Committee: Economic and Social Council (ECOSOC)

Issue: Balancing the roles of public and private sectors in economic growth

Student Officer: Ariadne Lampropoulou

Position: Co-chair

PERSONAL INTRODUCTION

Esteemed Delegates,

My name is Ariadne Lampropoulou and it is a great honor for me to have the opportunity to serve as your Co-chair in the Economic and Social Council. This will be my fourth time chairing, and I will be serving as the expert chair on the topic of balancing the roles of public and private sectors in economic growth. The issue of balancing the roles of public and private sectors in economic growth is vitally important and one which calls for an immediate and effective response. This study guide contains some basic understanding of the topic as a whole so that you can become more familiar with it, its key terms and events before preparing your draft resolutions. However, I urge you all to extend your research, and not only use the study guide. The links in the bibliography will be found useful.

That being said, I wish you all the best of luck and hope you create some constructive draft resolutions. Should you have further questions, do not hesitate to contact me at alampropoulou@campion.edu.gr. I am looking forward to meeting you all.

Best Regards,
Ariadne Lampropoulou

TOPIC INTRODUCTION

It is definite that both private and public sectors play major roles in the growth of the economy. The private sector is part of the national economy. However, it is not under direct control of the state. On the other hand, although the public sector is still part of the economy, it is entirely controlled by the state. It is important for the public and private sector to cooperate in order to manage to terminate global poverty in order to attain topmost success. In order to comprehend the significance of the effort to connect these two sectors, primarily, the individual must take into account the impact that both these sectors have on the economy. There is some restriction when it comes to the private sector infiltrating the evolving countries, the most important being the distinction between investment and speculation. Investment is when an asset is acquired with the goal of generating income, while speculation is the act of conducting a financial transaction that has substantial risk of losing all value but with the expectation of a significant gain. The key methods used for the cooperation of the public and private sector are the execution of public services which can be completely or partly outsourced to the private sector, e.g. the fields of public security, framework or pharmaceutical assistance.

DEFINITION OF KEY TERMS

Public sector

The public sector is the part of the economy composed of both public services and public enterprises.[1]

Private Sector

The private sector is the part of the economy, sometimes referred to as the citizen sector, which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the State.[2]

Economic Growth

Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.[3]

Low inflation

Low Inflation is a phenomenon when the prices of goods and services do not increase rapidly. Many economists have seconded this view since no economy at the present times is free from inflation, therefore, it would be a matter of achievement if they could maintain the level of inflation at a lower rate.[4]

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[1] https://en.wikipedia.org/wiki/Public_sector

[2] https://en.wikipedia.org/wiki/Private_sector

[3] https://en.wikipedia.org/wiki/Economic_growth

[4] http://www.economywatch.com/inflation/low.html

Consumption

Consumption is the value of goods and services bought by people. Individual buying acts are aggregated over time and space. Consumption is normally the largest GDP component. Many people judge the economic performance of a country mainly in terms of consumption level and dynamics. [5]

Trade balance

The trade balance is the net sum of a country's exports and imports of goods without taking into account all financial transfers, investments and other financial components. [6]

International firm

An international company is an organization that has business operations in several markets across the globe. The company may have its headquarters in one central location, but it has subsidiary offices in each of the countries it operates in. [7]

PPP (Public Private Partnership)

A cooperative arrangement between two or more public and private sectors, typically of a long-term nature[8]

PFI (Private Finance Initiative)

A way of creating "public-private partnerships" (PPPs) where private firms are contracted to complete and manage public projects.[9]

Production Possibilities Curve

A graphical representation of the alternative combinations of the amounts of two goods or services that an economy can produce by transferring resources from one good or service to the other. This curve helps in determining what quantity of a nonessential good or a service an economy can afford to produce without

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[5] http://www.economicswebinstitute.org/glossary/cons.htm

[6] https://www.focus-economics.com/economic-indicator/trade-balance-usd-billion

[7] https://www.reference.com/business-finance/international-company-b482a9cf8606a30b

[8] https://en.wikipedia.org/wiki/Public–private_partnership

[9] https://en.wikipedia.org/wiki/Private_finance_initiative

jeopardizing the required production of an essential good or service. Also called transformation curve. [10]

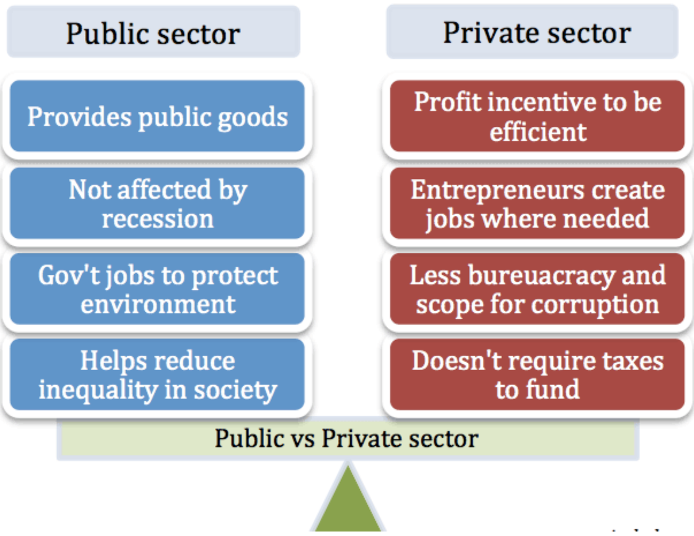
Income Elasticity of Demand

Income elasticity of demand refers to the sensitivity of the quantity demanded for a certain good to a change in real income of consumers who buy this good, keeping all other things constant. [11]

Force Majeure

An unexpected event such as a war, crime, or an earthquake which prevents someone from doing something that is written in a legal agreement. [12]

BACKGROUND INFORMATION



Public-Private Partnership is a commercial agreement entered into between the public sector (state or local authorities) and private companies, joined ventures or consortia.

The main models of PPS are: the BOT (Build-Operate-Transfer) model, the BOO (Build-Own-Operate) model and the BOOT (Build-Own-Operate-Transfer) model. The BOT model is the one generally used for the construction of roads. In this model the public sector undertakes the financial risk. The difference between BOO and BOOT is that the project is not transferred to the state. The former model is used for power plants, whereas the second for schools and hospitals.

In addition to PPPs there are also product development partnerships (PDPs) which provide services mainly in the area of medicine research and development (drugs for neglected diseases initiative, international AIDS vaccine initiative, Malaria disease initiative etc). These initiatives that came about approximately 25 years ago address the need to find health solutions to problems in developing countries which were not dealt with by pharmaceutical companies. In this case, the funding comes from

[10] http://www.businessdictionary.com/definition/production-possibility-curve.html

[11] https://www.investopedia.com/terms/i/incomeelasticityofdemand.asp

[12] https://dictionary.cambridge.org/dictionary/english/force-majeure

the public sector with the aim to develop medications for diseases in markets with very limited potential.

In PPPs the state assigns the design and construction to a private company. When it comes to financing the project PPP projects use project finance arrangements. In these arrangements the lenders (mainly the banks) rely on the money made by the project for the repayment of the loans they give. The financial risks are allocated between the public and the private sector as set out in the agreement signed between them. The investment price will be covered either by service fees paid by the government or by the users of the infrastructure. Other risks are allocated to each party depending on their expertise on the field. For example, the public sector will deal with permits, the legal framework and any eventual changes in regulation. The private shareholders will address issues such as: cost efficiency and operation and technology. Certain matters, however, will have to be addressed jointly by the partners such as force majeure. PPPs are by nature complex cooperations. In order for them to be successful, the people's interest should always remain at the centre of the project because they are those benefiting from the infrastructure and end users of it. Given that PPPs are long term projects, it is indispensable that the country has a stable government that ensures smooth cooperation.

The first step in a PPP is when the state launches a tender for the project it has in mind. Transparency is of the utmost importance when it comes to selecting the successful candidate - future partner in the PPP.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United Kingdom

The PFI (Private Finance Initiative) was first made known in the UK in 1992, by the Conservative government of John Major. The PFI encourages private investors to design, build, finance and operate public infrastructure such as schools, hospitals, etc. As a rule, the PFI is repaid by the state over a period of 30 years. At the end of 2011, more than 700 hospitals, schools, prisons and other public sector projects had been built under the PFI scheme.

Australia

Systematic plans of action have been embraced by an amount of Australian state governments based on the PFI. The initial and the model for the majority of the others is Partnerships Victoria.

Canada

In 2009, the confederate traditionalist administration under Stephen Harper in Canada hardened its dedication to PPPs with the formation of a crown corporation, PPP Canada Inc. The Canadian vanguards for PPPs have been non-metropolitan operations, held up by the Canadian Council for Public-Private collaborations confirmed in 1993. As an advocate of the matter of PPPs, the Council manages investigation, uploads discoveries, facilitates forums to be conversed and finances an Annual Conference on applicable subjects, both internal, as well as national. The Council celebrates victorious public-private partnerships via the National Awards Program which is held annually concurrently with the conference taking place each year in November.

China

Currently, in China, there are more than 14,000 existing PPP projects. This amount aggregates to $2.7 trillion in total worth, as stated by the finance department. A 50 - billion RMB PPP agreement was signed by the municipal government of Shantou, China along with the CITIC team to evolve a huge residential project extending over an expanse of 168 square kilometers, pinpointing on the southern region of the city's main business locale. The project incorporates existent property growth, infrastructure manufacturing involving a cross-harbor tunnel, and industry developments. This project called Shantou Coastal New Town directs itself to be a high-end ethnic leisure, business hub of the East Guangdong region.

IFDC (International Fertilizer Development Centre)

For quite a long time now the IFDC has been working in order to create feasible public-private partnerships which would satisfy the partners as well as partaking smallholder farmers as well as small and medium enterprises (SMEs).

TIMELINE OF EVENTS

Date	Description of Event
1654, USA	This is the first Public-Private Partnership in the history of the USA. Richard Thurley built the bridge over Newbury River at his own expense and the court of Massachusetts decided that he had liberty to take toll so long as he

	maintained the bridge.
1789, Toulouse France	The construction of Canal du Midi that connected the town of Toulouse to the Mediterranean Sea.
1852-1869, Paris, France	42 road concession treaties were entered into regarding the construction of roads and avenues in Paris.
1989, California, USA	A law was passed by the State of California allowing Public-Private Partnerships in the field of transportation infrastructure alone.
2004, London, UK	Private-Public Partnership for the improvement of the infrastructure of London Tube over a period of 30 years. Unfortunately, this ended in 2010 on the default of the concessionaires.

RELEVANT RESOLUTIONS, TREATIES AND EVENTS

ECOSOC Resolution 2007/36

Unanimously adopting resolution 2007/36, the Economic and Social Council express the importance of the contribution of the private sector, non-governmental organizations and civil society in general to the implementation of the outcomes of United Nations Conferences in economic, social and related fields.

Law 3389/2005

Known as the Private-Public Partnership Law, it was enacted in Greece in year 2005. The aim was to create a friendly legal framework for PPPs, to do away with the ratification of agreements by the Greek Parliament and to set out a standard procedure for the tender process. The law showed the Greek state's intention and interest to expand the use of PPPs.

Special Report 09/2018

Private-Public Partnerships in the EU: widespread shortcomings and limited benefits. For this report, the EU examined twelve PPPs supported by it in France, Greece, Ireland and Spain, with Greece being the recipient of most EU contributions.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Typically, those countries that have a strong public sector such as the UK, Australia and South Africa are the best examples when it comes to Public-Private Partnerships. Unfortunately, there have been a number of cases where the partnership hasn't had the anticipated outcome. A very famous example is that of the Lesotho Hospital whose budget has almost doubled and nearly bankrupt the country's ministry. The problem with the budget was mainly attributed to the lack of transparency in the country. Another example is the role concession program in Mexico between 1987 and 1995 which resulted in government bailout. A third example was the construction Nya Karolinska Solna (NKS) Hospital whose cost went from 1.4 billion to 2.4 billion due to technical failures. Lastly, the Castor Project in Spain, which was financed two times by the European Investment Bank and had to be halted after it caused many earthquakes. This was due to a failure to identify possible risks of the project which has cost 3.28 billion covered by increased gas bills.

POSSIBLE SOLUTIONS

Attention, care and due diligence need to start at the very beginning. The tender process and the award of the contract must follow all rules and procedures to provide for transparency. From then on, the Public-Private Partnership needs to be designed in such a way to provide for the smooth cooperation between the private stakeholders and the state. First of all, the bilateral agreement must set out in a clear way the rights and liabilities of the parties, including but not limited to obligations relating to financing, design, implementation and penalties. It goes without saying that, prior to the signing of the agreement, all necessary risk assessment and allocation reports, environmental impact studies and pertinent legal opinions should be in place to guarantee that the agreement executed is viable. It is important that risks be allocated to the party that can most efficiently deal with it. In case the private shareholders originate from a country different from the one of the state, certain executive positions should be held by persons having a different nationality, thus ensuring that they are not influenced by the interests of either party. The nomination of an independent third party company that will provide advisory services to the parties on the development of the project is also of paramount importance in order for the parties to feel that the report on progress they receive is reliable and accurate. The parties must set out a very clear works schedule which must be observed and adhered to at all times. Should there be a need for any deviation such deviation should be agreed between the parties in a way that doesn't prejudice the project itself. Causes for termination and penalties must be set out in a very clear way in the agreement executed between the public and private sector. Last but not least, the private shareholders and the state must establish a dispute resolution procedure by a panel of arbitrators in case any dispute arises out of the interpretation of the agreement.

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