

Why public-private partnerships (PPPs) are still not delivering

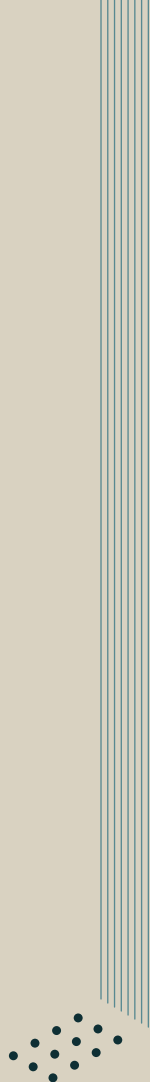
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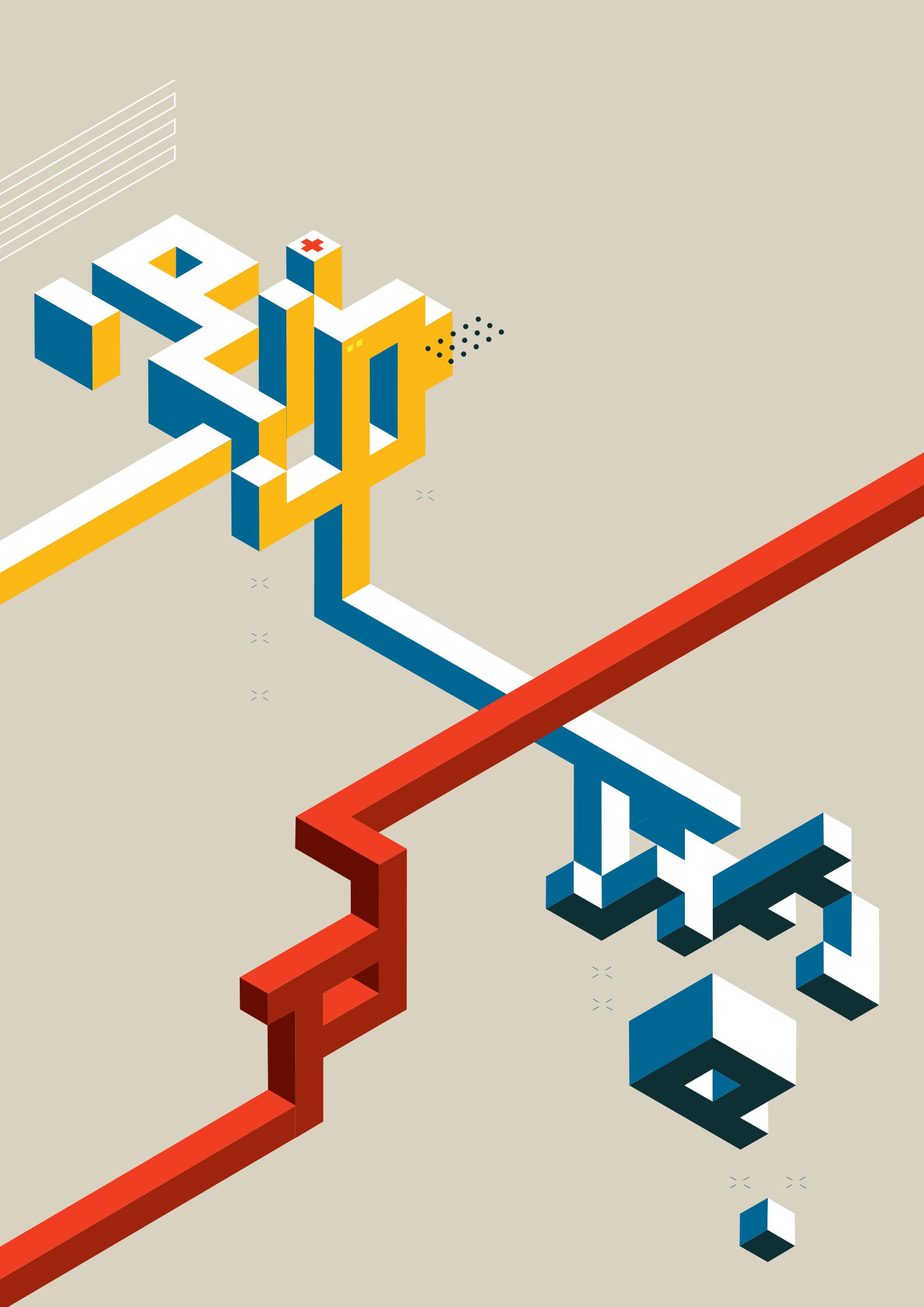


Public-private partnerships (PPPs) are long-term contractual arrangements where the private sector provides infrastructure assets and services that have traditionally been directly funded by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, and water and sanitation plants, and where there is also some form of risk sharing between the public and the private sector.

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Introduction

The United Nations' Agenda 2030 for Sustainable Development has set ambitious and universal Sustainable Development Goals (SDGs) in key areas such as infrastructure, health, education, water and sanitation, and gender equality, among others. The Paris Climate agreement requires urgent and immediate action to mitigate and adapt to climate change, particularly in the area of infrastructure, food systems and energy. Despite the apparent boost this should give to investment in public services, in reality the goals have further intensified debate on private sector involvement in development projects in both the global north and south.

The outbreak of COVID-19 has vividly exposed the repercussions of decades of austerity policies that have undermined and privatised public services – including health – and stifled progress on universal social protection. It has also revealed the depth of the inequalities within and between countries, as the crisis induced by the pandemic takes its heaviest toll on the marginalised and most vulnerable communities.

For several months, governments and EU institutions have been debating how to ensure a sustainable recovery from the crisis created by the COVID-19 pandemic at home and abroad. The European Commission's recovery plan underlines *"the need for massive investment at scale and speed, including substantial public and private investment at national level"*.¹ However, the experience of the last global financial crisis (2007-08) shows that this is easier said than done. In reality, public investment has never fully returned to pre-crisis levels, nor compensated for years of under-investment. European trade union movement and civil society have issued strong calls to boost public funding to strengthen public services, rather than relying on private finance.²



Many governments from Europe and beyond and consultants and international institutions, in which European countries actively engage, argue that public resources and institutions have to be used to attract private finance to fill a perceived ‘financing gap’ and have actively promoted public-private partnerships (PPPs) in the EU and developing countries. These include the European Commission, European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), World Bank Group and Organisation for Economic Co-operation and Development (OECD).

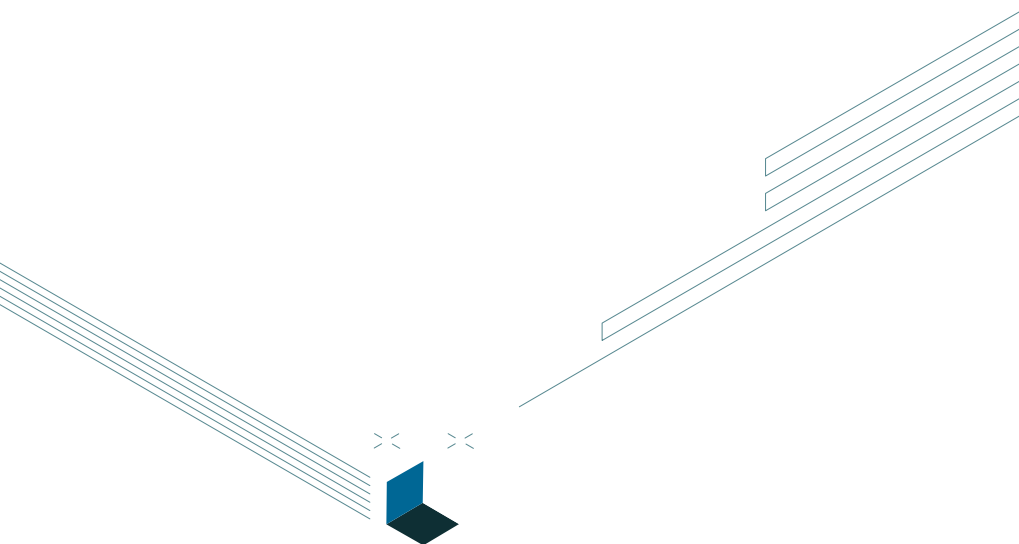
The EIB, as the lending arm of the European Union, funds major infrastructure projects across Europe and beyond. It has both directly financed PPPs and has also done so through the European Fund for Strategic Investments (EFSI) – the financial pillar of the Investment Plan for Europe (also known as the Juncker Plan).³ Its successor – InvestEU⁴ - will do the same.

The EIB’s sister bank, the EBRD, is majority-owned by EU countries and the EU itself, and promotes a transition to a market economy in central and eastern Europe and beyond. Despite an EBRD-financed study finding PPPs “pretty on paper, poor in practice”,⁵ the bank continues to be active as a PPP financier and advisor, even in countries with high levels of corruption and weak law enforcement.⁶

As a result of the latest economic crisis, there is now a risk of history repeating itself, with private investment being relied on to plug a so-called ‘financing gap’ as part of the COVID-19 recovery as well.

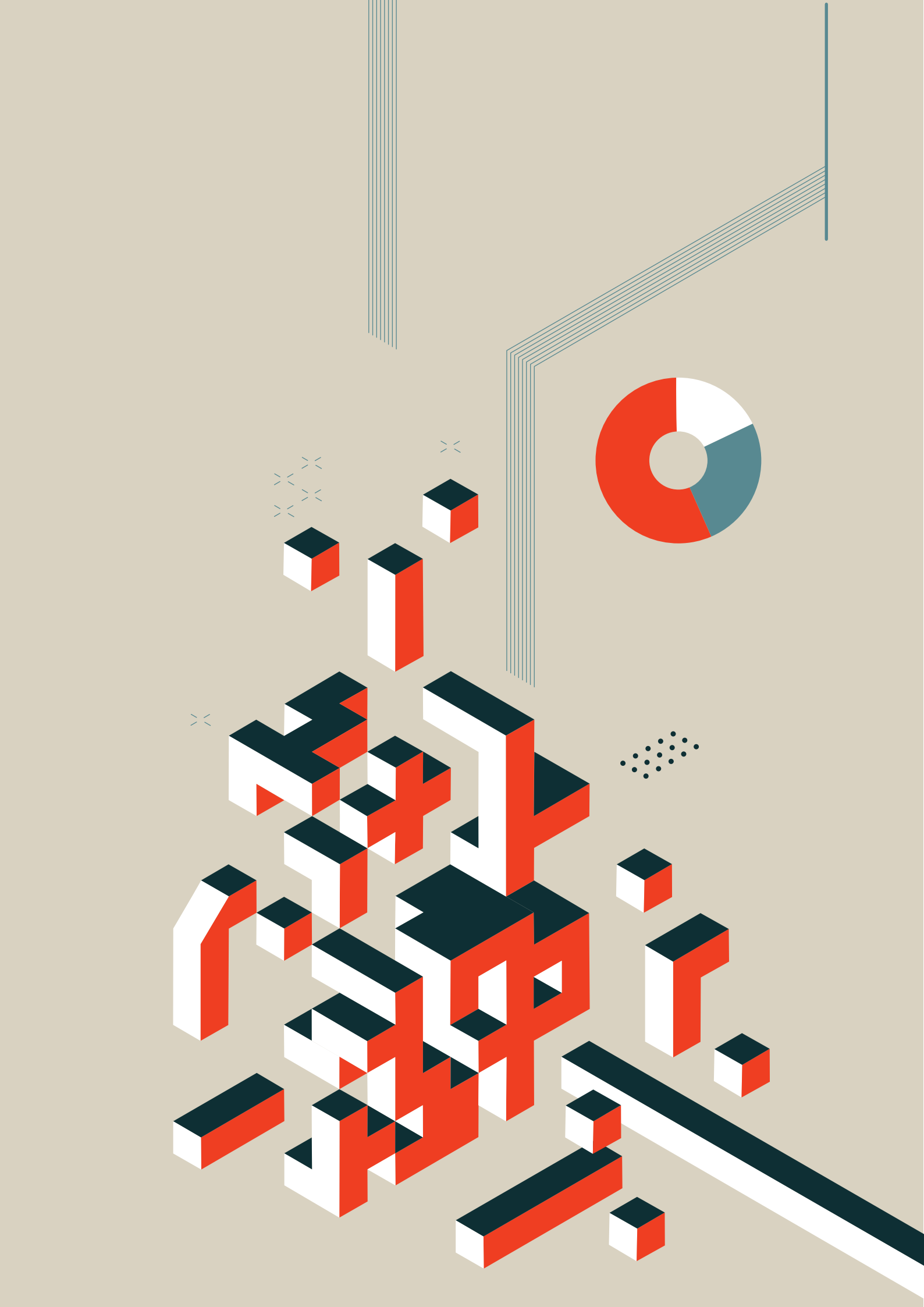
This joint briefing by EPSU and Eurodad draws on a growing body of evidence across Europe showing that PPPs are proving to be poor value for money, and that, far from just being teething problems, many of these issues are getting worse with time.

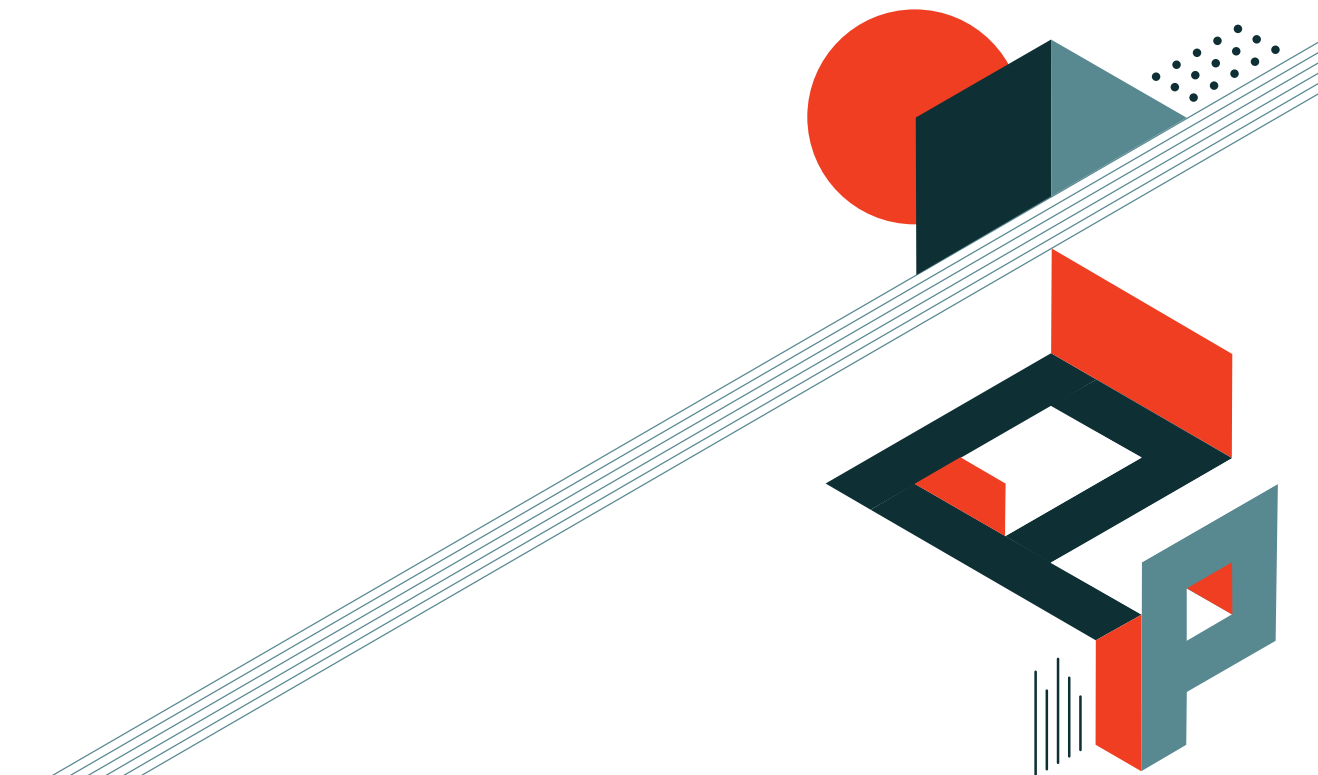
Conclusions that PPPs are proving to be poor value for money have also been reached by – among others – by the European Court of Auditors (ECA),⁷ the French audit court,⁸ the UK National Audit Office,⁹ the Albanian audit court,¹⁰ the German Audit court,¹¹ national parliamentary commissions, a UK consortium of investigators,¹² civil society networks such as CEE Bankwatch,¹³ Counter Balance¹⁴ and Eurodad¹⁵ and numerous academics.¹⁶ In 2017, a PPP campaign Manifesto¹⁷ was launched with the support of more than 150 organisations and trade unions from around the world to shed light on the risks of PPPs.



PPP advocates claim they bring financing, efficiency and innovation. But real-life experience reveals a different picture. The following points outline eight 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 don't guarantee better value for money
5. 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





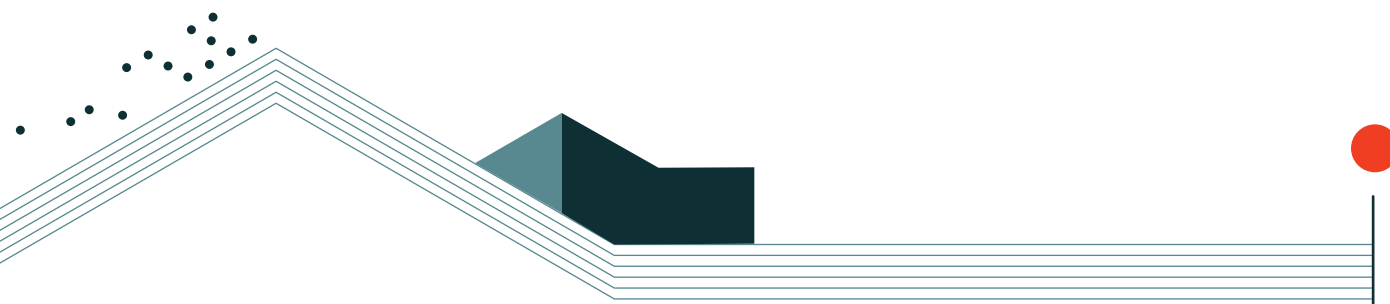
1. PPPs create hidden debts

A key driver for using PPPs is to avoid visible increases in government debt. However, this results in hidden debt instead. In a PPP, instead of the public authority taking a loan to pay for a project, the private sector arranges the financing and builds the infrastructure, then the public sector pays a set fee over the lifetime of the PPP contract. In some cases, users also pay part or all of the fee directly to the private sector company (e.g. toll roads).

So while PPPs might appear to conjure up new sources of money due to the private sector taking loans instead of the government, the funding for the project still comes from government budgets and/or end users – it's just that the payment schedule is stretched over a longer period.

Because of this, PPP projects are usually recorded off the government's balance sheet so they do not impact on debt figures. This generates a false incentive to use PPPs, even though they are usually more expensive – a bit like paying for new infrastructure with a credit card. This has led to serious problems in several countries.

In the UK, for example, PPPs – in the form of the Private Finance Initiative (PFI) – were seen to be the 'only game in town' for building new infrastructure in the late 1990s and 2000s, as insufficient public budgets limited the possibility for public financing.¹⁸ As a result, at the end of 2016 there were over 700 ongoing projects under the PFI1 and its successor the PFI2, with annual charges of £10.3 billion in 2016-17.¹⁹



Future charges – which continue until the 2040s – amount to £199 billion,²⁰ illustrating the extent to which PPPs lock generations of future governments into paying for infrastructure they might never have chosen themselves. Even the PFI2 – introduced after years of criticism of PFI – is still off-balance sheet and upfront capital costs are not included in government departmental budgets.²¹

Hungary was an avid user of PPPs before the financial crisis struck in 2007-2008, but stopped signing new deals after that. More than 100 PPPs were signed in various sectors, from motorway projects to small sports facilities, but once the financial crisis struck, the government decided the negative aspects of PPPs outweighed the positives.²² Since then, it has reviewed some of its ongoing projects – although to a lesser extent than initially announced²³ – and avoided new off-balance sheet ones.²⁴

In Portugal, from the mid-1990s until 2010, the authorities signed dozens of PPP contracts,²⁵ mainly in the road sector. To cut expenditures and qualify for assistance from the International Monetary Fund (IMF) and EU, in early 2011 the government announced a freeze on PPPs. By the end of the year it had reviewed 36 contracts and committed to renegotiate some of them.²⁶ After renegotiation, by 2017 the Portuguese government was able to reduce future payments by an average of 18 per cent of the total payment per concession. However, as its repayments will continue until at least 2039,²⁷ the consequences of decisions made by long-gone governments are far from over.



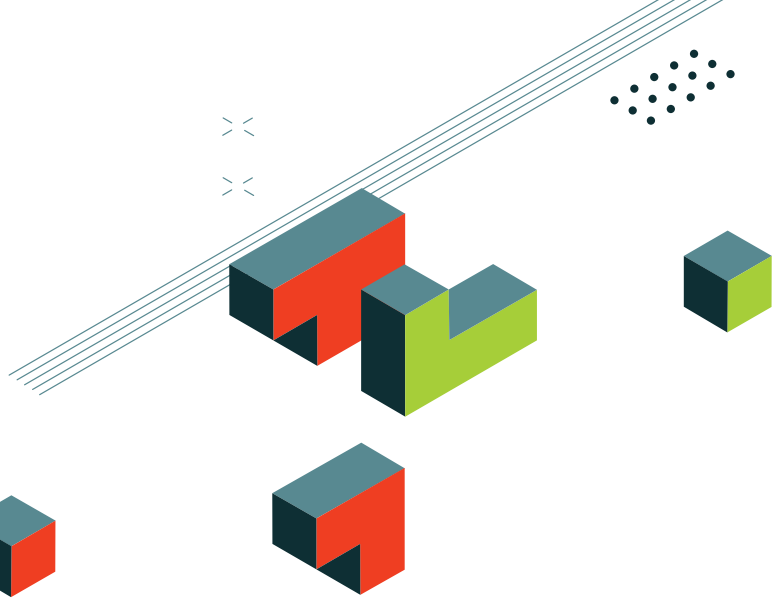
2. Higher financing costs

The cost of private finance compared to public borrowing is one of the weakest points of PPPs. Both the OECD and IMF have warned that governments can nearly always raise capital at a lower cost than the private sector.^{28, 29}

Back in 2011, the *Financial Times* calculated that this means that the UK taxpayer: “is paying well over £20 billion in extra borrowing costs – the equivalent of more than 40 sizeable new hospitals – for the 700 projects that successive governments have acquired under the private finance initiative.”³⁰

A 2015 review by the **UK’s National Audit Office** found that the effective interest rate of all private finance deals (7%–8%) was double that of all government borrowing (3%–4%),³¹ while research on PPP road projects implemented from 1999-2014 in the UK and Spain found similar results for the UK. The difference found for Spain was much smaller, but still important: an average interest rate of 5.1 per cent for public borrowing versus 5.5 per cent for private borrowing.³²

A particularly vivid example was the **Paris Courthouse PPP**, signed in 2012, which featured an investment of €725.5 million and no less than €642.8 million in financing costs. The French Court of Auditors found that the interest rate for borrowing for the PPP was 6.4 per cent, while in 2012 the weighted average rate for government bond financing in the medium-long term was 1.86 per cent.³³ As a result of the ensuing scandal, the Ministry of Justice decided to stop using PPPs in future.³⁴



3. Public authorities bear the risk

Proponents of PPPs argue that they are able to transfer project risks from the public to the private sector, but in fact public authorities still bear the ultimate risk of project failure. There are three main risks associated with PPPs:

- Construction risk: e.g. late delivery, failure to meet specifications and increased costs
- Demand risk: e.g. fewer people than expected use the infrastructure
- Availability risk: e.g. the infrastructure is built but the service cannot be delivered to the extent agreed, whether because of additional maintenance, staff issues or other reasons.

Construction risk and availability risk are most likely to be taken on by the private partner because it has more control over them than the public partner, whereas governments are more likely to take on the demand risk. The demand risk is more difficult to anticipate or value, which leaves governments at risk of having to cover unexpected costs not included in the PPP contract.³⁵

Rules established by the European Union's statistics agency, Eurostat, in 2010 and 2016 state that, for a PPP to be recorded off the government balance sheet, several conditions need to be fulfilled. The private partner has to take the construction risks and the availability or demand risk, or both.



What is new compared to the previous rules is that the private partner cannot pass on these risks to the government via financing, guarantees, or early redemption clauses, if the project is to be kept off the balance sheet.³⁶ It is unclear whether these changes have led to more PPPs being included on government balance sheets, because the overall number of PPPs in Europe has fallen substantially since the last financial crisis. In 2019, just 29 PPPs in the EU and accession countries reached the stage of signing financing contracts,³⁷ compared to a peak of 144 projects in 2006.³⁸

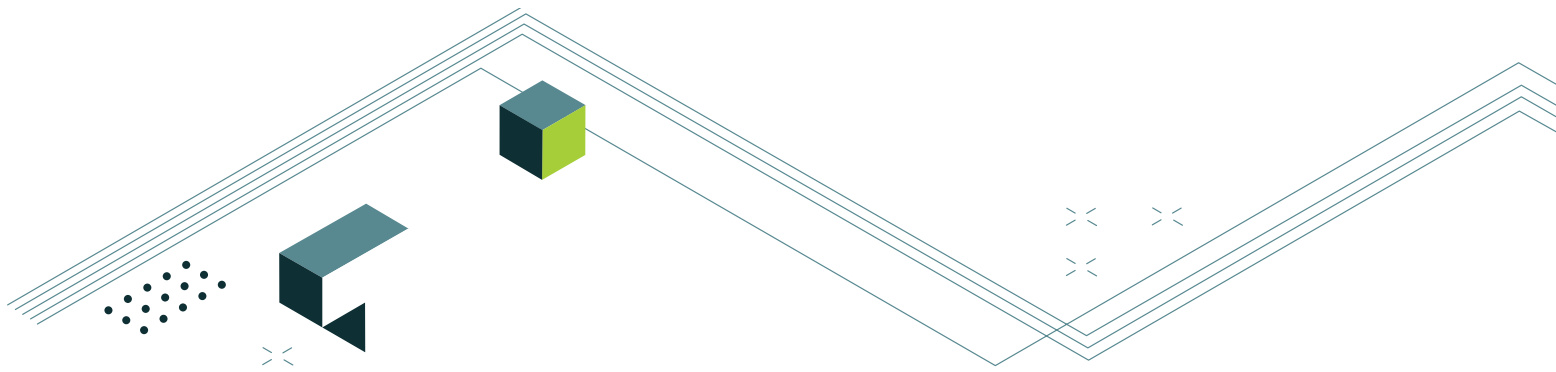
In reality, risk transfer in PPPs is very limited. Since public services need to continue uninterrupted, governments have a hard time refusing additional requests by the private partner or charging penalties for poor performance, because the entire PPP may fail – so the private partner has a strong bargaining position.

The failure of the massive London Underground PPP, and the collapse of construction giant Carillion in the UK both illustrate how risks are never really transferred to the private sector in PPPs, even when governments resist the temptation to provide additional funds to the private partner in case of unexpected costs.

The **London Underground PPP** was initially criticised for its complexity, cost and *lack* of risk transfer, but after the project consortia got into financial difficulties and asked for additional funds, the government put its foot down and the publicly-owned Transport for London took over the PPP in 2007 and 2010.³⁹ **Carillion's collapse** in 2018 left two large UK hospital constructions unfinished, thus landing the government with the ultimate responsibility to ensure they were finished.⁴⁰

When risks are actually transferred, the PPP consortium expects to be paid handsomely for this as part of the contract. The private sector also often requests public sector support in the form of subsidies or guarantees to compensate for demand risk (see examples below). This is particularly the case in transport PPPs, where overestimation of demand has been commonplace, leading to additional costs for the public partner.

There are weak incentives for rigorous analysis of demand on both the private and the public sector sides, as the main goal is usually to push the project forward, and so-called “optimism bias” is common-place. This is a problem for infrastructure projects generally but is particularly important in PPPs, where payment per user takes place.⁴¹



Some motorway PPPs have taken the form of toll-road concessions, while others – particularly in the UK and Spain, and to some extent in Portugal – have used a “shadow toll” model. This means users do not pay directly, but the government pays the concession-holder a fee per vehicle using the road. Both of these models have been largely discredited, but their replacements have never solved the issue of how the private sector can truly take on risk in transport projects.

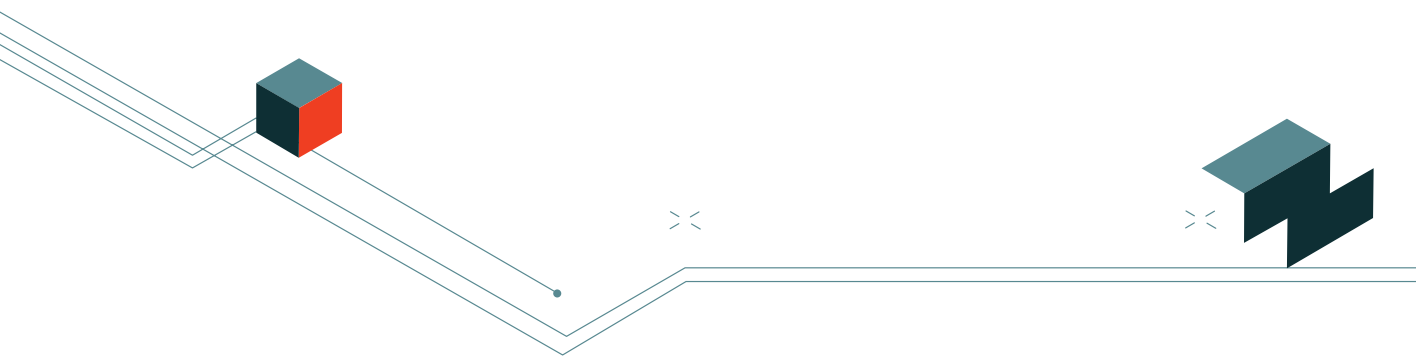
Even now, toll motorways are still causing problems. A modernised stretch of the A1 motorway between Hamburg and Bremen in Germany was opened in 2012. However, in August 2017, the **A1 Mobil PPP consortium**, which operates the motorway, declared it was in a “*situation that threatened its existence*”⁴² and tried to force the state to pay damages amounting to around €700 million, due to lower-than-expected income from tolls for heavy goods vehicles. In November 2019, the Celle Higher Regional Court ruled that the State did not have to pay as A1 Mobil took on the full demand risk in the contract.⁴³

At first sight, this appears to have been a successful risk transfer. But what if A1 Mobil actually does go bankrupt? This was what happened with the M1/M15 motorway in Hungary. Demand for the road was 50 per cent lower than had been projected⁴⁴ and the road was renationalised and transferred back to a special purpose public sector company in 1999.⁴⁵

In most of Europe, since the early 2000s PPPs have been either based on availability payments, paid just for the facility being in working order, or on tolls backed up by public guarantees in case demand was not as high as expected, or a combination of the two. In both cases, the only real risk that the private partner has to take on is the construction risk. After this, its income is guaranteed for the remainder of the concession period, as long as it does basic maintenance.

In reality, even construction risk is not always fully passed on to the private partner. In 2014, the Galician Regional Audit Office in Spain found that shadow toll motorway PPPs had been subject to price changes between 9 and 29 per cent, which had been covered with direct payments by the regional government. Yet, as the Audit Office found out, these changes were related to construction risks that the concession-holder should bear and other matters that should have been solved before signing the contract.⁴⁶

The 44 km **Perpignan-Figueras** rail link connecting France and Spain also ended up passing on its construction risk to the public sector. In 2004, a PPP contract was signed with the TP Ferro consortium – composed of France’s Eiffage and Spain’s ACS-Dragados – and work was completed in 2009. The initial budget for the project was set at €952 million in 2003,



but grew to a final cost of nearly €1.2 billion. The governments of Spain and France (and to a lesser extent the EU) contributed €636 million in the form of direct grants, and €44 million as additional funding to ensure the viability of the concession.⁴⁷

The project also illustrates how the state can ultimately be liable for demand risks even in non-toll projects. An adjoining rail link that was expected to increase demand on the route only opened in 2013. It immediately became clear that demand had been overestimated. In 2014, TP Ferro was expecting to run 24 trains a day, but there was no demand for more than 12, even in high season.

As a result, TP Ferro reported losses of €112.9 million for that year. ACS asked the Spanish government for compensation under a contractual provision for government liability. However, both governments refused compensation. In 2016, the project's creditors asked for TP Ferro to be liquidated and to activate the state's liability. This was done and the concession was cancelled.⁴⁸

In some cases such as the **Trakia Highway in Bulgaria** and the **Horgoš-Požega motorway in Serbia**, the realisation that the state would have to compensate the private partner for lower than expected traffic levels led to opposition to the projects. The contracts were, in the end, cancelled, partly as a result of this.⁴⁹ The Trakia motorway was later completed via public procurement,⁵⁰ while the Horgoš-Požega motorway is being built in stages.⁵¹

In practice, the economic crisis induced by COVID-19 may result in an unprecedented decrease in revenues of many infrastructure projects implemented through PPPs, such as airports and roads, thus triggering public guarantees to offset the losses incurred by private firms. According to research by the Transnational Institute, countries could have to face lawsuits seeking to compensate private sector companies for the impacts of governments' actions enacted to protect public health in the midst of the pandemic.⁵²



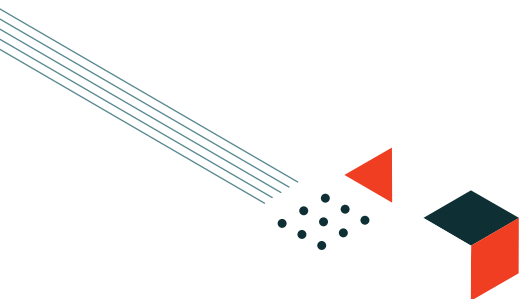
4. Failure to offer value for money

Proponents of PPPs argue that by using private sector resources and expertise, PPPs have the potential to improve the quantity and quality of service delivery, thus creating better 'value for money' compared to traditional public procurement. Before being authorised, PPP proposals should normally be analysed with a tool called 'public sector comparator' (PSC) – that is, a model of the project if implemented through traditional public procurement.. However, this analysis – or the lack thereof – have been heavily criticised.

National Audit Office reports⁵³ have found that in the UK, these comparisons have been done badly, have not been exposed to proper challenges and debate, and have been systematically biased in favour of PPPs. As a result, in December 2012 the UK Treasury withdrew its value-for-money assessment spreadsheet and guidance and promised to publish an updated version. However, as of January 2018, this had not been done.⁵⁴ Later that year the UK government announced it would no longer use the so-called PFI2 model (i.e. PPP) for new projects,⁵⁵ so such guidance was no longer needed.

Similarly, **in Ireland** a 2011 analysis of water sector PPPs found that the government preference for PPPs in some cases led local authorities to reject their own value for money assessments or preliminary reports where they were found to favour traditional procurement methods.⁵⁶

In 2014, the German Federal Court of Auditors also criticised the value-for-money calculations for five out of six motorway projects, saying that it was "*of the opinion that the previous PPP projects are uneconomical.*" It found that the PPP projects, costing €5.1 billion, were likely to cost €1.9 billion more than conventional projects.



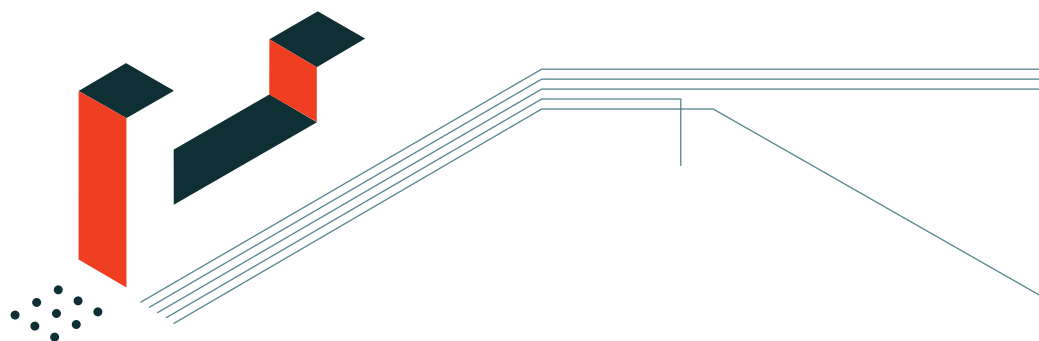
The Federal Ministry of Transport had previously reported cost advantages of up to 40 per cent for these projects compared to public sector versions. The Court of Auditors was not convinced that the macroeconomic benefits of the PPP variant claimed by the Ministry could offset the €1.9 billion cost disadvantages it had found. The Court also found that the differences in construction time on which the Ministry based the comparison of variants were not convincing.⁵⁷

Most value-for-money assessments are not available to the public, but a summary of an assessment of the **D1 motorway PPP in Slovakia** shows how easily they can be manipulated. In April 2009 data from the Slovak Ministry of Transport comparing a public version and a PPP option for the project was published. Some of the assumptions used to justify the PPP version appear highly dubious, especially the “*earlier onset of selected socio-economic benefits*”, worth a huge €593 million, and “*risk transfer*”, worth €221 million.⁵⁸

In 2010, an additional layer of confusion appeared, as a comparison by the Ministry of Finance published in March contradicted the Ministry of Transport’s data, on which it was supposedly based. The Transport Ministry’s data had also changed since the previous year, now expecting no less than €665 million worth of “*earlier onset of selected socio-economic benefits*”.⁵⁹ In any event, the real costs and benefits of the PPP project were never revealed, as financial closure of the project was repeatedly delayed and in summer 2010, a new government in Slovakia decided not to grant any further extensions for the financing deadline and the PPP collapsed.

A 2018 report from the **European Court of Auditors** (ECA) confirms that value for money calculations are a major problem. The ECA examined 12 EU co-financed PPPs in France, Greece, Ireland and Spain in road transport and Information and Communication Technology (ICT) implemented between 2000 and 2014. The report finds that the PPPs “*did not provide adequate value-for-money*” and that “*there was a lack of adequate analyses about the potential for PPPs to deliver additional value-for-money, as well as a lack of adequate strategies on the use of PPPs and of institutional and legal frameworks*.”⁶⁰

Irrespective of whether calculations are carried out in advance, there are numerous examples of PPPs failing to offer good value for money in reality.



Shadow tolls for **Spain's Madrid M-45 scheme** and **Navarre Autovia del Camino** scheme both repaid the capital cost of the projects within 10 years of opening,⁶¹ with the remainder of the contract period funding maintenance costs and profits for the private partner.

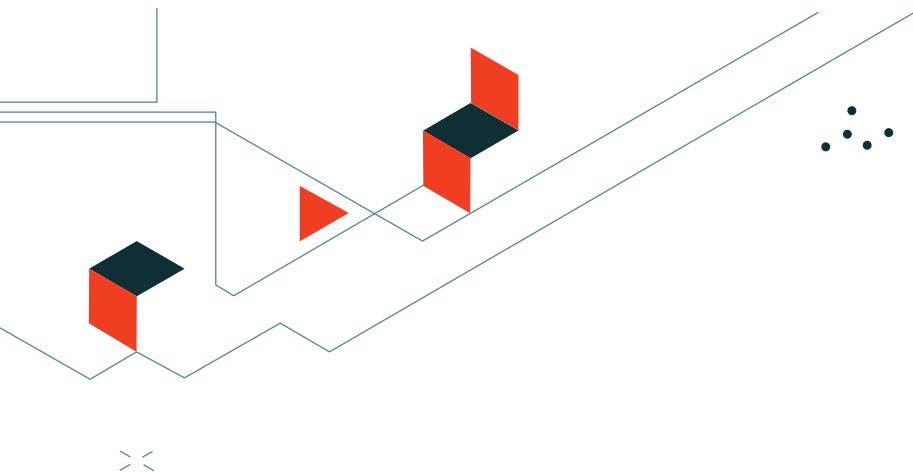
Similarly, for the EBRD-financed **Zagreb Wastewater Treatment Plant in Croatia**: *"The profitability of the concessionaire is well above market average (...). This excessive profitability has been due to the compensation formula, which is causing aggravation at the city and will be likely renegotiated."*⁶²

The choice to build a new **Paris Courthouse** – also mentioned above – as a PPP was questionable from the beginning, as the "public sector comparator" showed it would not be the cheapest option. However, French law allowed other criteria, including complexity and urgency, to be taken into account and a PPP was chosen nevertheless.⁶³ In 2012, a contract worth €2.3 billion lasting until 2044 was signed with the Arélia consortium for an investment of €725.5 million. The other costs comprised no less than €642.8 million in financing costs and €960 million in operating costs, both of which were higher than a publicly-procured project would have been.⁶⁴

A court challenge against the decision to use a PPP was launched by the *La Justice dans la Cité* association, but was rejected. However, in 2017 the French Court of Auditors recommended that PPPs should not be used for prisons or real estate,⁶⁵ and as noted above, the Ministry of Justice decided to stop using PPPs in future.⁶⁶

One of the notable issues regarding value for money is the lack of evaluations available, which systematically monitor PPPs' value for money in reality. Even in the UK, which has the biggest and longest programme of PPPs, the government has not carried out a systematic evaluation of results. Only in 2018, after decades of using PPPs, did the Department of Education finally start collecting data to compare privately and publicly financed schools.⁶⁷

Furthermore, PPP tendering procedures take longer and cost more than normal procurement, and so create additional costs for both governments and companies. The complexity of PPPs leads to very high legal and accountancy expenses for both government and companies, with tendering periods lasting an average of 34 months.⁶⁸



An EIB study of PPP projects across Europe found that the procurement costs averaged over 10 per cent of the total value of each contract.⁶⁹ The transaction costs for the London Underground PPP in the UK represented only 2.8 per cent of the project value – but the project itself was so costly, these procurement costs amounted to no less than £455 million.⁷⁰

As a result of these high project preparation costs, there is often little competition, leading to even poorer value for money than might otherwise be the case.

The **Nya Karolinska Solna (NKS) Stockholm hospital PPP**, signed in 2010, only attracted a single bidder, although there had been many expressions of interest. Many Swedish companies were unwilling to take the risks involved in the project. The construction was projected to cost €1.4 billion but had budget overruns and by 2015 the cost had reached €2.4 billion, leading it to be dubbed “*the world’s most expensive hospital*”.⁷¹



5. Cost-cutting leads to corner-cutting

PPP promoters argue that private sector companies introduce efficiency in the delivery of infrastructure and public services. Efficiency gains can come from improvements in design, construction and operations.

As summarised by the IMF in 2004, *“much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.”*⁷²

A 2009 World Bank report showed that, while gains in operational efficiency and labour productivity had been made in PPPs in the electricity and water distribution sectors, these had not necessarily resulted in gains for end users or resulted in increased investments. The authors concluded that either the services had been so underpriced at the outset that the efficiency gains were not enough to justify lowering prices, or the efficiency gains were just being converted to private sector profits.⁷³

In some cases, efficiency gains come at a cost – for example, lowering costs by cutting jobs or making working conditions insecure. For instance, the **Alzira PPP hospital in Spain** resulted in changes in labour contracts that worsened labour conditions, *“with less job security, lower pay scales and longer working hours”*.⁷⁴



PPP hospitals might also favour a reduction in the average length of stay in hospitals, a metric used by the healthcare industry to measure efficiency. However, this measure does not necessarily mean better hospital practices, and can disproportionately affect women's health and well-being as they are frequently responsible for looking after sick relatives at home.⁷⁵

The experience also suggests that PPPs may not generate better designs than normal procurement. In 2011, the **UK Parliament** reported that *"in the area of design innovation and building quality we have seen some evidence to suggest that PFI performs less well than traditionally procured buildings."*⁷⁶

This turned out to be a dramatic understatement when, in January 2016, nine tonnes of masonry fell off buildings of **Oxgangs Primary School in Edinburgh, Scotland**, during a storm. As a result, 16 more schools were immediately closed for several months when emergency inspections also revealed construction defects.⁷⁷

While an independent inquiry concluded that there is no inherent reason why PPPs cannot result in safe and well-built facilities, it showed that the independent scrutiny of the works built into the contract was not well-defined or properly resourced.⁷⁸ It seems reasonable to suggest that the complexity of PPP contracts makes it easier for such serious omissions to occur.

The **Dublin Regional Waste Water Plant, Ireland**, opened in 2003, shows that PPP innovations will not necessarily deliver better municipal services. Although the improved wastewater treatment has brought benefits for the Irish Sea, persistent odours affected local residents for several years due to the use of unproven technology and incorrectly specified odour limits in the contract. The plant also proved from day one to be undersized compared to the actual amount of wastewater it has to treat, partly as a result of failure to properly take commercial premises into account when planning.⁷⁹ Dublin City Council has paid €35.6 million to Celtic Anglian Water to try and fix the problems.⁸⁰



The **NKS hospital in Stockholm** attempted to introduce new design elements into the PPP process by arranging a preliminary design competition, which aimed to generate new ideas. However, hospital staff reported negative consequences for the patients and staff, including IT breakdowns, seriously threatening patient security; operating theatres not being adapted for operations; the risk of medicines being destroyed because of medicine rooms being too warm; and physicians having to carry administrative material in backpacks because of the lack of space for administrative tasks.⁸¹

As a recent analysis of the project points out, *"experience from research in different disciplines, as well as in construction and health-care practice, could have been used to scrutinise vague promises of innovation, quality and cost control put forward by private interest groups"*.⁸² While none of the above issues are unique to PPPs, it is clear that the high level of complexity, together with the private partner's interest in cost-cutting as much as possible, can easily result in undesirable corner-cutting.


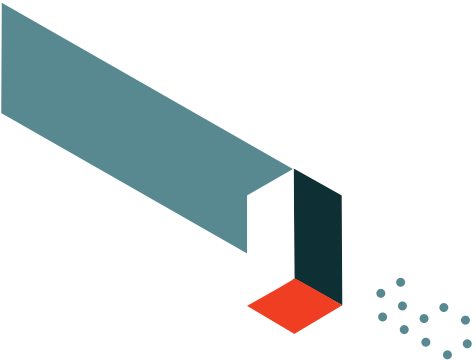
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6. No guarantees of delivering on time and on budget

There is a general belief that private sector companies are better than the public sector at delivering projects on time and on budget. However, the evidence does not support this claim.

First of all, the complexity of designing and tendering PPP contracts makes the processes very lengthy, as we have seen above – often much more so than traditional procurement. A 2011 report by the UK's parliamentary Treasury Select Committee found: *“there is no convincing evidence to suggest that PFI projects are delivered more quickly and at a lower out-turn cost than projects using conventional procurement methods. On the contrary, the lengthy procurement process makes it likely that a PFI building will take longer to deliver, if the length of the whole process is considered.”*⁸³

If we only look at the construction phase, however, PPPs use ‘turnkey contracts’, which means no money is paid until the project is completely ready. These are more expensive than ordinary contracts, but give the private partner a strong incentive to complete the building on time. If it is important to make sure the contractor takes on the construction risk, it is possible to use turnkey contracts in normal procurement, without having a PPP contract for several decades.⁸⁴

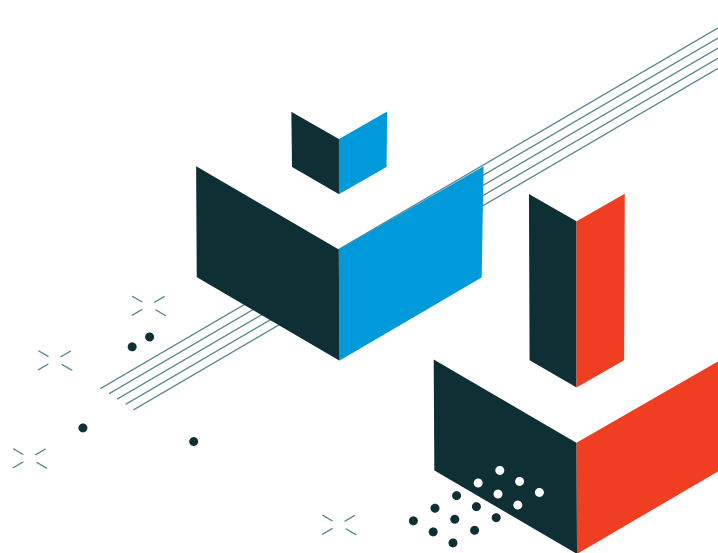


Despite the strong incentive supposedly provided by PPPs, reality has shown that many projects, including several mentioned in this paper such as the Paris Courthouse PPP⁸⁵ and the NKS Hospital in Stockholm, have been delivered late and/or exceeded their budget.

The **NKS Hospital** was a particularly egregious example. It was expected to be completed by 2015, but was delayed until 2019. The total cost of construction was projected to be equivalent to €1.4 billion, but by 2015 it had increased to over €2.4 billion.⁸⁶

The 2018 European Court of Auditors report on PPPs, mentioned above, also found that seven out of the nine completed projects audited faced delays ranging from two to 52 months.⁸⁷

Moreover, an additional amount of almost €1.5 billion in public funds was necessary to complete the five motorways audited in Greece and Spain, around 30 per cent or €422 million of which was provided by the EU. In Greece, the cost per kilometre of three assessed motorways had increased by up to 69 per cent, while at the same time the project scope had been reduced by up to 55 per cent. This was mainly due to the financial crisis and to poor preparation of the projects by the public partner, resulting in premature and insufficiently effective contracts with the private concession-holders.⁸⁸



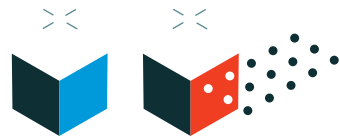
7. Opacity contributes to corruption

If PPPs can be at all consistent with democratic ownership and national development strategies then a high level of transparency and citizen engagement are needed throughout the whole lifecycle of the project.⁸⁹ This is an issue in all large infrastructure projects, but the complexity of PPPs makes it especially difficult.

Private companies insist that many aspects of PPPs are kept secret, usually including the contracts themselves. In the **Berlin water PPP**, the contract that Berlin and the two water companies (RWE and Vivendi (Veolia)) signed in 1999 was confidential and not even parliament could view the contract. A combination of rising water prices and the secrecy of the contracts led to public mobilisation against water privatisation. After a successful referendum in 2011, the contracts were made public and revealed that private providers had been guaranteed an 8 per cent return on equity.⁹⁰ This led to the buyout of the PPP in 2012 and 2013.⁹¹ Moreover, the Nya Karolinska Solna (NKS) Stockholm hospital PPP and the Paris Courthouse PPP have also been questioned about their lack of transparency.⁹²

In particular, a 2011 report from the UK Parliamentary Public Accounts Committee concluded: *"Transparency on the full costs and benefits of PFI projects to both the public and private sectors have been obscured by departments and investors hiding behind commercial confidentiality"*.⁹³ Even if contracts – and their often numerous annexes – are disclosed, their vastness means that few people are likely to read or understand them.

The lack of transparency and public scrutiny increase the opportunities for corrupt behaviour. PPPs are susceptible to corruption at three different stages: the decision stage, the

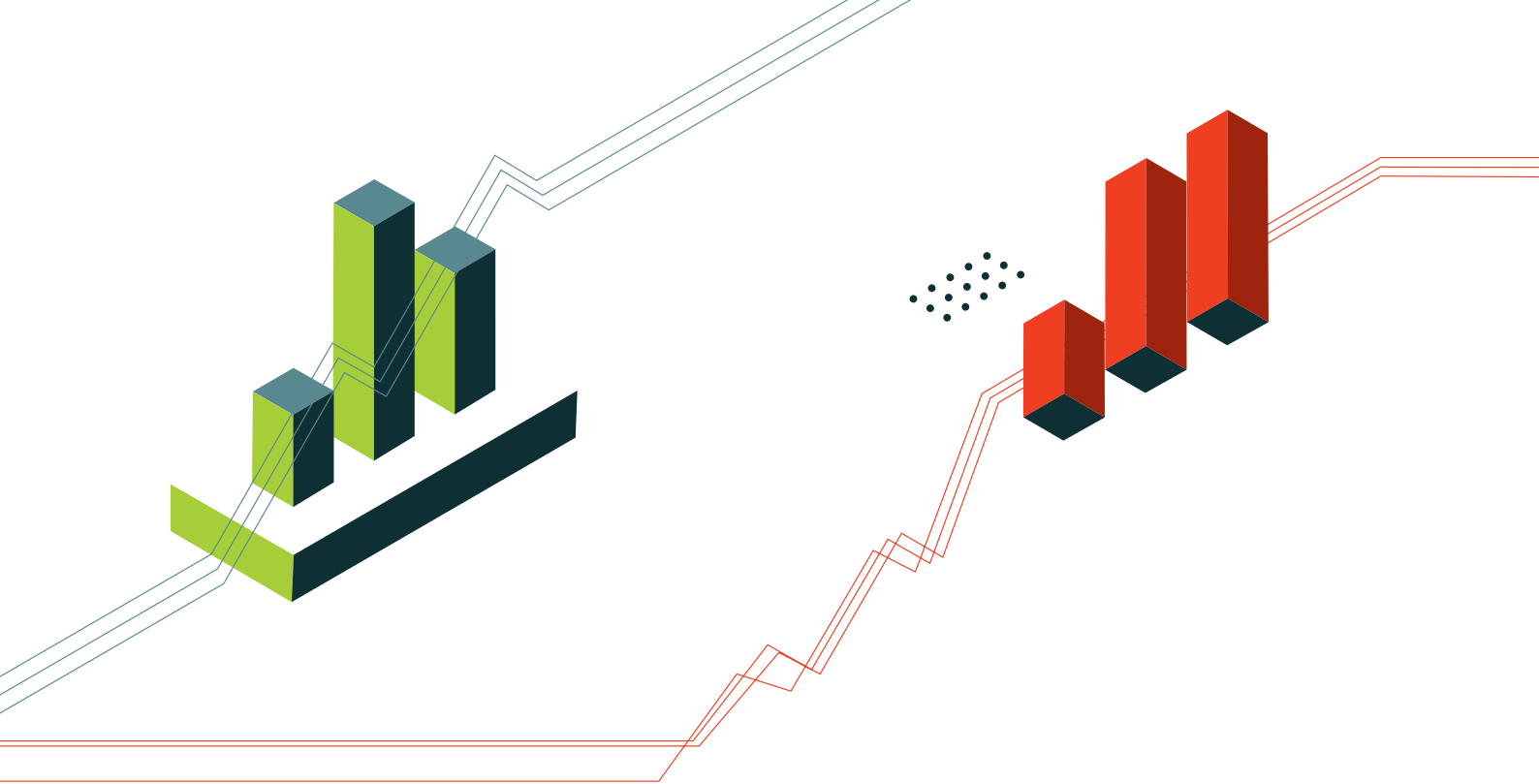


tender stage and during contract execution.⁹⁴ The opportunity to lock in 25-30 years of government-backed funding for a specific project, for which the risks are usually very low after the construction stage, creates additional incentives to make sure that the project is carried out as a PPP.

It also makes it imperative to win the tender, as there would be fewer subcontracting opportunities later than in a standard publicly-procured project. The lack of competition in many PPPs mentioned above makes this easier to secure. During the final negotiations of the contract and during the contract execution there are additional opportunities for renegotiation, and there is high pressure on public authorities to accept proposed changes in order to avoid having to start the process all over again.

The example of **Apa Nova**, Romania shows how the pressure to deliver public services and profits can result in corruption. In 2015 *“Prosecutors from the National Anticorruption Directorate (DNA), the country’s top law enforcement agency, said Bruno Roche, Apa Nova’s French CEO from 2008 to 2013, set up secret bank accounts and created fictitious contracts. These were then used to transfer millions of euros to senior Bucharest officials, who in return approved steep hikes in water bills.”*⁹⁵

Since 2000, the price of tap water had increased by over 1,400 per cent and Apa Nova’s revenues increased 28 times, from less than €6 million in 2000 to €167 million in 2014.⁹⁶ In 2017, French police investigated whether Veolia had been aware of Apa Nova’s allegedly corrupt practices. In the meantime, nine people had been prosecuted in Romania – Bruno Roche and his successor Laurent Lalague, four Romanian members of Apa Nova’s management, a politician, a former mayoral advisor and a businessman.⁹⁷



8. Distorting public policy priorities

PPPs have to be commercially viable or private companies will not take part in them. This distorts policy decisions: some projects are not selected because they are not commercially viable; others are selected because they appear to be commercially viable; and some are adjusted to make them more attractive to the private sector, even if this means a decrease in the level of service.

For example, according to the official waste management plan for Belgrade, Serbia, municipal waste is to be pre-treated and recycled, with the remainder to be burnt. Yet during a competitive dialogue process for a “waste-to-energy” plant, organised by the International Finance Corporation (IFC), interested companies were allowed to choose whether to include a recycling element or not in their bids.

None of them chose to make their lives more complicated by including recycling, and a concession for a 340,000 tonnes-per-year incinerator was signed with a Suez-Itchu consortium in September 2017. As a result, Serbia is likely to have serious difficulties in meeting its recycling targets once it enters the EU, as well as coping with additional air pollution.⁹⁸

A 2008 analysis found that the priorities of PPPs in the **healthcare sector in Italy** distorted basic public health needs. Italian health care trusts “...neither drew up any calculation for weighting their future costs and revenues related to the project, nor did they consider the social consequences for the community. They merely followed the legal requirements and prepared a



*financial plan from the private partner perspective.*⁹⁹ It might have been expected that the public authorities would have made an assessment of the public benefit but methodologies for PPPs were structured from a private sector perspective.¹⁰⁰

PPPs can exacerbate the social implications of major financial and economic crises, because of their long-term, inflexible contracts and high costs. When there are political demands to cut public spending, public services that do not fall under a PPP contract are more likely to be the ones that get slashed. So, for example, when austerity measures were introduced in the UK, while on the one hand non-PPP hospitals were forced to cut back spending, on the other there was little scope to adjust payments on PPP hospitals.¹⁰¹ This was confirmed by a 2018 IMF Fiscal Affairs Department note, stating that: *“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.”*¹⁰²

The lack of flexibility of PPP projects, as compared to non-PPPs, have a significant impact on public policy priorities which in turn has gendered implications. In times of austerity this extra strain on public budgets disproportionately effects women, either through increases in their unpaid work or cuts in their public sector employment.



Conclusion

Faced with the issues raised above, institutions and governments promoting PPPs are often prone to call for increased investment in capacity-building of public authorities to better manage them, the development of standardised contracts, or other tools that are hoped to help PPPs work more smoothly. What decades of experience has shown, however, is that PPPs come at a high cost and are not delivering the expected benefits. What is needed is not more time to build capacity – it is time to rethink the idea completely.

The experience of PPPs in Europe should serve as lesson to countries who are considering or reviewing their PPP approaches. European governments, either bilaterally or through their engagement in international institutions and processes, should not be exporting a model that has failed at home.

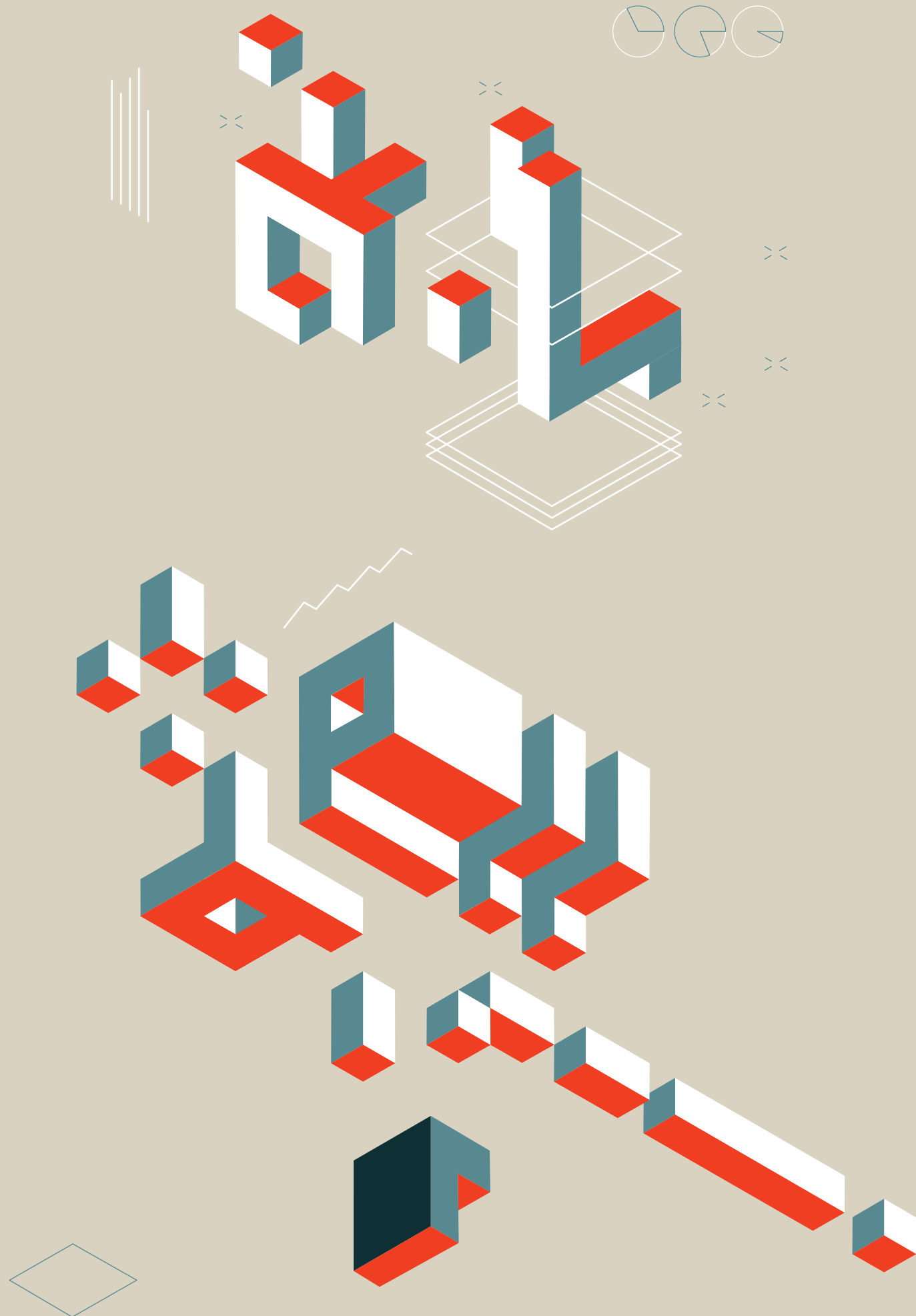
“If you’re a good public sector, you shouldn’t need PPPs. If you’re bad, you shouldn’t go near them.”¹⁰³

A PPP cannot rescue a poor-quality infrastructure project any more than it can rescue an underperforming public authority. The way to achieve better infrastructure projects is through improving strategic planning, transparency and public participation in the planning processes, not by packaging projects in over-complicated, inflexible, opaque and lengthy contracts.

For this reason, EPSU and Eurodad are calling for:

- 1) A halt to PPPs in the social sectors, including health, education and water
- 2) Increased public investment in public services, to be financed by progressive taxation.

Only by following these recommendations will citizens from Europe and around the world get access to the high-quality and universal public services they deserve, like healthcare, education and water.



Notes

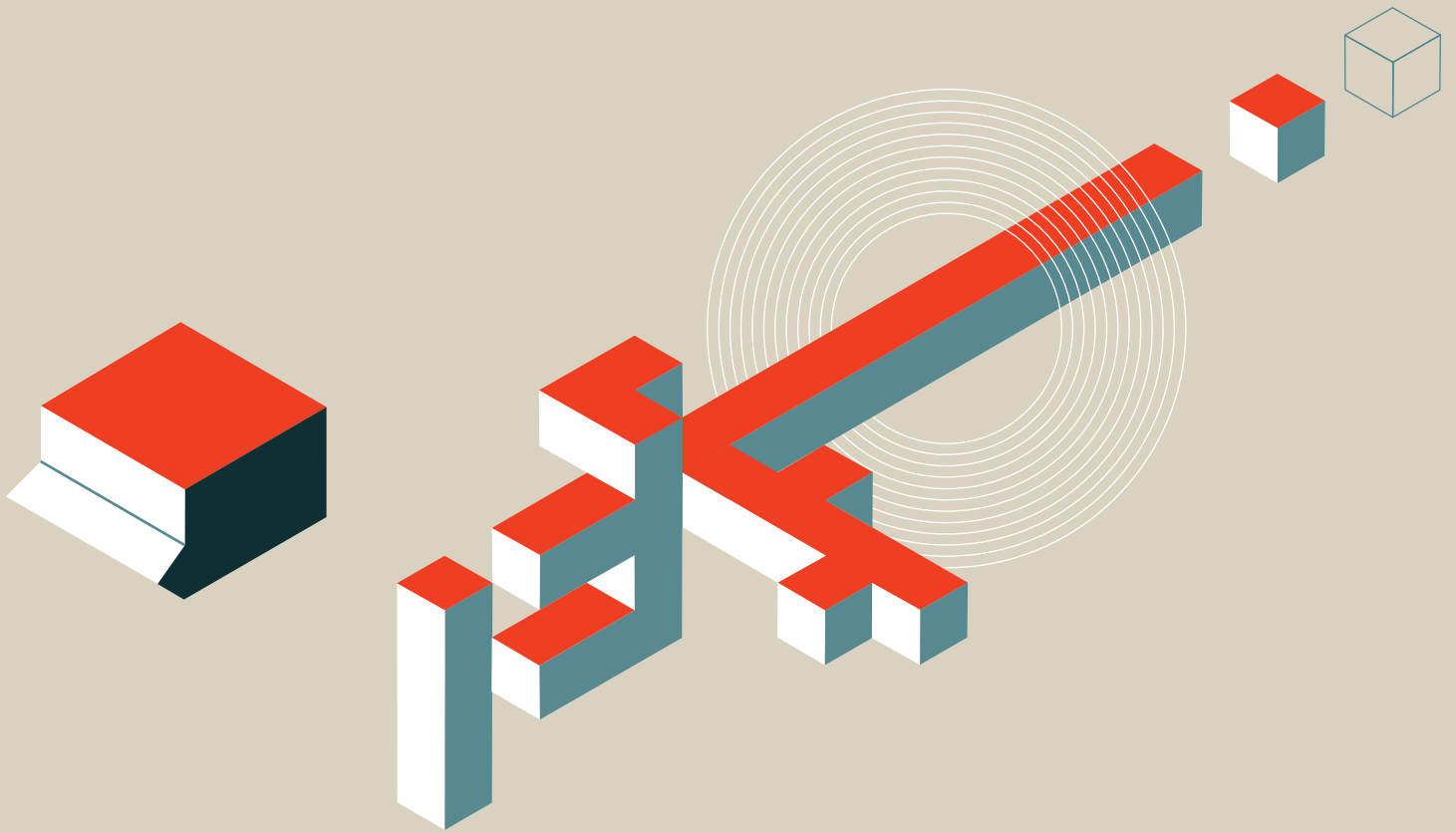
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