AFRODAD
AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

31 Atkinson Drive, Hillside, P O BOX CY 1517, Causeway, Harare, Zimbabwe
Tel: +263-4-778531/6 or 2912751-4, **Fax:** +2634747878, **E-mail**: info@afrodad.co.zw

MEDIA RELEASE

For Immediate Release

Public Private Partnerships (PPPs) report warns against the promotion of PPPs in development finance as heads of state gather for UN summit in Addis Ababa

(*Harare, Zmbabwe, 7 July 2015*): A new report examining PPPs as a way to finance development projects finds that they are risky and expensive and urges governments and financial institutions to stop hiding their true costs.

PPPs are agreements through which private financiers essentially replace governments as providers and funders of traditional public services like schools, hospitals and roads.

The report, *What lies beneath?: A critical assessment of public private partnerships and their impact on sustainable development* examines the nature and impact of PPPs ahead of the landmark Third Financing for Development (FfD3) conference to be held from 13-16 July in Addis Ababa, Ethiopia. It analyses existing literature on PPPs and the experiences of Tanzania and Peru, based on the findings of African Forum and Network on Debt and Development (AFRODAD), and Latin American Network on Debt, Development and Rights (LATINDADD).

European governments in particular, and financial institutions such as the World Bank, are planning to push the involvement of the private sector in development during the summit, despite the strong reservations of many experts in developing countries.

AFRODAD's Policy Officer for Trade and Private, Tarcicious Mufundisi said that most governments in developing countries are turning to PPPs for development and bridging the infrastructure gaps in their countries without much knowledge of the true costs and riskiness of PPPs.

"PPPs in most circumstances do not have positive development outcomes but rather are profit oriented from the point of view of the private partners who drive them. There is a lot of secrecy in the negotiations of PPPs by the public sector, who often takes most of the risks associated with PPP projects." argued Mufundisi.

He went on to say, "The report shows that although PPPs may not be the panacea to development needs of some developing countries, they have succeeded in other sectors mainly telecommunications. In cases of Tanzania and Peru successful PPPs are noted and have improved access to services for the people. However, in other sectors such as water, PPPs have terribly gone wrong like the experience of Tanzania where the water project in Dar es Salaam has to be cancelled. The Lesotho health PPPs is another bad example that has resulted in the PPP cost going up to US$ 67 million per year, three times what the old hospital would have cost today and in the process consuming more than half of the government's health budget.

Overall, the new report finds that:

- PPPs are, in most cases, the most expensive method of financing, significantly increasing the cost to the public purse.
- PPPs are typically very complex to negotiate and implement and all too often entail higher construction and transaction costs than public works.
- PPPs are all too often a risky way of financing for public institutions.
- The evidence of impact of PPPs on efficiency is very limited and weak.
- PPPs face important challenges when it comes to reducing poverty and inequality, while avoiding negative impacts on the environment.
- Implementing PPPs poses important capacity constraints to the public sector, and particularly in developing countries.

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- PPPs suffer from low transparency and limited public scrutiny, which undermines democratic accountability.

The major challenge that PPPs face include low transparency and limited public scrutiny which has the effect of undermining accountability. In some cases, PPP projects have resulted in public discontent due to higher costs and corruption allegations. (*see examples of problems that occurred in PPP projects in Notes to Editors below*).

This report shows that promoting PPPs in a non-critical way is a mistake. Governments and financial institutions should focus on developing the right tools at country level to identify whether and under what circumstances – it is desirable to use PPPs.

The report recommends that governments should stop hiding the true cost of PPPs and that decision-making about PPPs is more transparent and accountable. It also recommends that development outcomes are at the forefront of any project and that developing countries are in the driving seat when principles and criteria to assess and implement PPPs are developed. The main report, and a summary briefing, can be found here: www.afrodad.org/whatliesbeneath

"During the FfD conference in Addis, we urge developing countries' to put development outcomes of PPPs upfront rather than profit motives of the private sector.. Governments often hide the true costs of PPPs because they can keep the project and its contingent liabilities (or future potential debt) 'off balance sheet'."**//ENDS**

For more information, please contact Munyaradzi Nkomo, Information and Communications Officer at AFRODAD, on + 263 4 778531/6 or 2912751-4 E-mail: munyaradzi@afrodad.co.zw or info@afrodad.co.zw

Notes to editors:
Definition of a PPP in the report:
The acronym PPP is used to describe lots of very different types of arrangements. For this report, they are described as:

- A medium- or long-term contractual arrangement between the state and a private sector company;
- An arrangement in which the private sector participates in the supply of assets and services traditionally provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, water and sanitation and energy;
- An arrangement involving some form of risk sharing between the public and private sector.

Examples of PPPs:

1. The case of The Queen 'Mamohato Memorial Hospital in Lethoso. The hospital was built to replace Lesotho's old main public hospital under a public–private partnership (PPP) – the first of its kind in a low-income country. The PPP signed in 2009 was described as opening a new era for private sector involvement in healthcare in Africa, and was seen as the International Finance Corporation (IFC)'s flagship model to be replicated across the continent. Instead, the Ministry of Health in one of the poorest and most unequal countries in the world is locked into an 18-year contract that is already using more than half of its health budget (51 per cent), while providing high returns (25 per cent) to the private partner. Read more here: https://www.oxfam.org/sites/www.oxfam.org/files/bn-dangerous-diversion-lesotho-health-ppp-070414-en.pdf

2. The Bus Rapid Transit in Dar es Salaam, Tanzania. The Dar es Salaam Rapid Transit (DART), selected as the Bus Rapid Transit forerunner in Africa in the early 2000s, faces implementation delays up to the present day. According to research from the University of London, the World Bank has been one of the

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main promoters of this project, providing funds linked to the PPP model for its implementation: "a conditionality attached to World Bank lending is that private companies operate the buses, [while] the public sector oversees the systems and carries out quality controls on the service providers." The conclusions of the research shows that the "slow progress of DART stems from the tepid commitment to the project by the Tanzanian government, which reflects its attempt to bring into harmony the conflicting interests of the World Bank and the demands of a number of local actors to whom it is electorally accountable."

The Financing for Development Summit:

The Financing for Development Conference (FfD) will take place in Addis Ababa 13-16 July 2015. It is a summit during which world leaders will decide how to finance the Sustainable Development Goals, which will guide nations in their objective to eradicate poverty by 2030. More information can be found here: http://www.un.org/esa/ffd/