BUSINESS RECORDER

PPPs: A new mindset for Pakistan

Nadeem Javaid | 14th Feb 2025

In Pakistan, public-private partnerships (PPPs) are often misunderstood. Despite having a robust institutional framework — including the Public-Private Partnership Authority (P3A) at the federal level and provincial PPP units — governments and ministries continue to treat PPPs as a financing shortcut rather than what they truly are: a sophisticated risk management and efficiency tool.

This fundamental misperception has led to an over-reliance on public sector funding, stifling private investment and leaving critical infrastructure projects vulnerable to cost overruns, interest rate shocks, and inefficiencies. If Pakistan is to unlock the full potential of PPPs, we must abandon our addiction to public funds and embrace a smarter, more adaptive approach—one that integrates financial innovation, institutional reforms, and governance improvements.

Recognizing these challenges, the federal government introduced a globally competitive PPP framework in 2022, designed to create a more attractive and predictable environment for private sector participation.

The Public-Private Partnership Infrastructure Fund (P3IF) is now set to address many of the financial system constraints and missing elements that have historically hindered PPPs. By providing structured financial instruments, risk mitigation measures, and long-term funding solutions, P3IF will ensure that PPPs in Pakistan are not just viable but also scalable and sustainable.

Additionally, Pakistan now has a pipeline of PPP projects worth Rs 2.5 trillion, ready for implementation. Among these, Islamabad International Airport is set to be the first project to materialize under this framework, marking a significant milestone in Pakistan's infrastructure development journey. This ambitious pipeline reflects the government's commitment to shifting from conventional, debt-heavy public sector projects to a more balanced, private-sector-driven growth model.

Globally, PPPs are not just about securing private capital; they are about delivering projects efficiently, sharing risks, and ensuring long-term sustainability. Countries like the United Kingdom, Canada, and South Korea treat PPPs as strategic enablers rather than mere funding mechanisms.

The UK's Private Finance Initiative (PFI) has successfully delivered hospitals, schools, and transportation networks by ensuring optimal risk-sharing. Canada's Infrastructure Ontario consistently delivers projects on time and within budget by leveraging private-sector efficiency. In South Korea, financial institutions play an active role in structuring flexible, long-term financing instruments, ensuring infrastructure projects remain financially viable despite economic fluctuations.

Pakistan, however, has yet to institutionalize these practices. Cost escalation due to inflation, supply chain disruptions, and unforeseen risks often leads to project delays or increased public debt obligations. The absence of structured financial instruments, such as inflation-linked bonds, revenue-sharing agreements, and hedging mechanisms, has made PPPs highly vulnerable to external economic shocks.

Countries that have successfully scaled PPP models have financial ecosystems tailored to long-term infrastructure needs. Malaysia's Khazanah Nasional, India's Viability Gap Funding (VGF) mechanism, and Australia's structured risk-sharing models provide crucial lessons for Pakistan. These nations have shown that financial innovation—not just capital—determines the success of PPPs.

To replicate such successes, Pakistan must diversify its financial instruments and regulatory frameworks. Contracts should include cost pass-through clauses and inflation-adjusted pricing to protect against economic shocks. The banking sector must develop interest rate swaps, inflation-linked bonds, and blended finance models to provide long-term financial stability.

Infrastructure REITs, retail bonds, and PSDP-backed equity structures can reduce reliance on traditional bank loans. Government-backed guarantee funds can enhance investor confidence and attract long-term institutional investors such as pension and wealth funds.

Even with financial improvements, Pakistan's institutional capacity to manage PPPs remains weak. Many officials lack expertise in risk assessment, pricing, and financial structuring, leading to flawed agreements where the government ends up absorbing risks that should have been transferred to the private sector.

Capacity-building initiatives must be prioritized, including specialized training programmes for public sector officials involved in PPP management, expert advisory panels to guide decision-making in project structuring, and stronger regulatory oversight to ensure transparent contract enforcement and accountability.

One key area requiring urgent attention is the audit and financial oversight of PPP projects. The Accountant General of Pakistan must develop new standards for auditing PPP projects, as the traditional public sector audit framework is not designed to handle the complexities of revenue-sharing, risk allocation, and long-term private sector commitments. Without a modernized audit framework, PPP projects will continue to face regulatory bottlenecks that discourage private participation.

The Public-Private Partnership Authority (P3A) must be empowered to enforce compliance, monitor performance, and ensure transparent governance of PPP contracts. Countries like Chile and South Africa have built robust PPP governance structures, ensuring that project risks are equitably shared and private sector partners remain committed over the long term. Pakistan must do the same if it wants to sustain private sector confidence and long-term participation.

With a rapidly growing population and an urgent need for modern infrastructure, Pakistan stands at a defining moment. If the current approach to PPPs persists—with rigid financing structures, inadequate risk-sharing, and a lack of financial innovation—projects will continue to stall, costs will keep rising, and private sector interest will dwindle.

PPPs are not just about plugging funding gaps; they are about smarter, more efficient project execution. Countries that have successfully implemented PPP models treat them as strategic partnerships, not temporary financial solutions. Pakistan must do the same.

By integrating financial innovation, strengthening institutional frameworks, and enforcing robust governance, Pakistan can turn PPPs into a powerful engine for infrastructure development. The time for incremental reforms is over—bold, systemic changes are needed now. If Pakistan takes a decisive action today, the next generation will inherit a country where infrastructure is not a bottleneck to progress but a foundation for prosperity.

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