PPPs Fiscal Hoax Is a Blank Financial Silver Bullet[1]

by Jomo Kwame Sundaram[2]

Public-private partnerships (PPPs) for infrastructure and service provision are both costly and risky. Worse, PPPs typically fail to ensure universal, let alone fair access to public amenities.

Public-private partnerships?

PPPs usually involve long-term contractual arrangements in which private businesses provide infrastructure and services traditionally provided by governments. In recent years, PPPs have built or run hospitals, schools, prisons, roads, airports, railways, water and sanitation.

"We have a partnership...
The question is, do we have compatible objectives?"

Risk-sharing between public and private sectors has long been widespread. In recent years, more than two dozen different types of PPPs have been identified. Such variations reflect differences in deals between governments and commercial partners.

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[2] Jomo Kwame Sundaram, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, Assistant Director-General of the UN Food and Agriculture Organization (FAO) and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

Most international financial institutions (IFIs) advise governments to guarantee profits for their private partners. The IFIs continue to urge governments to 'de-risk' commercial providers to attract their investments.

Private investor preferences for specific types of PPPs may vary over time and with circumstances, often reflecting changing needs and priorities. As no one type fits all, changing circumstances and preferences have increased the variety of PPPs.

PPP problems

PPPs are far more complex than suggested by their cheerleaders' narratives. Their negative impacts on infrastructure and public service delivery have been highlighted again by a Eurodad-led report. Public expenses rise as governments bear private costs and risks.

Following World Bank and other IFI advice, national authorities attract commercial financial investments by appealing to private greed. PPPs have been used to 'de-risk' such investment, by using their terms to ensure profits for private investors.

The report also exposed PPPs' negative impacts for democratic governance. PPP arrangements typically lack transparency, and rarely involve prior consultation with affected communities. Thus, they have been more prone to corruption and abuse.

While private partners are guaranteed profits, their PPPs may still fail. In recent years, PPPs' fiscal and other costs kept mounting as their shortfalls grew despite their rising profitability. As such problems grow, criticisms and dissent have risen.

Why PPPs fail?

PPPs have increasingly been touted as the magic solution to many problems, particularly financial constraints, poor management and delivery. PPPs have become popular among elites in the global South, where their 'middle classes' were enticed by the promise of better services and 'trickle-down'.

The private sector is supposedly more efficient and better able to deliver public amenities including energy, education, health, water and sanitation. But better value for money has rarely ensued, as many studies show. Instead, the converse is more typical.

A 2020 study by the European Federation of Public Service Unions and Eurodad identified eight major reasons why PPPs in Europe have not improved outcomes.

First, PPPs rarely raised additional funds. Instead, they have typically incurred more public debt in the form of government guarantees, rather than direct borrowing. But such additional public debt has often been obscured from the public.

Second, private commercial loans generally cost much more than government borrowings.

Third, public authorities, especially central governments, still bear ultimate responsibility, especially in the event of project failure.

Fourth, PPPs have rarely delivered better ‘value for money’ than reasonably managed public projects.

Fifth, seeming PPP efficiency gains have been largely due to risky cost-cutting, e.g. in public infrastructure or healthcare provision.

Sixth, PPPs distort public policy priorities, typically requiring even more cost-cutting.

Seventh, PPPs have rarely delivered both ‘on-time’ and ‘on-budget’.

Eighth, PPP deals are typically opaque, rather than transparent, often involving abuses and corruption.

Demonstration against a railway project in Mexico

From early 2020, the COVID-19 pandemic exposed the long-term adverse effects of earlier austerity and underfunding of public health. More recently, inflation, stagnation and more extreme weather have exposed other vulnerabilities and their causes.

What can be done?

As the world faces multiple and interconnected crises, PPPs offer bogus, even dangerous solutions. Eurodad has made policy recommendations to national governments and development finance institutions (DFIs) to improve infrastructure and public service financing.

- **Stop promoting PPPs**. The World Bank, IMF, regional development banks and DFIs should all end the promotion of PPPs, especially for social services. Access to health, education, water and sanitation should not depend on capacity to pay.
- **Fiscal and other major PPP risks should be publicly acknowledged**. Governments should be warned of PPPs’ generally poor outcomes, and of the pros

and cons of various financing arrangements. DFIs should all more effectively finance national plans for sustainable and equitable development.
Countries should be helped to find the best financing means to deliver responsible, transparent, gender-sensitive, environmentally and fiscally sustainable public infrastructure and social services consistent with national and multilateral obligations.

- **Informed public consultations** should always precede any infrastructure and public service provision agreement by PPPs. These should include ensuring the rights of all affected communities, including those to fair remedy or compensation.
- **Exercise rigorous and transparent government regulation**, especially for public spending, PPP contract values, project impacts, and long-term fiscal implications. The public interest must always prevail over commercial ones.
  DFIs should only finance projects serving the public interest. Appropriate, publicly funded public services should be promoted, with transparent contracts for and accountable reporting on social service and infrastructure project delivery.

PPPs have often proven to be budgetary frauds, exacerbating, rather than reducing national fiscal deficits. Far from being the financial silver bullet they have been touted as, PPPs have proven to be blanks, making much noise, but with little real benefit.

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Further readings:

- Eurodad (Coord.), History RePPPeated II - Why Public-Private Partnerships are not the solution, EUROpean network on Debt And Development, 2022.
- FSESP et Eurodad, Why public-private partnerships (PPPs) are still not delivering, European Public Service Union and EUROpean network on Debt And Development, 2020.

Selection of articles on hungerexplained.org related to this topic:

- Opinions : World Bank Financializing Development, by Jomo Kwame Sundaram and Anis Chowdhury, 2019.
- Opinions : Big Business Capturing UN SDG Agenda? by Jomo Kwame Sundaram and Anis Chowdhury, 2018.
- Privatisation of development assistance: integrating further agriculture into the world market , 2018.