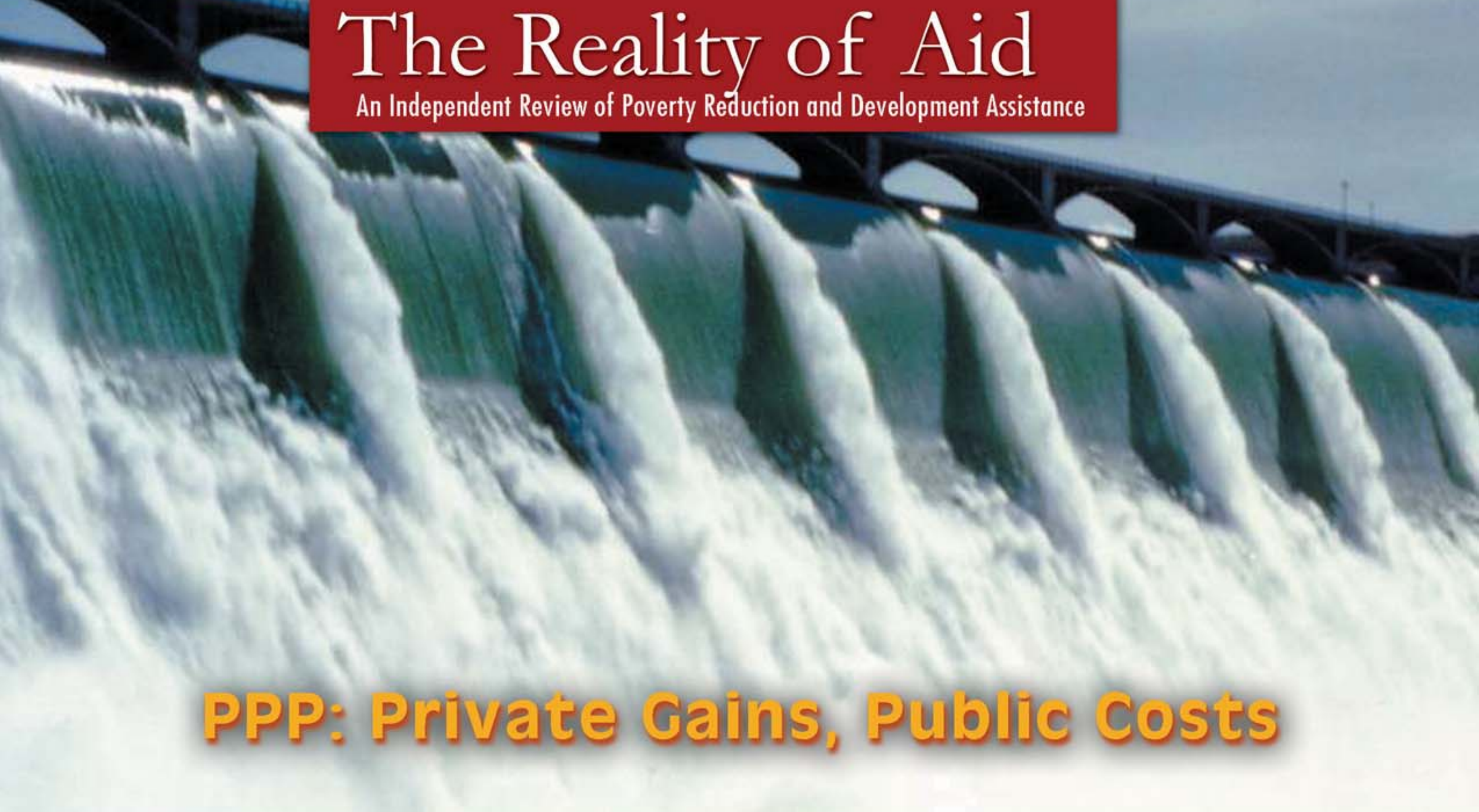
The Reality of Aid

An Independent Review of Poverty Reduction and Development Assistance



PPP: Private Gains, Public Costs

RealityCheck

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contents

about this issue

Governments across the globe are now being encouraged to partner with private for-profit entities in various fields that were formerly the exclusive or dominant turf of public agencies, in what has come to be known as Public-Private Partnerships (PPPs). Private sector participation in building and operating infrastructure and other public service facilities, under some contractual arrangement with the government, is increasingly packaged as a win-win solution, which on one hand taps private investment, management, and technical capacity, while on the other hand supposedly benefits the government and the public through increased revenue and improved service.

However, a growing body of evidence shows that PPP schemes on paper may not show imbalances in how costs and benefits, risks and opportunities, are shared between the government and private partners, resulting in eventual failures and unmet public needs. In short, governments especially in developing countries must reassert the primacy of public service, democratic regulation and social accountability over private profit, and continue to develop better alternatives to untrammeled privatization.

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Reality of Aid - Asia Pacific

The Reality of Aid

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Public-Private Partnerships: Trying to Balance the Equation

Pio Verzola Jr
with contributions from Galileo Burgos, Jr.

Governments of developing countries across the globe are now being encouraged to partner with private entities in various fields of socio-economic development that were formerly the exclusive or dominant turf of public agencies.

In what has come to be known as Public-Private Partnerships (PPPs), often also referred to as Private Sector Participation (PSP), developing country governments are urged to enter into any of a wide range of arrangements with the private sector, to utilize its capacities and resources in building and operating facilities for public services and other projects deemed crucial to the country's overall development effort.

Usually amidst the backdrop of governments hobbled by fiscal constraints and low technical capacity, private entities are encouraged to

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invest capital, infuse technology, and exercise managerial functions in various sectors formerly reserved for public agencies and government corporations, such as power generation and distribution; water, sanitation and waste management; pipelines; hospitals, school buildings and stadiums; prisons; railways, roads, and air traffic facilities; mass housing; and information systems.

PPP defined

As defined by the World Bank Institute (WBI), "Public-Private Partnerships (PPPs) mobilize private sector resources – technical, managerial, and financial – to deliver essential public services such as infrastructure, health and education."[1]

Its global proponents are careful to emphasize that the concept of PPP recognizes the continuing functions exercised by government in providing such public services. This is in contrast with an earlier generation of privatization schemes in which the government dropped out of specific public services altogether while private companies took over.

As the Asian Development Bank (ADB) said: "PPPs present a framework that – while engaging the private sector – acknowledges and structures the role for government in ensuring that social obligations are met and successful sector reforms and public investments achieved." [2]

At the same time, ADB explains, private-sector entities engaged in PPPs aim to profit from their capacity and experience in the business and will seek appropriate returns for their investment.

The International Monetary Fund (IMF) has listed down examples of schemes and their respective modalities on which public-private partnerships can be based.[3] (See Table 1)

Table 1. PPP Schemes and Modalities

Schemes	Modalities
Build-own-operate (BOO) Build-develop-operate (BDO) Design-construct-manage-finance (DCMF)	The private sector designs, builds, owns, develops, operates and manages an asset with no obligation to transfer ownership to the government. These are variants of design-build-finance-operate (DBFO) schemes.
Buy-build-operate (BBO) Lease-develop-operate (LDO) Wrap-around addition (WAA)	The private sector buys or leases an existing asset from the government; renovates, modernizes, and/or expands it; and then operates the asset, again with no obligation to transfer ownership back to the government.
Build-operate-transfer (BOT) Build-own-operate-transfer (BOOT) Build-rent-own-transfer (BROT) Build-lease-operate-transfer (BLOT) Build-transfer-operate (BTO)	The private sector designs and builds an asset, operates it, and then transfers it to the government when the operating contract ends, or at some other pre-specified time. The private partner may subsequently rent or lease the asset from the government.

Source: International Monetary Fund. Public-Private Partnerships. March 12, 2004.

Some authors associated with the World Bank prefer the term Private Sector Participation (PSP). Christophe Schramm, for example, explains that "PSP" better captures the sense of a "contractual risk-sharing relationship between the public and the private sector that seeks to bring about a desired policy outcome with mutual benefit."[4]

Based on a study focused on urban public services in the Middle East and North Africa region, Schramm proceeded to offer a typology of private-public arrangements, presenting a spectrum of PSPs and describing the specific features of each kind of PSP. At the left end of his table, the public sector takes over most of the risk, while the private sector gradually becomes the risk-taker when moving to the right end of the table.[5] (See Table 2.)

PPP evolved from earlier privatization schemes

The policy of privatization has been implemented across the globe since the 1980s, together with other neoliberal structural reforms, as part of Structural Adjustment Programs (SAPs) imposed by international financial institutions (IFIs) especially on developing countries.

Through policies and programs that implemented privatization, developing country governments allowed the transfer of their assets, contracts and functions into the hands of the private sector – supposedly so that governments can shift public spending to other priorities and thus avoid the perennial problem of budget deficits.

However, privatization programs and policies have been found to be too bitter a pill to swallow for many developed and developing countries, often resulting in massive layoffs of public workers, higher costs of basic public


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services, and loss of public accountability. Such dislocations in turn led to mass protests and even uprisings in various parts of the world.

For instance, some 200 workers of the old publicly Metropolitan Waterworks and Sewerage System in the Philippines, dubbed as one of the country's biggest privatization act at that time, were promptly fired by the new private corporate owners only a few days after buying the public water system in August 1997.[6] In Argentina, water privatization resulted in the retrenchment of half of its workers and higher costs, while supply and distribution has not yet improved.[7]

Due to these early failures as well as remaining legal and institutional hindrances to full-blown privatization, modified versions have emerged, which have been collectively called PSP or PPP.

Are PPPs for public service or for private profit?

According to the Organization for Economic Cooperation and Development (OECD), "PPPs can combine and reinforce each other's

Table 2.

	Service (or management) contract	Lease contract or affermage	BTO/DBO/DBFO, BOT/BOOT	Concession	Privatization
Asset ownership	Public	Public	Public	Public/private	Private
Capital investment	Public	Public	Public (BOT: Private)	Private	Private
Operational efficiency	Limited	Yes	Yes	Yes	Yes
New services	No	Yes	Yes	Yes	Yes
User fee	No	Yes	Yes	Yes	Yes
Typical length	1-15 years	5-25 years	15-30 years	10-50 years	Undetermined (unless determined by license)

Source: Christopher Schramm. "Private Sector Participation in Urban Public Services: Comparison of Laws and Institutions in MENA Countries." World Bank. April 2006.

[private-sector and public-sector partners'] knowledge and capacities – and bring complementary skills in complex processes – for example access to health which market forces alone cannot solve."[8] Additional resources for accelerated delivery of services, capacity building and improved governance are also seen as probable merits from PPP.

A study on water privatization in India showcased some common advantages in PPP projects, such as cheaper procurement methods, higher efficiency of private operations as compared to government operations, and availability of private capital, among others.[9]

The great potential of PPPs as fields of investment has fired up developed country governments to allot substantial proportions of their aid directly to private businesses engaged in public services in poorer countries. For instance, the United Kingdom's Department for International Development (DfID) recently announced that it plans to directly fund up to 300,000 companies in poor countries, focusing on infrastructure, health, education, mobile banking, and administrative reform. [10]

On the other hand, a major 2007 study by Gassner et al., which analyzed 302 utilities with private-sector participation and 928 utilities without PSP in 71 developing and transition countries, came up with a mixed evaluation of PPP effectivity at best. Over the 1973-2005 period covered by the study, significant increases in the efficiency of public utilities that had PSP were noted, but at the expense of greater losses in employment, among others.

For instance, 40-50% increases in electricity sold per worker and 25% increased efficiency due to reductions in distributional losses were computed for utilities with PSP compared to state-owned enterprises. These improvements, however, were attained at the expense of 40% more staff reductions.[11]

The same is true with the water utilities sector, in which the Gassner study recorded a 16% increase in water connections and increases in daily water supply as well for PSP utilities, but again, at the expense of a 16% reduction in employment.[12]

More revealingly, the study acknowledges that there were no appreciable differences between

PSP-driven and state-owned utilities as far as prices and investments were concerned. In short, although the entry of PSP tended to increase efficiency, the study concluded that there was no evidence of lower costs being translated into lower user charges and increased investments.

The Gassner study emphasized macro-trends. Specific documented cases of failed PSP projects, however, are more illustrative of the factors leading to failure. For instance, water service concessions in Argentina, the Philippines, USA, Bolivia and France were found to have failed in delivering promised commitments and outputs to the public (See Table 3).[13]

Other data about PPPs also show evidence of growing asymmetry between the private-sector and public-sector partners, usually with the private-sector partner reaping the bulk of benefits. An article posted on the Guardian cited a European Services Strategy Unit report saying that more than 1,000 PPP projects have generated some 10 billion pounds in 240 equity transaction.[14] This was mainly due to maturing equities and shares that were bought by private sector participants, through different names. Dexter Whitfield, the report author, stated that based on his findings, PPPs are "little more than money-making ventures."[15]

The Public Services International (PSI) insists that involving the private sector in public services only appears to expand the level of resources available for social infrastructure, because the people ultimately pay for the services whether through raised taxes or user fees. "PPPs do not make more resources available. They fund and provide these resources in an untraditional way. Such provision adds financial and social costs," the PSI said.

The PSI cited a case in Nova Scotia, Canada, in which this point was driven home: A PPP program was to have constructed 30 school buildings for the province. The program was cancelled after a few years because, as things turned out, it was more expensive than traditional procurement. It came to such a ridiculous extent that in one such school, "children were not allowed to play on the grass because it would create a cost to the concessionaire in maintaining the turf." [16]

Table 3. Some failed projects entered through PSP and reasons for the failure

Failed Project (Country)	Reasons
Buenos Aires (Argentina)	• Frequent price increases • Poor service quality • Failure to honor contractual commitments • Financial problems
Manila West (the Philippines)	• Price hikes • Failure to extend water connections to poor areas • No investments • Increase in tariffs • Non-fulfillment of other contractual obligations
Atlanta (USA)	• Higher water rates • Deteriorating quality • Failure to make new investments
El Alto (Bolivia)	• Refusal to extend potable water supply to the poor areas of the city • Failure to fulfill contractual obligations
Varages (France)	• Public complaints against rising water prices • Deterioration in water quality • Problems in water supply network

Source: Dwivedi, Gaurav. "Public-Private Partnerships in Water Sector: Partnerships or Privatisation?". Mathan Adhyayan Kendra. February 2010.

In other cases, PPPs have been criticized for not producing the expected and promised outputs. According to an article by Peter Niggli, director of Alliance Sud (Swiss alliance of development organizations), these private entities even require huge amounts of monies before entering so-called "partnerships".[17]

The financial crisis of 2008 has also undermined the capacity of the private sector to mobilize capital for public services. As David Hall, director of PSI's Research Unit, stated in his foreword to a book on water privatisation in India, private finance has become more expensive than public finance, and internal financial crises within these companies have made banks and other financial institutions reluctant to lend them more money.[18]

In such situations where public service becomes privatized and thus profit-driven, the poor are always the most vulnerable. With their lack of paying capacity, combined with government's default in ensuring safety nets, the poor ends up marginalized from basic social services that now increasingly "come with a price."

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As *Ibon Fact and Figures* said in a special release on PPP: "Experience in the last three decades indicates that privatization and other neoliberal structural reforms have failed to achieve their stated objectives and merely resulted in severe economic dislocation of the poor and marginalized sectors."

More democratic alternatives to PPP

Despite the constraints, failures, and other problems encountered, private sector participation in public services cannot be fully ruled out. However, a more rigorous legal and institutional environment is clearly needed to enhance broader civil society participation, public accountability, and a more democratic partnership towards ensuring maximum and long-term public benefits while optimizing the role of the private sector's role.

As early as 1999, the International Labor Organization (ILO) drew conclusions based on its Tripartite Meeting on Managing Privatization and Restructuring Utilities:

"Privatization cannot be a substitute for the State's responsibility for ensuring basic services, whether they be public or private. Also, public accountability is necessary for restructuring or privatization, to strengthen public utility services and prevent deterioration in quality of and in access to services," the ILO Tripartite Meeting concluded.

"Effective regulation includes four key elements – transparency, affordable costs for consumers, consultation and profitability. Utility and Government information and methods must be open for review by industry, workers' representatives and the public. When utilities are privatized, the State should still retain a responsibility in ensuring universal access to water, electricity and gas services at affordable prices," the ILO insisted.[19]

The conclusions are contained in the ILO working paper authored by Jerrold Oppeheim and Theo MacGregor, "Democracy and public-private partnerships" (undated).

Oppeheim and MacGregor further elaborated on the requirements that need to be met "in order to enable the public side of a public-private partnership to bargain on equal footing with private interests and to enforce the bargain agreed upon", in a process that they termed "democratic regulation":

There must be a *forum* where the bargaining can take place, where the public interest has the same status at the table as private interests.

Government, labor, and community-based NGOs must have *resource support* for participating.

Labor and other NGOs at the table must be in for the long haul and learn the procedural and technical aspects of the matter and its regulation; this may require *training*.

The bargaining must reflect the public interest and result in *enforceable rules* for the partnership that includes codification of the public's part of any deal.

The bargain should include *enforceable performance incentives* for the private partner to provide the public goods.

The bargain must be supervised by a *regulator* whose processes and rules are participatory and transparent.[20]

The authors of the ILO paper dared to go further, in fact, by showcasing one good example of public-public partnerships (PuPuP) as alternative to PPPs.

They cited the publicly-owned water company named *Departamento Municipal do Aqua Esgoto* (DMAE), a not-for-profit company reinvesting their profits to provide for better water facilities. Its structure includes an inverted rate system imposing higher fees for discretionary water usage such as for swimming pools, while subsidizing poor peoples' access to water.[21]

DMAE's successes include broadening access to safe and clean water systems, sustainable consumption and even worker training programs. The water company is said to have shared its achievements through capacity building and technical assistance to other municipal and nearby water companies – thus proving the viability of public-public partnerships.[22]

A similar form of PuPuP, the Tamil Nadu Water Drainage (TNWD) Board in Tamil Nadu, India, sets up projects for potable water supply in rural areas and helps develop water supply systems in other villages as well, exhibiting the positive features of public participation, transparency, accountability, and efficiency. Results have shown that there have been improved services and lower costs.[23]

The financial resources to sustain and expand public services need not come only from the private sector. In fact, the entire paradigm of neoliberal privatization must be placed under the harsh light of how it performed in the past 30 years, while the much-maligned nationalist platform pushing for the nationalization of industries or an expanded state role in key economic sectors must be given a well-deserved second look. State revenue from nationalized industries may well fill the financial and technical gaps towards improving public services.

Finally, surveying the various options of allowing a private role in public services must lead to a more comprehensive review of development models, especially in the case of less-developed countries that face tremendous challenges in capital and resource mobilization, democratic governance, and poverty eradication in the face of the continuing crises in finance and the global economy, in access to food, and in the environment.

Reforms on debt management and servicing can also be a better source of much needed finance for public services. Realigning these debt service commitments, through legislative reforms, debt cancellation or repudiation schemes, to other basic social services such as education and health can enable the state to play once more the leading role in producing public goods, and at the same time enhance private-sector participation insofar as it fits well with democratic regulation.

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Understanding Public-Private Partnership

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What is a PPP?

The Asian Development Bank (ADB) defines PPP as a range of possible relationships among public entities such as ministries, departments, municipalities or state-owned enterprises and private local or foreign businesses or investors in the context of infrastructure and other services. Contributions of the public partner in a PPP may take the form of capital for investment, a transfer of assets, or other commitments or in-kind contributions. Government, according to the ADB, may also provide social responsibility, environmental awareness, local knowledge, and an ability to mobilize local support. On the other hand, the private sector is expected to make use of its expertise in commerce, management, operations, or innovation to run the business efficiently. Depending on the form of contract, the private business may also contribute investment capital.[1]

Governments usually enter into PPP for three reasons: (1) to attract private capital investment often to either supplement public resources or release them for other public needs; (2) to increase efficiency and use available resources more effectively; and (3) to reform sectors through a reallocation of roles, incentives, and accountability.

A strong advocate of PPP, the ADB recognizes that the primary motivation of the private sector in entering into a partnership with the public sector is to "profit from its capacity and experience in managing businesses (utilities in particular). The private sector seeks compensation for its services through fees for services rendered, resulting in appropriate return on capital invested". Meanwhile, the public sector supposedly benefits from the partnership through the "efficient use of scarce public resources" to meet "an ever-increasing need to find sufficient financing to develop and maintain infrastructure required to support growing population".

Sectors covered by PPP include, among others, power generation and distribution; water and sanitation; refuse disposal; pipelines; hospitals; school buildings and teaching facilities; stadiums; air traffic control; prisons; railways; roads; billing and other information technology systems; and housing.

For a PPP to be effective, the ADB says that the partnership should be designed in such a way that allocates risks to partners who are best able to manage those risks and thus minimize costs while improving performance.

Privatization thru PPP

Some advocates try to differentiate PPP from privatization and/or private sector participation (PSP) in an apparent attempt to distance it from the failed, controversial, and widely opposed takeover by big private firms including transnational corporation (TNCs) of the provision of certain public services such as utilities. The ADB, for instance, points out that while PPP, privatization, and PSP are often used interchangeably, there are supposed differences.

"PSP contracts transfer obligations to the private sector rather than emphasizing partnership" according to the ADB, and that "Some PSP schemes were overly ambitious and the social agenda was overlooked, leading to legitimate public concerns". But the ADB itself admits that PPP as a new generation of transactions arose from the "critical analysis of PSP experience". ES Savas, a New York-based academic and a known pioneer in privatization, acknowledged that the term public-private partnership is "sometimes a useful phrase because it avoids the inflammatory effect of privatization" and that it is a less contentious term.[2]

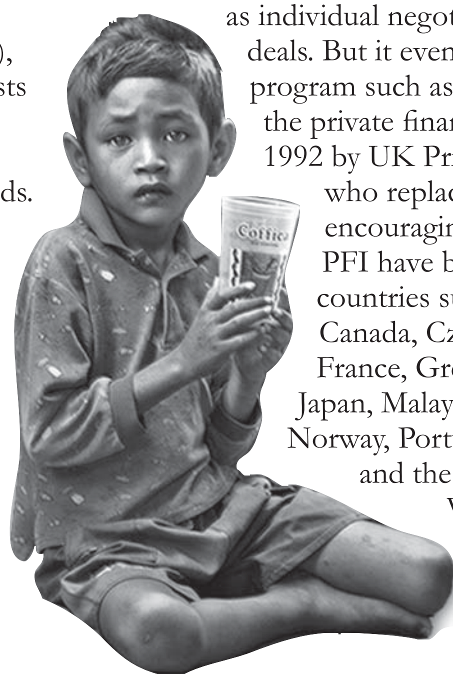
All the same, PPP at its core is still privatization notwithstanding claims by proponents that the public sector still plays an important role as the private business, i.e. as regulator. As Savas, who was also an assistant secretary under the Reagan administration whose so-called Reaganomics paved the way for massive privatization in the US during the 1980s defined, "Privatization is the act of reducing the role of government or increasing the role of the private institutions of society in satisfying people's needs; it means relying more on the private sector and less on government".

PPP is among the forms of privatization included in the so-called "delegation" strategy that requires "a continuing, active role for government, which retains responsibility for the function while delegating the actual production activity to the private sector".

Role of multilateral institutions

Aside from making privatization a requirement in their lending to client countries and directly funding privatization reforms, multilateral institutions also play additional role in implementing PPP. The World Bank, for instance, has been implementing a Public-Private Partnership in Infrastructure (PPPI) program. The PPPI provides "systemic training and skills enhancement leading to the development of a cadre of capable and knowledgeable public sector professionals adequately equipped to deal with complex public-private partnerships transactions". It also gives technical assistance on specific issues that a client faces during design and implementation of PPP projects.[3] The ultimate goal of the World Bank's PPPI program is to "support developing countries' efforts to establish a sound regulatory and business environment conducive to the development of public-private partnerships".[4]

Through its investment arm, the International Finance Corp. (IFC), the World Bank also directly invests in PPP ventures. In 2010, the IFC completed 10 PPPs on basic infrastructure and health care needs. These projects have reportedly yielded fiscal savings of about US$1.4 billion for governments and leveraged US$1.7 billion in private investment. The IFC directly gives advisory services to governments that want to implement PPP projects in infrastructure, health, and education.[5]



The ADB, on the other hand, has partnered with the Emerging Markets Forum (EMF), an initiative of high-level government and corporate leaders co-chaired by former IMF Managing Director Michael Camdessus, former Philippine President Fidel Ramos, and the ADB president, to form a Knowledge Hub on Public-Private Partnership in Infrastructure. The knowledge hub aims to develop and disseminate data, information, and knowledge on infrastructure development, notably by means of PPPs. Specifically, the hub is working to deliver: (1) collection of information, trends, and good practices on public-private partnerships in infrastructure; (2) case studies and analytical work on PPPs; (3) database and websites on PPPs; and (4) policy dialogue and joint seminars.[6]

In addition to these multilateral lending institutions, bilateral and multilateral donor agencies have also set up a number of multi-donor programs that aim to facilitate PPPs in infrastructure development in the underdeveloped countries. **(See Box 1)**

Failures

PPP as a form of privatization initially started as individual negotiations or as one-off deals. But it eventually became a systematic program such as the establishment of the private finance initiative (PFI) in 1992 by UK Prime Minister John Major, who replaced Thatcher, aimed at encouraging PPPs. Various forms of PFI have been adopted in different countries such as in Australia, Canada, Czech Republic, Finland, France, Greece, India, Ireland, Israel, Japan, Malaysia, the Netherlands, Norway, Portugal, Singapore, Spain, and the US.[7] In many Third World countries, PPP as

Box 1. Selected multi-donor programs supporting public-private partnership in the underdeveloped countries

Public Private Infrastructure Advisory Facility (PPIAF)
PPIAF is a multi-donor facility that works with developing country governments at central and municipal levels to improve the enabling environment for private sector involvement in infrastructure services. PPIAF currently has 14 contributing donors and undertakes a broad range of activities, including the development of legislation and regulatory systems, sector reform strategies, the training of regulators, and assistance with facilitating transactions. (See http://www.ppiaf.org/)

Public-Private Partnership for the Urban Environment (PPPUE)
The Public-Private Partnership for the Urban Environment was initiated in 1994 by the United Nations Development Programme (UNDP). The facility provides technical assistance and advisory support for the establishment of partnerships between government, business and civil society organizations at the municipal level for the delivery of basic infrastructure services to the urban poor. (See http://www.undp.org/pppue)

Global Partnership of Output Based Aid (GPOBA)
To address the need of the poor for infrastructure services and of service providers for economic rates for the service provided, the World Bank and UK-based Department for International Development (DFID) are implementing a program to develop, demonstrate and disseminate output-based approaches to supporting the sustainable delivery of basic infrastructure services. In order to facilitate the scaling-up of the approaches developed, the GPOBA has recently been expanded to include a "Challenge Fund" which is open for applications on a competitive basis for the funding of specific subsidy programs to enable the provision by private sector suppliers of infrastructure services to the poor. (See http://www.gpoba.org)

Private Infrastructure Development Group (PIDG)
DFID, SECO (Switzerland), SIDA (Sweden) and DGIS (The Netherlands) have collaborated in establishing the Private Infrastructure Development Group (PIDG). The aim of the group is to facilitate and support the mobilization of private sector investment and engagement in the provision of infrastructure and basic services that support growth and the elimination of poverty. The first project funded through the PIDG Trust, Emerging Africa Infrastructure Fund (EAIF) was launched in January 2002. (See http://www.pidg.org)

Emerging Africa Infrastructure Fund (EAIF)
The US$305 million EAIF was launched as the first PIDG initiative in 2002. EAIF provides long-term debt to pro-poor private sector funded infrastructure service projects in sub-Saharan Africa in the energy, telecommunications, transportation, and water sectors. DFID, SIDA, DGIS and SECO have jointly committed US$100 million, through the PIDG Trust, to the Fund as equity. The balance of the Fund's capital comprises US$85 million of subordinated debt from development finance institutions (FMO of the Netherlands, Development Bank of Southern Africa and DEG of Germany) and US$120 million of senior debt from commercial banks (Barclays Bank plc and the Standard Bank Group). (See http://www.emergingafricafund.com/)

Project Development Facility (DevCo)
High up-front transaction costs, risk and poor information, are important factors in deterring the private sector from investing in working up prospective infrastructure projects in developing countries in the manner undertaken by commercial companies in OECD countries. As a result, there is a paucity of infrastructure projects structured in a way attractive to private sector involvement. To address this, in 2003 the PIDG augmented an existing project development facility operated by the IFC to give greater emphasis to the development of projects for private sector investment in the poorer developing countries. The resulting facility has been given the name of DevCo. (See http://www.ifc.org/)

GuarantCo Local Currency Guarantee Facility
Lack of long-term debt finance is a major constraint to infrastructure development. The EAIF addresses this need for large, primarily hard currency-funded, infrastructure projects. However, many infrastructure projects, particularly at the sub-sovereign level, derive most of their revenues in local currency, making hard currency debt funding inappropriate. In 2004 the PIDG launched GuarantCo, which is designed to mitigate risks for local currency financing of infrastructure.

Local Capacity Technical Assistance Facility (TAF)
In 2003 the PIDG, with funding support from the World Bank, established the TAF to assist in the building of local capacity and capability associated with private sector investment in infrastructure. Technical assistance is provided to both the public and private sectors in support of the planning and implementation of projects and programmes of any of the facilities or funds undertaken under the PIDG umbrella on a "challenge fund" basis.

Asia Private Infrastructure Financing Facility (AsPIFF)
Although many of the middle-income countries in Asia have had significant successes in attracting private investment in infrastructure, the poorer countries have been much less successful. In 2004, the PIDG, in partnership with the ADB embarked on a detailed examination on how it might help alleviate constraints to private sector development in these poorer Asian countries by establishing a facility which both brings together other existing PIDG facilities under an Asian focus and builds upon these as necessary to meet other identified constraints.

Lifted from the DFID's "Public private partnerships in infrastructure: a brief overview of DFID programmes of support", retrieved on October 15, 2010 from webarchive.nationalarchives.gov.uk

a systematic program has been introduced through conditionalities attached to loans from multilateral institutions like the IMF, World Bank, and the ADB.

Trends in infra privatization in the Third World

With the global capitalist system currently facing another explosion of its crisis of falling profit rates, which some analysts describe as the worst since the 1930s Great Depression, the drive towards privatization and other neoliberal reforms in the Third World to create new profit-making opportunities for TNCs will intensify.

Data from the World Bank's Private Participation in Infrastructure (PPI) online database, which tracks private investment in the energy, telecommunication, transport, and water and sewerage in low and middle-income countries, show that there have been 4,354 implemented PPI projects worth US$1.38 trillion from 1990 to 2008 in underdeveloped countries. Most of the PPI projects in energy, telecom, and transport have been implemented in Latin America and the Caribbean, while nearly half of all water and sewerage PPI projects have been implemented in East Asia and the Pacific.

Greenfield investment, or the new direct investment of TNCs in the underdeveloped countries, comprised more than half of the total number of PPI projects and total investment in all sectors. TNCs' greenfield investment enters the infrastructure sector through various forms of build-operate-transfer (BOT) agreements with governments. Divestiture, or when government sells off fully

Experience in the last three decades indicates that privatization and other neoliberal structural reforms have failed to achieve their stated objectives and merely resulted in severe economic dislocation of the poor and marginalized sectors. The British economy under Thatcherism, for example, went into a deep recession while the unemployment rate more than doubled. Reaganomics, on the other hand, pushed US debt up by almost three times. The PFI experience in the UK, in particular, led to reduced jobs, increased public debt, high fiscal cost, and waste and inefficiency, to name a few.

Table 1. Private participation in infrastructure, by sector, selected periods annual averages (in US$ million)

Period	Energy	Telecom	Transport	Water & sewerage
1990-1994	7,319.0	8,817.4	5,119.2	2,029.4
1995-1999	28,289.8	30,845.2	13,212.8	5,439.6
2000-2004	17,799.0	38,459.2	7,053.6	2,446.4
2005-2008	34,603.8	68,354.5	26,284.0	2,872.8
Total	21,339.5	34,948.8	12,213.9	3,100.6

Source: Processed by IBON using World Bank's online Private Participation in Infrastructure Database (ppi.worldbank.org)

or partially its functions or assets – including "denationalization", accounted for 17.6% of the total number of projects and 34.2% of total investment. Concession and management and lease contract, on the other hand, are most prevalent in the transport sector (55.8% of total investment) and in water and sewerage sector (66.2% of total investment).

World Bank data also show that PPI in low and middle-income countries has tremendously increased in recent years, even exceeding the level of investments made during the privatization frenzy of the 1990s. Private participation in telecom, for instance, has averaged US$68.35 billion per year during the period 2005-2008 from just S$30.84 billion in 1995-1999. In the transport sector, the figures have also more than doubled during the same period, from US$13.21 billion to US$26.28 billion, while private participation in energy posted a significant increase as well. **(See Table 1)**

Due to the global financial and economic crisis, investment in new PPI projects fell by 25% in the first quarter of 2010 compared to the same period last year. The decline is attributed to the absence of unusually large projects similar to the ones clinched in the first quarter of 2009 such as the power projects in Brazil. Nevertheless, the 2010 first quarter PPI figures, worth US$22.6 billion covering 53 PPI projects in 21 developing countries, is still the second highest of any first quarter since 1995.[8] **(See Figure 1)**

Furthermore, statistical analysis by the World Bank also confirmed the growing average project size in the last six years. The average project size in the first quarter of 2010 is statistically similar to the annual average project sizes in 2008–2009, but higher than those reported in 2005–2007, the World Bank noted. Likewise the average annual project size in 2005–2007 is statistically higher than that reported in 2004.

Analysts say that there are a number of factors behind the renewed surge in infrastructure privatization. Some of them are: (1) The projected increase in global population by 1 billion over the next decade thus the need for additional infrastructure costing as much as US$30 trillion; (2) Infrastructure assets are inversely correlated to the historical returns of most other investment categories and thus they are increasingly being recognized as an ideal vehicle for diversification of risk; and (3)

Multilateral institutions like the IMF-World Bank have been directing countries to pass laws allowing foreign ownership of public infrastructure.[9]

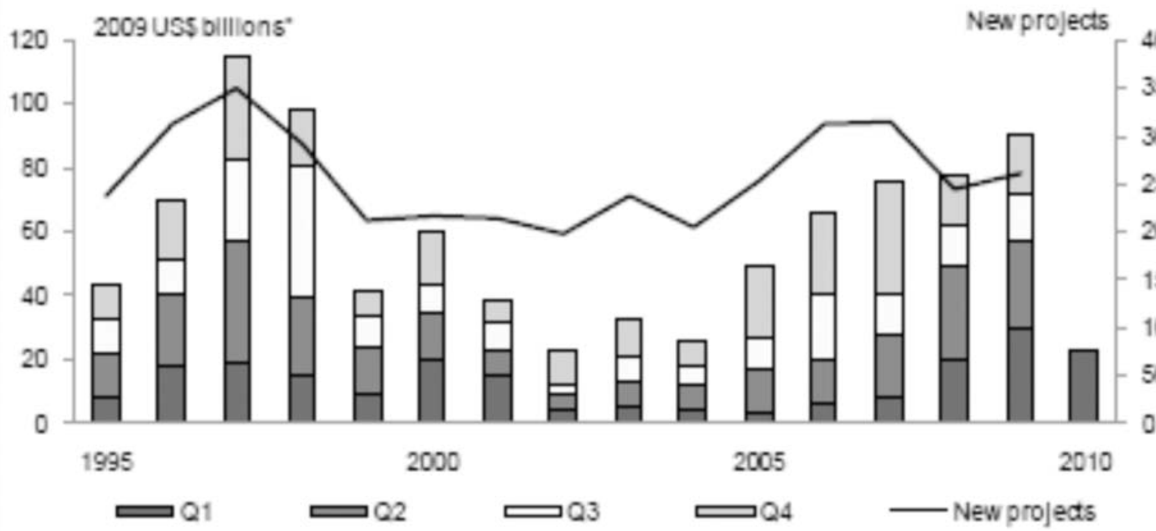
Fundamental conflict

Proponents of PPP argue that the separate motivations of the public sector to meet the infrastructure needs of the population and of the private sector to profit from its capital can be balanced by structuring the partnership in such a way that allows the private sector to pursue its profit goal. The ADB, for instance, said:

"Private sector operators, however, enter into an investment or contracting opportunity with the clear goal of maximizing profits, which are generated, in large part, by increased efficiency in investment and operations. If the PPP is structured to let the operator pursue this goal, the efficiency of the infrastructure services will likely be enhanced. Improving the efficiency of services and operations also increases the chances that those services are economically sustainable and provided at affordable rates—even after satisfying the profit requirements of the private operators".[10]

But actual experience from past PPP initiatives, both in rich and poor countries, does not support such claim. As discussed earlier, for instance, the impact of PFI in the UK made private contractors profitable often at the expense of efficient, reliable and accessible infrastructure services. As critics of the PFI and PPP pointed out, "the government is just mortgaging the future – and the long-run cost of paying the private sector to run these schemes is more than it would cost the public sector to build them itself."[11] In Canada, even some public officials are opposing PPP because they are "too costly and diminish accountability to the public".[12]

Figure 1 Investment commitments to PPI projects reaching closure in developing countries, by quarter, 1995–2010



Note: Includes only investment commitments at financial or contractual closure. Does not include additional investment in subsequent quarters.

* Adjusted by US CPI.

Source: World Bank and PPIAF, PPI Project and Impact of the crisis on PPI databases.

Lifted from PPP: Private Gains, Public Costs, IBON Facts and Figures Special Release, 15-30 September 2010. For a full copy of the Special Release, please contact the editor at publications@ibon.org. You may also visit www.ibon.org for more details.

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PPP under the Aquino Administration

Ibon Foundation, Inc.

In his first State of the Nation Address (SONA) last July 26, President Aquino did not only lambast the corruption of his predecessor but also implied willingness to implement unpopular economic reforms shelved supposedly for political reasons by former President and now Pampanga Representative Gloria Macapagal-Arroyo. After the SONA, Aquino's Cabinet secretaries have on separate occasions announced increases in mass rail transit fares, power rate hikes to shoulder privatization debts, and scrapping of the rice price subsidy. These plans form part of what may be called the mega-sale of the Philippines that the administration will aggressively make through an ambitious privatization program, which will rival the privatization frenzy of the 1990s, including via the PPP route.

President Aquino used his first foreign trip as president as an opportunity to promote his PPP scheme among foreign investors.

President Aquino's salesmanship and promises of a lucrative partnership with his administration apparently worked as he

Lyn Rillon

reported US$2.4 billion in committed fresh investments to the Philippines when he returned from his US trip. The said amount includes a PPP worth US$1 billion from the American Energy Solutions (AES) which plans to expand the capacity of the Masinloc power plant II by up to 660 megawatts.[1]

But what awaits the people under these PPP projects?

Brief background

For Aquino, privatization is the key to solving government's most pressing problem of a huge budget deficit that has already reached Php229.4 billion as of August and is expected to balloon to an all-time high of P325 billion by yearend.[2] As he said in his SONA, *"We have so many needs: from education, infrastructure, health, military, police and more. Our funds will not be enough to meet them… Our solution: public-private partnerships".*

Incidentally, PPPs were among the legacies of the first Aquino administration. It was during the term of Noynoy's mother, the late President Cory Aquino, that the first PPPs in the power generation sector were implemented. In 1987, she issued Executive Order (EO) No. 215 that allowed private corporations to construct and operate electric generating plants. Cory's privatization formed part of a wide-ranging package of structural reforms pushed by the IMF and the World Bank to supposedly address the country's fiscal crisis in the late 1980s. In fact, the Philippines was among the pioneers of PPP in the region.

EO No. 215 was expanded and reinforced by Republic Act (RA) 6957 which introduced BOT and build-and-transfer (BT) schemes in the country. This law, passed in 1990, authorized the financing, construction, operation, and maintenance of infrastructure projects by the private sector.

Like her son, Cory used the grim fiscal situation left behind by the Marcos dictatorship to justify her privatization/BOT program that was later expanded (in 1993) by the Ramos administration through RA 7718. This legislation introduced other BOT schemes such as build-own-and-operate (BOO), build-lease-and-transfer (BLT), build-transfer-and-operate (BTO), contract-add-and operate (CAO), rehabilitate-operate-and-transfer (ROT), and rehabilitate-own-and-operate (ROO).

These schemes allowed the biggest foreign and local corporations to invest in infrastructure development and operate or own strategic facilities that are "normally financed and operated by the public sector". These facilities include power plants, highways, ports, airports, canals, dams, hydropower projects, water supply, irrigation, telecommunications, railroads and railways, transport systems, land reclamation projects, industrial estates or townships, housing, government buildings, tourism projects, markets, warehouses, solid waste management, information technology networks, and database infrastructure, education and health facilities, sewerage, drainage, dredging, and other infrastructure and development projects.

Private participation in RP infrastructure

Data from the World Bank's online PPI database show that from 1990 to 2008, 91 PPI projects have been completed in the Philippines with a total cost of US$45.11 billion. Electric power projects accounted for 41.8% of the total cost and 68.1% of the total number of projects. Most of these power projects were undertaken through greenfield investment (US$11.61 billion) and divestiture (US$6.57 billion). PPPs in power generation through the BOT Law and further privatization of the National Power Corporation's (Napocor) generation and transmission assets through the Electric Power Industry Reform Act (Epira) of 2001 or RA 9136 opened up new profit-making opportunities for the private sector, which explains the large number of PPI projects and investment in electricity.

Telecom, which has always been left in the hands of the private sector, came in second behind energy in terms of total cost with US$14.28 billion covering only 10 projects.

Meanwhile, the US$7.48-billion privatization of the Metropolitan Waterworks and Sewerage System (MWSS) mainly accounted for the US$8.07-billion PPI cost in the water sector. The 1997 privatization of the MWSS through separate concession agreements (specifically build-rehabilitate-operate-transfer deals) with Manila Water Co. and Maynilad Water Services Inc. was considered the largest water privatization project at that time. In fact, the US$7.48-billion tab of MWSS's privatization accounts for 12.4% of total PPI cost in the water and sewerage sector from 1990 to 2008 among *all* developing countries being monitored by the World Bank.

Finally, PPI in transport registered a total cost of a relatively smaller US$3.49 billion covering 13 projects including in airports, seaports, roads, and railroads. These include some of the biggest and controversial infrastructure projects today such as the US$655-million build-lease-transfer deal with the Metro Rail Transit Corp. (MRTC) for the MRT along Edsa; the US$214.6-million build-rehabilitate-operate-transfer deal with South Luzon Tollway Corp. (SLTC) for the SLEx; and the US$378-million build-rehabilitate-operate-transfer deal with Manila North Tollways Corp. (MNTC) for the NLEx, among others.

President Aquino signed EO No. 8 one week before he left for the US in a renewed bid to fast-track the financing, construction, and operation of vital government infrastructure through PPP. The order renamed the Build-Operate and Transfer (BOT) Center as the Public-Private Partnership Center of the Philippines (PPP Center) and earmarked Php300 million of working fund for the studies and activities of selected PPP programs and projects.[3]


psalm.gov.ph

An estimate by National Economic and Development Authority (NEDA) Director General Cayetano Paderanga Jr. shows that all in all, the Aquino government is targeting some Php740 billion worth of infrastructure projects through PPPs.[4] An initial list of 10 priority PPP projects worth at least Php127.7 billion for 2011 has been released by government, with the expansion of the mass rail transit system accounting for 54.8% of the amount.[5] **(See Table 1)**

Power debts and rate hikes

Of the Php740 billion initial cost of all PPP projects announced by the NEDA, PPPs in the power sector account for Php348.5 billion or 47.1% of the total covering 43 power projects. This is so despite the country's bitter experience from previous and current PPP initiatives in the sector dating back to the BOT contracts entered into by the Cory administration, which set off the financial bleeding of Napocor and jacked up power rates while failing to address the country's energy insecurity.

The power sector, for instance, is saddled with Php932.21 billion in debts incurred by the Napocor (with Php47.97 billion); Power Sector Assets and Liabilities Management Corp. (PSALM), with Php785.09 billion; and National Transmission Co. (Transco), with Php99.15 billion. Department of Energy (DOE) Secretary Jose Rene Almendras has announced that consumers would shoulder part of the burden of paying these debts through a power rate hike.[6] Note that PSALM just absorbed the debts of Napocor as prescribed by Epira while Transco is also a spinoff of Napocor's privatization under Epira.

Note also that among the promises of encouraging private participation in

Table 1. 2011 PPP projects, initial list (cost in P billion)	
Project	Cost
Extension of LRT Line 1 to Bacoor, Cavite	70.00
Extension of LRT Line 2 to Masinag Junction in Antipolo	11.30
A new airport in Bohol	7.54
A city terminal for the Diosdado Macapagal International Airport in Pampanga	TBD
Privatization of the operation and maintenance contract of the Laguindingan airport in Misamis Oriental	TBD
A new airport in Puerto Princesa	4.36
An expressway connecting the North and South Luzon toll ways	21.00
Cavite-Laguna Expressway	10.50
Supply of treated bulk water for Metro Manila	TBD
A new airport in Daraga, Albay	3.00

TBD – to be determined
Source: National Economic and Development Authority (Neda)

infrastructure such as in energy infrastructure is the easing of fiscal burden of government. Before Epira was passed in 2001, the debt of Napocor was pegged at US$16.5 billion or about Php729.14 billion (based on an exchange rate of Php44.19 per US dollar, the 2000 average according to Bangko Sentral ng Pilipinas or BSP data). Proponents of power privatization made the public believe that such heavy debt burden can be reduced by Epira. Economic managers of the Arroyo administration, for instance, claimed that the privatization of Napocor would yield a surplus of some Php22.29 billion in consolidated public sector deficit (CPSD) by 2009. CPSD includes the budget deficit of the national government and its monitored government-owned and –controlled corporations (GOCCs) and reflects the public sector's financial position.

But instead of a reduced debt, Filipino taxpayers and consumers are now confronted with a power debt that is more than Php203 billion larger than before state-owned power plants and transmission assets were sold to the biggest local compradors and foreign companies. The CPSD for 2010, meanwhile, is expected to hit Php281.3 billion. Government ended up more indebted and bankrupt, while the people oppressed thrice over – by servicing the debt through taxes, by enduring lack of social services as funds are siphoned off to debt servicing, and by paying exorbitant monthly electricity bills to cover among others payment for Napocor debts.

How and why did the debts of the power sector increase? Privatization proponents assumed that the debt of Napocor could be settled by proceeds from the privatization of its power generation plants and other assets. This, however, apparently did not happen as power assets either fetched lower prices than expected while the sale of other assets has been delayed forcing government to continue maintaining the unsold power plants and in the process incurred more debts. It must be emphasized that for private investors, the bottom line is not the delivery and availability of electricity but the rate of profit. Thus, for a relatively small market like Philippines, investors will only enter into power generation if they have guaranteed markets through supply contracts.

But it is precisely for these state guarantees that caused the financial bleeding of Napocor. As mentioned, since the time of the Cory administration, government has been entering into various deals with private corporations or so-called independent power producers (IPPs) to build power plants under the BOT

Law. To entice investors, government forged "sweetheart deals" with them. Government agreed to shoulder all the risks associated with market demand, fuel cost and foreign exchange fluctuation. The "take or pay" clause in these onerous contracts requires Napocor to pay 70 to 100 percent of the capacity of an IPP (capacity fee), whether or not electricity is actually delivered and used.

Napocor's unpaid financial obligations, also called stranded costs, will be passed on to consumers through the universal charge as required by the Epira. Initial estimates show that these debts will translate to a rate hike of at least Php1.86 per kWh. This will further aggravate the burden of households that have been subjected to skyrocketing electricity bills especially under Epira that has also deregulated the power industry.

Increase in rail transit fares

In the Aquino administration's initial list of PPP projects, the expansion of mass rail transit systems account for more than half of the estimated cost, which again will be pursued at the expense of the people. To make these PPPs attractive, government is planning to increase the fares of the Light Rail Transit (LRT) and Metro Rail Transit (MRT) by as much as 100 percent.[7] In his SONA speech, President Aquino criticized the Arroyo administration for "forcing the MRT operator to keep its rates low" which violated government's assurance that the operator will recoup its investment and earn guaranteed profits. The President said that the MRT fare hike is "inevitable" because the subsidy is supposedly too high and government does not have the funds to sustain it.[8] MRT officials also claimed that the subsidy per passenger is at Php45 and that government spends Php5 billion a year for its maintenance and operation although it only earns Php1.8 billion annually.

However, the high operation and maintenance cost of the MRT should be blamed on the 1997 25-year build-lease-transfer (BLT) agreement between the Metro Rail Transit Corp. (MRTC), a consortium of Japanese and Filipino firms, and the Department of Transportation and Communication (DOTC). In an effort to make the PPP attractive, government agreed to guarantee payments for the US$426-million debt incurred by the private contractor in building the MRT infrastructure. Government also guaranteed a 15-percent return on investment (ROI) per year for MRTC.

The private investors involved in the MRT project made a killing because aside from their guaranteed profits, the guaranteed debt payments also go to the banks that they control. The Ayalas, for instance, control the Ayala Land Inc. which was among the firms that made up the MRTC, and the Bank of Philippine Islands (BPI), one of the creditors of the MRT project. Another case is the Japanese Sumitomo Corp., which clinched the Engineering, Construction, and Procurement contract with the MRTC while its affiliate Sumitomo Bank provided loans. Eventually, the Arroyo administration through the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) decided to acquire 76-percent equity of the MRTC last year with a lump-sum payment of US$800 million.[9] The move was meant to terminate the guaranteed 15-percent ROI because the contract apparently was too burdensome for government, which started missing payments for the MRT debt on time.

But the DBP and LBP made it clear from the start that the government takeover is only temporary and will transfer ownership of the MRTC to a private entity as soon as possible. The proposed MRT fare hike is thus meant to make the re-privatization of the MRT attractive to private investors and assure them that the guaranteed 15-percent ROI will be realized. President Aquino's officials said they are already talking to prospective buyers and they plan to privatize not only the MRT along Edsa but the entire railway system in the country including LRT 1 (Baclaran in Pasay City to Balintawak in Quezon City) and LRT 2 (from Recto in Manila to Santolan in Marikina). Those that are still being planned for construction by the new government will also be privatized.[10] Among them is the MRT Line 7 that stretches 22 kilometers from North Avenue to San Jose, Del Monte in Bulacan and which the Japan Bank for International Cooperation (JBIC) has reportedly expressed interest to bankroll. MRT 7 will be implemented through a BOT contract with Universal LRT Corp., a consortium led by San Miguel Corp.[11]

The burden of privatized rail transit systems under generous contracts will of course be shouldered by commuters and will be felt most by those who hardly earn enough for a decent living. The P15-hike being contemplated by authorities for the MRT, for instance, will mean an additional expense of P600 per month (20 working days, two-way trip), which is pretty heavy especially for minimum wage earners.

Toll hikes

The case of SLEx is also another argument against the PPP scheme of the new government. Among the developments that have generated a major public uproar under the young Aquino administration is the implementation of the 300-percent increase in toll rates for the South Luzon Expressway (SLEx) that was fortunately stopped by a temporary restraining order (TRO) from the Supreme Court (SC).

Regulators, in evaluating the toll hike asked by SLEx private operator SLTC, simply factored in the doubling of the number of lanes, the installation of TV cameras, and electronic collection system, among other physical improvements in the 27.3-kilometer superhighway. All these reportedly cost SLTC Php11.8 billion, which it will recoup through a guaranteed 17-percent ROI. The guaranteed ROI is contained in the February 2006 Supplemental Toll Operation Agreement (STOA) between SLTC and the Toll Regulatory Board (TRB). The 30-year STOA allows SLTC, which is 80-percent owned by Malaysia-based MTD Capital Bhd and 20-percent state-owned through the Philippine National Construction Corp. (PNCC), to rehabilitate and operate the SLEx.

In addition, the Aquino administration aggravated the huge SLEx rate hike because of its insistence that toll roads are covered by the 12-percent value added tax (VAT) despite contrary claims by tax experts and legislators.

The VAT imposition, if approved, will increase the rates in other toll roads around the country.

With the newly approved toll, however, SLTC will apparently profit much more than Php2 billion annually. At a traffic volume of 300,000 vehicles a day, SLTC will earn annual gross revenues of Php11.79 billion (of which Php1.41 billion will go to the VAT). This means that in one or two years, it can easily recoup its Php11.8 billion investment and settle its liabilities, and then neatly profit from its monopoly of SLEx until 2036. **(See Table 2)**

Of course, the projected Php11.78 billion annual revenues will depreciate over time but it is more than compensated by the annual increase in vehicular traffic in SLEx, which some estimates peg at more than 10% a year. The heavy focus on profitability that is inherent in any private enterprise instead of net economic and social gains makes infrastructure projects pursued through PPP such as SLEx ultimately anti-development and anti-people.

Meanwhile, motorists using another privately operated major toll road, the North Luzon Expressway (NLEx), could be paying more soon as well if the TRB will approve the 12-percent toll hike petition to be filed by MNTC. The company reminded the TRB that under their contract, MNTC is allowed to seek a rate increase every two years although this is the first time since 2005 that it will be filing for a toll hike.[12]

Some 156,000 motorists use the NLEx daily while the SLEx accommodates as much as 300,000 vehicles every day. Bus operators using the said expressways have already warned of a fare hike to pass on the burden of the additional toll to commuters. Businesses have also said that they may have to increase prices as well while the smaller ones expressed fear of having to downsize or even fold up.

Despite the obvious harsh impact of the privatized toll roads on ordinary commuters and motorists, as well as small businesses and consumers, the Aquino administration is determined to implement more privatization in road infrastructure development and operation. Last week, the Department of Public Works and Highways (DPWH) announced that starting next year maintenance of the major roadways around the country, such as the whole stretch of Edsa from Balintawak to Roxas Boulevard, would be delegated to the private sector.[13] The move, said the DPWH, is part of the Aquino administration's PPP concept and is expected to save government some Php120 thousand per kilometer per year.

Table 2. Estimated SLTC revenues and VAT collections from the new toll rates (in pesos)

	New rates	Vehicular traffic per day*	Gross revenues per year	VAT collections per year
Class 1 (cars & jeepneys)	85	240,000	7,446,000,000	893,520,000
Class 2 (light trucks & buses)	170	40,000	2,482,000,000	297,840,000
Class 3 (trailers/cargo trucks)	255	20,000	1,861,500,000	223,380,000
Total		300,000	11,789,500,000	1,414,740,000

*In a media report, DPWH undersecretary for operations Rafael Yabut estimated that the traffic volume in SLEx is 300,000 vehicles daily. Of this about 18 to 20 percent are commuter buses and cargo and container trucks. Thus, IBON's guesstimates of 240,000 for Class 1 vehicles (at 80 percent of total vehicular traffic) and 40,000 for Class 2 and 20,000 for Class 3 at 2:1 bus-to-cargo ratio

Displacement

In many cases, PPPs in infrastructure development also entail the physical dislocation of thousands of informal settlers. The absence of a comprehensive and sustainable mass housing program, including acceptable and economically viable relocation sites, means that the poor who become victims of forcible eviction are left with no option but to squat somewhere else and forever suffer from insecurity in housing.

Such is the case of the demolition of urban poor communities in North Triangle in Quezon City, which ironically was carried out by authorities while Aquino was in the US to attend the UN meeting on Millennium Development Goals (MDGs). The demolition in the area's Sitio San Roque, which left several people injured, marks the start of the implementation of a Php22-billion PPP project in the form of a joint venture between the National Housing Authority (NHA) and property giant Ayala Land Inc. to develop a 29.1-hectare property in North Triangle into the so-called Quezon City Central Business District (CBD).[14 15] Based on official estimates, some 9,000 families will be evicted from Sitio San Roque to give way to the NHA-Ayala Land project but urban poor group Kadamay pegs the total number of affected families at 16,000.

Due to fierce resistance from the affected communities, a local court was forced to issue a TRO and President Aquino himself was also forced to suspend the demolition. But the suspension simply intends to allow the "orderly" demolition of the remaining shanties. In fact, the threat of eviction remains not only against the residents of Sitio San Roque but against all urban poor communities that stand in the way of Aquino's PPP projects.


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Who benefits from PPPs?

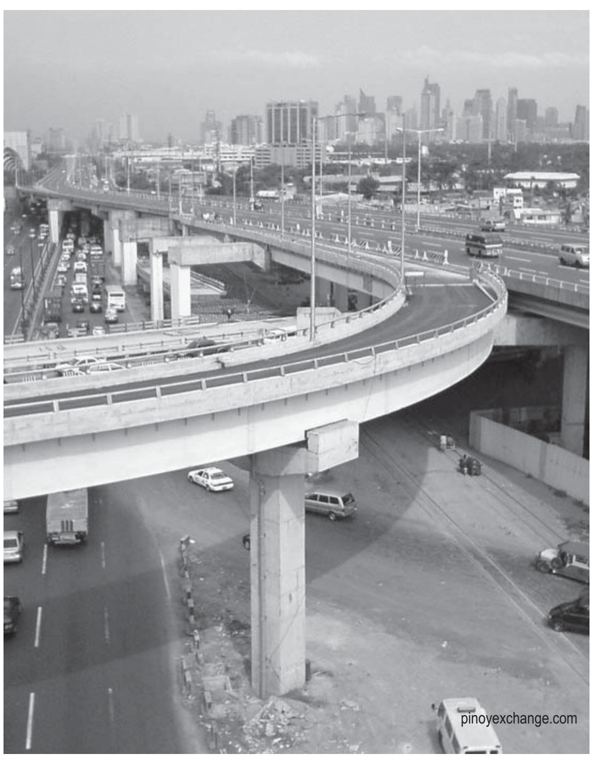
As major PPP proponent, the ADB pointed out, private investors participate in infrastructure development with the clear goal of making and maximizing profits. The job of government, as a consequence, has been reduced from ensuring that the infrastructure needs of the people and of the economy are met to ensuring the most favorable investment climate for the private sector. Infrastructure development has thus become a lucrative business because of captive markets and state guarantees.

The country's largest businesses, owned by the richest and most influential families in the Philippines like the Lopezes, Cojuangcos, Ayalas, Aboitizes, Pangilinans, and Consunjis have taken advantage of the PPP and now control the biggest and most strategic infrastructure such as power generation, toll roads, water utilities, rail transit, etc. In many cases, they have also partnered with investors from the US, Europe, Japan, and other foreign countries in these PPP projects. Multilateral lending institutions like the World Bank through its various units –

International Finance Corp. (IFC), Multilateral Investment Guarantee Agency (MIGA), and the International Bank for Reconstruction and Development (IBRD), as well as the ADB and others have also provided them with loans. At the end of the day, all the costs of the PPP ventures are shouldered by the people through user fees and debt servicing.

Infrastructure for the people

The Aquino administration, whose team of economic managers and advisers is made up of the same people behind the neoliberal reforms of the past regimes, including the Arroyo administration, considers privatization and PPPs as a magic bullet that will help solve the country's chronic fiscal deficit and lack of infrastructure. Combined with a strong anti-corruption drive, the program will supposedly bring in and maximize private investments, create jobs, and consequently address poverty.



Eliminating risks

But as pointed out, the social and economic costs of privatization far outweigh whatever supposed benefits it will bring. In terms of addressing the fiscal deficit, the country's experience with Epira is most telling – the power sector ended up more indebted that it was before state-owned generation plants and transmission facilities were privatized. The ambitious PPP campaign of President Aquino will not take off unless incentives similar to the power sector's "sweetheart deals" are provided. Aquino's Cabinet members admitted that investors need some form of protection to ensure the success of PPPs, including some form of an insurance scheme that will compensate private investors involved in big-ticket infrastructure projects to eliminate "risks". This means guaranteed returns that hurt consumers with exorbitant user fees as well as access to loans with government guarantees that aggravate the debt burden and worsen the fiscal deficit.[16] Creating an environment conducive to private and foreign capital, based on the country's experience from past PPP initiatives, entails government assurance that investors will make handsome profits through guaranteed ROI and incentives, and ultimately of showing bias against the poor that these PPP initiatives are supposed to benefit. The heavy focus on profitability that is inherent in any private enterprise instead of net economic and social gains makes infrastructure projects pursued through PPP ultimately anti-development and anti-people.

Public gains, economic benefits

The pending hikes in MRT fares and SLEx toll rates stem from guaranteed ROI stipulated in their respective PPP contracts. But a lower or even zero ROI, in the context of core infrastructure like toll roads, railways, water or power utilities, etc. that should be publicly controlled, is not necessarily bad. According to the US's Federal Geographic Data Committee (FGDC) in its paper *"Economic Justification: Measuring Return on Investment (ROI) and Cost Benefit Analysis (CBA)"*, while it takes an ROI ratio greater than zero to be attractive, "A sub-zero ratio may not automatically 'kill' a project, because it may result in a required capability that doesn't currently exist".

It further pointed out that "Not all government functions are required to have a positive rate of return as they are in the business world. Government is required to provide certain services to the public, and so is more tolerant of low ROI".[17] Thus, a publicly-controlled infrastructure provides enough room that allows a multi-faceted approach that takes into account not the narrow financial gains from the investment but more importantly public gains and economic benefits for the country that are not captured by private profits.

More debts

Worse, private investors do not bring much investment on the table as often touted but actually rely on foreign loans, frequently with state guarantees. The Aquino administration's PPP program, for instance, will likely be funded through a multibillion foreign borrowing scheme. One possibility is the creation of a government corporate entity that would sell bonds to foreign creditors. The funds raise will be used to bankroll the infrastructure projects.[18] To further make the PPP program more attractive, the NEDA is proposing to amend the implementing rules and regulations of the BOT Law to require state guarantees on PPP projects, including unsolicited proposals. Direct government guarantees assure creditors that, in the case of a loan default, the national government or any of its agencies will assume responsibility for the repayment of debt which the project proponent directly incurred in implementing the project.[19]
The vicious cycle of privatization, debt, and exorbitant user fees must be stopped from further oppressing the people, especially the poor. Unfortunately, under the new administration that has promised change and a "straight path", all policy signals point to more privatization, more debt, and more exorbitant user fees.

Alternatives

But the government is bankrupt and can not undertake infrastructure projects, proponents of PPPs and privatization will claim. People's organizations have long been campaigning for reversal of economic liberalization , repeal of automatic debt servicing, cancellation of odious debt, nationalization of key economic sectors, etc. aside from curbing high-level bureaucratic corruption, tax evasion by the biggest foreign and local corporations, etc. to raise much needed revenues. The government is corrupt and inefficient unlike the private sector, privateers will argue. Should we then just allow the CEOs of the biggest local corporations and the TNCs to run the government instead? But practically, this has been already the case in the Philippines especially under imperialist globalization, and now more increasingly under the Aquino administration.
There are concrete and doable alternatives. The neoliberal privateers should not be allowed to further burden the people with onerous user fees and undermine development with the flawed and discredited PPPs. The people and not the corporations should take over the government and chart the country's development.

Lifted from PPP: Private Gains, Public Costs, IBON Facts and Figures Special Release, 15-30 September 2010. For a full copy of the Special Release, please contact the editor at publications@ibon.org. You may also visit www.ibon.org for more details.

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Nepal's KUKL: An Example of PPP Disaster

Gopal Siwakoti 'Chintan', PhD

Nepal began with the first major scheme of public-private-partnership (PPP) in 2008 for the private management of Kathmandu water supply and sanitation systems. The main objective was to separate these services from Nepal Water Supply Corporation (NWSC) – a public utility. The ownership (planning and investment), operation and regulation (fixing tariff) was then transferred to Kathmandu Valley Drinking Water Limited or Kathmandu Upatyaka Khanepani Limited (KUKL). The other two entities included are the Kathmandu Valley Water Supply Management Board (KVWSMB) and Water Supply Tariff Fixation Commission (WSTFC).

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According to the KVWSMB, the public body responsible for policies and ownership of water service infrastructure, it owns the ownership of assets from the NWSC of water supply facilities inside the Valley. It is responsible for improving the services, raising funds, paying debts and making investment for necessary infrastructure. KVWSMB is composed of 11 members, representing : (1) the Government of Nepal; (2) local government bodies (namely the Kathmandu Metropolis, Lalitpur Sub-Metropolis and the Municipalities of Bhaktapur, Madhyepur Thimi and Kirtipur); (3) the Federation of Nepal Chamber of Commerce and Industries (FNCCI); (4) the three District Development Committee (DDC) in the Valley; (5) concessionaires; (6) non-governmental organizations and (7) independent experts.

The assets then were transferred to KUKL which is responsible for the operation and management parts. It also receives all the other funds from the KVWSMB. The shares are divided among the members of the board, with the government having the largest share at 30%. The five local government units receive a bulk of 50%, private sector organizations at 15%, Nepal Chamber of Commerce at 9%, FNCCI at 3%, Laitpur Chamber of Commerce at 1.5%, Bhaktapur Chamber of Commerce at 1.5% and employees' trust paid by the government at 5%. Seven members of the Board of Directors come from these institutions. The Asian Development Bank (ADB), the main convener and investor of this PPP nominates the director until its loan is paid back.

All staffs were initially provided by NWSC and three international experts were also hired to look after operating structure, business processes, financial management and administration, managing on-going operations, including pilot investment funds and capacity building. Likewise, WSTFC, established under the Water Tariff Commission Act 2005 is responsible in determining the water tariff from time to time. However, no significant achievement has been made, both in quality and quantity, of Kathmandu water supply and sanitation services. One main problem has been its weak management, lack of proper coordination and massive corruption. There are always disputes over the appointments in all these bodies. There are even bigger problems of staff recruitment, management and payments due to the lack of leadership for a long time.

In 2009, the Commission for the Investigation of the Abuse of Authority (CIAA) conducted an investigation suspecting irregularities and unequal distribution in water supply by the company in various parts of Kathmandu.

There were allegations that lower level employees were supplying waters in areas because of bribery.

There are also problems of high allowances for executive members who are given Rs. 7,500 (around US $100) for each of the monthly meetings. The focus has been on allowances and privileges for the executive members rather than efficient delivery of water services.

KUKL is the result of the ADB's lending conditionality for the Melamchi water diversion project. Earlier, the activists questioned the ADB for its endorsement of the United Kingdom-based multinational company Severn Trent International, at the time of the Maoist government.

It has been reported that Rs. 250 million (around 3.5 million USD) tariff water bills have been overdue as a result of staff inefficiency. There has been no regular meter reading and valve operation. In many places, many lower grade staffs handle the responsibilities of the high-grade staff.

For the consumers, there were no proper complaint mechanisms to address grievances. Water has been polluted by sewerage

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pipelines – not even suitable to wash clothes. Consumers were forced to pay minimum tariff even without water supply at all. At least 40% leakage has been reported even until today.

There have been protests and office lock-ups by unions over the issue of salary increase, benefits, transparency and accountability. The managing director is appointed only with the approval of the ADB but there are always disputes about who should get the job based on their political affiliations.

KUKL is hardly able to manage and supply one-fourth of the water required for the Valley. As the schedules are not properly maintained, people have to line up day and night just to have their share. Water comes only once a week in many areas. Growing concrete structures in the most fertile agricultural Valley has affected all the traditional underground water supply systems. The Valley has lost its capacity to replenish its water supply. Sources of waters for wells have also been destroyed. KUKL has been failing to pay its annual license fee and other payments on a regular basis. It has grossly affected financial capacity of KVWSMB for further investment through KUKL, and cannot even pay its office rent and staff salary. Similarly, KUKL has to pay 4 percent of the tariff collected at the end of every fiscal year but has been unable to do so.

KUKL has also failed to develop its institutional capacity for the past four years of operation to spend the allocated budget to improve the Valley's water supply infrastructure. There has been hardly any improvement in the water supply and sanitation system. However, KUKL is surprisingly blaming it on the lack of budget.

The ministry officials have been repeatedly pressing KUKL to do more.

According to the executive director of NGO Forum for Urban Water and Sanitation, Prakash Amatya, "KUKL is a total mess and is serving as a playground for donor agencies." And adds, "It is no wonder if most of the budget is spent on consultants' salaries." Furthermore, KUKL is always plagued by managerial disputes and conflicts with the unions, leading to a "failed institution". The unions are demanding for immediate alternative arrangements before the Melamchi water comes as well as transparency, efficiency and equal treatment of the staff within the institution.

The consumers are now starting not to pay for the water they have never received. Over 38 percent of the pipes is in need of immediate repair but nothing has been done due to budgetary constraints and institutional failures. KUKL is blamed even for failing to supply tank waters for the rich.

Increasing tariff is another burden that the consumers are facing and more than 30,000 of them still do not have meter connections. KUKL passes almost all cost of pipe connections and related materials to the consumers – a huge burden particularly for the poor. Unless subsidized, many poor residents will never be able to have pipe water supply even after the completion of the Melamchi water facility.

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RealityCheck

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The Reality Check is the official newsletter of the Reality of Aid. It is designed to highlight current issues in aid regime written from a regional perspective but with global significance, edited in rotation by the leading networks in the following regions:

The Reality of Aid Network exists to promote national and international policies that will contribute to a new and effective strategy for poverty eradication, built on solidarity and equity.

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