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Development 2.0: the case for PPPs in Pakistan

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Over the past few years, policymakers and academics have shown renewed interest in Public-Private Partnerships (PPPs) as a way of addressing fiscal limitations and speeding up infrastructure construction and the provision of increased yet sustainable public services.

Similar to other developing nations, according to Dr Shamshad Akhtar, who was former finance minister of Pakistan, Pakistan will be facing an estimated USD 124 billion infrastructure financing gap by 2040, along with public debt nearing 66.3% of GDP and is projected to rise to 71.4 percent in FY2025, making traditional government-led-financed development increasingly unsustainable.

These gaps have forced government to explore other forms of financing vehicles like PPPs to facilitate funding of desirable public infrastructure development using money raised from the private sector. However, PPPs have largely been promoted only as an alternative mode of financing whereas they might actually be an enabling tool to deliver greater efficiencies, innovation and value for money-normally referred in Pakistan as a game changer.

The prime minister, Shehbaz Sharif, has recognised the successful implementation of PSDP under the leadership and oversight of the federal minister for planning, development and special initiatives, Professor Ahsan Iqbal.

He gave this credit due to the fact that PSDP is being strategically used for ensuring development of much-needed infrastructure but also serving to provide a clear vision of development priorities and growth path of the country. It is commendable, however this should be supplemented or complemented in the PSDP with addition of new models of financing for PPP that will extend the frontiers of fiscal efficiency even more, crowd in additional private funding and lead to institutional reform.

A detailed report of 2023 published by the Pakistan Institute of Development Economics (PIDE), Reforming the Federal Public Sector Development Programme, presented a strong case of an urgent reform was established.

The report promoted a portfolio cleaning strategy, which advised a reduction of the size of PSDP by 20 to 25 percent and the removal of almost half of all projects underway in this regard. The study indicated that many of such projects are either not backed by institutions or have become low-priority schemes that involve subjecting of the national funds on them without receiving a corresponding reward. PSDP resources are often spread thin over too many unviable projects, thus limiting impact and leading to cost and time overruns.

Now this lack of efficiency has crippled the argument in favor of seeking alternative forms of developmental financing only. Beyond financing, frame-work has to be energized and implemented quickly. The greatest of them is the Public-Private Partnership (PPP) model that provides a practical and performance-oriented system of project delivery. PPPs, by utilising the privately raised funds, technical excellence, and creativity can aid Pakistan to make important infrastructure, enhance social amenities, even bring in Foreign Direct Investment as a complement and decrease the pressure on the exchequer.

The federal government, to its credit, has achieved certain success in institutionalizing the PPP model with the setting up of the Public-Private Partnership Authority (P3A) across provinces and federal government. Since its inception, P3A has developed a project pipeline of PKR 2.5 trillion. Its priorities however are limited to federal infrastructure projects such as roads, bridges and transportation corridors. To make PPPs a real pillar of the national development, the model has to develop both vertically and horizontally, expanding to provinces and sectors like education, health, and housing as well.

Sindh's PPP-based Education Node where private firms operate public schools has shown success in underserved areas. The mixed model has produced the following positive results such as better administration, provision, and education achievement, especially in underdeveloped and remote regions. The Sindh experience shows that when well-designed PPPs are implemented with transparency and accountability they result in marked improvement in the quality of public service delivery.

Similarly, even in Pakistan, thought leaders have been promoting a paradigm shift for public investment. One of the notable economists and Vice Chancellor of PIDE Dr Nadeem Javaid has stressed on how Pakistan should no longer focus at using public money as a crutch, but should instead reinvent PPPs as a means of managing risks, corporate efficiency, and innovation.

He suggested radical reforms: such as the use of inflation-linked bonds, blended finance, and revenue-sharing arrangements so that PPPs could be scaled up and made more marketable. More importantly, he pointed out to the necessity of institutional reforms and better governance in order to have sustainable ecosystem of the collaboration of the private sector. This is what is also embedded in the URAAN Pakistan transformation plan.

Around the world, countries like the UK, India, Brazil, and Chile have used PPPs to bridge public service gaps most effectively. The Private Finance Initiative in the UK has been quite revolutionary in the modernisation of hospitals and transport schemes, whereas in Chile there has been a larger access to clean water due to the water and sanitation PPPs. These success stories emphasize that PPPs are not mere financial tools, they are development tools that can transform service delivery and governance.

In addition to infrastructure, the scope of PPPs to revolutionize service delivery in the sectors of human development is huge. As it has been reported in Housing Finance Pakistan Report, 2024, Pakistan requires developing 2 million housing units annually to accommodate its growth requirements, which is a situation that cannot be achieved without the involvement of the private sector.

PPPs can also help expand healthcare access, digital platforms, and affordable housing. Whether these projects can succeed or not will however be based on the capacity of the government to design transparent contracts, establish accountability and earn the confidence of the people. It is also a change that needs the redefinition of the role of the state.

The government should stop acting as the only financier and project implementer but an enabler-designing the rules, tracking the performance, and achieving the results. It has to develop the capacity of PPP design and management, simplify the procedures of procurement, and integrate transparency throughout the project cycle. Procurement procedures need to be sanitized and made corruption free.

This matter is most important, particularly after Pakistan has been ranked 135th out of 180 countries by the Transparency International Corruption Perceptions Index

One of the priorities, in this case, should be to decentralize the PPP system into the provinces and local governments. Local governments are in a position to determine contextual demands and have a project that deals with shortages of public services at the community level.

The establishment of facilitating legal and regulatory framework of subnational PPPs, coupled with technical assistance and even financial de-risking, will do a lot to stimulating development at the grassroots. The government of Pakistan needs to wade through its development problems with insufficient resources and a huge scope of the problem.

Although the PSDP is important, it cannot be used as the single point through which infrastructure and service delivery aspiration is realized in the country. A gap, where vision and performance split, can be narrowed with the help of Public-Private Partnerships provided that they were well thought of and clearly performed. The time to institutionalize PPPs is now — anything less risks repeating past inefficiencies.

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