

Forum:	Special Conference on Eradication of Poverty & World Hunger
Issue:	The Question of Public-Private Partnerships in Eliminating Poverty
Student Officer:	Fonie Mitsopoulou
Position:	Deputy president

PERSONAL INTRODUCTION

Dear delegates,

My name is Fonie Mitsopoulou, and I will be acting as a chair in the Special Conference on the Eradication of Poverty and World Hunger at the 7th Platon School Model United Nations Conference. I am currently in my second year of the IGCSE course at St Catherine's British School. I too have attended the PSMUN conference as a delegate, along with another six conferences, and thus am looking forward to experiencing such a conference through the eyes of a student officer.

I hope that we will be able to cooperate so that both the lobbying and debate processes run smoothly. I will be present to provide information on my topic during lobbying, while also regulate the debates in the committee. My topic, being extremely relevant to all countries, is also a means through which a pressing, wide-spread, and global problem can be tackled, and therefore I urge you all to delve into it and adjust your mindsets so as to find plausible solutions.

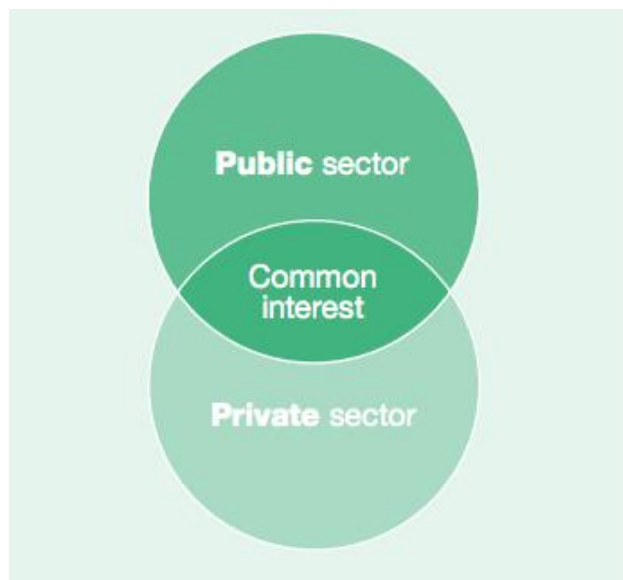
This study guide should set the foundation of your knowledge of the topic, and guide you towards the areas you should research. I strongly encourage you to individually delve deeper into the topic, as it is quite complicated and multifaceted, and I expect every delegate to have a different approach to the question at hand, hence the formation of resolutions that are thorough and all-encompassing at the conference. I hope that you do not let yourselves get intimidated by the topic and the business terminology and concepts. If there is any confusion regarding this topic, a business teacher may be of assistance, and of course, I may also be contacted at foniemits@gmail.com, or through other means.

Fonie Mitsopoulou

Chair of the Special Conference

INTRODUCING TOPIC

A large issue present in countries that may have financial or economic issues is that they are often unable to develop and invest in projects that may bring money to the state, which would alleviate these issues. The European Commission has stated that investments in public sector infrastructure are to be seen as an important means of maintaining economic activity. A solution to this are Public Private Partnerships (PPPs or P3s), in which the public sector and a private company join in order to fund or manage these projects through a partnership that is mutually beneficial, described by the World Bank as “a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance”. PPPs have become increasingly popular, even in developed countries, especially after the 2008 global economic crisis, when many countries faced constraints on public resources and fiscal space (the flexibility of the government in spending money). This meant that the government itself could not spend a lot of money in investing in these projects. Moreover, the money spent would be added to the sum of money the government spends annually in comparison to what it gains, making it seem as though the government is ineffective, something that many countries did not want to risk at the time. However, aware of the importance of infrastructure in allowing their economies to grow and their country to develop, the government turned to private companies. A private company may invest in the project or cover the maintenance costs, and in return, the private companies can bring their expertise and contribute to the allocation of the money and management of the project, thus allowing it to prosper. PPPs benefit the public in many ways, not only due to the creation of employment opportunities, but also through the construction of facilities that will ultimately be enjoyed by the public. However, PPPs may be difficult to implement, due to the risks involved and their inherently complicated structure.



government support, and seeing as government support may not be steady due to the change in government policy over the decade (as certain governments may be more inclined to aid those in the middle or lower class), these seem riskier to the private sector, which may as a result be reluctant to invest.

Private Finance Initiative

An initiative that begun in the UK and Australia, where there is investment by private sector organizations in public sector projects. It is a type of PPP.

Human capital

The abilities and skills of an individual, that cause the individual to be more effective. Their human capital may include their knowledge in different areas, social skills, education and creativity. Increasing one's human capital increases their value on the job market, which increases their chances of being employed. This benefits the economy as well, as the effectiveness of this individual will allow them to produce more economic value. Investing in projects that will increase the human capital of citizens will allow for both a country to become less poor and develop, while also those living in relative poverty, as they will be able to find employment and make a living.

HISTORICAL INFORMATION

PPPs can usually be categorized as one of three main types:

Government funded

In this type of PPP, the government funds the project, but it is run by a private company. This is successful because the expertise of the private sector can be used. Funding by the government is advantageous because projects and facilities that are necessary yet not always profitable, such as hospitals, may continue functioning as funds may be allocated to this from other government projects. An example of this is the Hope Clinic Lukuli, in Uganda.

Private sector-funded

These are managed by the government, but the funding comes from investment from the private sector, meaning the project does not have to be paid for through taxes. The private company is then paid for either through the income of the facility, or if the private company's investment was in the form of constructing the facility for the government, then the government pays something akin to rent or a lease, which is as though the government is paying for use of this facility. An example of this is the PFI.

Government-directed with private sector finance and management

In this type of PPP there is more cooperation. There is the benefit of investment on the part of the private sector, which means the strain on public funds is not as large

and the private sector can benefit as well. Moreover, there is the aforementioned expertise of the private companies that is beneficial.

It is to be noted that regardless of the type of PPP, when the contract expires between the partners, the project returns to full public ownership.

Opposition to PPPs

One of the first PPPs, and one of the most well known, is the Public Finance Initiative (PFI) in the United Kingdom, in 1992. This was aimed at solving the budget deficit in the UK at the time, which occurs when the money used by the government for projects is more than the government income. At the time, this was extremely controversial, and it was feared by the opposition; the Labor party, that the money that would be saved by this, along with even more money, would have to go to maintaining these projects over time. However, when the Labor party came into power, they announced that when government funds are limited, PPPs are necessary, especially in the health sector. In 2003, PPPs were used for the London Underground, and two companies were created for this, thus creating many jobs. However, due to financial problems, these companies were taken over by the public sector, and are funded by increased taxes, which led to a negative response from taxpayers. By 2007, the PFI deals made by the government and private companies cost so much that the taxpayers would have to pay unfathomable amounts in the future to fulfil the government's side of the deals and in the use of these projects. At this time, there was the global financial crisis, and private companies no longer had the money to fund these projects anymore, and due to their risky nature, the banks did not want to lend private companies any money either, so the government had to give loans. However, in this case, the government was in essence lending money to itself, while the private sector was still profiting from the revenue of these projects, as many PPP contracts state that the private company can get a percentage of the money made from these.

Countries in debt such as Portugal and Hungary were attracted to PPPs due to the "Build now, pay later" idea, which allowed these countries to appear as though they are developing, and be able to develop without restraints and without it appearing as though they are losing too much money. The countries depended on the profits that would be made from these projects, however due to a failure in assessment and calculation, they were unable to pay for their end of the partnership and this contributed to the debts of these countries.

Moreover, there are situations in which the private company may act unethically or not prioritize quality and safety over profit. Staff wages and benefits may be cut, and the workers will no longer have the security of working in the public sector.

If the private company selected is not well suited for the project, the failure of the project may have extremely large negative effects, so there needs to be thorough preparation, and projects are often aborted.

Water supply and sanitization

Private intervention in water is often called “water privatization”, while it is not in fact privatization as that is the indefinite and complete transfer of a public service to a private company. Most PPPs regarding water are “concessions”, in which a private company has the exclusive rights to operate, maintain and carry out investment in this public utility for a limited number of years, so that the water department can progress and become more accessible. This has succeeded in several cities, such as Manila, some cities in Colombia, Morocco and Ecuador, however it has failed in Paris, Dar es-Salaam and Berlin, where these PPPs have been aborted as this made the water more expensive and less accessible to the poor.



In India, there is no city with continuous access to water. The water supply service being ineffective, in many cities over 40% of the water is lost before it reaches the inhabitants. This results in the poorer families having to pay more for water than the wealthier families. In order to make water services more effective, the government of India promoted PPPs in the water sector to a great extent in the 1990s, however due to great opposition and failure on the part of the government to create an environment that facilitates and encourages private investment, this was a failure. However recently, the government restarted attempts to privatize the water supply, which have yielded more success, as the government is more prepared for PPPs, and there is more of an enabling environment.

COUNTRIES INVOLVED IN THE ISSUE

Nearly every, if not all countries have engaged in PPPs. However, here are some of the more notable or active parties in the issue:

United Kingdom

The UK is one of the most relevant countries regarding PPPs as it is one of the countries that has used them on an extremely large scale, as well as being one of the first countries to use them. In 1992, the conservative party that was in power at the time introduced the Private Finance Initiative (PFI). As of 2012, 713 deals had been made

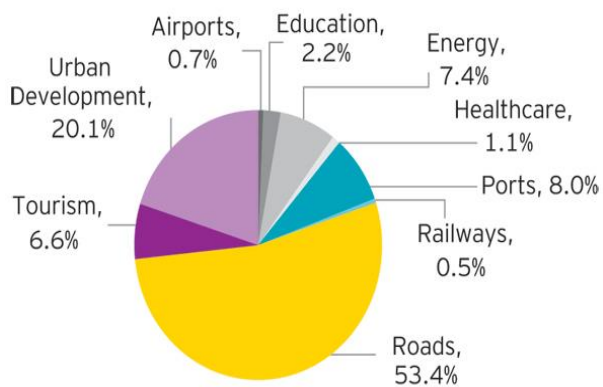
under the UK’s PFI. Through this, schools, hospitals and prisons have been built, amongst many other facilities. After an incident in which the private sector benefit disproportionately compared to the public sector in a PPP regarding a hospital, the UK government implemented a policy in which at least 50% of the gains will go to the public sector.

India

The government of India is actively promoting PPPs in all economic sectors, as they are necessary for India’s ambitious plans for infrastructure development. India has also created a Public Private Partnership Appraisal Committee (PPPAC) within the state which assesses the value of potential PPPs and private companies, while also reassuring private companies, and encouraging them to enter PPP’s in India.

Moreover, the state government of Punjab has introduced the PPP cell, which is a statutory body which helps improve decision-making regarding PPPs in India and improve the quality of the PPP’s that are developed, while also informing the public. In 2012, in order for infrastructure to be built faster, the ban on the transfer of government-owned land was lifted, and the need for Cabinet approval for PPP projects was removed, an act on the part of the government to facilitate and enable PPPs.

PPP projects in India by sector
(Total number of projects: 758)*



Source: PPP India database, *As of July 31, 2011

World Bank

The goal of the World Bank being to combat poverty and aid developing countries, and seeing PPPs as a means of doing so, having stated “When designed well and implemented in a balanced regulatory environment, PPPs can bring greater efficiency and sustainability to the provision of such public services as water, sanitation, energy, transport, telecommunications, health care and education. PPPs also allow for the better allocation of risk between public and private entities, taking into account their

capacity to manage those risks” the World Bank offers extremely low interest loans to developing countries to use in PPPs. It also supports several means of information related to PPPs such as the Public-Private-Partnership in Infrastructure Resource Center (PPPIRC). The World Bank also



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consults governments on how to best structure PPP transactions and make them more effective.

Nigeria

A developing country, Nigeria has turned to PPPs in order to develop and progress. The president Muhammadu Buhari has stated “The nation has a huge infrastructure deficit for which we require foreign capital and expertise to supplement whatever resources we can marshal at home. In essence, increased engagement with the outside world is called for as we seek public private partnerships in our quest for enhanced capital and expertise. This is the way of the new world for all countries in the 21st century.” The Infrastructure Concession Regulatory Commission monitors, guides and aids Nigeria in their different partnerships, which increases efficiency and decreases risk.

United States of America

PPPs have existed in the USA for over 200 years, and there are currently thousands that are operating. In the state of Virginia, more than 30 school buildings were built through PPPs, and as a result of the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, there is secure funding for PPPs in transportation.



TIMELINE OF EVENTS

DATE	EVENT
1992	The PFI is introduced in the UK
1993	The Canadian Council for Public-Private Partnerships is established. This has members from both the public and private sector, encouraging discourse on both ends and providing the platform to do so. The council conducts research, publishes findings, and holds annual conferences on relevant topics, where there is also celebration of successful PPPs through an awards program.
2003	The UK government uses PPP schemes for the London Underground infrastructure. Two companies are created, for this purpose, which are taken into public ownership due to financial problems.

2007	<p>Government of India launches the “India Infrastructure Projects Development Fund” (IIPDF).</p> <p>This supports up to 75% of the infrastructure related PPP projects in India.</p>
2007	<p>Global financial crisis.</p> <p>Considered the largest financial crisis since the Great Depression in the 1930’s, this began in the USA, and then affected Europe in the Eurozone Crisis, with a large impact on Italy and Greece. Nearly every, if not all countries were affected.</p>
2008	<p>First session of the United Nations Economic Commission for Europe (UNECE) Team of Specialists on Public-Private Partnerships.</p> <p>Countries that recently entered the PPP market were able to learn from those that with experience, that shared advice and offered training.</p>
2009	<p>The creation of P3 Canada Inc.</p> <p>This solidified Canada’s commitment to PPPs, as this is a government owned corporation.</p>
2011	<p>Government of Portugal announces a freeze on all PPPs and a review of existing contracts.</p> <p>This is as a result of the exacerbation of Portugal’s debt due to PPPs, and the review would lead to the renegotiation or termination of PPPs that were harming the public sector.</p>
2011	<p>Government of UK ceases the PPP “Building Schools for the Future” program.</p> <p>This program was to be the largest school building program in centuries, with the construction of schools in several socially deprived areas and the rebuilding of every secondary school in the country with innovative technology and interactive learning systems.</p>
2012	<p>The Indian National Water Policy recognizes the importance of PPPs in solving water issues in urban areas.</p> <p>This led to an increase in willingness on the part of the government to enter PPPs to improve this situation.</p>

POSSIBLE SOLUTIONS

Major ways through which PPPs can reduce poverty are:

- The provision of employment opportunities

Large-scale projects with protection of the workers benefits and status as employees of the public sector will allow for many long-term employment opportunities to be created.

- The increase in human capital

This can be done through encouraging PPPs that will allow for the building of schools, sports facilities, areas where one can receive an education or acquire a skill. This allows their value and human capital to increase, and can allow families in relative poverty to find employment. Moreover, it will increase innovation, which will lead to a boost in the economy.

- The long term reduction of absolute poverty within a country through development and boosting the economy

This can be done through PPPs that allow for the privatization of water, the creation of housing plans, the construction of schools and hospitals, and even roads. These provide necessary services to people, making them more accessible.

Moreover, means to facilitate and ensure the effectiveness of PPPs should be implemented, such as;

- The guidance of countries as to how to most effectively negotiate a PPP, such as is currently done by the World Bank and the ICRC.
- Safeguards that prevent unethical actions on the part of private companies with the aim of maximizing profit
- Encouraging private companies to enter PPPs with countries, and especially developing countries by making them more attractive to investors, and decreasing risks of such investment, such as the risk of wavering government support. This can be done through the assignment of specialists by the government to work in communication, conflict resolution, negotiation and policy analysis, so that the results are in the best interest of all parties involved.

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MULTIMEDIA RESOURCES

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