

WEED WORKING PAPER

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Panacea PPP

Public Private Partnerships
in German Development Co-operation



Executive Summary

The growing importance that Foreign Direct Investment has assumed for the countries of the South since the eighties simultaneously represented a threat to and an opportunity for development politics: a threat because given the hundreds of billions of US-Dollars involved, its own role in development was marginalised and de-legitimised and an opportunity because it hoped that with new forms of co-operation with the private sector, it would be able to achieve its goals of poverty eradication and sustainable development more quickly and more cost-effectively. Since then, both at the bilateral and the multilateral level of the UN and the World Bank, "Public Private Partnerships" and "Private Sector Participation" have been regarded as a suitable concept for intensive co-operation with private business that ostensibly creates a win-win situation for both sides. It is brought to bear particularly in the area of infrastructure and, to an increasing degree, in public service areas such as health in the hope that by involving private companies, additional finance can be provided for development tasks. In German development politics, the term "Entwicklungspartnerschaften

(development partnerships)" is used to refer to this type of collaboration in the overall context of Development Co-operation.

The PPP concept was introduced in German development politics by the ruling conservative-liberal coalition in the mid-nineties. It followed the example of neo-liberal policies pursued by multilateral finance and development organisations such as the World Bank and the IMF, which had increasingly been opting for boosting economic development by opening up markets to investment and trade since the early eighties. The state is to restrict its role to its "core activities" of ensuring framework conditions and taking regulatory measures in the case of "market failure". Following the change of government in 1998, the red-green alliance of Social Democrats and Bündnis 90/The Greens declared "strategic partnerships for sustainable development" a core element of its development policy.

In German Development co-operation, there are three ways of implementing "development partnerships":

- the PPP Facility, which was set up in 1999 and provides

subsidies for smaller, short-term measures,

- collaboration in the framework of bilateral co-operation, which is carried out in particular by Kreditanstalt für Wiederaufbau (KfW) and GTZ (German Technical Co-operation),
- measures in the framework of investment financing via the Deutsche Investitions- und Entwicklungsgesellschaft (DEG).

A 5-item catalogue of criteria is to ensure that, also as distinct from conventional foreign trade promotion, the projects are both oriented on the country's development policy principles and yield an additional development benefit compared to the "solo efforts" of the two partners that justifies subsidising via public funding ("development assistance"). Private investment of this kind that benefits development is above all intended to be directed to poorer countries or to sectors that Foreign Direct Investment would normally bypass.

In order to promote investment by German or European companies, development co-operation chiefly addresses three levels:

- co-operating with a company in a developing country in a specific project (micro level),
- establishing institutions in the target country that are required for the private sector, such as chambers of commerce or regulatory bodies (meso level),
- creating political, economic and regulatory framework conditions such as legislation or eliminating obstacles to investment (macro level).

Thus politics and the implementing organisations such as KfW and GTZ are performing a dual role. As public service institutions, they are supposed to contribute to creating the conditions for the desired participation of private businesses. On the other hand, it has to be ensured that this support is really going to result in attaining development goals and that it does not merely serve the particular interests of investors.

Success! Success?

In terms of pure statistics, the PPP programme can clearly boast success. For the period from 1999 to 2002, the Federal Ministry for Economic Cooperation and Development (BMZ) listed a total of 1,067 new PPP projects, half of which were financed via the PPP Facility.

A total of 4.7 billion Euro was raised for these new projects. More than 60 percent of this sum was provided by the private sector, the share of which more than quadrupled to 1.032 billion Euro in the four years up to 2002. Thus aspirations to mobilise considerable additional funds for development projects via the development partner-

ships seemed to be more than fulfilled.

However, around 40 percent of all new projects are run by the DEG, whose actual share of overall funds is 78 percent. Most of this comprises conventional investment financing for enterprises. In other words, the projects are related to the new PPP concept only to a certain degree.

In contrast, integrating private companies into bilateral development co-operation has been a slow process. At GTZ, the share of annual new PPP projects that are not subsidised via the Facility among all projects ranged between 4.2 percent (1999) and 11 percent (2000), while in the case of KfW, the corresponding share lay between 12 percent (2001) and 4 percent (2002). However, in some areas, such as in the infrastructure sector, it is significantly higher. In the area of municipal water supply and wastewater disposal, for example, KfW statistics indicate that nowadays, PSP models are taken into account in every second Financial Co-operation project.

At the same time, success scored by the implementing organisations GTZ and KfW in mobilising additional private investment for the bilateral PPP projects was only very limited. In the case of GTZ, these funds amounted to a mere 13.5 million euros, whereas KfW managed to mobilise around 20 million. The public share, and therefore the subsidy element, in these projects sometimes amounted to 100 percent, so that private sector contributions were only minimal.

What strikes the eye is that, in contrast to their considerable significance in terms of poverty alleviation, the areas of social services, such as health and primary education, as well as

rural development are represented only very weakly in the "Development Partnerships". Also, the overwhelming majority of projects are being run in economically attractive countries such as Brazil, China and South Africa, i.e. not in the poorest countries such as the countries in Sub-Sahara Africa. The countries benefiting from the concept usually have access to other sources of finance, so that they do not depend on the subsidised investments. These two indicators (countries, areas) reveal that, by and large, the public funds follow the private flow of investments instead of helping to channel these investments to where they would be required for poverty alleviation.

Case studies

This finding has been borne out, elaborated and extended by four case studies focusing on various areas of co-operation with the private sector: water, energy, agriculture and the environment and the setting of environmental and social standards.

Summing up, it appears that, from the development angle, the cost-benefit ratio of the "development partnerships" is highly unfavourable and unbalanced and has a negative impact on the countries of the South:

1. "Development value-added" of the concept as a whole, i.e. irrespective of some individual positive projects, tends to be modest:

- Even in the case of projects with a high level of relevance to poverty, such as water and energy supply or rural development, the degree of orientation of these

projects on the needs and requirements of poverty alleviation is low since these areas are of little attractiveness to the private companies involved.

- Gearing activities to the ideas and interests of private investors increases orientation of development co-operation on the project level, whereas it was already realised years ago that sustainable development above all requires improvements in framework conditions. The latter include, for example, democratic control, transparency of institutions and decision-making processes and opportunities for target groups to participate.
- Elaborate technological solutions dominate compared to low tech/low-cost approaches that in many cases would be far more suitable to promote sustainable development focused on poverty alleviation since they can be implemented at local level and enable the target groups to participate.

In addition, considerable methodical problems occur when attempting to independently establish whether the projects benefit development in any way. The partial evaluation of the PPP Programme that was commissioned by the German Ministry for Economic Co-operation and Development (BMZ) and carried out last year¹ also arrives at the same result: So far, it cannot be said for sure whether "PPP measures are more ef-

fective than the traditional Development co-operation instruments". So referring to the PPP measures as a success in terms of development policy appears premature to say the least.

2. In contrast, the question of who benefits from the "development partnerships" can be answered relatively clearly for the companies involved. To them, successful PPP projects can represent an additional set of instruments to expand in countries of the South offering advantages at different levels:

- The PPP instruments help to extend access to potential markets and investment locations. Preparing contacts to decision-makers, eliminating legal and political obstacles and safeguarding against political and financial risks could represent the most important "value added" for private companies.
- In contrast, financial incentives, the subsidy element, spin-off effects or the indirect contribution of Development co-operation arising from payment of non-productive costs of training or planning appear to be of a secondary nature in many cases.
- While the economic benefit appears to be of secondary importance, boosting a company's image may be all the more important, especially in the case of transnational corporations that are at the centre of criticism and mistrust. Co-operation with a public Development co-operation institution can attribute a greater degree of "seriousness" and "respectability" to an investment scheme.

All in all, the PPP set of instruments can yield competitive advantages for companies at

various levels. Moreover, in most of the PPP projects, the companies involved succeed in keeping their own input at a low level and considerably reducing their business risks via safeguarding against risks with public and government mechanisms.

3. Not only do PPP projects tend to concentrate on take-off countries and comparatively developed regions with a high market potential by basing the development projects on the ideas and investment plans of companies. They also encourage an internal division of sectors, for example in the field of public services. Supported by development co-operation, the profitable areas are privatised. In contrast, the remaining areas, and hence the overwhelming majority of the population, continue to depend on public institutions. However, funding these institutions becomes more difficult, also because part of the funds for development is flowing into subsidies for the PPP projects.

4. In many PPP projects, the participation and influence of partner governments, civil society and target groups is severely restricted. This applies in particular to projects financed by the Facility and clashes with the explicit intention of development politics to boost ownership on the part of the partner countries. Moreover, the PPP projects can increase dependence on technology imports, export markets and foreign corporations and accelerate excessive indebtedness, for example if global water corporations take over operations that are financed by development loans.

At the same time, the partner countries are only insufficiently enabled to control foreign investors and oblige them to comply with environmental requirements or social goals via independent, powerful regula-

¹ Cf. "Evaluierung Public-Private Partnership (PPP)", in particular the "Grundlagenstudie (HWWA)", February 2002, and the "Synthesenbericht (DIE)", December 2002.

tory authorities. Instead, development co-operation is opting increasingly for self-compliance and voluntary codes of conduct among corporations that have so far only been able to ensure the improvement of environmental and social standards to a limited extent.

5. It is obvious that the PPP concept is based on a development model focusing on promoting investment and economic growth, the capacities and institutions required for this and technology. However, claims linked to this of private companies being more effective or of poverty alleviation being accomplished via the "trickle-down" effect have usually not been borne out. Instead of a determined effort to channel investment to development goals such as poverty alleviation, gender mainstreaming or social justice and monitoring whether they are being reached by PPP projects, politicians have opted for an ostensible "development focus" among private companies and their proclaimed "corporate responsibility". Basically, the concept of "development partnerships" proves to be part of the overall concept of promoting deregulation, the opening up of markets and better investment conditions in the countries of the South and thus making an, albeit modest, contribution to corporate globalisation.

Outlook: increasing the dose

Although the benefit of Public Private Partnerships for development is highly questionable, the "development partnerships" are to be turned into an integral element of bilateral Development co-operation. The BMZ has

instructed its implementing organisations to ensure that 25 percent of all technical and financial projects are to have a PPP component by 2006. Such an increase also appears to be doubtful given that so far, hopes of the private sector becoming involved in development co-operation have not materialised to the extent reckoned with in spite of the support and options for subsidies it has been offered. In 2002, there were 20 percent fewer new PPP projects than in 2001. Moreover, overall Foreign Direct Investment has fallen drastically since 1997, especially in the infrastructure sector. This is also due to political and economic difficulties in a number of countries.

So stepping up PPP activities, which is what the BMZ would like to see, can only be achieved by

first, a much greater orientation of the framework conditions in the developing countries on the requirements, wishes and needs of private investors,

second, increased support through Development co-operation measures and financial co-operation instruments, i.e. more public subsidising.

This would reinforce tendencies towards changes in development co-operation that have already become apparent in previous years:

1. an acceleration and "de-bureaucratisation" of procedures, which would be at the expense of a thorough preliminary analysis, e.g. of environmental impacts or gender aspects,
2. a further restriction of transparency and participatory options, since they would be an obstacle both to swift, flexible decision-making processes and to entrepreneurial interests,

3. a watering down of the recent decision regarding Development co-operation to focus on fewer countries and areas in favour of attractive investment locations for private enterprises,
4. a loosening up of the criteria that are to ensure compatibility with development policy goals,
5. growing influence of industry both on project identification in the partner countries and on decision-making processes in development politics.

The consequence would be a regime change in development co-operation. But given experience so far, it seems highly unlikely that this would result in more participation of private companies and greater significance for development. At the same time the price of integrating the PPP concept more strongly could be the end of a development policy oriented on poverty alleviation and socially and environmentally balanced development.

Recommendations

Regarding the further necessary debate on the relation between the private sector and development co-operation, it follows from the analysis of experience with the "development partnerships" so far that:

1. The primacy of development politics has to be maintained. The desire for a participation of private companies must not result in a watering down of development policy criteria and tried-and-tested procedures. On the contrary, the benefit in terms of development has to be ensured to a greater degree than has so far been the case.

For example, this is why all PPP projects financed with public funds should be subject to the same criteria as conventional Development co-operation projects, bearing in mind that these criteria are meant to ensure the benefit in terms of development and the sustainability of measures.

2. Except for some lucrative segments, central areas of development co-operation (health, water supply, primary education, etc.) are hardly attractive to private investors. Instead of improving the incentives for private investors by development policy measures at the cost of alternative solution concepts, these areas should be omitted altogether from the PPP programme and remain a responsibility of the public sector.

3. A comprehensive, independent monitoring of the PPP concept, for example in a multi-stakeholder review, would be necessary since the evaluations on hand are not sufficient to justify the further massive expansion of "Public Private Partnerships" in development co-operation. This would include an unbiased comparison with public and grassroots solutions beyond the logic of the market economy the "development partnerships" are based on. Until it is completed, new projects should be subject to a moratorium.

In addition, the fundamental question about the situation of development politics in times of globalisation could prompt a comprehensive brainstorming exercise in the development community, also with the involvement of industry. This would include engaging in a wider debate on the indispensable responsibilities of the state on the one hand and the concept of "corporate responsibility" on the other and reaching

an agreement on mechanisms for its binding and effective implementation in the spectrum between voluntarism, regulatory policy and guidance of the economy as a whole. At any rate, carrying on regardless with the concept of "development partnerships" threatens to increase dependence of development policy on industry and weaken its independent ability to act with regard to formulating and implementing development policy goals based on a broad consensus in society.

The complete study is available in German:

„Zauberformel PPP“.
Entwicklungspartner-
schaften mit der Privat-
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World Economy, Ecology & Development Assoc. (WEED)

weed was founded in 1990 to boost the advocacy in the Federal Republic of Germany of alleviating global poverty and resolving international environmental problems. WEED campaigns for a course correction in international economic and development policies that would put more emphasis on social justice and economic sustainability. Its aim is to create more awareness in this respect and develop and implement concrete political alternatives. **weed** systematically analyses global economic, environmental and socio-political issues, linking the vision of a socially equitable and environmentally sustainable society to action and policy reform.

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- ◆ International environment and development policy
- ◆ The European Union's North-South policy
- ◆ Global Governance and democratising the UN system
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