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Reconsidering Public-Private Partnerships in Developing Countries

Jomo Kwame Sundaram
Department of Economic and Social Affairs United Nations Secretariat New York
Email: jomo@un.org

Anis Chowdhury[1]
Department of Economic and Social Affairs United Nations Secretariat New York
Email: a.chowdhury@uws.edu.au

Abstract: Where large-scale investments are needed, especially for infrastructure projects, public-private partnerships (PPPs) have been touted as an option. With encouragement by the international financial institutions, PPPs have been promoted in developing countries, especially those facing large public sector debt burdens. PPPs can be very diverse and complex. Many developing country governments lack the institutional and human resource capacity to handle the complexities of PPPs, and hence, PPPs may not yield the results promised. Complex financial contracts, involving commitments to future payments, often reduce transparency. Thus, PPPs can suffer similar problems – such as corruption, cronyism, monopolies – faced in privatization. The transfer of risks to private contractors may be partial, with the government having to step in if something goes wrong. A further consideration is to ensure equitable access for poor and low income households to maintain political support for PPPs. Even when PPP contracts take investments off government balance sheets, and thereby seemingly improve the fiscal balance, commitments to pay for future service flows and other contingent liabilities have similar economic effects to public debt. PPPs do not necessarily entail lower capital costs than investments financed by public borrowing.