bureau Group was awarded the project contract. In August, the construction of the tunnel was initiated.
2012	In September, the contract with the Chinese Railway Bureau Group was terminated citing unsatisfactory performance. In November, the contract was put out for rebid after the ADB financed an additional US$25 million.
2013	On 21 June, the Cooperativa Muratori e Cementisti di Ravenna (CMC) of Italy won the bid. The deadline for the project was extended to 30 September 2016.
2015	In April, a massive earthquake hit Nepal. This delayed the completion of the project further.
2016	In October, the construction of around 20.6 km of tunnel was completed. CMC demanded additional compensation for additional work arising from the earthquake, which the government disagreed with. Conflict reached the arbitration board.
2017	In September, the deadline for the completion of the project was again pushed back. The government partially paid the additional bill.
2018	The contractors successfully completed the tunnel work of 3,600 metres. The concretisation of 9.5 km of the tunnel was also completed, which meant that around 90 per cent of the tunnel was complete. The installation of 684 km out of 720 km of pipelines was completed in the Kathmandu Valley.[348] The deadline for CMC was pushed to mid-February 2019. The issue over the total amount of additional billing of CMC remains unsettled. In October, the board ruled in favour of the CMC, which was asked to be paid Rs 362 million (US$2.7 million).[349] The government did not pay and CMC handed in a two-week termination notice by November.
2019	CMC broke the contract with the government. There have been claims of rampant corruption and regular demands for commission by government officials in collusion with the CMC project director.[350] Contract signed with Sino Hydro Corporation to complete remaining work on the project.
2020	In October, the deadline for the completion of the project was revised to 15 April 2021.[351]
2021	In March, despite incomplete testing, Melamchi water reached Kathmandu Valley. Less than three months later, the water supply stopped. Heavy rains in the Melamchi region caused a landslide that blocked the river and damaged the project.
2022	Repairs are ongoing.

The right to water is threatened

> ***"We have been living in the city for seven years now, but we still do not have access to adequate water services. We have to buy water for our daily use. The biggest problem for us these days is safe drinking water for family members. Previously, the cost of a jar was around Rs. 25 (about €0.19). Now it has gone up to Rs. 30 to 35 rupees (about US$0.22-0.26)."***[352,353]
>
> **Gayatri Bisunkhe,** an ice-cream seller in Kathmandu Valley

The water crisis in the Kathmandu Valley means that citizens are dependent on private water providers, who largely operate without price and quality regulation. Safe water quality is only assured for those who can afford to pay 120 Nepalese rupees (Rs) for a 20-litre container (or €0.89). This is not possible for poorer or lower-income consumers, who can only afford up to Rs. 36-45 (or between €0.26-0.33) for water sources that are unsafe.

Gayatri Bisunkhe (see quote) is just one of many Kathmandu residents who have been without access to safe drinking water for more than seven years. The KUKL, tasked with providing "a quantitative, qualitative and reliable service to its customers at an affordable price", delivers drinking water in tankers but only to a few water-scarce areas.[354]

The government agency tasked with setting standards – the Nepal Bureau of Standards and Metrology (NBSM) – has proven ineffective. Cholera-inducing bacteria in containers, and even in tap water, and various waterborne diseases such as typhoid and dysentery, are reportedly common in Kathmandu. As recently as August 2022, the Ministry of Health and Population reported cholera outbreaks in several Kathmandu districts.[355]

The water crisis is not only felt by households but also in the tourism sector, upon which Nepal is heavily dependent. For instance, Sishir Pokharel, manager of Hotel Hardik in the Kathmandu locality of Bagbazzar, said that his hotel was still without the promised adequate water facilities, although he had been hearing about the MWSP for the last 25 years.

Discrimination against the Melamchi Valley habitants

Water users' rights in the Melamchi Valley have not gained as much attention as those in Kathmandu. Issues include the permanent loss of about 80 hectares of farmland from the construction of various infrastructure facilities, and the displacement of about 75-80 households. The diversion of water will also reduce the flow of the Melamchi River, affecting an additional 110 hectares of paddy lands and nearly 15 *Ghattas,* or traditional water mills, along the river.[356]

> **Pabitra Gajurel**, a resident of Echok, Helambu-6, who lost her riverside home and property during the 2021 flood, said: ***"We are homeless now. We are living in a rented house in our own village. Our family has lost altogether 14 ropanis***[357] ***of land."*** [358] Holding the MWSP responsible, she said that the project wiped out large tracts of forest, causing landslides and floods, and destroying wildlife habitat. Productive soil from slopes turned into rivers of mud and buried homes. She said: ***"Government only focuses on water supply [to Kathmandu Valley] but what about us? Our life is ruined [....] Before constructing the project, the government should have closely studied the geology of this area."***[359]

A compensation scheme for the Melamchi communities consists of around US$18.5 million to fund: (a) the Resettlement Action Plans (RAP), with a budget of US$15 million; and (b) the Social Upliftment Programs (SUP), with a budget of US$3.5 million. The RAP is intended to compensate for land acquisition, resettlement of displaced households, construction of roads and schools, among other purposes. The SUP is meant to mitigate direct and indirect project impacts and to provide, in general, for the improvement of living conditions in the Melamchi Valley (health, education, income generation, community development and rural electrification, for example).[360]

However, the scheme suffers from a lack of consultation, as reflected in the limited focus on land rights, or formal resource use rights. It has also failed to address adverse effects resulting from the water diversion, such as loss of livelihoods, and water-based business opportunities in Melamchi.[361] Studies report inadequate involvement of the informal water institutions and locally elected bodies from the outset, especially with regard to compensatory measures for the Melamchi Valley residents. Previously, these traditional informal water management institutions effectively regulated water use in the valley. However, MWSP has changed that because of the scale of water transfer, and power inequity between the organised public sector on one side, and dispersed and unorganised marginal water users on the other. Small-scale water usage and various informal arrangements at the local level were also found to be factors in the absence of a collective bargaining position vis-à-vis the central water transfer authority for an equitable share of costs and benefits.[362]

The Deputy Mayor of Melamchi municipality, Uma Pradhan, voiced the concerns of communities in the Melamchi Valley for their future, especially with the possibility of more floods from faster glacial melt due to climate change during unpredictable monsoon seasons. She noted that there has only been 60 per cent progress on maintenance works. In an interview, she said: "A Landslide Disaster Management strategy should be established. Local governments should initiate planning for the safety of the people in Melamchi."[363]

Environmental impacts

As of 2019, according to Nepal's Department of Water Supply and Sewerage Management, just over half of the population enjoyed piped water coverage, and the remaining population (48.31 per cent) sourced water from locally and privately managed systems such as private tube wells. Non-piped coverage increased from 36 per cent in 2000 to 44 per cent in 2017, while safely managed improved water supply sources decreased to only 18 per cent.[364]

The unregulated construction of dug and tube wells, from which water can be sourced at lower rates than private providers, has increased. In addition to water quality and public health concerns, the volume of groundwater is being steadily depleted and groundwater levels may eventually sink.

Red flags over the environmental impacts of the project had already been the subject of various studies. These identified issues ranging from irreparable damage to the ecology and increased soil erosion, to irrigation problems and resource loss (such as fish stocks) in the Melamchi Valley. Building tunnels and other infrastructure facilities without mitigating measures will reduce the flow of water throughout the year and in the dry season, to the point that it might not be sufficient to guarantee irrigation, fishing and other related activities.[365] Even the estimated number of affected areas jumped from the initial 14 Village Development Committees (VDCs), with around 40,000 people, to 19 VDCs by 2007-08 after a successful claim by people in the Kavre District.[366]

In 2020, the Nepal Forum of Environmental Journalists conducted a study on the update of the implementation of the environment management plan as part of an Environmental Impact Assessment (EIA) of the project. They found that "environmental monitoring has not been carried out, and that environmental management responsibilities have not been accomplished".[367]

Krishna Devkota, Senior Geologist at Kathmandu-Terai/Madesh Fast Track Project, attributed the massive flooding and landslide in Melamchi in 2021 to a failure of the pre-feasibility study of the project, including the Environmental Impact Assessment.[368] He also pointed to issues of negligence, such as hiring personnel without expertise in the sector.

LESSONS LEARNED

- Adequate, informed public consultation is a key requirement for government projects, especially projects of MWSP's scale and projects involving vital resources, notably water. Ensuring this could also have resulted in the equitable sharing of costs and benefits between rural and urban populations and sectors.
- Essential services, such as those involving water, should remain publicly owned, controlled and managed. Where participation of the private sector is involved, having a strongly rights-based, participatory and transparent regulatory framework and system is critical. This is vital to ensure that: the right to safe and affordable drinking water for all is not compromised, regardless of capacity to pay; that the environment is protected; and that public interests are prioritised above all.

Conclusions and recommendations

The world is struggling to respond to a wave of multiple and interconnected crises that have resulted in an historic reversal of development gains. The outbreak of the Covid-19 pandemic, in early 2020, highlighted how market-based models cannot be relied upon to deliver on human rights, such as health, education and water, and the fight against inequalities. In 2022, the upsurge in the cost of living, the energy crisis and the dramatic impact of climate change further highlights the failures of the current economic model and the urgent need to build a different one.

The necessity for public investment in goods, services and infrastructure is more evident than ever before. However, calls in support of Public-Private Partnerships (PPPs) as a tool to plug financing gaps continue to grow. Indeed, the crisis has reinforced a pre-existing narrative that calls for an increased use of public institutions and public funds to leverage private finance as a way to deliver development projects. These projects include building hospitals and other large-scale infrastructure projects, or providing vital services such as energy and water supplies to vulnerable citizens around the globe. As this report has shown, multilateral development banks have played a leading role in providing advice and finance to enable PPP projects in different sectors.

At a very general level, our findings illustrate some of the most common problems associated with PPPs. 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 an active civil society engagement in demand of a change of course.

Key findings

- **A high fiscal and human cost of PPPs** – All the cases studied came at a high cost to 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 (€65.1) to private companies to provide free car parking at three Scottish hospitals for a year.

  In Liberia, as 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 involved: 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 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 civil society organisation (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.

We call for the promotion of high-quality, publicly funded, democratically-controlled, gender-sensitive and accountable public services

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 UN 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 the 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 fulfilment of human rights and the protection of the environment. The future of our societies depends on it.

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155 At Ninewells Hospital in Dundee, the car parking is operated by SABA Parking UK; this company is controlled by La Caixa. (Ally Tibbitt, 'PFI firms promote coronavirus donations but refuse NHS fee cut', *The Ferret*, 3 April 2020, accessed 25 November 2022, https://theferret.scot/pfi-firm-3i-group-promote-coronavirus-donation/). The original owners were Indigo and Impegilo, then bought by Vinci Park UK and subsequently owned by Saba.

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