

Public-Private Partnerships, Financial Extraction and the Growing Wealth Gap:

Exploring the connections

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I've been asked to talk about the "international experience of Public Private Partnerships"

No one agrees on what Public Private Partnerships (PPPs) actually are. Definitions range widely. But here's how the International Monetary Fund defines them:

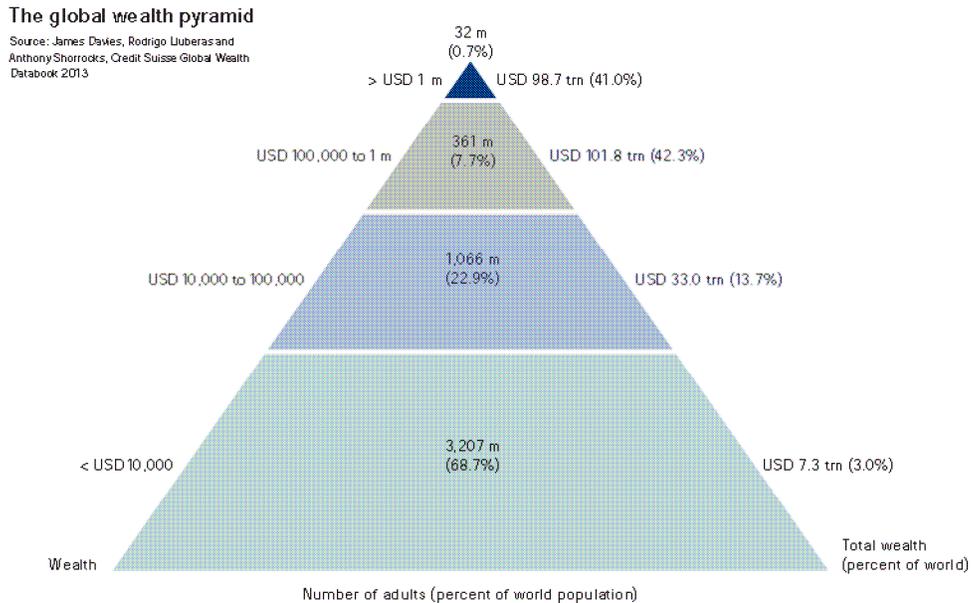
"An arrangement where the private sector supplies *assets and services that traditionally have been provided by the government*. In addition to private execution and financing of public investment, PPPs have two other important characteristics: there is an emphasis on service provision, as well as investment, by the private sector; and *significant risk is transferred* from the government to the private sector" (emphasis in original).¹

But don't accept that definition at face value. In fact, like many other definitions of PPPs, the IMF's should carry a mandatory political health warning because:

- The assets and services that the private sector supplies under PPPs are **NOT** what have "traditionally . . . been provided by the government", but are "something else entirely, new inventions framed for the market".²
- The IMF line about *significant risk* being taken on by the private sector is very much disputed.
- Indeed, much of the controversy over PPPs revolves around *who takes what risks* and *for whose benefit* – and how infrastructure is being transformed into an asset class for the market.

It is that controversy that I want to explore. And I want to do so through the lens of “financial extraction”. I will explain more about what I mean by this as we going along.

I would like to start with some figures – not on PPPs but on the growing wealth gap between rich and poor, both in the North and in the South.³



This may seem an odd starting point given the topic but please bear with me.

The figures are pretty shocking. As this pyramid diagram (from a recent Credit Suisse report)⁴ shows:

- The 3.2 billion people at the bottom of the pyramid (69% of the people in the world) have individual wealth⁵ valued at less than \$10,000 and collectively own less than 3% of total available assets;⁶ while . . .
- The 32 million at the very top (less than 1% of the world’s adult population) together hold some \$98.7 trillion or 41% of global wealth.⁷

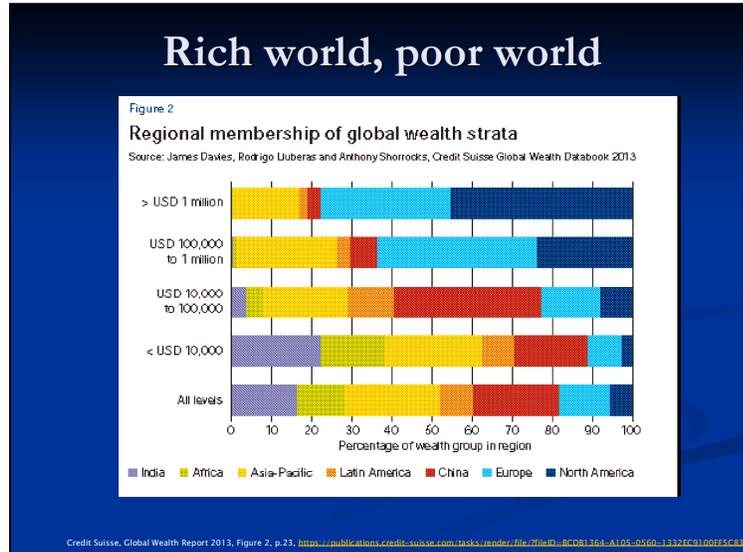
A recent Oxfam report, *Working for the Few: Political capture and economic inequality*, graphically captures the extent to which wealth is now concentrated in fewer and fewer hands.⁸

As reported in *The Guardian* newspaper, the group calculates that:

“the richest 85 people on the globe – who between them control as much wealth as the poorest half of the global population put together – could squeeze onto a single double-decker [bus]”.⁹

To give some sense of how much money these 85 plutocrats have between them, if you were to spend two million dollars a day for the next 1000 years, you would still be left with mountainous pile of 300 million dollars in spare change.

The figures also detail the stark divide between the wealth in the United States and Europe, and that of the rest of the world.



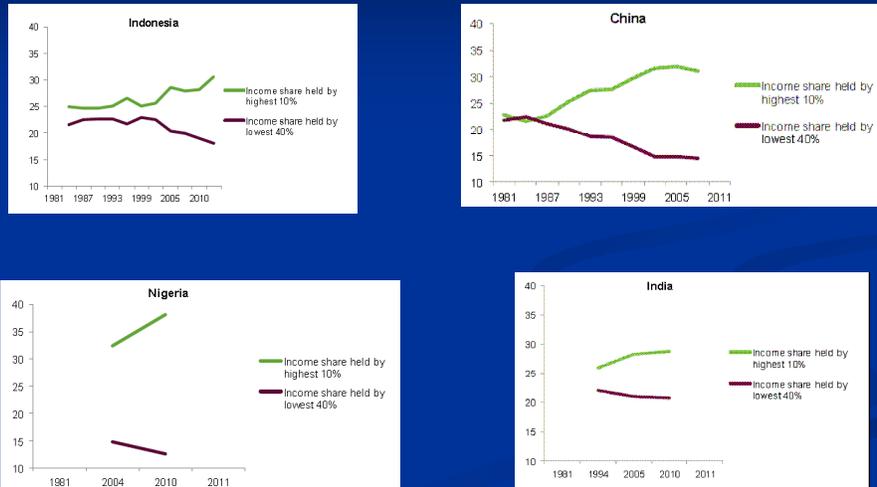
The vast majority of people at the bottom of Credit Suisse’s pyramid are in the global South, whilst the US and Europe have the largest number in the top 1%.¹⁰

Moreover, that divide has increased massively in the past 50 years. As Rules.org, an international movement focused on exposing and challenging inequality, reports:

“During the colonial period, the gap between the richest countries and the poorest countries widened from 3:1 to 35:1, as European powers extracted massive amounts of wealth and resources from their colonies. Post-independence, the gap has not narrowed but widened: it is now 80:1.”¹¹

The gap between rich and poor is not only widening globally and regionally: it is also widening *within* countries. Here are some graphs for some middle-income countries: Indonesia, China, Nigeria and India.

Income share in middle-income countries



Source: Oxfam, *Working for the few: Political capture and economic inequality*, Oxfam Briefing Paper 178, 20 January 2014, http://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-working-for-few-political-capture-economic-inequality-200114-en_3.pdf

The green line, going up in all the graphs, represents the income share held by the 10% of people at the top of the pile over the past 30 years or so, while the purple line, going down overall, represents that held by the 10% at the bottom of the pyramid.

Overall, Oxfam's figures show that:

- Seven out of ten people live in countries where economic inequality has increased in the last 30 years.¹²
- The richest 1% increased their share of income between 1980 and 2012 in 24 out of 26 countries for which data is available.¹³

For the United States, where the rich-poor gap is greater than in any other industrialised society, research reveals:

- “The average income of the top 1% of earners increased about 31.4 percent from 2009 to 2012, while wages for the other 99 percent essentially stood still.”¹⁴
- The wealthiest one percent captured 95 percent of post-financial crisis growth since 2009, while the bottom 90 percent became poorer.¹⁵

Thanks to movements such as Occupy! and academics such as Thomas Piketty (whose data rich book, *Capital in the 21st Century*,¹⁶ is a global best seller), the worldwide wealth gap is now well documented, even if Piketty's analysis of the causes falls wide of the mark.¹⁷

Activist academics, such as Richard Wilkinson and Kate Pickett,¹⁸ have also done much to detail the deleterious social effects of inequality, for instance, through their book: *The Spirit Level: Why Equality is Better for Everyone*..

And it is not just Lefties who are concerned: the very rich themselves are beginning to worry – the World Economic Forum (the club that arranges an annual gathering of global elites in the Swiss mountain village of Davos) ranks income inequality as the number two threat to global stability (theirs not the 99%’s).

Much too has been written on the underlying drivers of the growing wealth gap. I am not going to explore these debates, important as they are: suffice it to say that few have improved on Marx’s analysis of the inevitable tendency of capital to produce inequalities.

Instead I would like to pick up on a comment made by Will Hutton, the former editor-in-chief of *The Observer* and now Principal of Hertford College, Oxford. This is what he had to say:

“ . . . Growing inequality menaces vigorous societies. *It is a proxy for how effectively an elite has constructed institutions that extract value from the rest of society.*”¹⁹

It is an obvious point: inequality does not come about by itself.

But it furnishes a useful lens through which to view Public Private Partnerships – and one that may yield different insights to those provided by more mainstream discussions over whether, for example, PPPs offer value for money.

Some questions:

Are PPPs, as claimed by their promoters, mechanisms for spreading wealth downwards (“Helping to eliminate poverty through private involvement in infrastructure” in the words of the World Bank)?

Or are they part of an infrastructure of wealth extraction that channels wealth upwards?

And, if so, how?

According to the World Bank:

- The private sector now contributes about 15–20 percent of total infrastructure investment”.²⁰
- PPPs are now used in more than 134 developing countries.²¹
- PPPs are back on the rise in the aftermath of the 2008 global financial crisis. The value of PPP projects now amounts to \$79 billion *per year* on average.²²
- Although initially restricted to infrastructure, PPPs have increasingly moved into the provision of “social infrastructure,” such as schools, hospitals, and health services.²³

- Much of the growth of PPPs has been captured by middle-income countries (MICs) and in two regions, Latin America and the Caribbean and East Asia and Pacific.²⁴

PPPs: 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, modernises, 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.
Sources: International Monetary Fund, <i>Public-Private Partnerships</i> , 12 March 2004/ Reality Check July 2011	

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PPPs come in many forms, giving rise to a bewildering array of acronyms . . . BOOs, BOTs, BLOTS, BOOTs, BROTS and so on . . .

Each represents a slightly different arrangement, or contract, between the private sector and a government as to who designs, builds, finances, owns, develops, operates and manages an asset over how many years.

But they all share one feature in common: they provide private companies with contract-based rights to flows of public money or to monopoly income streams from services on which the public rely. So, for outsourcing, PFI and BOTs, the income stream is a contract with a public authority. For concessions and leases, the income is from fees from a captive pool of users.

		Out-sourcing	PFI	Conces-sion	Lease	BOT
Operation	Operation of service	X	X	X	X	X
Finance	Capital investment financed by private operator		X	X		X
	Recouped by user charges			X	X	
	Recouped by contract from municipality	X	X			X
Construction	Construction of asset by private company		X	X		X
Ownership	public during and after contract	X	X	X	X	
	private during contract, public after			X		X
	Private indefinitely					

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To understand the importance of these contractual rights to flows of public money, or money from a captive set of consumers, such as water users, it is critical to understand that the private investors do not view “infrastructure” as simply bricks and mortar. In the words of Jean Perarnaud of Partners Group, a private equity investment management firm:

“For us, infrastructure is stable, contracted cash flow for the long term.”²⁷

And it is precisely such contracted cash flows that PPPs provide.

The contractual nature of the “rights” that PPPs establish is important because, unlike subsidies, such as tax breaks, they cannot be removed at the government’s discretion. Once in place, they are enforceable for the length of the contract, which is usually several years, if not decades.

In effect what provide private companies with what CRESC (Centre for Research on Socio-Cultural Change) has termed “liens on the state” – legal rights to keep the state’s infrastructure until the state has paid its debts to the companies. This is the defining characteristic of Public-Private Partnerships.

A recent report by accountants Deloitte²⁸ sets out some of the contractual mechanisms through which PPPs establish liens on state or public funds:

- **Cash subsidies**

“The government or public authority agrees to provide a cash subsidy to a project. It can be a total lump sum or a fixed amount on a per unit basis, and payments can be made in instalments or all at once.”²⁹

Example: a government may agree to subsidise the toll fares of say buses (often themselves run under PPPs) in order to allow poorer users access to, say, privately-owned and operated motorways.

- **Payment Guarantees**

“The government agrees to fulfil the obligations of a purchaser (typically a publicly-owned enterprise) with respect to the private entity in the case of non-performance by the purchaser.”³⁰

Example: a private company operating a dam has a power purchasing agreement with a state-owned utility to take the electricity generated by the dam at a specified dam. The utility fails to honour the agreement because it can get cheaper electricity from another source. So the government steps in and guarantees the payments.

- **Revenue guarantees**

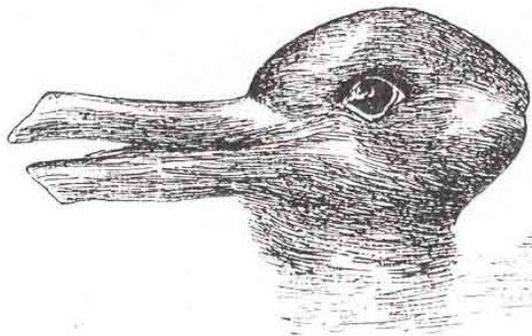
“The government sets a minimum variable income for the private partner, typically this income is from customer user fees.”³¹

Example: the government enters into an agreement with a toll road operator to guarantee a minimum income stream. If the volume of traffic falls below an agreed level, the government makes up the loss.

See what you will

There is little doubt, then, that PPPs enable the extraction of wealth from the public by the private sector.

The key question is: whose interests does that extraction serve?



- Are PPPs a means to harness the private sector the private sector to public policy goals?
- Or are they a means of harnessing the public sector to private profit making?
- Or does their outcome depend on the balance of political forces?

What you see and which answer to the question you end up with is likely to depend on the political lens through which you view public-private partnerships in “infrastructure”.

Neoliberals, for example, champion PPPs on the grounds that:

- Private ownership is better than public ownership because it brings competition, and thus lower prices.
- But some services (piped water provision, for example) involve natural monopolies – so competition cannot be easily engineered.
- PPPs are an appropriate response to “such market failures” by bringing private sector disciplines to public projects.
- PPPs bring “improved operational efficiency” and improved efficiency lowers costs and thus brings better value for money. For example, accountants PriceWaterhouse Coopers state:

*“The principal reason for using PPPs is that, where the project is suitable, they can deliver better value for money than the alternatives.”*³²

- The public sector just doesn’t have the resources to build the infrastructure that developing countries need. The Asian Development Bank pegs spending for the Asian region alone at \$750 billion a year between 2010 and 2020, or a total of some \$8 trillion.³³ PPPs will help to “bridge the “infrastructure gap” by reducing costs and bringing in private finance.³⁴
- Improved infrastructure spurs economic growth that, through so-called ‘trickle down’, “eventually reaches the poor” (a logic that underpins the the majority of World Bank interventions in support of PPPs).³⁵
- PPPs are therefore an instrument for poverty eradication.

But critics argue:

- The claimed benefits of PPPs (improved efficiency, lower costs, poverty reduction) do not stand up. In Uganda, for instance, analysis of the experience of over 30 local government units where the private sector provided public services found that:

*“Contrary to theory, private involvement in local service delivery does not imply the attainment of higher levels of efficiency”.*³⁶

- Infrastructure does not automatically translate into improvements for poorer people: infrastructure is not politically neutral.

- ❑ PPPs are less about financing development (which is at best a sideshow) than about developing finance.
- ❑ PPPs are about constructing the subsidies, fiscal incentives, capital markets, regulatory regimes and other support systems necessary to transform “infrastructure” into an asset class that yields above average profits.³⁷
- ❑ PPPs are thus primarily part of a wider response of capital to a crisis of overaccumulation – too much sloshing around the system in search of fewer and fewer profitable investment opportunities.

I will explore that last point in much greater detail later in this talk. But right now I’d like to look at how the claims made for PPPs by the World Bank and other neo-liberal advocates stand up to scrutiny.

I’ll do so by looking at the findings of a report published earlier this month (July 2014) by the Bank’s own internal evaluations group (IEG), which examined the outcomes of the Bank’s support for PPPs over the past ten years.³⁸

PPPs are a flagship policy of the World Bank group – they are viewed as “critical” to achieving its development goals.³⁹

Its lending for PPPs has increased threefold over the past ten years.⁴⁰

Much of the Bank’s lending went to creating creating “an enabling environment so that countries can engage in PPPs”⁴¹ – that is, on *reregulating* so as to allow states to practice PPPs.

Under World Bank tutelage, numerous developing countries have now introduced PPP legislation – indeed, their deemed ‘investment risk’ (and to an extent credit rating) is in part determined on the ‘quality’ of the PPP legislation they have put in place.⁴²

Over the period 2002-2012:

- The Bank’s private sector arm (the International Finance Corporation (IFC)) “invested in 176 PPPs with total commitments of \$6.2 billion”.⁴³
- The Multilateral Investment Guarantee Agency (MIGA), which provides guarantees to investors, “supported 81 PPP projects through political risk insurance (PRI), with total \$5.1 billion gross exposure”.⁴⁴
- The IFC PPP Advisory Services “completed 140 transactions, with total expenditure of \$177 million”.⁴⁵
- The International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA) “approved 353 lending and partial risk guarantee (PRG) projects during FY02–12 with a PPP component totalling \$7.6 billion”.⁴⁶

But the Bank's *own internal evaluation* reveals :

- **“Data on the actual long-term performance of PPPs are rare”**⁴⁷
For the IBRD, “*no systems exist at all that would track performance of PPPs post project closure*”, that is beyond the date at which loans were fully disbursed.⁴⁸
- **The main measure of success is “business performance”**⁴⁹
The Bank's definition of “development success” is whether or not a PPP deal proved a commercial success. The assumption is that if it was good for business, it must be good for the country as a whole and the poor in particular (‘trickle down’ again).
- **“It cannot, however, be assessed how far PPPs benefited the poor, as large data gaps exist.”**⁵⁰
The Independent Evaluations Group (IEG) comments:
*“Despite the Bank Group’s central goal of fighting poverty— reaffirmed by the new strategy’s dual goal of ending extreme poverty and promoting shared prosperity— little is recorded on the effects of PPPs on the poor.”*⁵¹

*“Confirmation that access did improve for the poor was only recorded in about 10 percent of cases”*⁵² – so for 90 per cent of cases, there is a possibility that access declined
- **Downstream contingent liabilities are rarely quantified at the project level**⁵³
This is a glaring omission. As the IEG notes that “*The assessment of public sector liabilities triggered by a PPP project is of utmost importance.*”⁵⁴
- **Results for improved efficiency were “mixed”.**⁵⁵

Below is a table and a chart from the IEG report that substantiate the above points about inadequate data.

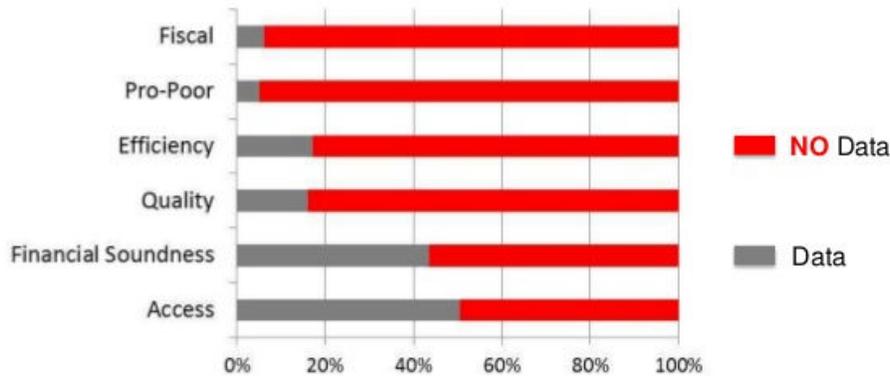
Table 4.1. Availability of Results Data for World Bank Group–Supported PPPs

	IFC investments	IFC advisory services	MIGA guarantees	World Bank loans / PRGs
Total number of PPP projects	147	105	62	128
Of these, number of operationally matured/closed PPPs (and for World Bank loans classified as “major”)	99	n.a.	47	27
PPPs with results data—at least one dimension	60	6	12	20
PPPs with results data—all dimensions	0	0	0	0
Access	50	5	6	14
Pro poor	5	0	1	3
Quality	14	2	3	10
Efficiency	17	3	3	8
Financial	43	1	4	6
Fiscal	6	3	2	1

Source: IEG.

Note: For IFC advisory services, data are based on the six available post completion reports on PPPs. Objectives Pursued with PPPs. PRG = partial risk guarantee.

PPP’s effect on the poor unknown



The red lines indicate that the Bank has *no data* on the results of 147 PPP projects supported by the World Bank Group in the six dimensions of fiscal, pro-poor, efficiency, quality, financial soundness and access. The largest red lines at the top are those for no data on the fiscal and pro-poor results of the projects.

There is also a vast discrepancy between what the World Bank claims as success stories and actual outcomes on the ground.

I would like to focus on one project in Lesotho.

In 2011 Lesotho replaced its main public hospital, the Queen Elizabeth II, with the Queen 'Mamohato Memorial Hospital, a new 425-bed facility supported by a network of refurbished urban clinics.⁵⁶

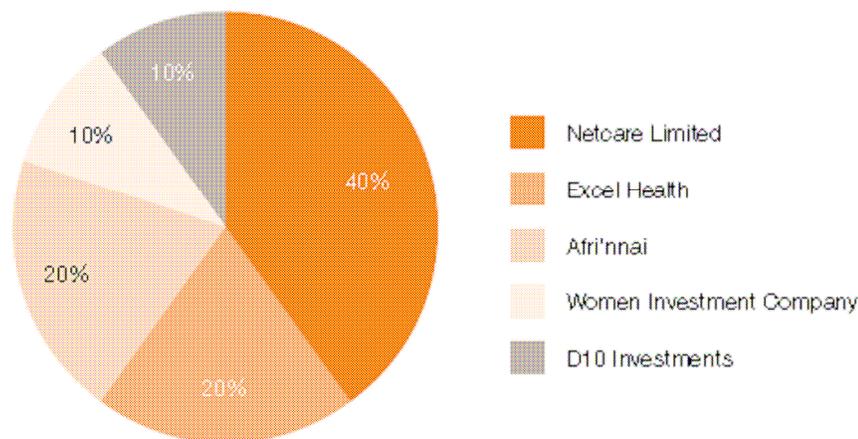
The new hospital was a public-private partnership. All the facilities were designed, built, financed, and operated by a private consortium called Tesepong under a PPP arrangement that included clinical services.⁵⁷

The PPP was the first for a hospital in Africa and the first of its kind for a low income country anywhere in the world.⁵⁸

The Infrastructure Advisory Services Department of the World Bank's private sector arm, the International Finance Corporation (IFC), advised the government in structuring the PPP.⁵⁹

Tsepong is Special Purpose Vehicle⁶⁰ owned by five companies:⁶¹

Figure 4 – Tsepong equity stakeholders:



- **Netcare Limited (40%)**⁶²
A for-profit investment holding company that “operates through its subsidiaries the largest private hospital network in South Africa and the United Kingdom (UK)”.⁶³ In 2010, it reportedly pleaded guilty to undertaking illegal organ transplants in South Africa.⁶⁴
- **Excel Health (20%)**⁶⁵
A private company, registered in Lesotho, that, according to recent court documents, that was “established in 2005 by a group of medical doctors to serve as a vehicle for furthering their common business interests”.⁶⁶ The company is jointly responsible with Afri'nnai (see below) for providing the hospital with doctors.⁶⁷

- **Afri'nnai (20%)**⁶⁸
Described by accounts PWC as “*an investment company for doctors and medical specialists from South Africa*”. Together with Excel Health, it is responsible for supplying doctors for the hospital.
- **Women Investment Company (10%)**⁶⁹
An investment company for Basotho women that has been sub-contracted to supply housekeeping and other ‘soft’ services for the new PPP hospital.⁷⁰
- **D10 Investments (10%)**⁷¹
The investment division of the local Chamber of Commerce that has been sub-contracted to supply transportation and other services for the new PPP hospital.⁷²

Here’s what the IFC claims about the QMMH hospital:

- “*The Lesotho project is affordable for the government*”.⁷³
- The Lesotho government “*will not pay much more for the PPP than it currently spends on the Queen Elizabeth II, yet it will receive vastly improved facilities, medical services, and patient care*”.⁷⁴
- “*The project has also ensured maximum risk transfer to the private operator, protecting the government from most of the financial, operational, and legal risks inherent in a project of this nature.*”⁷⁵

The project is seen as a flagship model to be replicated across Africa.

And here’s what a detailed report on the Lesotho hospital project by two non-governmental organisations, Consumers’ Protection Association (Lesotho) and Oxfam International, found⁷⁶ – a very different story.

The groups report that the PPP hospital and its three filter clinics:

- “. . . cost \$67m per year to run – at least three times what the old public hospital cost”.⁷⁷
- “. . . consume more than half (51 per cent) of the total government health budget”.⁷⁸
- Costs are expected to spiral still higher: the private provider is seeking compensation from the government for a rising wage bill that has resulted from an increase in the salaries of public sector workers, which has created staff retention problems in the private sector where wages are lower.⁷⁹ This and other costs will require government health spending to rise by 64 per cent over the next three years, with 83 per cent of the spending being taken up by the PPP.⁸⁰
- “. . . are diverting urgently needed resources from primary and secondary healthcare in rural areas where mortality rates are rising and where three-quarters of the population live”⁸¹

- Cost the government so much that it believes it will be “more cost effective to build a brand new district hospital in the capital to cater for excess patients rather than pay the private partner to treat them”.⁸²



Who took the risk: the public sector or the private sector? Construction of the hospital cost \$153 million is financed through a mix of public and private funds

On the **public** side, the Lesotho Government put in:

- \$47.5 million as a direct capital payment in order to reduce project debt and improve the project’s risk profile for the Tsepong consortium.⁸³
- \$10.2 million in “enabling works”, such as bringing sewage system, electricity etc to hospital site.⁸⁴

On the **private** side, the consortium put in . . . \$474,665 in equity capital.⁸⁵

The Tsepong consortium also received a \$94.9 loan from the Development Bank of South Africa.⁸⁶

The loan agreement with this Bank, however, was signed not by Tsepong but by the Government of Lesotho, which provided guarantees – if the consortium defaults on the loan, the Bank comes after the Lesotho Government.⁸⁷ The agreement ends up as an off balance sheet liability – incidentally, it is worth ten times the annual budget of the health ministry.

But because it is the Consortium that will repay the loan from the fees it recovers from the Government, the loan is “credited” in the accounts as a *private* sector contribution.

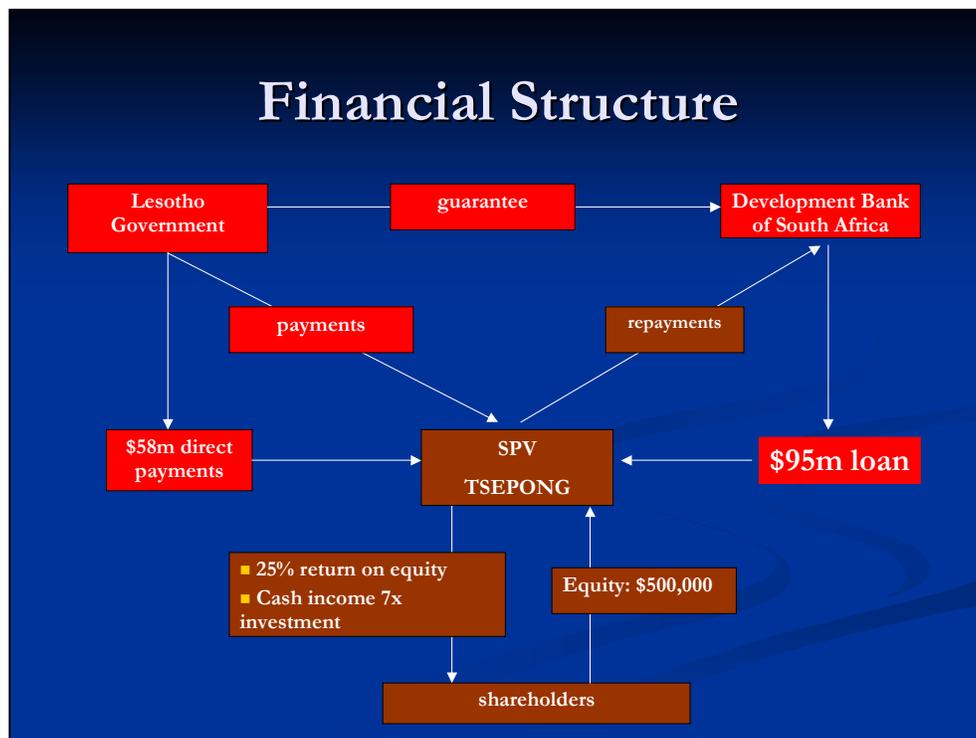
In fact, in terms of risk, it should be on the *public* not private side of the equation.

And where did the money for the loan come from? A *public* development bank. The Development Bank of South Africa is wholly owned by the South African Government.

So actually 99% of the money that paid to build the new hospital could be said to be “public” money.

And all but a fraction of the financial risk ultimately falls on the Lesotho Government. This is particularly worrying given that Tsepong is already reported to have defaulted on a number of its loan repayments.⁸⁸

Just to make this a bit more visible, the red in the diagram below is “public” money – that is money coming from the government or from public banks with a government guarantee – and the brown is “private” money – that is, coming from the private consortium.



According to LCPA/Oxfam:

- The PPP is expected “to generate a 25% of return on equity for the PPP shareholders and a total projected cash income 7.6 times higher than their original investment”.⁸⁹

- This compares with rates of return of 13% for PFI hospitals in the UK – “*a rate already considered to be highly profitable*”.⁹⁰
- The IFC structured the contract to yield 25%.⁹¹

Netcare, the main shareholder in the consortium, rejects the findings of the LCPA/Oxfam report.

- It describes the project as “*a major success story in terms of significantly widening access to quality healthcare for the people of Lesotho and providing patients with healthcare services previously not available.*”⁹²
- It denies that the returns will be 25%, as LCPA/Oxfam state.
- Instead it estimates a return “*of between 13% and 18%*”.⁹³
Netcare states: “*This investment was made with an expectation of earning a return that compares with the norm on similar hospital Finance Initiative projects in the UK of between 13% and 18%, notwithstanding the higher cost of capital in emerging markets. There have been no distributions to shareholders to date, with all cash generated reinvested in the health facilities.*”

But even at 13 to 18 per cent, the returns on a project where the risks are, in the final analysis, borne by the public are of questionable justification – and all the more so when it is the taxpayers in one of the poorest countries of the world who are underwriting these returns, or rather private profits.

Is this trickle down? Or extraction up?

The total investment made by the consortium in the project is \$95.37 million – consisting of \$474,665 in equity and \$94.9 in debt. Even at a rate of 13%, the expected return on that investment amounts to some \$12.3 million – not bad for an upfront equity investment of just under half a million dollars.

These returns will be shared by the Consortium. Some 60 per cent will go to companies *outside* of Lesotho – Netcare and Afri’n nai. The bulk of the returns (40%) will go to Netcare and its shareholders.

So who are Netcare’s shareholders?

According to Netcare,⁹⁴ financial institutions hold the majority of its shares. Major investors include:

- banks (4%)
- insurance companies (9.25%)
- pension funds (36.7%); and
- collective investment schemes or mutual funds (39.43%).

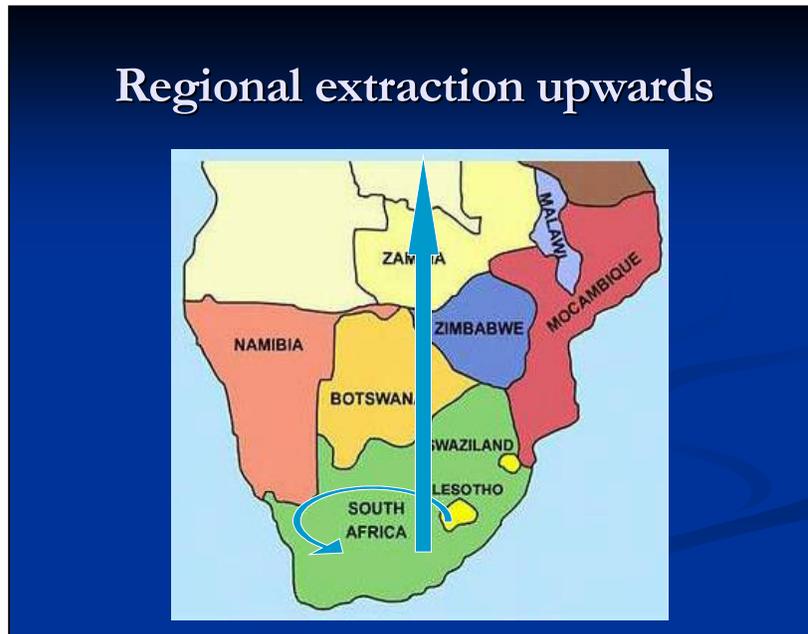
And where are these institutional investors based?

Netcare does not give details, but research of financial market websites indicates that the top 10 investors are all South African-based.⁹⁵

Public Investment Corp Ltd.	248,130,668	16.8%
Netcare Ltd.	146,000,000	9.89%
Elvenwood Investments Pty Ltd.	72,004,169	4.88%
Old Mutual Investment Group (Pty) Ltd.	68,565,797	4.64%
Allan Gray Unit Trust Management (RF) (PTY) Ltd.	64,290,010	4.35%
Netcare Fund	54,514,237	3.69%
Liberty Group Ltd. (Investment Management)	43,927,541	2.98%
Prudential Portfolio Managers (South Africa) (Pty) Ltd.	32,863,755	2.23%
The Vanguard Group, Inc.	31,037,129	2.10%
Stanlib Asset Management Ltd.	28,834,019	1.95%

And it isn't the poor in South Africa, those at the bottom of the wealth pyramid, who invest in all these funds and companies. It is, by and large, the 1%.

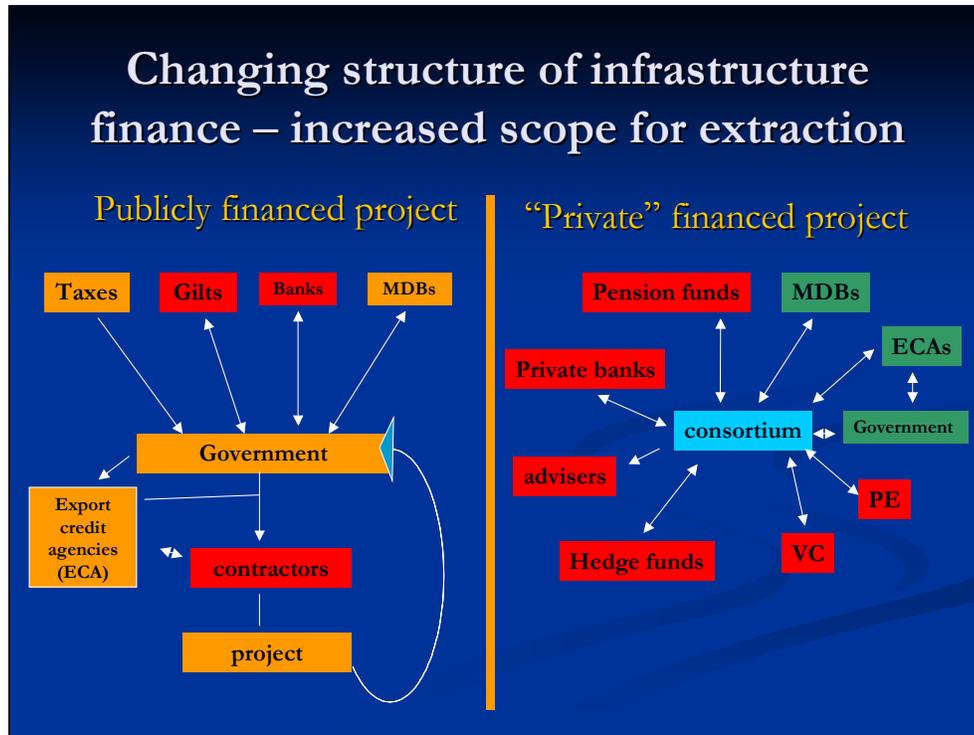
So one form of extraction would seem to be **OUT** of Lesotho and **UP** to the 1% in South Africa if not more globally.



This is bad enough. But PPPs (and other forms of private sector finance) offer still more possibilities for extraction.

Until the 1990s, the vast majority of infrastructure projects in the developing world – from water treatment plants and drinking water supply systems to telecommunications networks, power stations, dams, railways, roads and ports – were funded by national governments.

The finance was largely raised through taxation, government-back bonds or loans from multilateral development banks (MDB), the World Bank, for instance, that are owned by wealthier governments.



The role of the private sector in financing infrastructure was minimal and the scope for private profit-making was limited.

But the last two decades have seen the involvement of the private sector increase substantially.

Raising the finance for infrastructure now involves multiple new institutional actors – from private equity and venture capital funds to hedge funds, private banks and pension funds – each taking fees and profits along the way.

These various players have carved out their own specific niches for extracting profit.

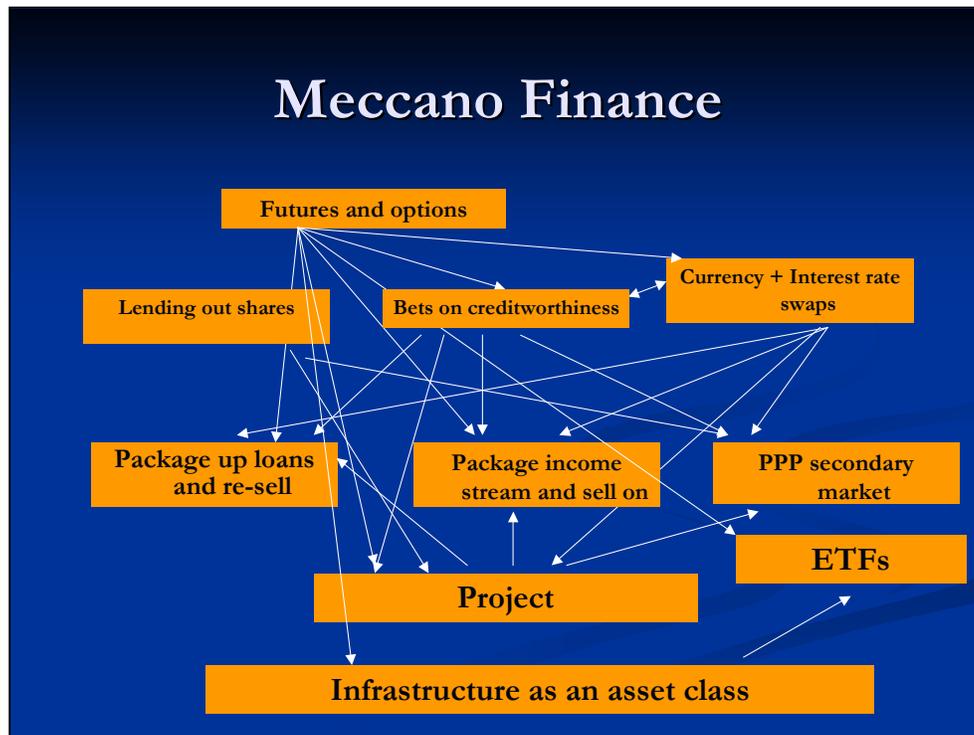
For example, **Venture Capital** (VC) funds may put in money at a very early stage of project development, gambling on being able to win regulatory exemptions or other advantages that make the project more bankable.

VC funds may then sell out to **Private Equity** (PE) funds, which invest in the companies in the consortium putting the project together, selling out when a portfolio of projects has been put together. Typically they will be looking for 30% plus returns.

Pension funds then move in, looking to stay for the longer term. And so on.

Infrastructure projects have now become a base for constructing multiple means for extracting private profit:

- Loans to projects, from banks and private equity funds, can be parcelled up, with the right to their income stream sold on to investors through derivative-based Collateralised Loan Obligations. (Derivatives give you the right to the performance of an asset, not ownership of the asset itself.)



- Credit default swaps and other bets can be made on the credit worthiness of the companies involved in a project.
- Shares in the companies building a project can be loaned out for hedging purposes.
- The bill-paying public becomes a “human revenue stream” whose monthly payments can be securitised.
- PPP contracts can be sold on secondary markets after projects are up and running.

Infrastructure projects have become generators of multiple financial instruments, criss-crossing sectors and commodities that anyone, not just the owner of the plant, can buy and sell.⁹⁶

A single project thus becomes a means of constructing millions of dollars worth of ancillary trading, mainly for the purpose of hedging risks.

Public-Private Partnerships are key to this process, since they provide the stable, guaranteed income streams that can be transformed into financialised products that are then used to increase profits.

But the process of extraction upwards does not stop there.

As the private sector becomes increasingly influential in infrastructure, the state or public sector has become more and more aligned behind the interest of infrastructure investors and private companies

The choice of infrastructure is now heavily influenced by what serves the long-term profit-making interests of the private sector.

The direction of travel is profoundly undemocratic. A few thousand fund managers increasingly decide what gets funded.⁹⁷

Little funding for example is available for rainwater harvesting schemes or off grid community-owned and operated power.

There is simply not enough money to be made out of them.



But increasing sums *are* available for (PPP-secured) toll roads, ports, railways and so on that benefit private corporations, often at the expense of poorer people.



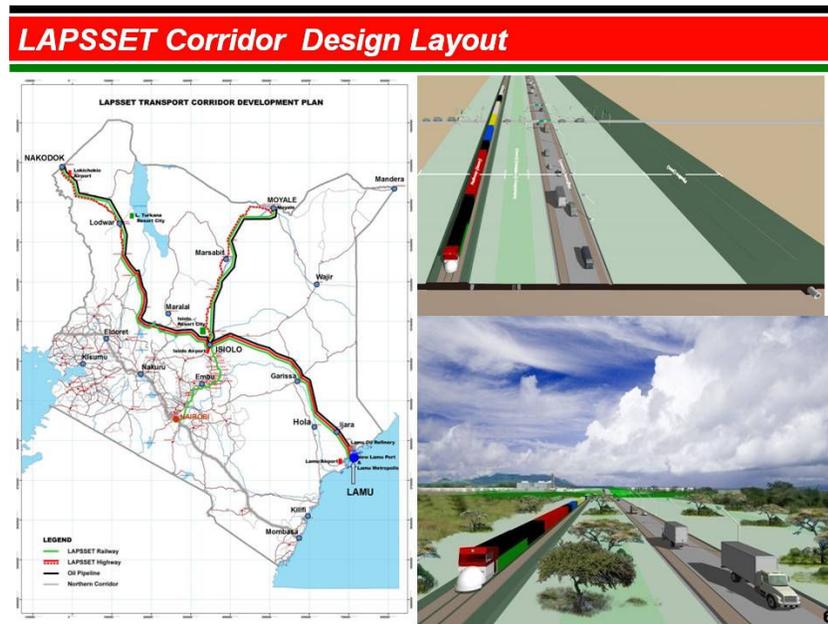
India's **Infrastructure** Funding Needs

COST \$ BILLIONS

POWER	ROADS	TELECOM	RAILWAYS	PORTS	AIRPORTS	TOTAL
\$243	\$107	\$49	\$29	\$7	\$5	\$440

Much of this infrastructure is intended to create corridors for extracting raw materials from the South, channelling them to low wage assembly centres and shipping them sale in the North.

One corridor is LAPSSSET – the **Lamu Port Southern Sudan-Ethiopia Transport (LAPSSSET) Corridor**.⁹⁸



The aim is to create a transport corridor that can extract minerals, agricultural produce and, of course, oil from South Sudan – and eventually central Africa.

It is intended to finance the infrastructure almost entirely through PPPs.⁹⁹

In sum:

- Public-Private Partnerships – PPPs – enable the extraction of public wealth for private gain.
- The extraction is not only financial but often also physical.
- The direction of extraction is upwards.
- **PPPs** are best viewed as **constructed institutions** that **extract value from the rest of society**.

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