ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Private Public Partnerships for Infrastructure Development - *Managing the Risks and Opportunities*

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Ian Hawkesworth, Budgeting and Public Expenditures Division, OECD

Agenda

1. Current usage of PPPs
2. When should you do a PPP?
3. Building institutional capacity to ensure value for money
4. Institutional bias – one form of procurement preferred *vis a vis* another?

1. Current usage of PPPs

PPP Usage

- Since the 1990s an increasing number of countries use public-private partnerships
- **Road PPPs** represent almost half of all PPP in value (USD 307 billion out of USD 645 billion) and a third in number (567 out of 1 747)*
- Second is **Rail** and third is **Water**
- Europe represents **about half of all PPPs** in value (USD 303 billion) and a third in number (642).

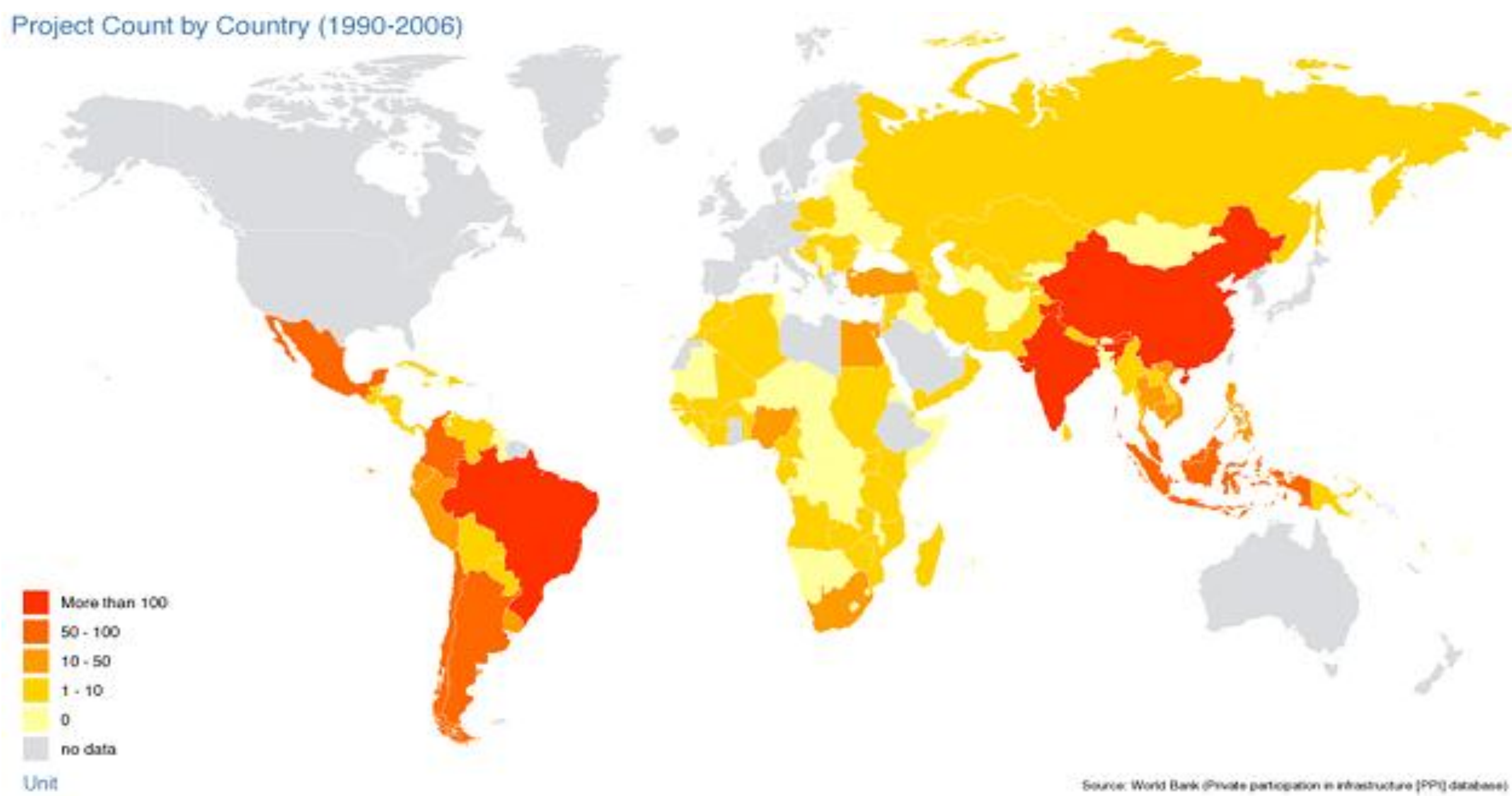
- * Public Works Financing's International Major Projects Survey 1985-2009

What percentage of public sector infrastructure investment takes place through PPPs? (2010)

Range	N	Country
0% - 5%	10	Austria, Germany, Canada, Denmark, France, Lithuania, Netherlands, Hungary, Norway, Spain
>5% - 10%	7	United Kingdom, Czech Republic, Slovak Republic, Greece, Italy, South Africa, Ireland
>10% - 15%	2	Korea, New South Wales
>15% - 20%	0	
>20%	2	Mexico, Chile
Total	21	

PPPs around the World

- PPPs are becoming popular with many low and middle income countries



2. When should you do a PPP?

Argument for PPPs VfM (efficiency)

- Private sector has greater incentive and ability to deliver cost effective capital assets
- Tying service delivery with payment mechanisms may encourage faster construction and better continued maintenance over the contract life of the assets

Assumptions for argument

- Competitive markets, effective identification, pricing and transfer of project risks,
- Good assessment of the relative long-term costs and benefits as well as availability of finance, taking into account the pricing of risks transferred to the private operators and prudent fiscal treatment of risks remaining in the public domain
- the ability to write comprehensive contracts
- an enabling policy framework for investment and adequate capacity at all levels of government to implement agreed projects
- a durable working relationship with, and set expectations regarding responsible business conduct of private partners

Assessing value-for-money

- a complete cost-benefit analysis of all alternative provisions methods available to both the government and the private sector (most complex)
- calculation of a public sector comparator before the bidding process to assess whether or not public-private partnerships in general offer better value-for-money (*e.g*. South Africa)
- calculation of a public sector comparator after the bidding process to assess whether or not a particular public-private partnership bid offers better value-for-money
- the use of competitive bidding process alone without a comparison between public and private provision methods (*e.g*. France).

Is there an ex ante process to ascertain value-for-money for PPPs and TIPs?

	PPP	TIP
Yes, for all	12	7
Yes, for those above a threshold	5	5
Yes, on an ad hoc basis	3	0
No	1	8
Other	0	1
Total	21	21

- P. Burger & I. Hawkesworth ‘How to attain value for money: comparing PPP and traditional infrastructure public procurement’, OECD 2010 forthcoming

The fiscal constraint argument

- The fiscal constraint argument: pressures for governments to reduce public spending to meet political, legislated or other targets coupled with
- a perceived infrastructure deficit inhibiting growth
- **however, government should not bypass value-for-money and affordability**
- Beware of risk that is not accounted for
- *A response to this temptation*: Strengthening measurement and reporting in budget annexes, establishing fiscal rules (caps on PPP flows/stocks, stock of contingent liabilities) and high capacity dedicated PPP units

ESA95 Manual on government deficit and debt chapter on PPPs

- Asset on the private sector balance sheet if majority of risks and rewards have been transferred to the private partner
- Three risks considered for practical reasons:
  - The construction risk
  - The availability risk
  - Demand risk
- For off government balance sheet private partner must bear the majority of:
  - The construction risk
  - Any of other two risks
- Some further considerations might be necessary:
  - To whom final allocation of the asset after the PPP?
  - Government provides financing or guarantees?

3. Building institutional capacity to ensure value for money

See Hawkesworth et. al. ‘Dedicated PPP Units in OECD Countries’, OECD, 2010

Dedicated PPP Unit

- organisation set up with full or partial aid of the government to ensure necessary capacity to create, support and evaluate multiple public-private partnership agreements by government.

Table 0.1. Is there a dedicated public-private partnership unit at the national level?

	Number of countries	Countries
Yes	17	Australia, Belgium, Canada, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Netherlands, Poland, Portugal, United Kingdom
No	12	Austria, Finland, Iceland, Luxembourg, Mexico, New Zealand, Norway, Spain, Sweden, Switzerland, Slovak Republic, United States

Note: No data for Turkey.

Arguments for setting up a unit

- pooling expertise and experience within government,
- appropriate budgetary consideration of projects
- standardisation of procurement procedures
- the separation of policy formulation and project implementation
- demonstrating political commitment and trust.

The location of PPP units

Three models of dedicated PPP units:

1. locate a dedicated unit within the regular departmental structure of the Ministry of Finance (*e.g*. the United Kingdom, Victoria [Australia] and South Africa).
2. locate a dedicated unit as an independent government agency that collaborates with a secretariat in the finance ministry (or equivalent).
3. A third model is to locate a dedicated unit in an individual line ministry that is predisposed in its functions to use public-private partnerships, such as an infrastructure ministry.

Functions

- Policy guidance including advising on the content of national legislation; defining eligible sectors and public-private partnership methods/schemes; project procurement and implementation processes; as well as procedures for conflict resolution/termination.
- Technical support to government organisations during the various stages of project identification, evaluation, procurement, contract management.
- Capacity building including training to public sector officials interested or engaged in PPPs.
- PPP promotion among the public and/or private sector, and possibly in international forums

Green lighting of projects

- Most PPP units do not green light projects.
- However, of the five case studies carried out by OECD, three (the United Kingdom, Victoria [Australia] and South Africa) fulfil such a gate-keeping role.
- In the cases of Germany and Korea, the Ministry of Finance fulfils this role. The difference between these countries coincides with the location of the units; in the United Kingdom, Victoria and South Africa, the PPP units reside within the MoF, while in the case of Germany and Korea they are independent agencies.
- Where units are PPPs themselves, the question also exists as to whether or not it can be endowed with the necessary authority to green light projects.

Case: Korea

- Established Private Infrastructure Investment Centre of Korea (PICKO), later PIMAC, in 1999, as part of the government's response to:
- a perceived lack of expertise within government to develop and evaluate public-private partnerships.
- a lack of transparency, excessively complicated procedures, unattractive risk-sharing arrangements and insufficient incentives – all of which detracted from the interest of private partners.
- concern about the impact of the 1997 East Asian Financial Crisis on public investment.

South Africa

- Treasury PPP Unit established in 2000 to filter fiscally irresponsible projects while maintaining investor confidence in the government’s public-private partnership programme.
- The creation of the PPP Unit followed Treasury’s concerns over a specific project, a 30-year build-operate-transfer contract for two prisons proposed by the Ministry of Public Works.
- In considering intervening and establishing a precedent of arbitrary intervention in public-private partnerships by the National Treasury, the government decided to create a dedicated unit.

	Country	Location	Year est.	Policy guidance	Technical support	Capacity building	Promotion
Case studies	**Germany (federal)**	Independent	2009	●	●	○	○
	Korea	Independent	1999	●	●	●	●
	United Kingdom	Finance ministry	1997	●	●	●	●
	Victoria, Australia	Finance ministry	2000	●	●	●	●
	South Africa	Finance ministry	2000	●	●	●	○
	Belgium (Flanders)	Finance ministry[2]	2002	●	●	●	●
	Czech Republic	Independent	2004	●	●	●	●
	Denmark	Line ministry	2006	●	●	○	●
	France	Finance ministry	2005	●	●	○	●
	Greece	Finance ministry	2006	●	●	○	●
	Hungary	Finance ministry	2003	●	●	○	○
	Ireland	Finance ministry	2003	●	●	●	●
	Italy	Finance ministry	1999	○	●	●	●
	Japan	Finance ministry[3]	2000	●	●	○	○
	Netherlands	Finance ministry	1999	●	●	○	○
	New South Wales	Finance ministry	2000	●	●	○	●
	Poland	Line ministry	2001	●	●	○	○
	Portugal	Independent	2003	●	●	○	○
	Total		n/a	16	17	8	10

Notes: ● = yes, ○ = no, n/a = not applicable

4. Institutional bias – one form of procurement preferred *vis a vis* another?

Do you think that the rules in place impede attaining the maximum value for money by creating incentives to prefer:

	TIP over PPPs?	PPPs over TIP?
Yes, to a large extent	2	0
Yes, to some extent	5	1
No	9	15
Not enough data to make assessment	5	5
Total	21	21

- I. Hawkesworth & P. Burger 'How to attain value for money: comparing PPP and traditional infrastructure public procurement', OECD 2010 forthcoming

Beware of bias

- Korea unit vs. other four case studies: Korean unit is not just a PPP unit. It considers all government investment projects, including PPP projects.
- In unifying the assessment and approval of all government investment projects makes it more likely that the value-for-money and investment criteria applied to PPP and traditionally procured projects are aligned.
- It might also eliminate a perception that a PPP unit is biased towards the creation of PPPs.

More information

www.oecd.org

Ian.Hawkesworth@oecd.org