Latindadd

Red Latinoamericana por Justicia Económica y Social

The World Bank and Public-Private Partnerships

The lights and shadows of private involvement in Latin America´s development

Key messages and findings:

- In Latin America, the use of Public Private Partnership (PPP) schemes to mobilize private investment with the endorsement of the public sector is widespread. A total of 19 countries in the region have issued laws related to PPPs, of which 17 have some type of entity dedicated to promoting these mechanisms. Countries like Brazil, Chile, Colombia, Mexico and Peru are the most active.
- The projects executed within the PPP framework are mainly directed to the provision of infrastructure in sectors such as: transportation, sanitation, energy, education and health; among others.
- Investment in infrastructure through PPPs grew from USD 8,000 million in 2005 to USD 39,000 million in 2015 in the region, registering a total investment of more than USD 360,000 million, corresponding to a thousand projects, mainly in the energy and transportation sectors.
- Latin America and the Caribbean concentrates 36% of global investment in infrastructure projects under PPP between 1990 and 2020.
- The necessary investment in infrastructure in the region represents at least 5% of its GDP (about USD 180 billion), but only 2.8% is invested.
- Projects under PPP schemes often lack strict evaluations in economic, social and environmental terms. Nor do they guarantee quality and universal access in the provision of basic public services, such as health and education.
- Bad PPP experiences account not only for the impact on access and quality in the provision of basic services, but also damage fiscal accounts due to the hidden debts that are generated and the renegotiations of contracts, many of which are tarnished by corruption.

- Latin America and the Caribbean is the region in the world with the highest incidence of renegotiation cases in contracts, with an occurrence of 25 renegotiation events on a total of 43 projects, that is, a ratio of 58%, when the world average is 33%. These renegotiations have as a consequence an increase in construction and operation costs, as well as changes in the established rates, thus harming the State and users.

- PPP mechanisms are promoted, financed and outlined by international financial institutions and development banks. The World Bank has a strong presence in the region, channeling resources and advising on regulatory and institutional changes in the countries. The World Bank Group is responsible for 37% of all private investment mobilized in low- and middle-income countries.

- The mobilization of resources for the financing of development must take place under new rules of the game in which the well-being of the people is prioritized, without risks or conditions for the public sector, in processes carried out with the greatest transparency and the most exhaustive technical evaluation, especially in those interventions that involve private counterparts.

- The role of financial institutions such as the World Bank, must be framed in safeguarding the sovereignty of States and the rights of people, prioritizing those projects that enhance production processes and are aligned with the plans and goals defined in the framework of the Sustainable Development Goals (SDG).

The World Bank and Public - Private Partnerships. Lights and shadows of private involvement in the development of Latin America

Edited by:
Latin American Network for Economic and Social Justice - Latindadd, 2021
Jr. Mariscal Miller 2622, Lince, Lima – Peru
Phone: (51)(1)711-1914
latindadd@latindadd.org www.latindadd.org

General Coordination Latindadd:
Carlos Bedoya

Division Coordination:
Patricia Miranda

Elaboration:
Rodolfo Bejarano

Comments and contributions:
Patricia Miranda
Veronica Serafini
Maria Jose Romero

Design and layout:
Jose Luis Mancilla - Communication Latindadd

Publication date - August 2021

Presentation

Private investment is an important component so that economies can become more dynamic and achieve certain economic and social objectives, but its role must be complementary and should not replace the work of the States in the provision of public goods and services.

The prominence given to the private sector in mobilizing resources to finance development and the promotion of mechanisms such as Public-Private Partnerships (PPPs) is a matter of concern for civil society organizations that, for some time, have been warning about the risks that these projects imply, not only in terms of the fiscal costs that they cause to the States due to hidden costs and acts of corruption, but also because they do not solve the problem of access to quality services for the poorest.

The Sustainable Development Goals and development financing, and more recently the crisis of the pandemic due to Covid-19, become excuses for international financial institutions, including the World Bank, to promote changes in national regulatory frameworks and offer advice and financing to carry out PPP projects, but these projects are not necessarily carried out within a framework of rigorous impact evaluations and there is not always transparency in the process of awarding and negotiating contracts.

We, Latindadd and its associated organizations, consider that it is important to continue analyzing and discussing the role that private investment should have in development, which should be framed in national plans and should be complementary to the public resources necessary for development, financing the gaps in development identified in our countries.

TABLE OF CONTENT

1. INTRODUCTION

Various financial institutions and regional and global development agencies have been promoting for several years the incursion of private investment in the provision of public services and infrastructure with the belief that this is the most efficient and sustainable way in which society can access to quality services and thus be able to close the social gaps that afflict us.

Within that context, each global agreement or consensus that proposes the solution to economic, social and environmental problems - such as the Sustainable Development Goals, the Paris Agreement on climate change, and now the recovery from the crisis caused by the pandemic of Covid-19-, becomes the perfect excuse for private capital to emerge as the panacea to close the gaps in the funding required.

One of the most recurrent mechanisms that have the purpose of promoting the intervention of private parties in projects related to development areas are Public-Private Partnerships (PPP), which have been used in many parts of the world, especially in Latin America and the Caribbean (LAC), where the identified needs constitute opportunities for development funding suppliers.

It is estimated that globally an additional investment of about 2.5 trillion dollars annually is necessary to achieve the SDGs by 2030 in developing countries, investment that should be used mainly for basic infrastructure, food security, climate change, health and education (UNCTAD, 2014)[1]. The problem of scarcity of resources for essential sectors becomes even more severe if we consider the impact of the pandemic, with an estimated financing gap of between 2 and 3 trillion dollars for developing countries (UNCTAD, 2020)[2]. If we do not pay attention to this situation urgently, we may be talking about another lost decade for our countries, making the recovery of economies much more difficult in a post-covid context.

This document seeks to identify and take a critical look at the mechanisms that are promoted and used in Latin American to promote private investment in areas that are typically in charge of the States and that do not necessarily have positive results in economic, social and environmental terms. The first part of the document focuses on presenting the role and approach of the World Bank regarding development financing, and infrastructure financing in particular, as part of its policy to promote private investment. The second part focuses on public-private partnerships (PPP) as an instrument for channeling private investment with the endorsement of the States in Latin America and the Caribbean. Finally, the criticisms and recommendations that civil society has been raising regarding these mechanisms that give priority to private investment are described.

1 https://unctad.org/press-material/developing-countries-face-25-trillion-annual-investment-gap-key-sustainable

2 https://unctad.org/system/files/official-document/tdr2020_en.pdf

1.1 The promotion of private investment for the financing development

One of the main arguments to promote private investment in financing for development is that governments are aware that public resources are not sufficient to satisfy the needs for the provision of public services and infrastructure, especially in a context of fiscal adjustments of the developing countries, something quite recurrent in Latin American countries.

The first attempts to generate the conditions to mobilize private investment for development occurred in the context of the establishment of the 2030 Agenda and the SDGs and the definition of the Addis Ababa Action Agenda in 2015, when a document prepared by the IMF and the Multilateral Development Banks (MDBs), entitled From Billions to Trillions: Transforming Development Finance, was presented.[3] In the document, said agencies drew up a roadmap to incentivize financial leverage, increase assistance for domestic resource mobilization and efficient public spending, and catalyze private investment.

In this context, the World Bank (WB) and the other development banks propose to implement the strategy of Maximization of Financing for Development (MFD) aiming to "rethink" financing for development, for which they resort to the use of various instruments, such as loans, credits, bond issuance, and technical assistance.

The strategy is based on the Principles for the Integration of Private Sector Financing for Growth and Sustainable Development, which provide a common framework for MDBs to increase levels of private investment, focusing on three main areas:

- Strengthening investment capacities and policy frameworks at the national and subnational levels;
- Increasing the participation of the private sector and prioritizing commercial sources of financing; and
- Promoting the catalytic role of MDBs.

For the mobilization of private capital, multilateral financial organizations operate by combining two approaches that complement each other. The first involves a combination of financing and guarantee instruments, establishing investment platforms and short-term financing initiatives, as well as providing advice on public-private partnership (PPP) transactions. The second approach involves working with clients (governments and private corporations), investors (for example, project sponsors and institutional investors), financial partners (such as commercial banks), and development partners (World Bank, 2021)[4].

More recently, during the spring meetings of the IMF and the WB in April 2021, the initiative "Green, Resilient, and Inclusive Development" (GRID) was launched, which has the objective of respond and recover from the crisis generated by Covid-19, and for this it raises again the need to mobilize private capital on a large scale from all existing sources of financing[5]. According

3 ps://pubdocs.worldbank.org/en/622841485963735448/DC2015-0002-E-FinancingforDevelopment. pdf

4 https://openknowledge.worldbank.org/handle/10986/35040

5 https://thedocs.worldbank.org/en/doc/9385bfef1c330ed6ed972dd9e70d0fb7-0200022021/original/DC2021-0004-Green-Resilient-final.pdf

to the GRID initiative, public-private interventions are a key element to give the necessary support to private investments, and in this process the World Bank fulfills the task of providing the necessary financing and advice to the countries.

The Green, Resilient, and Inclusive Development (GRID) initiative

	GREEN DEVELOPMENT	RESILIENT	INCLUSIVE
The three dimensions of GRID	Invest in solutions that sustain natural capital, including climate, to ensure today's decisions are resilient and do not undermine tomorrow's growth. >> Drive decisions in three strategic systems: • Food and land use (agriculture, water and forests) • Sustainable urban infrastructure and transport • Power systems	Invest in risk management to prevent and prepare for climate change, pandemics, natural hazards, socio-economic and financial crises. >> Integrate risk management principles in all sectors, including infrastructure, cities, social systems, service delivery and macro stability: • Risk identification • Risk mitigation • Residual risk management • Inclusion of vulnerable groups	Invest in human capital and promote inclusive growth policies to create jobs and address exclusion and inequality. >> Boost human capital as the foundation for shared prosperity: • Health, education and housing • Social protection • Inclusion of women and marginalized groups • Access to infrastructure, including: water, sanitation, transportation
Transversal Facilitators	Invest in all forms of capital Macroeconomic and structural policies, institutional strengthening and technological innovation		
	Mobilizing capital at scale, especially for the private sector		
WB Capacities	>> Advisory and analysis services, and advisory services of the International Finance Corporation (IFC) >> Investments, loans (IPF Investment Project Finance, DPL Development Policy Loans), IFC loans and equity investments, and guarantees from the Multilateral Investment Guarantee Agency (MIGA) >> Convene and coordinate with the international cooperation		

Source: Translated from (2021)

Similarly, the United Nations Sustainable Development Report 2021 (2021)[6], suggests the importance of using instruments that allow combined financing, or blended finance, so that, through subsidies or guarantees, the States are able to provide the necessary incentives to attract many more private investments "aligned" with the SDG.

1.2 The role of the World Bank in the mobilization of private investment

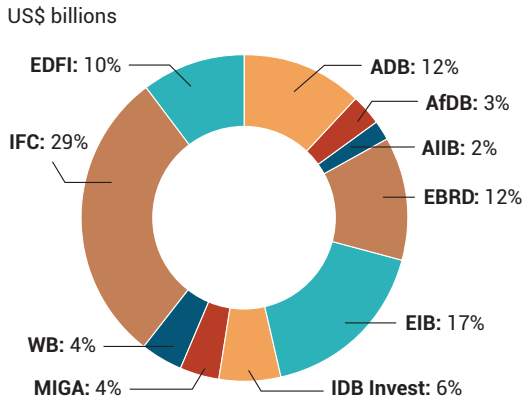
Over the years, the World Bank has become one of the main promoters of the mobilization of financing for private investment in the developing world, and is consolidating its actions through the implementation of the measures it has defined to improve the environment for private investments, as well as to generate the conditions that allow managing a portfolio of feasible and bankable projects.

6 https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR_2021.pdf

In addition, the World Bank Group has the International Finance Corporation (IFC) and a set of instruments to mobilize private capital, such as debt and equity financing platforms that raise capital from institutional investors, insurance firms and sovereign agencies. There is also the Multilateral Investment Guarantee Agency (MIGA) with its instruments of political risk insurance and guarantee (World Bank, 2021).

As can be seen in the graph, the institutions that are part of the World Bank Group (WB, IFC, and MIGA) are responsible for 37% of the total private investment mobilized in low- and middle-income countries in 2019.

Mobilization of private investment by financial institution, for low- and middle-income countries, 2019



Acronyms:

ADB Asian Development Bank

AfDB African Development Bank

AIIB Asian Infrastructure Investment Bank

EBRD European Bank for Reconstruction and Development

EDFI European Development Finance Institution

EIB European Investment Bank

IDB Inter-American Development Bank

IFC International Finance Corporation

MIGA Multilateral Investment Guarantee Agency

WB World Bank

Source: IFC (2021)7

1.3 The intervention of the World Bank in Latin America and the Caribbean

In one of its reports on the mobilization of private investment, the World Bank (2018)[8] describes the work carried out in LAC countries to help mobilize private financing through multiple instruments, which, according to the agency, have been designed and adapted to the needs of the different countries in which it intervenes and take into account the characteristics of each transaction. These instruments are: (i) provision of project financing and guarantees; (ii) analytical work at the regional and national level; and (iii) technical assistance.

The World Bank's lines of action in LAC are supported by a regional scoping study which indicates that infrastructure is one of the determinants of growth in Latin America and the Caribbean and that there is a direct relationship with the improvement in productivity levels. That is, infrastructure development

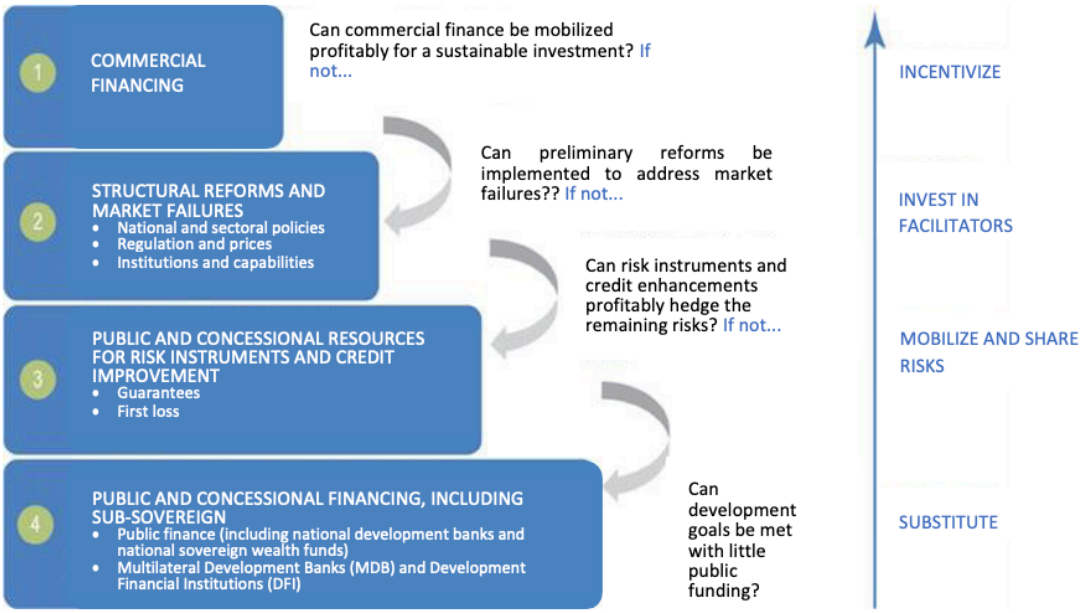
7 https://www.ifc.org/wps/wcm/connect/8249bfb4-2ad0-498d-8673-90fe196cb411/2021-01-14-MDB-Joint-Report-2019.pdf?MOD=AJPERES&CVID=ns1zGNo

8 https://openknowledge.worldbank.org/handle/10986/29387?locale-attribute=es

will have direct effects on Total Factor Productivity (TFP) (Araujo et al, 2016)[9], and based on this, the organization supports the importance of programs to promote investment in infrastructure.

Based on the aforementioned premises and the need to strengthen investment opportunities for the private sector in the region, in 2018 the World Bank launched a new proposal known as the "Cascade Approach", which is a concept that seeks to determine whether the best option for a project is through the intervention of the private sector (private financing and/ or private implementation), or if the World Bank should take actions that provide the necessary support to have a better investment environment or risk mitigation for the private sector, through the development of capital markets and financial systems. Finally, if the previous options do not work or are not viable, the sole intervention of the public sector is chosen. That is, only if the economic profitability of a project is not assured, the private sector does not intervene and becomes part of the state responsibilities.

The Cascade approach and sources of financing for development



Source: translated from OECD (2019)[10]

The Cascade approach proposes three lines of action to ensure adequate financing of infrastructure in the region, which are listed below:

- improve the efficiency of public spending on infrastructure;
- attracting private financing for public infrastructure; and
- ensure that regulatory frameworks, and especially those that regulate PPPs, adequately represent the interests of final beneficiaries.

Based on these guidelines, the World Bank presents some "successful" experiences of projects carried out in different LAC countries with the intervention of the private sector in infrastructure and that are representative of the strategies and instruments used by governments to help mobilize private resources.

9 https://openknowledge.worldbank.org/handle/10986/25321

10 https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Global-Outlook-on-Financing-for-SD-2019.pdf

Argentina: renewable energy project[11]

In 2017, the RenovAr renewable energy tender program is implemented, with the objective that 20% of the electricity in Argentina comes from renewable sources by 2025, and for this the so-called FODER (Fund for the Development of Renewable Energies), establishing tax incentives and competitive and transparent market regulations to attract international investments. The IFC and the World Bank were the intermediaries between the government and the private sector, helping to plan the auction and ensure that the projects were bankable, in order to mobilize global investors from the private sector, reducing risks through a guarantee for an amount of USD 480 million from the International Bank for Reconstruction and Development (IBRD), in support of the Fund for the Development of Renewable Energies of the Argentine government.

11 https://www.bancomundial.org/es/news/press-release/2017/03/01/promoting-private-investment-renewable-energy-argentina

Colombia: Road Concessions Program[12]

This project is classified by the World Bank as a positive experience in the application of the Maximization of Financing for Development (MFD) approach by working in close collaboration with the Colombian government, which included: (i) assistance to develop an enabling environment, (ii) support for the preparation of PPP transactions, (iii) capacity building for local officials and investors, and (iv) direct investment in Financiera de Desarrollo Nacional (FDN).

In 2013, the Government of Colombia launched the 4th Generation Road Concessions Program (4G Program), which involved estimated potential investments of USD 26 billion in 40 toll road PPP projects, with the construction of more than 8 thousand km of national roads in a period of 8 years. IBRD, IFC and MIGA jointly developed an in-depth analysis of the Colombian capital market to create the necessary conditions to mobilize financing from institutional investors, in conjunction with the Latin American Development Bank (CAF) and the Inter-American Bank Development (IDB) that supported the creation of new regulations for issuing and investing in infrastructure bonds, including the creation of debt funds to facilitate pension fund investments in infrastructure linked securities.

In general, the cases indicated by the World Bank stand out as successful, according to its criteria, due to the performance they have had in setting up an adequate legal and financial environment to achieve the mobilization of resources from the private sector in these countries. However, few official reports indicate elements of concern that have to do, for example, with the commitments assumed by governments, which may eventually generate fiscal costs in the medium and long term, as well as the consequences on fares paid by the users of the services provided under these projects and the limited access for the most vulnerable.

Regarding this point, a document of the Independent Evaluation Group of the World Bank (2015)[13] reviews the practices that have occurred in PPPs and determines that the monitoring systems are inadequate, resulting in a lack of evidence on the impacts of the projects on people's living conditions. The report also points out that monitoring and evaluation systems are mainly based on the commercial performance of a PPP, instead of taking into account more important aspects in relation to the provision of public services, such as access and quality of services provided to poor populations.

According to Romero (2015)[14], the lack of evidence on the impacts on living conditions is quite clear if we take into account the results obtained from an analysis based on different economic and social dimensions. Out of a universe of 128 World Bank PPP projects, only 14 have been evaluated in terms of access to services; 3 in favor of the poor; 10 in quality; 8 in efficiency; 6

12 Https://Www.Worldbank.Org/En/About/Partners/Brief/Colombia-Connecting-People-To-Markets-Jobs-Oppor- Tunities

13 https://documents1.worldbank.org/curated/en/405891468334813110/pdf/93629-REVI- SED-Box394822B-PUBLIC.pdf

14 https://www.eurodad.org/what_lies_beneath

financially; and 1 in tax matters. In the case of data on IFC's investment in PPP projects, the situation is worse since, of the 147 projects in the sample, the results are: access to services (50); in favor of the poor (5); quality (14); efficiency (17); financial (43) and fiscal (6).

Finally, the report of the Independent Evaluation Group cited above presents some recommendations that should be applied to provide assistance to governments: (i) make strategic decisions regarding the level and nature of private sector participation in infrastructure and provision services and (ii) evaluate the tax implications, including the tax obligations associated with PPPs. It also recommends that PPPs should be monitored in the long term, so that their performance can be evaluated, including aspects related to the impact on users.

2. PUBLIC-PRIVATE PARTNERSHIPS IN THE REGION

A Public-Private Partnership (PPP) is defined as an "agreement between the public sector and the private sector in which part of the services or tasks that are the responsibility of the public sector are provided by the private sector under a clear agreement of shared objectives. for the supply of public service or public infrastructure"[15].

Projects executed within the framework of PPPs can be in various sectors, such as: transportation, sanitation, energy, education, health, among others. And as for the type of project, as can be seen in the table, the projects can be quite varied, ranging from the construction and improvement of airports, to the provision of solid waste management services.

PPP by sectors

Sector	Type of Project
Transport	Highways, tunnels, and bridges Trains Massive transit systems Ports Airports
Water and waste	Water treatment Water distribution and wastewater systems Solid waste management services
Energy	Generation assets Distribution systems
Social and public infrastructure	Education (school services and infrastructure). Health (hospitals and other services and infrastructure for medical attention). Jails Urban recovery and social housing projects.

Source: PPP Knowledge Lab

PPPs do not include service contracts or turnkey contracts, as these are considered to be public procurement projects or privatization of public services.

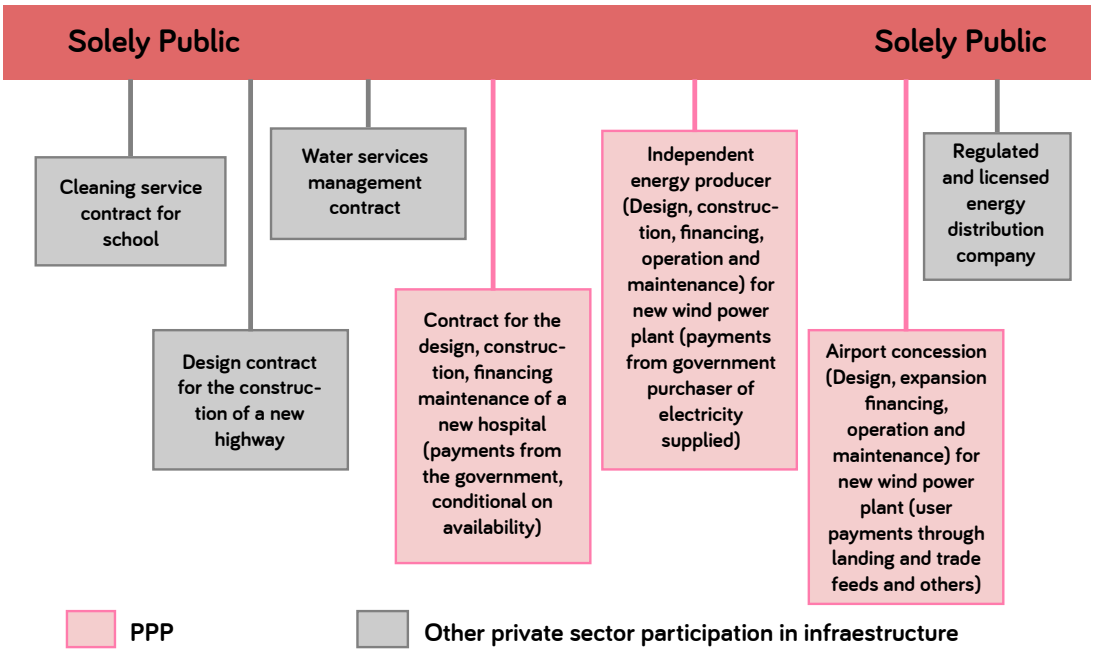
However, there is no single internationally accepted definition, so a variety of contract types can be distinguished, depending on the type

15 https://ppp.worldbank.org/public-private-partnership/que-son-las-asociaciones-publico-privadas

of asset involved in the investment, the functions for which the private party is responsible, and how payment is made to the private party.

- Regarding the first classification criterion, PPPs may involve the construction or installation of new assets, called greenfield projects, as well as the improvement and management of existing assets, called brownfield projects.
- In the second case, the contracts may include multiple phases and the functions to be performed by the private party may vary: Design, Development or Rehabilitation, Financing, Maintenance and Operation.
- Finally, the private party may receive resources through payments from the users of the services, as well as from the government, or a combination of both[16].

Examples of types of PPP contracts



Source: PPP Knowledge Lab

In terms of financing, the private sector is normally responsible for mobilizing investment funds for projects, as well as identifying investors and developing the financial structure of the project. However, it is important to understand how these financial leverage transactions take place and the possible implications for public finances, especially in the case of those projects that require guarantees or co-financing by the State. This is particularly striking if we consider that the private companies receive the money that compensates the initial investment from the State or from users.

Then, it is important to distinguish the difference between "financing" and "costing" to help understand the true costs behind PPPs (Romero, 2019)[17]:

16 For example, a highway generates income for the private party from tolls collected by users, which may be complemented by a subsidy from the State. It may also be the case that the use of the road is free for the user, but it is the State that assumes full payment to the operator.

17 https://www.eurodad.org/ppp-gender

- Financing is the money that the private company raises to complete the project and can be done through debt or equity instruments, and does not affect the state accounts.

- Costing is the way in which the company will be reimbursed, which can be by the users of the infrastructure or service, or by the State, using taxpayers' money. In other words, PPPs do not really provide any additional or free money.

2.1 The World Bank and PPPs

The World Bank is one of the most active institutions in the promotion of PPPs in the Latin American region, as are other financial institutions such as the IDB and the CAF, which through various reports, studies and articles, try to show the benefits and warn of the need to use these associations. They also develop programs and platforms specially designed for their implementation; which have been subject to criticism for lacking impact and efficiency evaluations to ensure the benefits of a PPP, as we will see below.

The role of development banks, in this case, is not only to provide financing to carry out projects, but also to offer advice and support in all phases of their execution, both to the public and private sectors.

According to the World Bank, the agency offers support to its client countries through a number of different mechanisms and tools:

- Supports governments to develop an enabling environment for PPPs and sector reform through technical assistance, through a range of knowledge management tools[18]. This includes specific support for the creation of PPP units and the passage of specific legislation. In many cases this is given as a condition for the disbursement of development policy loans.

- Provides financing to governments seeking to support PPP projects and programs through loans that bridge the financing gap.

- Provides partial risk guarantees and credit guarantees for projects in client countries.

Through the IFC and MIGA, the WB provides risk mitigation services for PPP projects. In the case of the IFC, the financial arm for the private sector, it offers financing for PPP projects, either in their early stages through the Infraventures initiative; through loans and equity participation in private companies; through infrastructure and support facilities, and through guarantees. IFC also advises governments on the structuring of PPPs and transactions in infrastructure projects and other public services.

In addition, the International Development Association (IDA), the World Bank's fund for the world's 74 poorest countries, has created the Risk Mitigation Mechanism (RMM), which provides guarantees to attract private investment in large PPP infrastructure projects backed by the IFC.

2.2 PPPs in infrastructure

It is estimated that an average of only 2.8% of GDP is invested in the Latin American

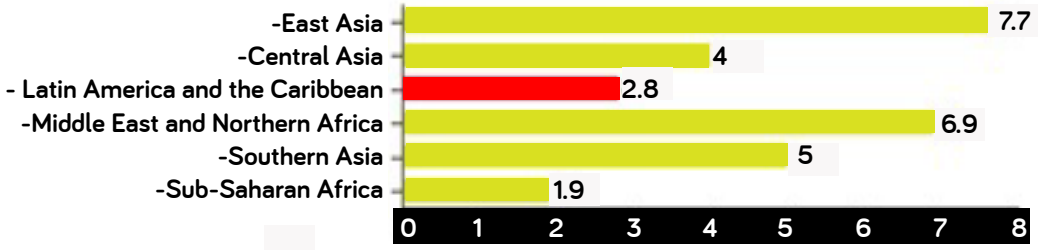
18 The PPP Knowledge Lab / PPI Database - Private Participation in Infrastructure Database / BoKIR Body of Knowledge on Infrastructure Regulation / PPIAF - Public-Private Infrastructure Advisory Facility.

region, a rather low proportion compared to other regions of the world, while what needs to be invested is at least 5% of the regional GDP[19].

Although the number of PPP projects has multiplied in recent years, especially in the energy, transport, water and sewerage sectors, the amount of resources required is immense, approximately USD 180 billion a year. This makes it almost impossible for these investments to be covered with public resources, especially in times of crisis and growing fiscal deficits in the countries. This is why one of the solutions proposed by international organizations is to resort to private financing, which has been well received by many Latin American governments, which see PPPs as a favorable mechanism for closing the existing gaps. In addition, they find it convenient to reinforce a good political image for the governments in power, since the costs of these large-scale projects do not appear in the public budget and it is not until the end of the operation that the fiscal costs and contingent liabilities appear in the records. (Alarco, 2015)[20].

Latin America and the Caribbean is lagging behind other regions in terms of investment in infrastructure: it spends less than 3% of GDP, while many countries designate more than 4%.

Investment in infrastructrure (percentage of GDP)



Souce: World Bank/INFRALATAM

However, this infrastructure investment gap is seen by investors -generally large multinationals from the region or developed countries- as an opportunity to do business, which is also taken advantage of by the financial sector given the potential generated in terms of credit supply.

One of the points on which most attention is paid in terms of PPPs is the possibility of carrying out large-scale infrastructure projects, which involve large amounts of investment and long periods of time, which easily qualifies these projects as assets that can be financed.

The financialization of these projects can cause problems for the public finances of the countries involved, since they are often financed through the issuance of bonds or loans from export credit agencies, resulting in financial commitments on the part of the States and the conversion of private debt into public debt. In addition, the conditionalities associated with loans from international financial institutions lead to the loss of sovereignty of the countries involved. (Scherer et al., 2017)[21].

19 https://www.bancomundial.org/es/news/infographic/2017/04/13/infraestructura-en-america-latina-y-el-caribe-nuevo-motor-de-crecimiento

20 http://www.latindadd.org/wp-content/uploads/2018/08/NEGOCIO-PUBLICO-PRIVADO-VENTA- JAS-Y-DESVENTAJAS-DE-LAS-APP-EN-AMERICA-LATINA.pdf

21 https://odg.cat/wp-content/uploads/2018/01/Mega-infraestructura-como-mecanismo-de-endeudamiento_castDEF.pdf

2.3 How have PPP projects in infrastructure progressed in the region?

According to the WB (2017)[22], most of the countries in the Latin American region have been implementing and improving their legal and political frameworks in the last two decades, with a total of 19 countries that have issued laws related to PPPs, of which 17 countries have some type of entity dedicated to the promotion of these mechanisms. Countries such as Brazil, Chile, Colombia, Mexico and Peru have been the most active with regards to PPPs and have addressed the various aspects of this mechanism, such as financial guarantees, private initiatives, risk allocation, governance and project selection, accounting and management of contingent liabilities, dispute resolution and contract renegotiation.

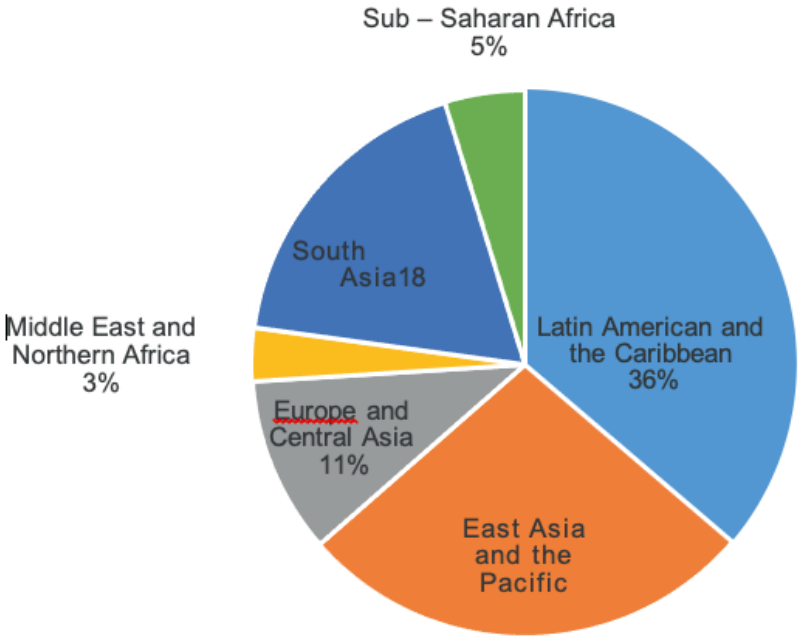
All the measures implemented in these countries and the gradual incorporation of some others in the promotion and implementation of these mechanisms in recent years, have led infrastructure investments through PPPs to grow from USD 8 billion in 2005 to USD 39 billion in 2015 in the region. This represents investments of more than USD 360 billion, corresponding to a thousand projects, mainly in the energy and transport sectors[23].

22 https://openknowledge.worldbank.org/bitstream/handle/10986/26406/114418-WP-LACRegionalInfrastructureFinanceReportFINALFINAL-PUBLIC.pdf

23 https://blogs.worldbank.org/es/ppps/una-d-cada-de-alianzas-p-blico-privadas-en-am-rica-latina-y-el-caribe-qu-hemos-aprendido

In terms of global intervention of PPP investments and differentiated by region, the countries of Latin America and the Caribbean account for 36% of investments in the PPP modality in infrastructure projects executed from 1990 to 2020, as shown in the graph. The accumulated total in the world reaches USD 1.69 trillion, of which USD 613 billion are located in the Latin American region.

Share of regions in the accumulated amount of investment in PPP projects, 1990 - 2020



Source: The Private Participation in Infrastructure (PPI) Project Database / Prepared by authors

A report prepared for Latin America (World Bank, 2017) highlights that, in order to continue advancing in the use of PPP mechanisms in infrastructure in the region, while boosting the efficiency and quality of PPP projects, it is crucial that there is an adequate distribution of risks among all the actors involved: the State, concessionaire companies, users, financiers and insurers. It also states that the various challenges identified by the organization must be addressed, such as: improving project development, boosting project financing capacity and increasing the breadth and sophistication of regional financial markets.

In summary, for the WB and other entities promoting PPPs, countries must have a portfolio of projects that is attractive to investors. To this end, multilateral and national development finance institutions must play a more active role, with the objective of not only providing the necessary financing, but also intervening in the countries to generate the financial, legal and bureaucratic conditions necessary to mobilize private investment.

Now, this vertiginous process that we have experienced in the region with the extensive implementation of PPPs in recent decades has not been exempt from criticism from the promoters themselves, who strive to rethink strategies and actions in order to carry out the necessary corrections to avoid negative consequences, even if they are only focused on economic and financial aspects. The IMF (2021)[24] points out in a recent report that, in addition to the firm liabilities generated by PPP contracts, the public sector faces a range of contingent liabilities, which are not formal guarantees approved by finance ministries in a specific document, but are related to clauses established in PPP contracts that commit the contracting authority to pay an amount in case a specific event occurs.

24 https://www.imf.org/-/media/Files/Publications/DP/2021/English/MRBPPPIEA.ashx

Fiscal costs and risks of PPPs

	Fiscal costs	Fiscal risks
Explicit	• Liabilities and fixed assets (estimated construction costs) when the government controls the asset and/or assumes most of the risks of the contract.	• Explicit guarantees (e.g., minimum income, exchange rate, restoration of economic equilibrium)
	• Pre-agreed or contractually agreed commitments to purchase land, relocate people, re-establish utility connections and other infrastructure, or compensate affected entities • Up-front capital payments for viability gap financing and other contractually agreed-upon firm predetermined payments during the construction phase • Availability payments, service payments, viability gap funding and other contractually agreed-upon firm payments during the operational phase • Payments from public corporations or subnational governments related to purchase agreements (power, water, etc.)	• Early termination of the contract (e.g., payment of assets, compensation of investors, restoration of service) in the event of bankruptcy of the concessionaire, underperformance, force majeure or reasons of public interest (e.g., privatization). • Legal disputes • Condition of the asset at the time of termination
Implicit		• Implicit guarantees: the government will be obliged to maintain infrastructure service

Source: IMF (2021)

On the other hand, most PPP projects involve contract renegotiations, often in favor of the private sector and marked by acts of corruption. According to data collected by the World Bank (2020)[25] from an analysis made by the Global Infrastructure Hub (GIH), Latin America and the Caribbean is the region in the world with the highest incidence of contract renegotiation cases, with 25 renegotiation events out of a total of 43 projects, that is, a ratio of 58%, when the world average is 33%. The same report points out that in the region, these renegotiations occur, on average, 2.2 years after the concessions have been granted, and have as a consequence an increase in construction and operation costs, as well as changes in the tariffs initially established, thus harming the State and users.

The inclusion of addenda to contracts has been a very common practice in our countries, especially in large infrastructure projects linked to scandals involving the payment of bribes to officials for the award of works, such as the Odebrecht case. In one of the largest corruption cases, the Brazilian construction company admitted to having paid approximately USD 778 million in bribes between 2001 and 2016, linked to more than 100 projects in twelve countries, including Angola, Argentina, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Mozambique, Panama, Peru, and Venezuela[26].

25 https://documents1.worldbank.org/curated/en/235541600116631094/pdf/Enhancing-Government-Effectiveness-and-Transparency-The-Fight-Against-Corruption.pdf

26 https://link.springer.com/epdf/10.1057/s41301-021-00289-x?sharing_token=3oyWwcJKDjZnHrls-QaH_rVxOt48VBPO10Uv7D6sAgHtPkqsTMf_0oDlSat_TmvSpVlYmbz5LJ-SrnRemSj4nAzPamGq-2BFUWQ-nJcBEDkZK8WiX-W3nPxVIUSD49iOYB9j_vg_KmakxPG-0oUBi9uiDQ88WmigWrLMzO-4dEpWVU%3D

According to The Economist, the main method used by this company to win contracts was to submit bids with low amounts and then ensure cost inflation through renegotiations with the State. Thus, the cost of a road between Brazil and Peru went from USD 800 million to USD 2,300 million through 22 addenda[27].

3. CRITICISM OF PPPs

According to the various investigations carried out and cases analyzed around the world, there are a series of problems surrounding PPPs, including fiscal costs and risks that are incorporated in the contracts, as well as those costs that are not necessarily perceived, but are there, and that often end up being assumed by the State, that is to say, by all taxpayers.

The lack of transparency in contract negotiations is one of the elements that allow PPP projects to end up being much more expensive than initially foreseen, starting with the direct costs contemplated in the contracts, which may vary throughout the duration of the project, and which may occur depending on the feasibility, availability or results achieved. Among these costs we can find those related to the cost of construction and maintenance of the asset, as well as the cost of capital, among others. On the other hand, we have the indirect costs, which are more focused on the transactions and negotiations that take place around the signing of the contract (Romero y Vervynckt, 2017)[28].

However, we can also find a series of hidden costs that are generated by events beyond the control of the parties and that become the so-called contingent liabilities. These liabilities are financial obligations assumed by the State upon the occurrence of unforeseen events, and may be of two types: explicit, for example in the event of a variation in the exchange rate; or implicit, which arise when the demand for the service is not as expected by the project.

Furthermore, these liabilities have the characteristic of not being incorporated in the balance sheets or financial statements, precisely because they are not transparent, which in the end has an effect on the public debt and on financial expenditures in the budgets. In other words, despite the fiscal restrictions that may exist and that place ceilings on public indebtedness, PPPs become a mechanism that allows hiding the increase in debt, which will have a significant effect on the economy in the long term (Lethbridge and Gallop, 2020)[29].

On the other hand, as Hall points out (2015)[30], PPP schemes "do not bring in extra money", since the money is obtained from existing financial sources already available to the State, such as development banks and pension funds. Added to this situation is the fact that the cost of capital is higher due to the higher interest rates available to the private sector compared to public entities, a financial expense that ends up being paid by the State. Efficiency is also is transferred to society since users may pay higher rates for the services provided under these mechanisms, especially in the case of monopoly operators.

27 https://www.economist.com/the-americas/2017/02/02/the-odebrecht-scandal-brings-hope-of-reform

28 https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/243/attachments/original/1591967900/Asociaciones_Pu%CC%81blico-Privadas.pdf?1591967900

29 https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1912/attachments/original/1607952623/PPPs_ES.pdf?1607952623

30 http://www.world-psi.org/sites/default/files/documents/research/rapport_sp_56pages_a4_lr_0.pdf

3.1 Civil Society Position

As we have already seen, there are a series of costs and risks that can affect the coffers of the States when they resort to PPPs, in addition to the fact that these schemes do not ensure the absence of acts of corruption. However, we can identify a series of costs that go beyond the merely fiscal aspect and extend to society as a whole if we consider the quality, as well as the prices of the services and assets involved in this type of projects. Taxpayers are also affected in their rights because the tax collection is used to pay and guarantee the investor's profits.

Civil society organizations have published a series of analytical papers on private finance and PPPs, highlighting the vulnerabilities and problems associated with PPP schemes, including fiscal costs and risks, lack of transparency and accountability, and impacts on the rights of vulnerable people and groups.

A publication by Eurodad (2018), conducted an analysis of ten cases from around the world and summarizes the findings, concluding that there are serious impacts from PPPs at various levels, such as on democracy, equality and fundamental rights, including human, social and environmental rights.

One of the cases described is that of the PPP project designed to improve the navigability of the Magdalena River in Colombia, which was not well planned and whose construction was not completed because the company was unable to obtain the missing financing. However, the preliminary works that had already been carried out negatively affected the environment of the river and its surroundings. Another case analyzed is that of the construction of a new airport through a PPP in Chinchero (Peru), which had a rather opaque renegotiation process that completely changed the financial structure of the project, causing a national scandal that led to the cancellation of the project.

To summarize, the most common problems associated with PPPs are (Lethbridge and Gallop, 2020):

- PPPs create hidden debts: the private sector arranges the financing and builds the infrastructure, while the State has to assume a fixed fee for the life of the contract.
- Higher financing costs: the cost of private financing is almost always higher compared to public borrowing.
- The State assumes the risk: having to bear the costs when the project fails, where three cases can occur: construction risk, demand risk, and availability risk.
- Value for money is not guaranteed: an analysis should normally be conducted with a tool called "Public Sector Comparator" (CSP)
- Lower costs lead to deterioration of quality: lower costs are not always related to higher efficiency and better service provision.
- Contract compliance is not ensured: private companies do not necessarily comply with project deadlines and budgets.
- Opacity contributes to corruption: there is very little transparency in contracts and project execution.
- Public policy priorities are distorted: since PPPs have to be commercially viable, political decisions are distorted.

3.2 Criticism of PPPs from the perspective of gender inequalities

The problems mentioned above have a greater impact, as always, on certain population groups, which should be the main beneficiaries of a policy that seeks to provide public services more efficiently. Among these groups are women, who are directly impacted by PPPs and whose rights are affected in various aspects of their daily life.

A report by Dawn (2021)[31] highlights the negative consequences of this type of project on women's access to health services, whose quality is affected, as well as the economic losses they suffer due to the increased out-of-pocket expenses they have to incur to access these services. The report also describes cases of people who are displaced, affecting access to basic resources such as water and forcing the loss of fertile land used for food production; or how PPPs deteriorate labor standards and worsen the working conditions of women who perform unpaid care work.

In addition, the report clearly points out the effects on the Treasury due to the renegotiation of contracts to the benefit of the private sector. In the case of the hospital in Peru, through the incorporation of addenda to the contract in successive years, the remuneration for investments went from the original USD 6.9 million to USD 8.6 million. The estimated operating cost for the public sector was expected to be USD 60 million versus USD 45 million for a specialized PPP operator, but the contract was signed for operating costs of USD 65.8 million, so that in the end the cost of the PPP was much higher than that of a public hospital.

31 https://dawnnet.org/wp-content/uploads/2021/03/DAWN_Informs_on_PPPs_March2021.pdf

CASE STUDY: PPPs in health and impact on women in Peru

In 2010, the Peruvian public health entity, EsSalud, signed a PPP contract for the Alberto Leonardo Barton Thompson Hospital for 30 years, a project of private initiative and self-financed by the consortium Callao Salud SAC, formed by seven Spanish companies. This project was characterized by a lack of transparency in the contract, in which the "value for money" criterion was not applied and the supervision controls were quite weak, lacking follow-up mechanisms or transparency.

Impact on service quality and coverage:

What was to be a Level III hospital became a Level II hospital in terms of the health services it offered, to the detriment of the insured, lowering its category and harming patients as they exceeded the hospital's care capacity and were referred to other care units. Of the thirteen quality and results indicators that do not meet their stated goals, six directly affect women's health.

Impact on labor rights:

The right to an uninterrupted workday was not respected, overtime was not compensated, nor was the maximum time of 150 hours per month for technical nurses and assistants. This was especially detrimental to women's income and also made it impossible to balance their time at home with their time at work. As a result, a union was formed, which, during the Covid-19 pandemic, denounced the lack of personal protective equipment, as well as poor labor practices in that hospital, where contracts were terminated, undermining the labor rights of many women.

Source: Dawn (2021)

Along the same lines, a paper by Eurodad (2019), prepared in partnership with Gender & Development Network and FEMNET, analyzes the link between PPPs and gender equity. It warns of the problems generated by these projects in the daily lives of women, given that the promotion of PPPs is motivated to a greater extent by a short-term vision that does not address structural problems, thus exacerbating gender inequalities even further.

According to the report, evidence shows that PPPs can exacerbate gender inequality in three ways[32]:

- PPPs are often more expensive and risk creating additional fiscal constraints that undermine the State's ability to deliver public services and infrastructure that achieve gender-transformative change and promote decent work for women.
- The pursuit of profit by private providers, and the lack of transparency in operations, restricts access to services for the most marginalized, thus undermining the ability of PPP projects to contribute to social objectives, including gender equality.

32 https://www.eurodad.org/ppp-gender

- This profit-seeking also limits the supply of 'decent work' for women within the projects operated by PPPs.

Women are more dependent on social services and infrastructure and have more restrictions in accessing them. In that sense it is necessary to expand the coverage and quality of basic services with a transformative approach that addresses the real needs and rights of women, in order to lay the foundations for moving towards more just societies with gender equality.

4. CONCLUSIONS AND RECOMMENDATIONS

Many Latin American countries have been implementing mechanisms to mobilize private investment, mainly under PPP schemes, with the supposed intention of closing infrastructure and service gaps to help achieve development objectives. However, research carried out in different parts of the world has exposed a number of bad experiences characterized by having affected fiscal accounts and being tainted with corruption, but above all for going against the rights of the local populations.

These mechanisms are promoted, financed and outlined by international financial institutions and development banks, which, led by the World Bank, have a strong presence in the region, not only to channel resources, but also to advise on the necessary regulatory and institutional changes. This, however, has not done much to ensure that the projects result in benefits for society. In the case of PPPs, risks are more easily verifiable than positive results in terms of impact and efficiency (costs).

Billions of dollars are needed annually to achieve the global goals set by the Sustainable Development Goals, as well as to combat climate change, but the current crisis caused by the pandemic has left many of our countries with fiscal problems and it will be almost impossible, at least in the short term, to recover their economies and meet other needs beyond the urgent ones. However, this does not justify indiscriminately promoting the intervention of private financing in development, since the private sector is more concerned with business profitability than with the welfare of the people.

Latindadd considers it important to address the issue from a perspective of justice and rights, in which the achievement of the Sustainable Development Goals and the recovery from the Covid-19 pandemic crisis should not be subordinated to how attractive or profitable it is for private capital. Rather these goals should be framed within new rules of the game that allow the mobilization of sufficient resources without risks or conditionalities for the public sector, and with full transparency and the most exhaustive technical evaluation in those interventions that involve the private sector.

In this regard, we point out some points that should be considered when considering the involvement of private financing in development, as well as the elements that the participation of financial institutions, such as the World Bank, should take into account in order to safeguard the sovereignty of States and the rights of individuals:

- Infrastructure is clearly very necessary in the region and there is a large investment gap that must be covered, but priority should be given to projects that enhance productive processes, with integration of value chains and based on sustainable activities that contribute to poverty reduction, the generation of decent employment, and the reduction of inequalities.

- The pandemic has revealed the need for the State to ensure the provision of public services and infrastructure, especially in health, since the private sector only intervenes when they generate "returns" and the quality of these services is not necessarily guaranteed.
- Private investment must be aligned with the plans and goals defined by the public sector within the framework of the country's development objectives, with participation in initiatives that not only benefit large investors, such as multinationals from the region or developed countries, but also seek greater participation of smaller-scale national companies.
- PPP negotiations should not only include a comprehensive cost-benefit analysis in terms of economic aspects of a public work, but also include an evaluation of the environmental and social impact in all its dimensions, as well as the implementation of free, prior and informed consultation processes, especially when it comes to infrastructure projects that impact the population and even mean the displacement of communities.

REFERENCES

- Alarco, G. (2015). ¿Negocio Público Privado? Ventajas y desventajas de las asociaciones públicas privadas (APP) en América Latina. Latindadd.
- Araujo, J.; Vostroknutova, E.; Brueckner, M.; Clavijo, M.; Wacker, K. (2016). Beyond Commodities: The Growth Challenge of Latin America and the Caribbean. Latin American Development Forum.
- Bajpai, R.; Myers, C. (2020). Enhancing Government Effectiveness and Transparency: The Fight Against Corruption (English). World Bank Group.
- DAWN (2021). PPPs & Women's Human Rights. Feminist Analysis from the Global South.
- Eurodad (2018). Historia repetida: Cómo fracasan las Asociaciones Público-Privadas.
- Eurodad (2019). Can public-private partnerships deliver gender equality?
- Hall, D. (2015). ¿Por qué las Asociaciones Público-Privadas (APPs) no funcionan? Las numerosas ventajas de la alternativa pública.
- IFC (2021). Mobilization of private finance 2019.
- IMF (2021). Mastering the Risky Business of Public-Private Partnerships in Infrastructure.
- Lethbridge, J.; Gallop, P. (2020). ¿Por qué las Asociaciones Público Privadas (APP) no son lo que aparentan? Eurodad y Federación Sindical Europea de Servicios Públicos.
- OECD (2019). Global Outlook on Financing for Sustainable Development 2019.
- Romero, M.; Vervynckt, M. (2017). Asociaciones Público-Privadas: cómo desactivar la bomba de relojería. Eurodad.
- Romero, M. (2015). What lies beneath? A critical assessment of PPPs and their impact on sustainable development. Eurodad.
- Scherer, N; Pérez, A.; Panadori, D. (2017). Mega-infraestructura como mecanismo de endeudamiento. El riesgo de deuda ilegítima, ecológica y de género.
- UNCTAD (2014). World Investment Report 2014.
- UNCTAD (2020). Trade and Development Report 2020: From Global Pandemic to Prosperity for All: Avoiding Another Lost Decade.
- United Nations (2021). Financing for Sustainable Development Report 2021.
- World Bank (2017). Private Financing of Public Infrastructure through PPPs in Latin America and the Caribbean.
- World Bank (2018). Mobilizing Private Finance for Development in Latin America and the Caribbean.
- World Bank (2021). World Bank Group Approaches to Mobilize Private Capital for Development: An Independent Evaluation.

Latindadd

Red Latinoamericana por Justicia Económica y Social