The Lens Journal
A journal of perspectives for young researchers

Sustainable Developments in Least Developed Countries: Are Public-Private Partnerships the Most Efficient Financial Arrangement to Spur Sustainable Developments in Least Developed Countries?

Vittorio Nazzi
Benjamin Franklin International School, Barcelona, Catalonia, Spain

---

Abstract
The escalating foreign indebtedness of less-developed countries (LDCs) and their vulnerability to economic and environmental shocks pose significant challenges to their sustainable development. This paper examines the financial arrangements that can address LDCs' sustainability crisis by comparing full public sector involvement, full private sector involvement, and public-private partnerships (PPPs). Dependency theory is used as a framework to understand the structural conditioning of LDCs within the global economy and their vulnerability to international market instabilities. The analysis of the financial arrangements reveals that PPPs, particularly in the form of blended finance, are the most efficient means of allocating funds and resources to developmental projects, maximizing net benefit, and promoting sustainable growth in LDCs. This paper emphasizes the importance of pursuing long-term oriented and environmentally conscious development projects, which can be best achieved through public-private partnerships.

Keywords: foreign indebtedness, least-developed countries (LDCs), dependency theory, public-private partnerships, sustainable growth

---

Section I: Introduction and Debate

One of the most prevalent weaknesses in our contemporary global economy is the mounting foreign indebtedness of the less-developed countries (LDCs). Especially prevalent in this current era of emphasis on development, debts have become an integral aspect of LDCs funding. Since around 1970, sovereign borrowing has replaced concessional aid and foreign direct investment as the principal means for capital inflows to developing countries. In fact, data compiled by the World Bank Group (2022) reveal that medium-term and long-term indebtedness of LDCs increased by 20% annually from 1970 to 1982. Debt servicing, the scheduled payments of principal and interest, has become extremely difficult for a growing number of countries. As LDCs continue to battle the growing climate crises imposed upon them by developed nations, they face the consequences of poverty, hunger, and disease. Consisting of nations across Africa, the Asia-Pacific and the Caribbean, LDCs form over one billion people yet contribute to less than 1% of global emissions (Knowles & Garces-Ozanne, 2003). However, these same members are most vulnerable to environmental and economic shocks,

disproportionately affected by the actions of developed countries (World Bank Group, 2022). Yet this same vulnerability brings into question the types of developmental projects that LDCs should undertake, and raises the question: Are PPP an efficient arrangement in the financial sector of Least Developed Countries?

One of the major theoretical explanations and hypotheses concerning LDCs vulnerability, is dependency theory. Central to most dependency approaches to the political economy of development and underdevelopment is the notion that LDCs are inordinately vulnerable to events, processes, and forces that originate in the capitalist world economy. Among a wide array of alleged vulnerabilities, it is frequently asserted that instabilities in international markets are transmitted into and exert destabilizing effects upon the national economies of LDCs. Their economies are characterized by openness to international markets, and they must respond to the volatilities and external shocks generated by those markets (Avery, 1990). LDCs are inherently structurally conditioned by the nature of their linkage to the international political economy. Typically, LDCs export raw materials at relatively cheap prices to the countries of industrial core, which convert these materials into finished goods, and sell them to LDCs at comparatively high prices. Such unequal terms of trade exploit LDCs natural resources and produce balance of payments issues. This then imposes two unpleasant decisions upon LDCs: (i) reduce imports and risk unrest arising from "frustrated consumer demand" and (ii) seek external finance capital through direct foreign investment, relying on foreign government aid, external private sector funds, or public private partnerships. The first option typically exerts political unrest, leaving LDCs victims to foreign aid, and thus dependent on loans and credits. It becomes clear that considering the vulnerability of LDCs growing indebtedness and their negative repercussions following climate crises, developmental projects must be sustainable: long-term oriented and environmentally cognizant. In what follows, I will cover the financial arrangements which can approach the LDCs' sustainable crises. I will begin by analyzing full public sector involvement, followed by full private sector involvement, and lastly delve into public-private partnerships. This paper aims to uncover the best means to ensure efficient allocation of funds and resources into developmental projects, to maximize net benefit and spur sustainable growth. I will examine the function and purpose of the aforementioned arrangements, and outline their pros and cons from a financial aspect to reach the conclusion that public private partnerships, especially in the form of blended finance, outshine the full private and full public sector interventions.

Section II: Assessing Efficiency of Public Sector Intervention

This section will focus on the overarching topic of full public intervention in LDCs, specifically defining what this intervention entails, and prodiving reasoning regarding the efficiency of this arrangement to spur developments and growth.

Government intervention is the term for purposeful acts taken by the government to affect how resources are allocated and how markets operate. It can take a variety of shapes, including laws, levies, subsidies, and monetary and fiscal policies. The government occasionally imposes upper and lower price caps on the market. Government, or public sector intervention, serves to increase nominal wealth in least developed nations by primarily supplying public goods, boosting the domestic economy, and protecting the environment. In addition to producing collective goods and services like infrastructure, public sanitization, and defense spending, the State is also in charge of preserving and enhancing the economy by enforcing trade restrictions and tariffs to safeguard domestic industries and prevent overexploitation of natural resources. More precisely, in emerging nations, governments extend their influence into industry, agriculture, power, and transport in addition to the creation of communal goods and services. By allocating public funds and forming organizations with official backing, they support and invest in the production of private goods. Governments address the lack of private enterprise, oppose the private sector's failure to pool resources for investment, and maintain control over the dominant sectors of the economy in LDCs as a result.

In fact, proponents of public intervention claim that laws imposed by the government actually promote economic growth in several ways. Governments implement a variety of policies, from supply-side to demand-side actions, affecting total supply and total demand in accordance with the demands of the economy. These policies typically concentrate on raising monetary or fiscal policies and improving production efficiency in product markets or factor markets (such as the labor market). The engagement of the public sector offers a range of rules designed to handle concerns including employment, competitiveness, and consumer protection. For instance, by supporting the automatic transfer of tax returns to bank accounts and simultaneously making it easier to register bank accounts, governments in LDCs may emulate established systems and play a significant role. On this front, some data from the Chicago First Account program offers cautious optimism. For people who qualify for an EITC refund, the Center for Economic Progress has offered free tax preparation services for many years. The center has been attempting to integrate this tax preparation service with the First Account program for the past few years. In particular, the center has been identifying people who are entitled to a refund but do not have bank accounts and making it possible for them to receive their return much sooner after opening a bank account.
According to data gathered from the bank managing the First Account program, people who opened accounts in this "rapid refund carrot" context weren't any less likely to be using them now than people who got accounts after attending a financial education course (Marr et al., 2015). Government engagement in this situation expands financial access to new parties, further defining the intricate web of wealth distribution. Greater innovation in the field will raise average wealth as more people become financially literate. In other cases, governmental control in the form of foreign aid gives LDCs the rights they need to encourage fair trade and economic development prospects.

Examples of this include the Generalized System of Preferences (GSP), which accords equal treatment to all allied countries, and the General Agreement on Tariffs and Trade, which offers legal protection (GATT). In addition to non-LDC nations like Bolivia, Colombia, Ecuador, and Peru, the United States provides foreign aid to LDCs that participate in preferential programs like the Caribbean Basin Economic Recovery Act (CBERA) and the Andean Trade Preferences Act (ATPA) (Marr et al., 2015). The Africa Growth and Opportunity Act eliminates the competitive needs restrictions that apply to nations other than LDCs in the GSP program and locks in preferences for beneficiary countries for 8-year periods rather than annually, in contrast to GSP (Haveman & Shatz, 2004). These foreign aid programs, which are one facet of the power of government intervention, have been utilized to increase domestic rivalry and production in LDCs, with a particular focus on export textiles and apparel.

A more critical viewpoint reveals that governmental intervention in LDCs has fallen short of expectations. Although political authorities have given it a lot of attention and support, its unchecked growth has led to unexpected consequences. For instance, costly supply delays, reduced marginal benefits, and economic inefficiency have been brought on by capital misallocation, excessive expenses, and a lack of innovation. Particularly, inadequate provision of goods and services, failure to achieve desired goals, and strain on finances have served to deteriorate diplomatic relations as a result of political meddling and bureaucratic growth (Poynter, 1982). The decision takers do not have skin in the game: they are not profit seekers risking their own money. To understand the faulty system of public sector intervention, one must ask themselves, what do they seek?

A naive response would be to assume the government simply wants to provide collective good, to generate sustainable growth and guarantee a more promising future for all its citizens. Reality sways from this optimistic assumption. Government officials seek to get re-elected, to monopolize their power as much as society blindly allows, and to gain campaign donations. Thus public sector decisions take the form of strategic political consideration rather than commercial growth. Whereas commercially-oriented investments honor agreements and are disciplined by nature, political decisions are skewed towards political gain and reputation. For instance, during an election campaign, the government may set off on a new developmental endeavor, appealing to its voters and promoting community welfare. Yet at a deeper glance,

location is fundamental in understanding the intentions of this endeavor. The project undertaken may be developed in a marginal area, designed to captivate voters whose vote can be shifted, even if this means that areas in more need do not get the necessary attention they necessitate. Strategy thus often plays a more important part than impact. Misaligned incentives and deliberate political moves lower productivity and lead to inefficient LDC development.

Such flaws have not gone unnoticed by critics. They contend that ineffective government policies disincentivize creative producers, harm a large majority who rely on successful government intervention, and fail to effectively allocate human capital and LDCs' limited domestic resources. Concerns about government authority are also present, mostly because of the restricted production and distribution that results from government control (particularly in command economies). Domestic corporations experience decreased marginal profit and are worse off than previously as a result of being compelled to comply with greater costs and more sophisticated safety procedures. Intervention may be advantageous for one party but harmful for another due to discrimination policies. For instance, the competition policy promotes state-owned businesses over private ones. Similar to a bailout, the government supports large banks financially rather than all banks by using tax money. (Nasrudin, 2022).

Perhaps even more detrimental to LDC economies is the form of long-run inflation. The process of income redistribution driven by inflation is typically brought to light since it benefits the government, business owners, and debtors while harming creditors and those who receive incomes that do not, only partially, or tardily follow the inflationary trend. The fast expanding urban population in LDCs typically bears the brunt of this process, commonly specified as "forced economy," and is obliged to reduce their consumption spending (Walter, 1973). Growing earnings and a propensity to encourage the expansion of the production potential are the results of rising prices that are not accompanied by an equal rise in costs. Yet “it would be all too short-sighted to break off the train of thought at this point” and to arrive at the fallacious conclusion that inflation was indeed a one-way street of welfare (Walter, 1973). Long-term Inflationary pressure poison the economy and capture stakeholder perception, compelling the government to resort to acts of intervention that, at best, will put the desired goal in jeopardy and, more than likely, will fail (Walter, 1973).

As a result of slow rates of economic growth, inflation, and a greater concern of public sector inefficiencies, there has been a shift in mindset. Governments have changed their roles to allow the private sector to carry out a number of tasks, and this has led to an increased focus on privatization (Paul, 1985). It has two objectives: first, it aims to reduce the size of the public sector; second, it aims to move the production of public goods and services to a more economically viable and effective method. Perhaps the socioeconomic makeup of some LDCs, like Haiti, Honduras, and Uganda, restricts the growth of the public sector by blinding the government and deflecting attention away from the reality that its own intervention falls short of meeting the countries' developmental needs (Paul, 1985). Despite the mounting evidence of poor financial returns, ideology has driven some political leaders to make significant investments in the public sector. In other cases, such as Bhutan and Cambodia, public sector expansion has been subject to a quest for patronage among politicians and a form of defense mechanism against expatriates, rather than the compulsions of ideology. The aforementioned instances provide insight into the nature of public sector involvement in LDCs and perhaps why developments have been hindered and largely unsuccessful (Behrman, 1972). History, politics, and economics thus present unmistakable evidence. It is apparent that full public sector involvement lacks the efficiency to spur sustainable growth in LDCs, and requires supplemental efforts by the private sector. Yet, there is reason to be optimistic. Empirical evidence shows important complementarity between public and private sector investment: public sector presence increases productivity through the provision of infrastructure and services, which attracts private sector investment (Cardoso, 1993).

Government intervention may thus not be the most efficient means to drive financial sector growth: its selfish gains, and inefficient means to spur growth are faulty and detrimental to LDCs desperate for aid. But it can be a medium and a tool

to retain necessary private funds for development. The question that then arises, and that will be answered in the next section, is whether the private sector intervention can carry the financial sector of LDCs by itself, and if it is the most efficient mechanism to bolster the financial sector.

Section III: Assessing the Efficiency of Private Sector Intervention

After analyzing the lack of efficiency in which the public sector spurs sustainable developments in LDCs, this section will uncover whether full private sector arrangements can create the necessary changes to shift their financial sector. The private sector, unlike its public counterpart, is commonly held to have no incentive in producing the optimal amount of such goods and services, employing a strictly analytical approach rather than prioritizing public satisfaction. The private sector argues that by doing this, it avoids market imperfections brought on by the non-exclusionary nature of public goods and the simultaneous and concurrent usage of such services. By nature of their uncertain make-up, LDCs are more volatile: inflation, real interest rates, and other macroeconomic variables shake their economies and fluctuate the strength of the financial sector. Highly dependent on public external support, mainly Official Development Assistance (ODA), LDCs progressively move towards private financing at early stages of their development. Private financing itself evolves, with a progressive substitution of ODA with Other Official Flows (OOF), corresponding to a decline in concessionality as countries transition. By filling the gap between ODA and private finance, OOF are essential to help countries gradually transition towards the mobilization of private resources. Since LDCs are characterized by structural handicaps, such as low productivity, low economic base and high exposure to economic shocks and disasters (e.g. commodity price fluctuations, climate change, epidemics and natural disasters), private development finance institutions bear risk. This can at times lead to LDCs' struggle to diversify their financing resources, making it difficult to mobilize domestic resources and attracting private sector investment (Cattaneo et al., 2021).

For the private sector, risk aversion, adjustment costs to investments, and turbulent returns on investment affect their investment methods and allocation of capital in LDCs (Abel & Eberly, 1994). Participation of private capital in low-income countries is limited due to their perceived elevated risk environment and low profitability for commercial profit-seeking investors, placing developing countries at a disadvantage. Thus, private development finance is more commonly associated with LDCs. As institutions geared for developmental purposes, Multilateral Development Banks (MDBs) are subsidized to implement SDGs in the Agenda for 2030 and lend mainly to LDC governments or other key shareholders in long-term loans (OECD, 2018). They are encouraged to increase long-term lending in domestic currencies to developing countries given the potential for serious dysfunctions generated by external indebtedness and foreign currency based financing for developing country public sectors (Abalkina & Zaytsev, 2021).

The success of private enterprises follows a simple scheme: demand and supply for financial services depends upon the growth of real output and monetization of the developments and substance achieved. The more rapid the growth, the greater the demand for and supply of such enterprises, and the greater the funding and profits. Under this criteria, it would seem inherently efficient to entrust the profit-seeking private sector to undertake developmental projects and surge the economy in LDCs. The more success they achieve, the more demand for their service, and the more sustainable and profitable the income. A constant cycle embodying the essence of capitalism. Combined with the supply-leading funds, "favorable expectational and psychological effects" incentivize the private sector to invest in its human capital and "expand to new horizons" (Patrick, 1966). Such innovation is necessary for ingenious solutions that can exacerbate growth in developing countries, and efficiently lead developmental projects in LDCs. The disciplined and profit-oriented mindset of the private sector is especially important for LDCs' mission of sustainability. Private finance can be mobilized for sustainable developments, particularly the UN's Sustainable Development Goals (SDGs), and can fill the gap between development co-operation and private investment through private sector development (PSD) (Cattaneo et al., 2021).

Proponents of private finance are optimistic for the future. They envision LDCs who can achieve an improved resilience of development co-operation efforts by building an ecosystem for private sector-led development. In particular, development partners could promote foreign investment and trade, with greater emphasis on their qualities or development footprint. This would require investing in private sector development, investment climate, the business environment; improving access to credit; creating markets and building local capacities to attract the "right" foreign investors (i.e. renouncing the race to the bottom to attract investors, and raising local standards to join higher value-added supply chains). The Aid for Trade initiative could also be leveraged to create conditions conducive to trade, including by building local capacity and increasing the efficiency of global value chains (GVCs), ensuring that significant value-added is left behind (Morrissey & Udomkerdmongkol, 2012)

Critics on the other hand, offer another aspect to this nuanced debate, arguing instead that the private sector is not fit to be the sole engine in LDCs financial sector development. Firstly, from a solely economic perspective, they claim that LDCs volatility and inherent corruption may lead to crowding out. Due to limited funds and shaky money supplies, there is a small amount of savings available to be borrowed, and this causes real interest rates to increase. The private sector as a result undertakes a cost-benefit analysis, and is left unincentivized to begin development projects, or even continue them, as the payout may not compensate for the additional risk. This form of investment proves to be heavily inefficient and problematic, and can leave LDCs in turmoil, even worse than before. Can the private sector truly transform the financial sector if it cannot withstand the economic pressures present in LDCs and becomes inefficient? Paul E. Roberts Jr. adds to this thought, analyzing why the private sector seems to earn a higher level of profit on loans than the public sector even when proven more inefficient at times. He holds that the answer lies in the form of loans and equity investments that the private sector obtains from international institutions, often made in foreign exchange (Roberts, 1971). These same loans however, may not be as strong in developing countries with shaky currencies and volatile foreign exchanges. Although transactions may be made by entities in the developed world, third parties in LDCs would still have access to the transaction and magnify the risks involved, thereby shifting loans as well. In turn, it would render the private sector near to obsolete, killing its higher level of profit on loans, disincentivizing production and developments, and inefficiently undertaking projects.

When further combined with extraneous and unpredictable events such as COVID19 outbreak, there is a further sense of incertitude. In fact, private finance commitments still lag 12% lower than the previous five-year average, an indicator that recovery from the deep recession triggered by COVID-19 is still underway (World Bank, 2022). Yet, we must look at the full picture to truly assess the impact of private finance. Investments have been unequal across regions: while Europe and Central Asia have seen the largest increases in private investment (400% since 2020), private investment commitments have decreased in Sub-Saharan Africa by 17%, in South Asia by 16%, and by 90% in Middle East and North Africa (World Bank Group, 2022). Considering this paper analyzes the impact on LDCs, we must assess the impact of private finance in LDCs. While it is clear that mobilizing private finance in developed countries is beneficial, the same cannot be said for developing countries. This can be attributed to developed nations' typically lower risk and interest rate loans, secure profit, stable politics, and strong currencies, while LDCs on the other hand, are politically unstable, heavily exposed to viruses, riddled with high loan interest rate and risks, and economically volatile. The sharp distinctions highlight that private finance alone cannot handle the myriad of difficulties that intervening institutions need to face and reinforce previous points on the weakness of private finance in the presence of risk and uncertainty.

Accordingly, private finance is not the efficient arrangement to shift the economies of LDCs and transform their financial sector. High risks, political and economic instability, and uncertain extraneous situations, are inevitable. They are part of the difficulty of transforming LDCs and the reason circumstances are slow to improve. It thus becomes clear at this point in the paper, that only full public or full private sector intervention, are not the most efficient means of achieving financial

sector growth in LDCs. The next section examines a partnership between the private and the public forces, and will further look into a specific type of PPP, blended finance, in hopes of finding a more efficient solution for LDCs.

Section IV: Public Private Partnership

After analyzing the shortcomings of full public and full private arrangements in the financial sectors of LDCs, this section aims to uncover the truth behind the efficiency of a combination of both sectors, in the form of public-private partnerships (PPPs). More specifically, this section will discuss the stakeholders of PPPs and uncover the efficiency of PPP involvement in LDCs and then offer blended finance as a possible solution to spur developments and sustainable growth in the regions this paper focuses on.

PPPs appear on the spectrum of financial arrangements as a contractual arrangement that primarily involves a partnership between a public entity and a private institution to primarily finance, build, and operate developmental projects. PPPs vary in terms of configurations, presenting differing degrees of involvement and risk management, especially by the private party (Investopedia Team, 2022). Public-private partnerships frequently involve concessions of tax or other operating funds, liability protection, or an element of ownership rights over assets that are ostensibly public. They can be classified into two categories, namely those with a purely contractual basis and those with an institutional nature (Marques, 2010). While a PPP of an institutional nature involves cooperation between the public and private sectors within a specific body, a PPP of a strictly contractual type, on the other hand, is based only on contractual relations (Marques, 2010). Both arrangements grant delegated management of conventional public sector activities to the private sector and follow contractual regulation. Institutional PPPs act in accordance with administrative contracts, which govern the rights and obligations of the present parties. Contractual PPPs are slightly different, as the rights and obligations are supported by the shareholders' agreements and the company's statutes.

As the influence of PPPs' binding contractual agreements has proliferated, so too has global support for public-private partnerships (PPPs), especially prevalent in the field of infrastructure development. Discussions in G20 meetings over the last several years have increasingly focused on the need for a huge scale-up in infrastructure investment in developing countries, particularly low-income countries. G20 pronouncements talk about the advantages of realizing this scale-up via large, "transformational" projects involving private sector participation (Heathcote & Rowden, 2022). By this they mean large, regional, or cross-border infrastructure projects involving private investment and management, which potentially have positive, transformational impacts on entire countries or regions. From time to time over this period, the G20 has considered efforts to help modify the mandates of national and international development banks so that these institutions will take the lead on such PPPs and crowd in the private sector.

As a result, several development banks have been considering adjustments to their business models to give more attention to regional infrastructure PPPs. During the negotiations in 2013 for the 17th replenishment of the International Develop Association (IDA17), the World Bank proposed using IDA funding to help develop transformational PPP projects. Those proposals have now evolved into the Bank's design of the Global Infrastructure Facility (GIF), an entity meant to coordinate the efforts of MDBs, private investors, and governments to prepare and structure PPPs. The BRICS countries, at their summit in Durban in March 2013, announced plans to create a new development bank (now known as the New Development Bank) that would focus on infrastructure, and do so in a way that would make up for the deficiencies of the existing international financial architecture and help catalyze the private sector investment needed in rapidly-growing BRICS economies (Republic of South Africa 2014). Perhaps the most ambitious and concrete commitment of this kind to date is the decision, announced by the African Development Bank (AfDB) in July 2013, to create a billion-dollar preparation and financing facility for large infrastructure projects in Africa, referred to as Africa. The institution's purpose "is to unlock private financing sources... and to accelerate the speed of infrastructure delivery in Africa," (Akintomide,

2013). This could prove especially beneficial in LDCs desperate for immediate infrastructure development. Besides the increased speed of developments, in their paper, Engel, Fischer, and Galetovic (2014) noted that in some countries PPPs are attractive to the government not necessarily because they are expected to be less expensive, but simply because accounting rules allow project costs to be moved off government books in order to give the appearance of lower debt levels.

Yet, as this enthusiasm for PPPs is growing, so is a less widely-recognized body of research that takes a much more measured approach; it still represents a kind of advocacy, but one that incorporates a greater degree of critical analysis of PPP successes and failures. The view among PPP advocates generally has been that these criticisms are mostly ideological polemics that mix opinion with selected but often misinterpreted facts. But over the last two decades, as the experience with PPPs has increased in both developed and developing countries, a different kind of critique has emerged, one that is based on non-ideological empirical research, and is sometimes expressed by PPP advocates. These studies often focus on individual aspects of PPPs, and usually do not claim to be "PPP evaluations" or express opinions on the overall value of PPPs. Taken together, a powerful, evidence-based critique of PPPs is emerging, but one that is more measured than much of the criticism of the last two decades. This new critique recognizes many cases in which

PPPs have not been successful, but also some situations in which PPPs can generate value for money. Because of its critical tone, some of this research is now regularly cited by the civil society critics of PPPs, giving their arguments more weight than was the case a decade ago. A recent example of this is evident in a World Bank working paper by Michael Klein (2015), an influential PPP advocate during the 1990s and early 2000s. Klein notes that despite more than two decades of use and refinement of the PPP mechanism, there are still no consistent geographical patterns of usage: "The general picture is one of waves of enthusiasm for PPPs followed by some disenchantment and consolidation. Different countries were caught up in the waves at different times." What accounts for this lack of sustained enthusiasm? Klein says that evaluations show that PPPs can outperform public sector firms, and "are useful tools for reform of service delivery" (Klein 2015). But it is no longer clear that PPPs are consistently better run than public firms. "The evidence suggests that well-run public firms tend to match the performance of private firms in regulated sectors" (Klein 2015).

Klein's comments are a reminder that a significant amount of evidence-based research on PPPs has accumulated since the late 1990s. But a good deal of it, particularly over the last decade, has not been uniformly positive about PPPs, at least not in the fashion of the largely promotional literature published by MDBs and donors in the 1990s and early 2000s. One such notable example lies in the findings of economist Antonio Estache, an outspoken critic whose work has bolstered PPP criticisms amongst civil society groups (Alexander, 2013). Such groups have produced a broad collection of critical PPP studies: International Rivers (Bosshard, 2012); Public Services International (Hall, 2015); Heinrich Boell Foundation (Alexander, 2013); CEE Bankwatch Network (2008); Oxfam (Marriott, 2014); the Bretton Woods Project (2016). As a united front, these groups have long been critical of PPPs, but in the past their arguments against private participation have often seemed more ideological than evidence-based, and therefore not very compelling. But the growing use of evidence-based research reported on by respected social scientists like Estache, Klein, and others has added weight to their arguments, warranting more careful consideration by PPP advocates.

Coasian economics offers further useful insight into criticism of PPP. According to Ronald Coase's 'Theory of the Firm', it is frequently less expensive to command tasks by decree than to negotiate and uphold individual contracts for each transaction (The Economist, 2017). Transaction costs, after all, are mainly contract difficulties, ranging from errors, to problematic clauses and unsatisfied parties, and render PPPs inefficient before they even take off (Leigland, 2018). Government projects are notorious for overrunning and overspending, and thus need the discipline of the private sector to combat misallocation of capital. Yet, the minute the private sector is lured in, they get a guaranteed revenue stream

extended over a certain period of time, disincentivizing them from providing the sharpness and efficiency which balances the government's lack of productivity. The question then arises, how can PPPs formulate a contract that reduces risks to get the private sector involved, but doesn't guarantee them profit which disincentivizes efficient developments? Formulating contracts entails long negotiations, costly services, and numerous errors. By nature they are tricky, presenting unclear risks to the cost-bearer, and usually providing negative externalities to taxpayers. During a contract negotiation, the government will not be willing to jeopardize the project. The public sector will protect its reputation and government officials will seek optimal chances at re-election. To avoid running into issues, they thus compromise with the private sector, even at the expense of taxpayers. The government ensures the private sector is satisfied with its compensation, but by doing so sacrifices taxpayer money, at times even discreetly. A further issue arises with the presence of corruption, exchanging shady deals between parties and benefitting the primary stakeholders of the contract, rather than providing common good for society.

Having considered the proponents and critics of PPPs, the next portion of this section will focus on PPPs impact on developments in LDCs. According to the Independent Evaluation Group of the World Bank, PPPs play a relatively small role in infrastructure investment across the developing world, averaging between 15 to 20 percent (Independent Evaluation Group 2014). In least developed countries, the use of PPPs has been even more negligible. The figure below demonstrates this, using data from the World Bank's PPI Project Database to show investments related to "private participation in infrastructure" (PPI) in countries eligible for support from the International Development Association (countries whose Gross Net Income per capita is below $1,215), and contrasts these against data from non-IDA developing countries (World Bank, 2014).

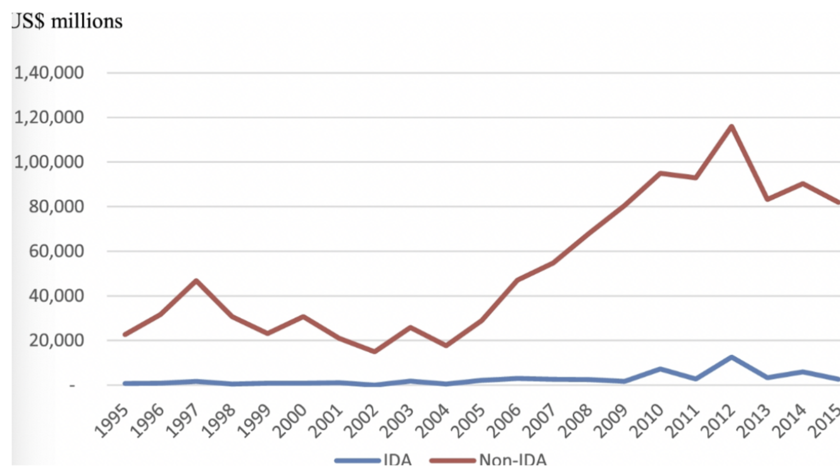

Figure 1. *PPP impact, IDA vs Non-IDA*

In the developing world, a share of infrastructure investment in the range of 15 to 20 percent does not mean that PPPs have failed to play a significant role in infrastructure. But it is far less than what was expected of PPPs in the 1990s when Klein and his colleagues at the World Bank were considering sharp reductions in infrastructure lending because they expected the private sector to eventually play a more dominant role in bridging the gap and financing and managing infrastructure services in that region of the world.

What does this information about PPP prevalence tell us about the conditions under which PPPs are likely to provide value for money? The message is simple: PPPs work much better in middle-income economies than they do in low-income countries. This means that in most cases a complex, long-term, brownfield concession for retail water distribution, for example, requiring significant capital investment, should not be the first choice as the service delivery

solution in a least-developed country (as such contracts often were in the early 1990s). The poorest countries can usually benefit more from traditional technical assistance and capacity building, or from hybrid projects that mix elements of PPP contracts with those of consulting or engineering, procurement, and construction (EPC) contracts to reduce risks for the private partners. Reforms to legal and regulatory frameworks within which PPPs eventually would be structured are also critical in these countries, along with help in improving government procedures for things like procurement and construction management.

From a financial aspect, considering costs and profits is perhaps one of the clearest indicators signaling the efficiency (maximizing net benefit and minimizing costs) of PPPs in LDCs. As they involve multiple stakeholders, the conventional view of PPPs, compared to typical public projects, provides better services at lower costs. This can be attributed to the private partner's desire to make a profit, combined with a reasonable return and government pressure: projects that do not fulfill expectations can be subject to public criticism and civil society. Yet, traditional means of PPP suggest that its common positive perception is misguided. PPPs have typically cost more than conventional public procurement methods. (Jomo et al. 2016). A 2006 report by the European Investment Bank (EIB) reviewed the costs of 227 road projects in 15 European countries and concluded that projects done as PPPs (65 of the total), were 24 percent more expensive than those done via traditional public procurement (Blanc-Brude, Goldsmith, and Välilä 2006). In a 2015 review of effective interest rates on private finance projects, the U.K.'s National Audit Office found that these rates, at 7 to 8 percent, were double the rates on normal government borrowing, at 3 to 4 percent (U.K. National Audit Office 2015). It seems illogical to devote PPP arrangements in vulnerable nations with limited funds, when developed countries already face substantial roadblocks and ineffective spending. So what can be done?

One way to avoid this issue is by anticipating project benefits and costs, requiring a metric called "value for money" (VFM) to conduct a PPP project cost-benefit analysis. VFM analysis involves estimating project costs, including profits for the private partners, and measuring them against project benefits, including service quality, quantity, and prices for governments or end-users (Leigland, 2018). Quantitative VFM assessment typically involves comparing the chosen PPP option against a "public sector comparator" (PSC). The PSC allows a comparison of the risk-adjusted cost to the government of procuring the project through traditional procurement (the PSC), with the expected cost to the government of the PPP (pre-procurement) or the actual PPP bids (post-procurement) (European PPP Expertise Center, 2018). But ever since the technique was first refined and pioneered as part of the UK's PFI program in the 1990s, it has been criticized for being inaccurate and subject to manipulation, leading some observers to conclude that it is often an expensive way of endorsing the pre-selected choice of private participation.

Thus traditional PPPs' attraction seem to have faded, revealing instead the systemic failures and volatile costs that render it an inefficient means to spur developments and growth in LDCs. Specifically, The OECD (2008) attributes the high cost of PPP projects, especially when compared with the costs of traditional public procurement, to preparation costs. Preparation costs include the legal, financial, and technical costs incurred by both public and private sector actors in developing a PPP for commercial operation, and so include "transaction costs" associated with PPP procurement processes and contract negotiation, as well as (especially in some developing countries) "upstream" legal, regulatory, and policy preparation tasks that go well beyond normal transaction costs (De Schepper, Haeqendonck, & Dooms, 2015).

How are governments and their development partners coping with the fact that PPPs are costlier and less profitable than assumed in the 1990s? One way is to rely more heavily on "blended finance" approaches to PPPs. Since the launch in the early 2000s of the multi-donor trust fund for output-based aid (the Global Partnership on Output-Based Aid), "blended finance" has become increasingly popular as a way of using concessional finance to catalyze private sector investment, particularly in infrastructure PPPs. The International Finance Corporation's (IFC) Blended Finance Unit, launched in

2007, and the EU's regional blending finance facilities, such as the EU-Africa Infrastructure Trust Fund, have all used subsidies to bring down the costs of various kinds of infrastructure PPPs (IFC 2012). The use of blended finance in this way creates a hybrid approach that combines PPP elements with those of more traditional public projects. Blended finance acknowledges private partners' limitations to fully prepare PPP projects in a way that optimizes economic benefits. It provides substantial effort by donors and MDBs to pay for and supervise preparation before private partners become involved, resulting in more effective, sustainable, and pro-poor projects. The stronger role for governments and their development partners in identifying problems and designing solutions for private partners to implement is a characteristic of hybrid management contracts being developed or implemented in countries like Benin, Liberia, and Sierra Leone (Republic of Sierra Leone 2015). These contracts shift risks away from private partners, toward governments, donors, and MDBs, who are, theoretically, better able to mitigate those risks. Ultimately, this should make the contracts more productive and sustainable.

Yet critics argue that blended finance involves the use of subsidies, requiring justification to ensure that it is really crowding in private finance rather than crowding it out. Economists typically recommend the use of cost-benefit analyses for such justifications to clearly identify any obstacles that reflect market failure and help determine whether subsidized finance can solve the problem. Theoretically, cost-benefit analyses can confirm that the likely development impacts of using subsidized finance far outweigh the distortions that may result. When this kind of analysis can be done, it almost certainly leads to more developmental projects, and ensures quantifiable metrics to maximize the benefits of undertaken projects. Evidence then points to blended finance, as a means to combine the public and private sector, while avoiding the risks and shortcomings of classical PPP arrangements. Blended finance may very well be complemented with other forms of intervention in the future, but it seems to be an effective means to spur growth in the financial sector of LDCs, and since it is focused on sustainable development, its longer-term orientation may lead to more future success.

Section V: Conclusion

The conclusion we can ultimately reach is complex. Full public sector intervention is typically more oriented on spurring developments for LDCs, but corruption, misallocation of capital, and at times misaligned incentives, highlight that it is not the most efficient arrangement in LDCs' financial sector. We move on to full private sector intervention, where the profit-seeking mentality by nature should incentivize efficient growth and mechanisms to ensure more financial stability. In reality however, the private sector fails to handle risks and high interest rates, political and economic instability, and extraneous circumstances such as COVID19 virus. It proves weak against challenges that are very common in LDCs, and seem to not have the tools to survive in tougher financial environments. Lastly, we shift our attention to public-private partnerships. Considered traditionally to combine the legislative power, influence, and urgency of the government, with the organized, structured, and rich structure of the private sector, PPPs seem to be the most efficient means to spur growth in the financial sector of LDCs. Yet, as we unmask the whole truth, it becomes clear that certain forms of PPPs are problematic, and especially in LDCs may be obsolete. It is however, not always the case, as can be seen with blended finance. Focused on sustainable development and philanthropic funds to cushion private sector risks, blended finance offers a more risk-averse and navigable path towards long-term growth. We thus reach the conclusion that LDCs should look to adopt PPPs in the form of blended finance. This is necessary to mobilize needed funds, focus on a sustainable future, and provide the tools and strength against risk that is needed to combat the adverse situation of LDCs and ensure efficient financial sector developments.

Bibliography

Abalkina, A., & Zaytsev, Y. (2019). Private sector engagement in ldcs: Challenges and gaps. UNCTAD. https://unctad.org/system/files/non-official-document/ldcr2019_bn_1_en.pdf.

Abel, A. B., & Eberly, J. C. (1994). A Unified Model of Investment Under Uncertainty. The American Economic Review, 84(5), 1369–1384. http://www.jstor.org/stable/2117777.

Akintomide, C. (July 16, 2013). Africa50: Questions and Answers. Memorandum to the AfDB Board of Directors from the Secretary General, African Development Bank.

Alexander N. (2013). Responsible Investment in Infrastructure: Recommendations for the G20. Washington, DC: Heinrich Böll Foundation North America. https://us.boell.org/sites/default/files/responsible_investment_in_infrastructure.pdf.

Avery, W. P. (1990). The Origins of Debt Accumulation among LDCs in the World Political Economy. The Journal of Developing Areas, 24(4), 503–522. http://www.jstor.org/stable/4191905.

Behrman, J. R. (1972). Sectoral Investment Determination in a Developing Economy. The American Economic Review, 62(5), 825–841. http://www.jstor.org/stable/1815202.

Blanc-Brude F., Goldsmith H., Välilä T. (2006). Ex Ante Construction Costs in the European Road Sector: A Comparison of Public-Private Partnerships and Traditional Public Procurement. Luxembourg: European Investment Bank.

Bosshard P. (2012). Infrastructure for Whom? A Critique of the Infrastructure Strategies of the Group of 20 and the World Bank. Berkeley, CA: International Rivers. https://www.internationalrivers.org/sites/default/files/attached-files/infrastructure_for_who m_report.pdf.

Bretton Woods Project. (April 5, 2016). World Bank Rolls out the Carpet for Troubled Megaprojects and PPPs. Bretton Woods Project. http://www.brettonwoodsproject.org/2016/04/world-bank-rolls-out-the-carpet-for-troubled megaprojects/.

Cardoso, E. (1993). Private Investment in Latin America. Economic Development and Cultural Change, 41(4), 833–848. http://www.jstor.org/stable/1154276.

Cattaneo, O., Piemonte, C., & Fabregas, A. (October 5, 2021). 5th United Nations Conference on the least developed countries (LDC5). United Nations. https://www.un.org/ldc5/sites/www.un.org.ldc5/files/dcd202117.en_.pdf.

CEE Bankwatch Network. (2008). Never Mind the Balance Sheet: The Dangers Posed by Public-Private Partnerships in Central and Eastern Europe. Prague: CEE Bankwatch. http://bankwatch.org/documents/never_mind_the_balance_sheet.pdf.

De Schepper S., Haeqendonck E., Dooms M. (2015). Understanding Pre-Contractual Transaction Costs for Public-Private Partnership Infrastructure Projects. International Journal of Project Management 33 (4): 932–46. www.sciencedirect.com.

Engel E., Fischer R., Galetovic A. (2014). The Economics of Public-Private Partnerships: A Basic Guide. Cambridge: Cambridge University Press.

European PPP Expertise Center. (2018). Western Balkans Enterprise Development & Innovation Facility – Innovation, Entrepreneurship, Financial Intermediaries, Loans, Institutions, Ministries, SMEs, Support, Technical Assistance, Western Balkans Region, Creating Value, Growth. Western Balkan Enterprise. http://www.wbedif.eu/.

Hall D. (2015). Why Public-Private Partnerships Don't Work: The Many Advantages of the Public Alternative. Greenwich, UK: Public Services International Research Unit. http://www.world-psi.org/sites/default/files/rapport_eng_56pages_a4_lr.pdf.

Hamm, Walter (1973). Inflation and economic growth in LDCs, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 08, Iss. 6, pp. 183-186. https://doi.org/10.1007/BF02927646.

Haveman, J. D., & Shatz, H. J. (2004). Developed Country Trade Barriers and the Least Developed Countries: The Current Situation. Journal of Economic Integration, 19(2), 230–270. http://www.jstor.org/stable/23000780.

Heathcote, Chris, and Murray Rowden. (2022). New: Sustainable Infrastructure Resource. Global Infrastructure Hub - A G20 INITIATIVE, Turner & Townsend. https://www.gihub.org/.

Jomo K. S., Chowdhury A., Sharma K., Platz D. (2016). "Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for Purpose?" UN Department of Economic & Social Affairs, Working Paper No. 148ST/ESA/2016/DWP/148, United Nations, New York.

Klein M. (2015). Public-Private Partnerships: Promise and Hype. World Bank, Washington, DC. Policy Research Working Paper No. 7340.

Knowles, S., & Garces‐Ozanne, A. (2003). Government Intervention and Economic Performance in East Asia. Economic Development and Cultural Change, 51(2), 451–477. https://doi.org/10.1086/346114.

Leigland, James. (22 Mar. 2018). Public-Private Partnerships in Developing Countries: The Emerging Evidence-Based Critique. The World Bank Research Observer. https://academic.oup.com/wbro/article/33/1/103/4951689.

Marques, Rui Cunha. (Feb. 2010). What Are the Different Types of PPP Arrangements? Body of Knowledge on Infrastructure Regulation. https://regulationbodyofknowledge.org/faq/private-public-partnerships-contracts-and-risks/what-are-the-different-types-of-ppp-arrangements/.

Marr, Chuck, et al. (1 Oct. 2015). "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds." Center on Budget and Policy Priorities. https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens.

Marriott A. (2014). "A Dangerous Diversion: Will the IFC's Flagship Health PPP Bankrupt Lesotho's Ministry of Health?" Oxfam Briefing Note, Oxfam International, Boston, MA. https://www-cdn.oxfam.org/s3fs-public/file_attachments/bn-dangerous-diversion-lesotho-health-ppp-070414-en_0.pdf.

Morrissey, O. and M. Udomkerdmongkol. (2012), Governance, Private Investment and Foreign Direct Investment in Developing Countries, World Development. Vol. 40/3, pp. 437-445. https://doi.org/10.1016/j.worlddev.2011.07.004.

Nasrudin, Ahmad. (10 Apr. 2022). Government Intervention: Examples, Reasons, and Impacts. Penpoin. https://penpoin.com/government-intervention/.

OECD. (2018). Global Outlook on Financing for Sustainable Development 2019: Time to Face the Challenge. OECD Publishing, Paris. https://dx.doi.org/10.1787/9789264307995-en.

Patrick, H. T. (1966). Financial Development and Economic Growth in Underdeveloped Countries. Economic Development and Cultural Change, 14(2), 174–189. http://www.jstor.org/stable/1152568.

Paul, S. (1985). Privatisation and the Public Sector: Relevance and Limits. Economic and Political Weekly, 20(8), M4–M8. http://www.jstor.org/stable/4374104.

Poynter, T. A. (1982). Government Intervention in Less Developed Countries: The Experience of Multinational Companies. Journal of International Business Studies, 13(1), 9–25. http://www.jstor.org/stable/154251.

Republic of Sierra Leone. (2015). Bidding Documents for a Management Contractor for Electricity Distribution and Supply Authority. Freetown: Ministry of Energy.

Republic of South Africa. (2014). Brics and Africa: Partnership for Development, Integration and Industrialization. Pretoria: Madiba Communications.

Roberts, P. E. (1971). Development Banking: The Issue of Public and Private Development Banking. Economic Development and Cultural Change, 19(3), 424–437. http://www.jstor.org/stable/1152927.

Team, The Investopedia. (11 Sept. 2022). Public-Private Partnerships (PPPs): Definition, How They Work, and Examples. Investopedia. https://www.investopedia.com/terms/p/public-private-partnerships.asp.

The Economist Newspaper. (29 July 2017). Coase's Theory of the Firm. The Economist. https://www.economist.com/schools-brief/2017/07/29/coases-theory-of-the-firm.

U.K. National Audit Office. (2015). The Choice of Finance for Capital Investment. National Audit Office, HM Treasury, NAO Communications, London. https://www.nao.org.uk/wp-content/uploads/2015/03/The-choice-of-finance-for-capital-investment.pdf.

World Bank. (2014). Project Appraisal Document on a Proposed Grant in the Amount of SDR 47.7 Million (US$ 73.1 Million Equivalent) to the Democratic Republic of Congo for an INGA 3 Basse Chute and Mid-Size Hydropower Development Technical Assistance Project. World Bank, Washington, DC. Report No. 77420-ZR.

World Bank Group. (3 May 2022). New Data: Private Sector Investment in Developing-Country Infrastructure Bounces Back from Historic Lows. World Bank, World Bank Group. https://www.worldbank.org/en/news/press-release/2022/05/03/new-data-private-sector-investment-in-developing-country-infrastructure-bounces-back-from-historic-lows.