SDG 9

Towards a new approach to public infrastructure provision

BY DAVID BOYS, PUBLIC SERVICES INTERNATIONAL (PSI)

Public infrastructure and services are the bedrock of our societies – they help families thrive, they allow communities and businesses to grow and prosper, they provide support for people in need. They include health and social services; education; water and sanitation; energy; public transport; roads; land use planning (both urban and rural); justice, security and more. These core government responsibilities are one of the main guarantors of fulfilling human rights and reducing poverty.

Although the UN's 2030 Agenda implicitly acknowledges the fundamental role of public services and the importance of universal access, its Financing for Development policies and the emphasis in SDG 17 on partnerships are pushing us towards the private, for-profit model. This even as the for-profit model demonstrates its inability to ensure universal access, especially for the poor. Therefore, a different framework is needed, one that rebalances the needs of people and planet over profit.

The promotion of private sector engagement in implementing the SDGs rests upon an unchallenged assumption: that it is not possible to find enough public funding. This is, in effect, a submission to marketization and corporate power – especially considering that many of the 'private partners' who are promoting the privatization agenda make liberal use of 'tax optimization' strategies. Recent estimates suggest there is over US$ 20 trillion stashed offshore: if corporations and the mega-rich paid their fair share of taxes, there would be more than enough public funding to end poverty, stop austerity and achieve the SDGs. By linking calls for increased public investment with the wider debate on tax justice, we can provide a strong and coherent alternative to the privatization agenda, while also tackling inequality, wealth-redistribution, climate finance and other key issues of our time.

Much less discussed than the global push for privatization is the growing wave of de-privatization, also known as re-municipalization, nationalization or insourcing. Local governments of all stripes are ending the private operation of public services, for a range of reasons: cost, control, social or environmental priorities, and so on. Some are responding to social pressure, others seeking to manage services more holistically. Many recognize that the contracts with the private operators are too complex, too rigid and too expensive. Since 2010, more than 850 re-municipalizations have been tracked.[1]

Public infrastructure decisions are governed at the global, national and local levels, and are usefully examined from these perspectives.

The global level

At the global level, international institutions need to promote new and creative ways to ensure public funding for infrastructure investment rather than

1 Kishimoto et al. (2017).

pushing the failed privatization agenda. Current proposals from the UN, G20 and OECD are to create asset classes for different public services, privatize them, and then securitize the assets so that they can be bundled into new financial instruments and sold on to investors. By means of financial engineering, private investors will own infrastructure assets without the problems of illiquidity and with no responsibility to the communities whose services are privatized. Public money will underwrite some of the risks in each asset class, in the hope that the private investors will accept lower 'risk-adjusted rates of return'. However, recent research shows that the promises of 'innovative and blended finance' will not come anywhere close to attracting the amounts of private capital anticipated.[2] This current obsession with private finance distracts from the policies needed to build public infrastructure and services.

Many bi- and multilateral trade agreements are less about trade and more about protecting investors by restricting the role and policy choices of governments. These trade deals are designed in the interests of multinational corporations. They can block the preference of domestic suppliers and local markets in public procurement; prevent the return to public management and can even chill the use of regulations and legislation designed to protect people and planet. Even more controversial are the investor-state dispute settlement (ISDS) provisions which allow corporations to sue governments to block progressive policy changes such as plain-packaging tobacco or environmental protections. The implications of such clauses need to be better understood by governments that are negotiating, and a number need to be abrogated.[3] As of 2016 seven states had withdrawn from bi-lateral investment treaties, including Bolivia, Venezuela, Ecuador, Indonesia, South Africa, Italy and Russia.[4]

The current global tax architecture allows corporations and the mega-rich to ship money offshore, wiping billions from public balance sheets and helping fuel the push for more privatization. This issue can only be tackled at the global level. Some attempts are being made, such as the OECD's Base Erosion Profit Shifting (BEPS). However, global tax rules should not be written by a small club of rich countries, but at the UN, by all Member States, via the auspices of a UN Global Tax Body. The purpose of such an institution would be to monitor global capital flows, reduce tax evasion and avoidance, ensure profits are taxed where they are made and help redistribute the rewards of globalization.

The World Bank and the IMF have for many years both imposed privatization and sought to shrink the public sector, often with disastrous results. The World Bank styles itself the 'knowledge bank' and spends a lot of public funds detailing how and why to privatize but is unable to show systemic and sustainable contributions to development targets. The same is pretty much true for the regional development banks, which often hold up the occasional 'success' to demonstrate the value of the Public-Private Partnership (PPP) approach, while ignoring the many failings.

Bilateral aid sees embassies focus on winning contracts in foreign countries for their home corporations. In bilateral aid processes, 'tied aid' refers to the conditionality of grants and loans requiring that the recipient country uses private corporations from the donor country to replace public service operators. Tied aid brings privatization through the back door.

At the global level, we should examine the positive model of UN Habitat's Global Water Operators Partnership Alliance, GWOPA, which provides tools to support public municipal utility partnerships run on a not-for-profit basis. These partnerships focus on knowledge exchange between the staff of the operators, allowing them to grow their skills and better fulfil their mandates. This type of Public-Public Partnership (PUP) provides a model of development based on mutual understanding and exchange. PUPs are a time-tested mechanism to support skills building and transfer of knowledge. Regrettably, this

2 Kapoor (2019); see also World Bank (2018).

3 Multi-year ISDS reform talks at the UN Commission on International Trade Law (UNCITRAL) are expected to be concluded in November 2019, see https://www.iisd.org/blog/isds-reform-talks-resume-uncitral.

4 The first three have also abrogated the ISDS mechanism, see Peinhardt/Wellhausen (2016).

approach is not getting enough institutional support from the global community. GWOPA is a real example of connecting global to local. It is important to promote these examples and reform national and global institutions, based on the progress made at local and community levels.

The national level

At the national level, governments need to recognize the negative effects of infrastructure and service privatization and commit to public delivery.

Many of the systemic problems of privatization become evident over the long term, by which time the politicians having implemented them are gone. The temptations of up-front cash and accounting legerdemain can be too hard for many national politicians to resist. But, as UN Special Rapporteur on Extreme Poverty and Human Rights Professor Philip Alston ably noted,[5] privatization is not just about economics or efficiency as much as it is about the values and ethos that shape the society we live in. Privatization weakens democratic institutions that represent our collective will in favour of private corporations that treat us as individual, atomized consumers, who are theoretically better able to exercise free will.

Instead of taking us down a dangerous path which will give the largely unregulated parts of the financial sector (asset managers, private equity and investment funds) control over public services, we need policies that have been tried and tested. Most of the rich countries, members of the OECD, used public funds to build and run public infrastructure services – while maintaining high tax rates for corporations and top income earners.[6] The private sector can play a role, largely under public procurement of goods and services, but not to finance, own and manage key public services. We should examine a range of options including bonds, development banks, balance sheet expansion and others.

5 Alston (2018a and (2018b).

6 Hall (2014).

The local level

Much public infrastructure is managed and delivered at the municipal level, closest to where people live. Yet international commitments such as the SDGs are negotiated by national governments. There are too many disconnects between global policies and the needs of local authorities, notably in financing. As the various agencies of the UN, the G20 and the OECD develop the architecture of sustainability, they must integrate the challenges and opportunities of local governments – not an easy task given their core constituency of national governments and the multiplicity and fluidity of local governments. Given that most public funds are raised by national governments, we need mechanisms to ensure equitable, stable and predictable transfers of income between different levels of government. This could include strengthening municipal tax collection to ensure sustainable and predictable finance.

We need to help local governments become global champions for policies which allow them to engage in not-for-profit work outside of their geopolitical borders.

Public services and democracy

Building public infrastructure and services is part of strengthening democratic institutions, where people determine which public services to prioritize and how they are to be delivered and paid for. This is especially true at local level, where people have more direct access to their governments. For example, few people would deliberately choose to eliminate public services through austerity policies imposed both by structural adjustment and financial market pressures. People must have a voice in government choices and participate in the evaluation of government performance.

Public procurement

Governments at all levels are the single largest consumers of goods and services. Governments should be able to encourage local growth with their procurement decisions and be able to develop and guide national industrial plans. Current rules built into trade and investment agreements force governments to open bids to all providers – often multinational corporations which sell proprietary systems and export profits. Procurement rules also constrain governments to accept the lowest bid, which results in low-ball bids and contract manipulations. What is needed are procurement rules that allow more democratic participation and transparency, including for eliminating corruption or clientelism.

Tariffs

The costs that people pay to access public services must be determined democratically and ensure universal access and equity. Tariff policies can serve to cross-subsidize between income groups and regions. Tariffs should never be a barrier to access. In many countries, full-cost recovery is not an option, especially not for poor people. Some proposals suggest services be free at point of access to overcome the complexity of subsidies, which often don't reach the intended groups and are instead captured by those with means and access.

Workforce issues

One problem with privatization is that public sector loses the skills and expertise, as the workforce passes to the private company. The transition back from private to public should ensure that the workers with needed skills needed are brought back, that their skills and expertise are recognized and applied in the transition, and that these staff are appropriately trained in the priorities and mechanisms of public enterprise.

Building the skills of public service staff is a fundamental prerequisite to implementing the 2030 Agenda. There is however very little support from the development banks and international agencies for such basic, workplace-focused training and skills-building. No matter the types of policies decided in New York or in national capitals, if the staff are not sufficiently skilled, the work will not be done.

Fundamental workforce challenges:

- Where to get enough well-trained and motivated staff to work in health, water and sanitation, waste, energy, transport and education – not to mention justice, tax administration or building, food and health inspection?
- If you train these workers, how do you keep them from immediately migrating to better-paid jobs in the private sector?
- How to ensure that staff are on career paths and can contribute their skills and expertise to long-term planning and implementation?

A new approach is necessary and possible

A different framework is needed, one that rebalances the needs of people and planet over profit. Elements should include:

- Enforceable rules for corporate 'citizenship' that ensure: respect for worker rights; oversight of supply chains; responsibility for externalities (use or spoliation of natural resources, carbon emissions, displacement of people, etc.); just taxation; transparency on lobbying and contracting;
- Strong penalties for bribery, influence peddling and other corrupt and unethical practices, as well as universal protections for whistle blowers;
- Public procurement rules that allow governments to develop national and local industrial policies and that don't impose lowest-price purchasing;
- Trade agreements that do not impose (and lock in) privatization, and that balance the needs of investors with the rights of people and their governments;
- An intergovernmental tax body under UN auspices that protects against the many forms of corporate tax manipulation and abuse;

- New mechanisms for public participation in policy-making and implementation – democracy must be more than two or three ballots per decade and must be strengthened and engaged at local levels.

References

Alston, Philip (2018a): Report of the Special Rapporteur on extreme poverty and human rights. Geneva (UN Doc. A/73/396). http://undocs.org/A/73/396

Alston, Philip (2018b): Statement on Visit to the United Kingdom, by Professor Philip Alston, United Nations Special Rapporteur on extreme poverty and human rights. London, 16 November 2018. www.ohchr.org/Documents/Issues/Poverty/EOM_GB_16Nov2018.pdf

David Hall (2014): Why We Need Public Spending. London: Public Services International Research Unit – PSIRU. www.world-psi.org/sites/default/files/documents/research/wwnps_en.pdf

Kapoor, Sony (2019): Billions to Trillions – A Reality Check. London: Stamp Out Poverty. www.stampoutpoverty.org/wp-content/uploads/2019/04/Billions_to_trillions_web.pdf

Kishimoto, Satoko/Petitjean, Olivier/Steinfort, Lavinia (2017): Reclaiming Public Services. How cities and citizens are turning back privatization. Amsterdam and Paris. www.tni.org/reclaiming-public-services

Peinhardt, Clint/Wellhausen, Rachel L. (2016): Withdrawing from Investment Treaties but Protecting Investment. University of Texas. www.rwellhausen.com/uploads/6/9/0/0/6900193/peinhardt_wellhausen_bitwithdrawal.pdf

World Bank (2018): Contribution of Institutional Investors Private Investment in Infrastructure 2011–H1 2017. Washington, D.C. http://ppi.worldbank.org/~/media/GIAWB/PPI/Documents/Global-Notes/PPI_InstitutionalInvestors_Update_2017.pdf

David Boys is Deputy General Secretary with Public Services International (PSI).