## The forthcoming budget and the public-private mantra

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## Budget 2009-10 and the public-private mantra

Governance

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The purpose of this comment is not of well on that debate but to draw a tention to the related issue of strengt ening the public-private interface as policy option to assist the government achieving the development objective envisaged in the budget. Two areas a pear important in this regard

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can save FSDP expenditures. While it is critically important to dertake projects in the PFP mode must be appreciated that this has incations for government's capacity, and a support of the property of the p

The government must therefto enhance its institutional comp alresdy in place but need critical injutes consolidation and/or transformation. PPPP policy is in place at the federal leve but legislation needs to be enacted. A present the place of the federal leve but legislation needs to be enacted. In a hruph for over they was and need to be built upon further to develop a na between the place of the p

finance Facility and Project Develo ent — have been designed for son me now but have not been fully esta shed. The PPP Infrastructure Cell in it flanning Commission also needs to ly upported and strengthened to plan ar rocure infrastructure with private se or investment. This arrangement wi uts from IPDF can be mandated to rewell ulfrastructure projects for their ability regarding being channelled for rivates escot ruinding before going own the CDWP/ECNEC route in the anning Commission. In many conventies of the world, it actually has to be roved that infrastructure cannot be built with private sector investment beres olicitish, support for public finesga such as is the case in South Africa of the highway sector in India.

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the population at large. The other reason why the government needs to engage with the private sector is to enhance its capacity to detiver social services — health and etacation in particular Plakistan has tradicular to the properties of the private secwelfare model assuming that it bear welfare model assuming that it bear seven as the providing services but has under resourced its infrastructure and service delivery arrangements; on the other hand, the regulatory environment has all lowed burgeouing of the private sector makes are resolutions of the private sector.

cases no — regulatory controls. As a result of his and the disparity in incentives in the public vs-avis the private sector a characteristic abnormality has emerged; this manifests itself in public functionaries working in the private sector, and closed and underperforming health facilities and schools. This limits health facilities and schools. This limits he ability of the government to targe welfare to its citizens. In order to address these challenges

In order to address these challenge action is required at several levels — ie each, the role of the private sector is critical. In order to better manage public fe cilities, the government can rely out the ryb contracting out management capplying private sector management principles and incentivise public secto delivery and in order to expand the out reach of services, the government can movie non-state providers of services the decision by governments to act awayers for welfare services and on learly have responsibility for direct of very of services have successed to the services have been supportant consquences for shaping a social policy for the services have been supportant consequences for shaping a social policy for the services have been serviced by the services have been dependent on the services and change have have been doing business that the services have been serviced by the services this in the past in order to achieve this in

The discussion on intrastructure of velopment and sustantable macretor nonine growth and effective targeting to whether service becomes more important and challenging tody than it has ever been in the growth and violence that he enter the contrast of the contrast of the contrast of the contrast nonnent. The need to macriniss, sprange gies between the public and privide sec toos has therefore becoming a impensive. However, the results of suc actions will only be as good as govern ments can make them. Government with limited capacities cannot remide their deficiencies by seeking to vide the private sector on their own uncertainty.

The writer is the founding-president the NGO think tank, Heartfile. Em

The government has decided to increase spending in the development sector in the current year as is evidenced by the expansionary fiscal policy adopted in the forthcoming budget for the year 2009-10. Approval of the highest ever Public Sector Development Programme by the National Economic Council comes at a time when many fiscal space constraints are evident—decline in revenues, competing priorities particularly in the wake of the ongoing security situation and efforts to curtail the fiscal deficit in order to keep it within stipulated limits. The rationale for the approach has fueled a debate among subject experts—a positive development indeed given the potential within constructive and substantive technical dialogue to shape policy decisions in national interest.

The purpose of this comment is not to dwell on that debate but to draw attention to the related issue of strengthening the public-private interface as a policy option to assist the government in achieving the development objectives envisaged in the budget. Two areas appear important in this regard.

The first area is infrastructure development. In today's environment, investments in infrastructure are critically needed, as they can generate economic activity and create employment. In the 1930s, one of the factors responsible for United States' recovery from the Great Depression related to Roosevelt's policies of investment in huge public work schemes, which enabled the generation of employment. Efficient infrastructure can also boost economic recovery through promotion of local and foreign investment and business productivity and expansion—all of which are needed in today's context.

The currently prevailing power shortage—though attributable to some extent to the issue of circular debt, the decades-long intransigency to invest in water reservoirs and the crumbling state of public transport and social infrastructure in the country also reiterate the need to invest in infrastructure. Pakistan's overall infrastructure needs were previously estimated at \$24 billion per year; as opposed to this, last year's PSDP allocations (2008-09) for infrastructure development approximately stood at Rs. 176 billion and not all of this was expended. This year there might be an increase, but the huge shortfall will persist. In view of resource limitations, the government has decided that many infrastructure projects, particularly those related to the transport sector, should be developed and implemented through public-private partnership under the umbrella of the Infrastructure Project Development Facility (IPDF) with support from PPP Infrastructure Cell of the Planning Commission. If appropriately structured, this approach can save PSDP expenditures.

While it is critically important to undertake projects in the PPP mode, it must be appreciated that this has implications for government's capacity. Infrastructure projects have traditionally been funded by the public sector in Pakistan in the past. The government has some level of experience with PPPs through engagement in this mode with Independent Power Producers (IPPs) in the 1990s; PPPs have also been used in the past in the transport sector using the Build Operate Own, Build Operate Transfer, Rehabilitate Operate Own and Rehabilitate Operate Transfer modalities of engagement. However, in order to undertake major infrastructure projects in the PPP financing mode, transformation of the government's capabilities and governance capacities is needed to plan, execute and implement. The government must therefore plan to enhance its institutional competencies in the area.

Fortunately, some arrangements are already in place but need critical inputs, consolidation and/or transformation. A PPP policy is in place at the federal level but legislation needs to be enacted. A draft PPP law has been pending action in Punjab for over five years and needs to be built upon further to develop a national legislative framework. Steps have been taken to develop transaction advisory capacity—IPDF has been created as a statuary entity under the Companies Ordinance (as a Section 42 Company) to provide technical oversight, help state agencies procure transaction advisers and technically support government agencies in processing and developing projects through the PPP route. It is important to ensure support to the organisation from the highest level of government to enable it to serve its role. In order to ensure availability of long-term financing for PPPs, various financing arrangements-Viability Gap Fund, the Guarantee Fund, Infrastructure Project Finance Facility and Project Development—have been designed for some time now but have not been fully established. The PPP Infrastructure Cell in the Planning Commission also needs to be supported and strengthened to plan and procure infrastructure with private sector investment. This arrangement with appropriate linkages and technical inputs from IPDF can be mandated to review all infrastructure projects for their viability regarding being channelled for private sector funding before going down the CDWP/ECNEC route in the Planning Commission. In many countries of the world, it actually has to be proved that infrastructure cannot be built with private sector investment before soliciting support for public financing such as is the case in South Africa and the highway sector in India.

An important caveat relates to capacity of the government to regulate. Infrastructure PPP's are complex arrangements involving a range of stakeholders—public companies with official relationships with public institutions, transaction advisers that are procured by public agencies (IPDF in Pakistan's case), operators, service purchasers, sponsors and contractors; there are various sources of cash flows and revenues and organisational objectives that have to be handled. In view of this diversity and complexity, the success of these arrangements depends upon fiscal and legal prudence of governments and their ability and transparency to build safeguards and share risk in a manner that is mutually beneficial, both to the public and private sectors—most importantly, to the population at large.

The other reason why the government needs to engage with the private sector is to enhance its capacity to deliver social services—health and education in particular. Pakistan has traditionally engaged in service delivery in a 'welfare mode' assuming that it bears the responsibility, both of financing as well as providing services but has under-resourced its infrastructure and service delivery arrangements; on the other hand, the regulatory environment has allowed burgeoning of the private sector in these areas with minimal — in some cases no — regulatory controls. As a result of this and the disparity in incentives in the public vis-a-vis the private sector, a characteristic abnormality has emerged; this manifests itself in public functionaries working in the private sector, and closed and underperforming health facilities and schools. This limits the ability of the government to target welfare to its citizens.

In order to address these challenges, action is required at several levels -- in each, the role of the private sector is critical. In order to better manage public facilities, the government can rely on the private sector's entrepreneurial talent either by contracting out management or applying private sector management principles

and incentivise public sector delivery and in order to expand the outreach of services, the government can involve non-state providers of services. The decision by governments to act as payers for welfare services and only partly have responsibility for direct delivery of services has important consequences for shaping a social policy. However, the government will have to develop a new set of institutional norms and regulatory frameworks and change the way they have been doing business in the past in order to achieve this important goal.

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