PPP Governance

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Ian Hawkesworth,
Head, Capital Budgeting and PPP
Budgeting and Public Expenditures Division
Public Governance and Territorial Development Directorate, OECD

Agenda

1. PPP definitions
2. Size of the sector
3. The Good News
4. Some challenges and risks
5. OECD Recommendations on the public governance of PPPs

1. PPP DEFINITIONS AND IMPORTANCE

What is a PPP?

Long-term contractual arrangements whereby the private partner delivers and funds public services using a capital asset

	Public-Private Cooperation	Private Role			Risk Sharing / Transfer
		Financing	Investing in Infrast. Assets	Service Provision	
IMF	√	√	√	√	√
OECD	√	√	√	√	√
EIB	√	√	√	√	
UK	√	√	√	√	√

Non essential: SPV, user fees, price regulation.

Source: C. Catorelli, IMF and OECD

How do PPPs work?

1. PPPs are a way of making **infrastructure assets available for public service** where the private sector **finances** the project and carries more **risk** than under conventional government procurement.
2. The private partner undertakes **operation** of services, with potential efficiency gains in terms of maintenance, standards of service, efficiency and cost recovery.
3. PPP engage the government and the private operator in a **long-term partnership** that may extend over decades.
4. PPPs present **particular challenges** to the public sector including the definition of service standards, transfer of risk, managing contingent liabilities.
5. PPPs are usually kept off-budget, which can **obscure fiscal commitments** and can compromise **transparency**

To ensure value, it all needs to come together

The public interest
Value for money
Economic growth

Procuring authority → ← **Project company** → ← **Investor and lender**

The private interest
Equity/debt/markets

- Transport
- Water
- Energy
- Education
- …

Enabling framework
Business climate and public regulation

2. SIZE OF THE SECTOR

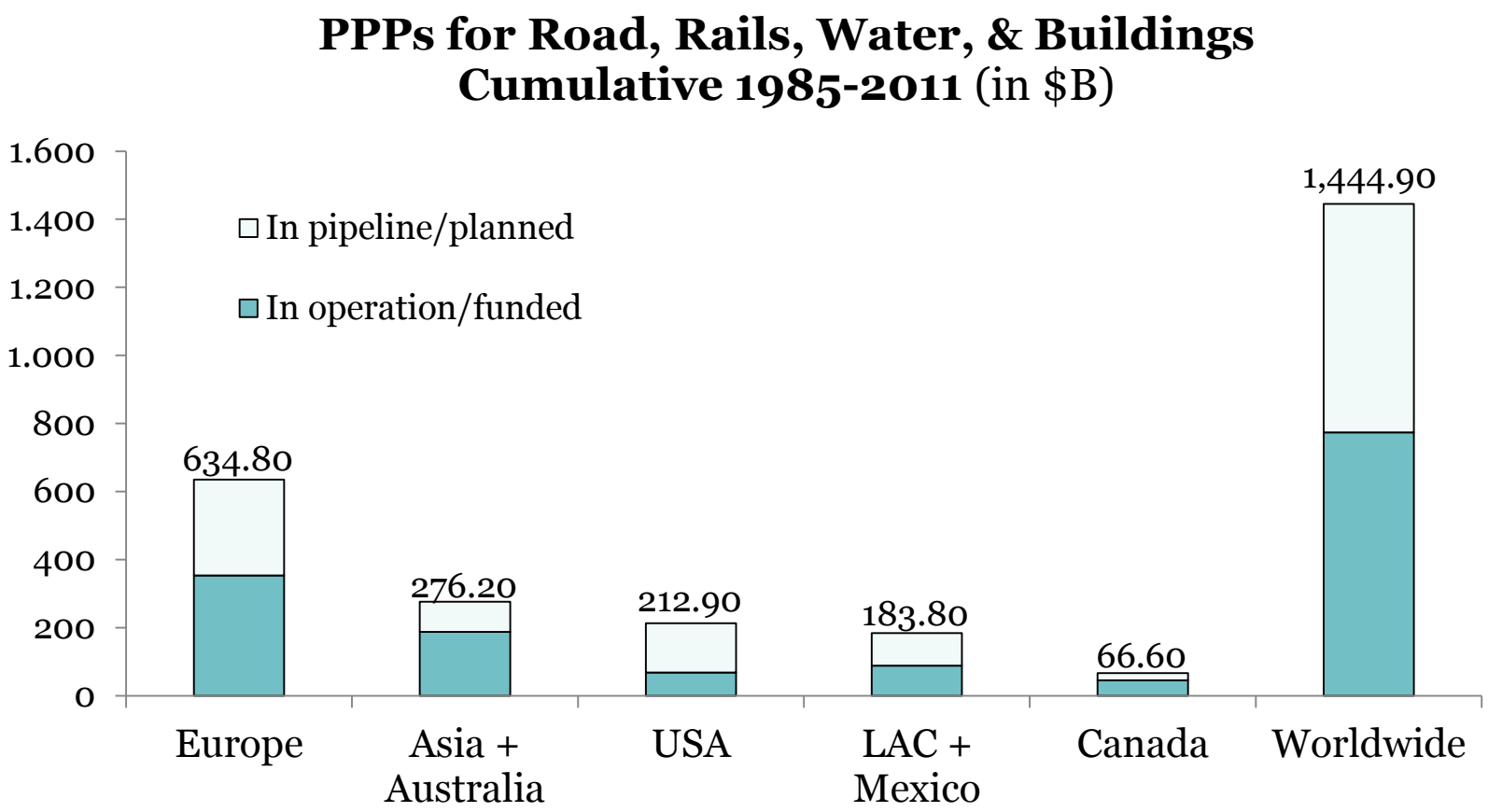
PPPs represent substantial investment in OECD countries…

For the 2011 fiscal year, what **percentage of public sector infrastructure investment** flow (total asset value, public and private components included) took place through PPPs?

Australia	>10% - 15%	**Korea**	>5% - 10%
Austria	No PPPs	**Luxembourg**	>5% - 10%
Canada	>1% - 3%	**Mexico**	>15%
Czech Republic	>0% - 1%	**New Zealand**	>1% - 3%
Estonia	No PPPs	**Norway**	>3% - 5%
Finland	>10% - 15%	**South Africa**	>3% - 5%
Germany	>3% - 5%	**Spain**	>3% - 5%
Hungary	No PPPs	**Sweden**	No PPPs
Italy	>1% - 3%	**Switzerland**	No PPPs
		UK	>15%

P. Burger & I. Hawkesworth. 'Capital Budgeting and Procurement Practices'. OECD forthcoming (2013)

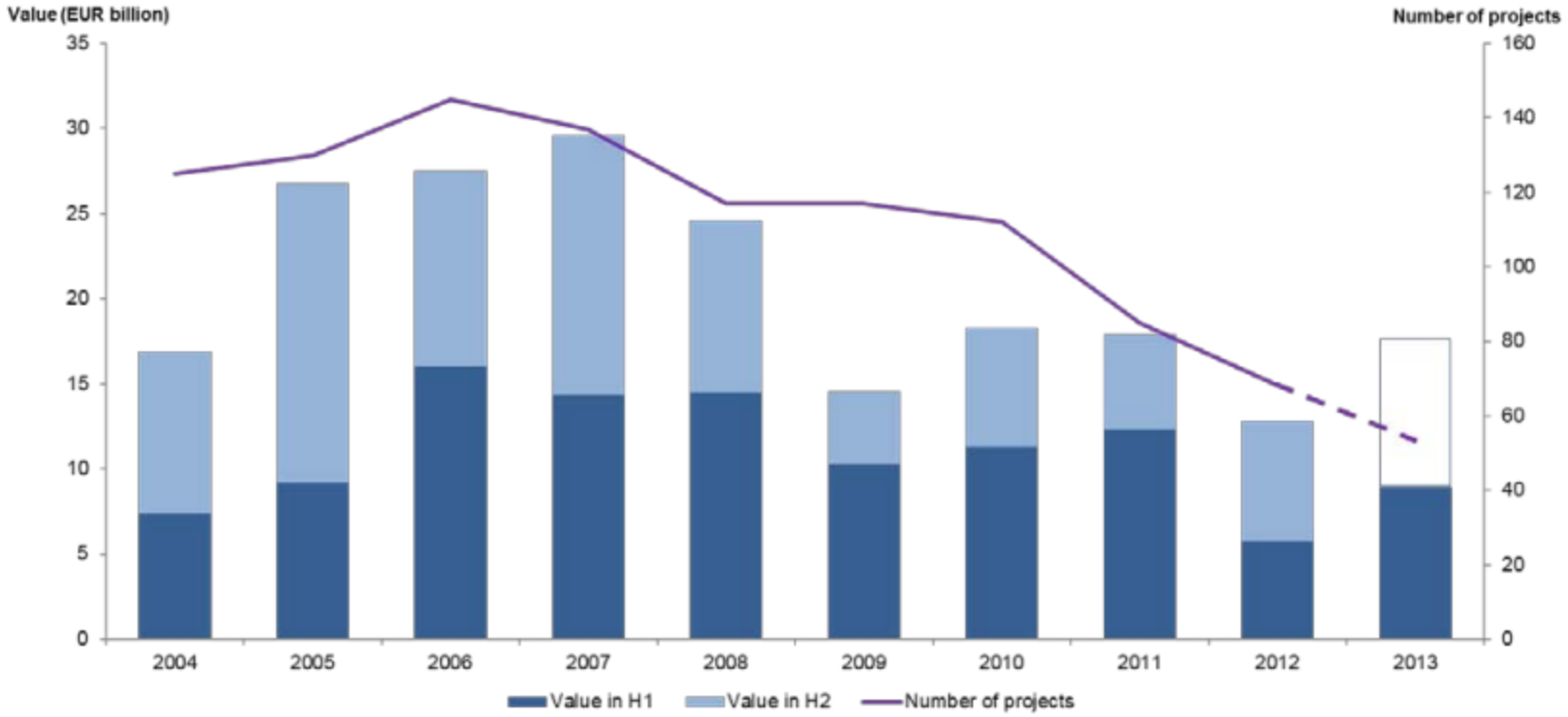
… and in the world



Public Works Financing October 2011, Vol. 264

Currently a declining trend in PPP deals in Europe

Figure 1: The European PPP Market by Value and Number of Projects since 2004



EPEC Market Update, H1 2013

But PPPs are part of the answer to investment needs

- EU countries face enormous infrastructure investments to meet the **Europe 2020** Strategy.
  - Standard and Poor's estimates the need to be between **EUR 1.5 tn to EUR 2 tn**.
- Developing countries also face similar pressures
  - **Asia** requires **USD 0,750-1 tn** in infrastructure investment **annually**. (ADB, 2012)
- Infrastructure investments can take place using a variety of modalities, but PPPs/concessions are needed to meet the needs.

3. THE GOOD NEWS!

PPPs outperform TIP on timeliness, construction cost and quality, but transaction costs are higher

Based on the general experience of your government, **how do PPPs perform relative to traditional infrastructure procurement** with regard to the following dimensions?

	Better than TIPs	The same as TIPs	Worse than TIPs	Not enough data
Timeliness e.g. being completed on-time/according to projected deadline	14	1	0	2
Construction cost e.g. projects completed on or under expected budget	12	2	0	3
Operating cost e.g. projects operate on or under expected budget	7	3	1	5
Quality of the finished project e.g. projects comply with code, innovations, etc.	10	3	0	4
Transaction costs	4	1	7	4

However, performance of operating cost is largely unknown for both types

Given the experience of your government in most TIP and PPP projects in the period 2002-2011, to what extent do ex ante, **projected operating costs deviate** from the **realised** operating costs of projects?

	PPPs	TIP
Realised cost is lower than projected cost by less than 10%.	0	0
Realised cost does not deviate from projected cost.	3	1
Realised cost is higher than projected cost by less than 10%.	2	2
Realised cost is between 10-29% more than the projected cost.	0	0
Realised cost is between 30-49% more than the projected cost.	0	1
Realised cost exceeds the projected cost by 50% or more.	0	0
Too little data to tell.	10	15

4. SOME CHALLENGES AND RISKS

PPPs can be tricky …

- **Are you doing PPPs for the right reasons?** (VfM).
- **Is affordability and sustainability – from the budget and/or users - ensured**?
- **Do you have procedures and formats that ensure budget transparency about PPPs**?
- Can you assess value for money – quantitative and qualitative aspects?
- How do you manage contingent liabilities?
- Can you assess, allocate and cost risk?
- Is the human and institutional capacity to negotiate and monitor PPP contracts present in your administration?

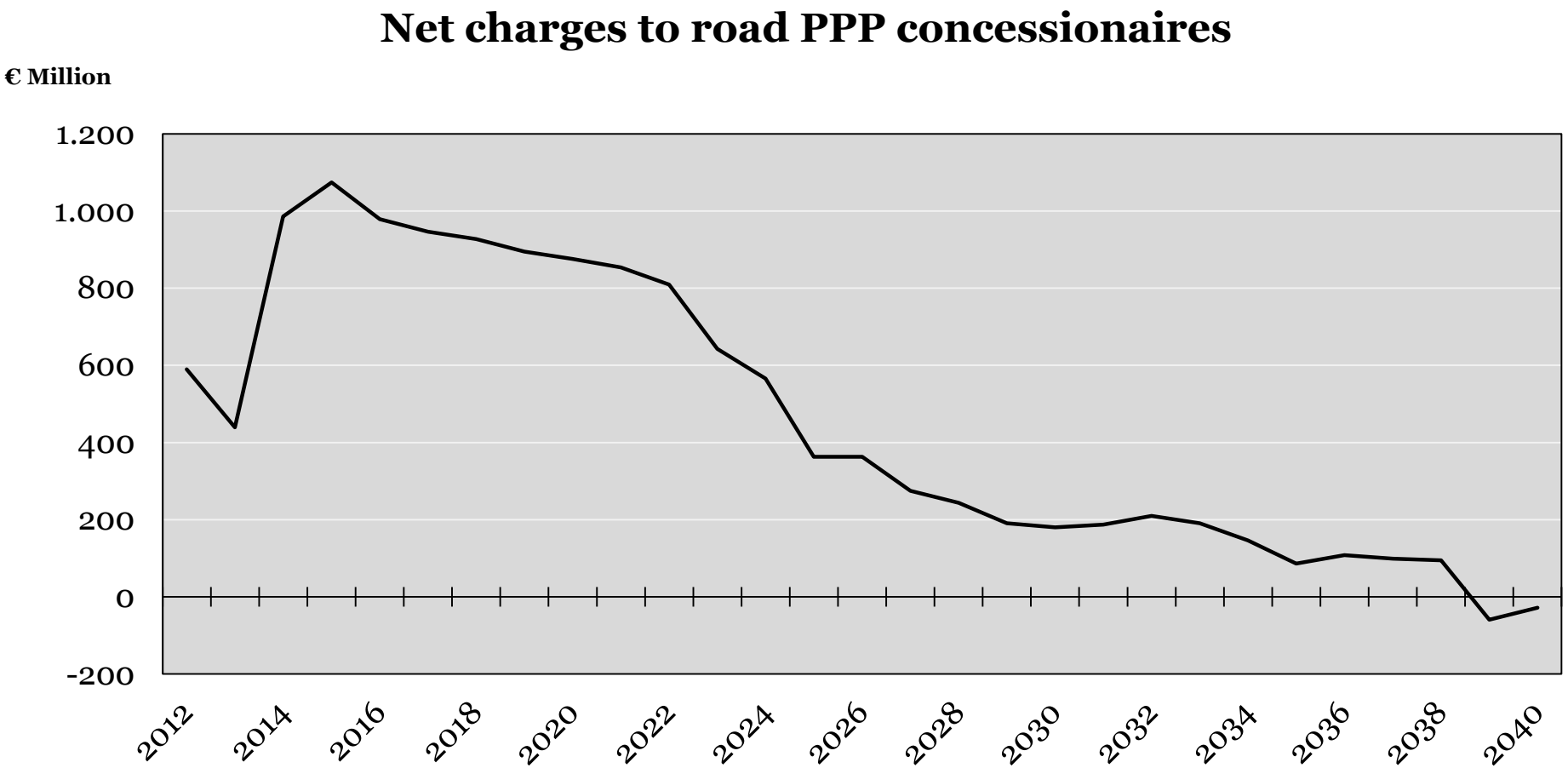
Motives for doing PPPs may be mixed

Do the following make PPP more attractive in comparison to TIP?

	The project generates debt that is not on the balance sheet of government	The project requires high level of constant maintenance	The project requires a high level of service delivery performance	The project requires skills that are more readily available in the private sector, compared to the public sector
Yes	*5*	10	12	10
No	*9*	2	0	2
Sometimes	*4*	6	5	6
Not answered	*3*	3	6	3
Total	*21*	21	21	21

P. Burger & I. Hawkesworth. 'How to attain value for money'. OECD Journal on Budgeting, No. 1, 2011

PPPs can occupy considerable fiscal space (at the most inconvenient time …)



2011 August PPP Report, Ministry of Finance

Assessment of contingent liabilities often needs more work

Table 10. Does the budget documentation or other published material contain an assessment with respect to contingent liabilities derived from:

	PPPs	SOEs, Agencies and private incorporated businesses
a. Yes, they are listed but not priced	3	3
b. Yes, they are listed and priced	4	3
c. No	11	11

5. OECD RECOMMENDATIONS (2012)

The OECD Recommendation

- The Recommendation is demand driven by the **Network of Senior PPP Officials**

- The Recommendation is neither for or against PPP

- The Recommendation addresses this with 12 Principles in three areas:
  1. *Institutional framework*
  2. *Value for Money*
  3. *Budgetary process*
- **Horizontal and vertical architecture**: institutions, regulation, competition, budget, fiscal issues, integrity at **all levels** of government.

- Emphasises that the **decision to invest should in principle be separate from how to procure** and finance the project.

- Directly addresses the **budgetary consequences** and how budget **transparency** must be ensured.

- Focuses on the post-contract signature **operational phase of PPPs**, which is often neglected in other guidance.

A. Establish a clear, predictable and legitimate **institutional framework** supported by competent and well-resourced authorities

1. PPPs need to be addressed at the highest level of policymaking and citizens need to be consulted …

2. Entrust the procurement and audit of PPPs, as well as relevant regulation, to competent authorities …

3. Ensure that the necessary resources and capacities are present in the public sector …

4. Ensure that all significant regulation affecting the operation of PPPs is clear, transparent and enforced …

B. Ground the selection of PPPs in **Value for Money**

5. All investment projects should be prioritised at the political level. The decision to invest should be based on a whole of government perspective and be separate from how to procure and finance the project …
6. Carefully investigate which investment method is likely to yield most value for money (procurement option pre-test) …
7. Transfer the risks to those that manage them best.

8 Value for money should be maintained …

9. Value for money requires sufficient competition.

Procurement option test, e.g.

a. Can the risks of the project be clearly defined, identified and measured?
b. Does the project involve any transfer of risks onto other stakeholders, including workers and local communities?
c. Is the risk appetite of potential private-sector partners sufficiently robust to explore a PPP?
d. What is the level of competition in the market?
e. Do potential private-sector partners have a track record of good service delivery, responsible business conduct and PPP experience?
f. How large are the whole of life benefits from combining the construction and the operating phases in one contract?
g. Can the desired project output be specified clearly?
h. Is the planned project operating in a rapidly changing policy or demand environment?
i. Are the underlying assets to be used to deliver the output in an area subject to rapid technological change? [No to IT; yes to roads!]

C. Use the budgetary process transparently in order to minimise fiscal risks and ensure the integrity of the procurement process

10. … the Central Budget Authority should ensure that that the project is affordable and the overall investment envelope is sustainable.
11. The project should be treated transparently in the budget process. The budget documentation must disclose all costs and contingent liabilities. Special care should be taken to ensure budget transparency of PPPs covers the whole public sector.
12. Guard against waste and corruption by ensuring the integrity of the procurement process.

For more information

- Ian.Hawkesworth@OECD.org

- Network of Senior Public-Private Partnership Officials: http://www.oecd.org/gov/budgeting/ppp.htm

Some initial applications:

- OECD Assessment of the PPP Framework of Indonesia (2012)
- OECD Accession assessment of Russia (2013)
- OECD Assessment of the PPP Framework of Tunisia (2014)

Some OECD research on PPP:

- P. Burger & I. Hawkesworth 'Capital Budgeting Practices in OECD countries' OECD Journal on Budgeting Volume 2013 forthcoming
- P. Burger & I. Hawkesworth 'How To Attain Value for Money: Comparing PPP and Traditional Infrastructure Public Procurement'. OECD Journal on Budgeting Volume 2011/1
- OECD (2010) Dedicated PPP Units. Paris: OECD Press
- OECD (2008) PPPs: In Pursuit of Risk sharing and value for Money. Paris: OECD Press