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Public-Private Partnerships as the Answer . . . What was the Question?

By Manuel F. Montes

In discussions at the UN about achieving Agenda 2030, it has become *de rigueur* to highlight the role of the private sector. It is often introduced as the discovery of the idea that private sector investment and financing is indispensable to achieving Agenda 2030. For developed country diplomats and their associated experts this new celebrity treatment appears to be an article of faith, at least during negotiations on economic matters in the UN. They are foisting a misleading Trumpian exaggeration that is technically harmful to development policymaking and to Agenda 2030.

The practical, and long-running, reality is that investment by enterprises has always been indispensable to growth and development. It is NOT a new reality. It's NOT a reality specific only to Agenda 2030.

Except in old-style socialist economies where capital is controlled centrally by intention, private sector resources have always dwarfed those of the public sector. This private-public resource imbalance is not a newly-found situation; it is not specific to Agenda 2030.

However, the discovery, unearthed in the UN, is being deployed to justify the so-called "leveraging" of limited public resources to "de-risk" private investment. At the end of the day, this amounts to seeking ways to subsidize the private sector for the things the public sector wants to happen in order to achieve Agenda 2030.

The new celebrity treatment of private investment and financing by developed countries is quite ironic because, as reported by the UN's financing for development technical task force (in which the staffs of the IMF, the World Bank, and WTO participate) in its 2017 report, the growth of private non-residential investment (in new factories and ventures) in DEVELOPED countries is at an unprecedented low at this point in time.

The limit of developed country officials touting the indispensable role of the private sector is that they are unwilling and legally unable themselves to commit to developing countries that their private sectors will respond to and responsibly perform in support of the UN Agenda. What they can do is to think about means to devote some of their official development assistance (ODA) to provide subsidies and guarantees. And of course, developed countries seek credit for doing this - by adjusting the ways in which ODA is measured.

If the private sector finds it in its commercial interest to undertake Agenda 2030 activities, then such subsidies would be a waste of the already historically dwarfed taxpayer resources.

State leadership in channeling private resources for new facilities and economic activities has long been the secret of successful development. Singapore imposed mandatory employer and employee contributions to the Central Provident Fund which were then channeled to fund housing development. The upfront costs of construction were paid back from mortgage payments. The private sector (employees and employers) provided the original financing and the private sector (households living in the housing development) paid back the upfront costs. The Singapore government knew even then, in the late 1960s, of the extreme dominance of the private resources in any development effort.

The truly fresh reality is that the financial sectors in developed countries are sitting on a pool of money which - instead of being channelled to creating new wealth in the form of new economic activities, new facilities and upgraded infrastructure - is being applied to trading of financial assets and computer entries representing claims on **existing** wealth.

For US companies particularly, instead of being invested towards creating new jobs, cash hoards are applied toward stock buybacks to increase the value of existing financial assets “in the market.”

This unstable (inverted) pyramid of money resting on existing assets is already – at present - flitting in and out of developing economies as private portfolio flows, creating short-term external liabilities and often swamping their control over their exchange rates, with harsh impacts on their export competitiveness (during the boom phases) and their ability to import critical inputs (during the inevitable busts).

Is the exaggerated, and allegedly newfound, indispensability of the private sector’s role in financing Agenda 2030 more a matter of seeking means to prop up the unstable financial assets pyramid hanging over developed economies?

The scaling up of “blended finance” and “public-private partnerships” (PPPs) is the new development silver bullet and happens to be very helpful to the propping up needed by developed country financial sectors. The World Bank has been involved in an effort to standardize provisions of PPP contracts to expand their use in developing countries.

Public-private partnerships are as old as development but the new models have seen the risks and costs of failing projects falling on the public sector. The incidence of failures is disquieting. There is, for example, the failed ten-year public-private project to privatize and modernize the London underground, whose costs are now sitting on Her Majesty Treasury's books after 2009. After an initial spurt, the central government of China had to rein in PPPs by local governments in the mid-1990s when the costs of failures rose steeply in the books of national banks.

With these kinds of problems, the public sector in developing countries might as well take the risks themselves under the "old-style" approaches of blended finance.

This will require the kind of state leadership over the economy shown by Singapore in the late 1960s, through long-term planning and the mobilization of domestic resources. This will in turn require that developing countries recover "old-style" policy space to regulate financial lending and external capital flows.

Instead, as their contributions to the SDGs, developed countries and business associations like to distract from regulation by narrating examples of successful finance blending public guarantees with private money, then wring their hands about the difficulty of "scaling up" these instances. Bespoke approaches do not scale up easily. The way to scale up SDG investment is to provide enterprises with stable financing frameworks at reasonable cost as a platform on which they can undertake risk.

Policy space in developing countries is severely limited after decades of capital account liberalization. Governments are stymied from making available long-term finance at reasonable interest to finance infrastructure and new economic activities. Countries with open capital accounts have a hard time providing these facilities because their banks have to provide their own lenders an interest rate high enough to compensate for possible foreign exchange losses when foreign investors experience 'mood changes' against the country.

Every developing country external payments crisis recalls the need to avoid currency mismatches in financing domestic investment. Foreign currency financing should be relied on mainly for imported goods and services that can be paid back with prospective foreign earnings.

Relying more on domestic currency financing will require upgrading the domestic financial sector, but this is a desirable end in itself. It is timely for developing countries to re-establish their development banks which they had shut down in many structural adjustment programmes. Development banks are able to provide long-term finance, while raising long-term resources themselves.

Rather than devote their limited resources to torturous ways to subsidize and seduce the private sector to take risks on the UN's Agenda 2030, governments in developing countries should recapture their policy space to regulate and direct private sector resources to the service of sustainable development.

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