Opportunities and risks associated with PPPs: OECD recommendation on Principles for Public Governance of PPPs

EFFECTIVE PUBLIC INVESTMENT AT SUB-NATIONAL LEVEL IN TIMES OF FISCAL CONSTRAINTS

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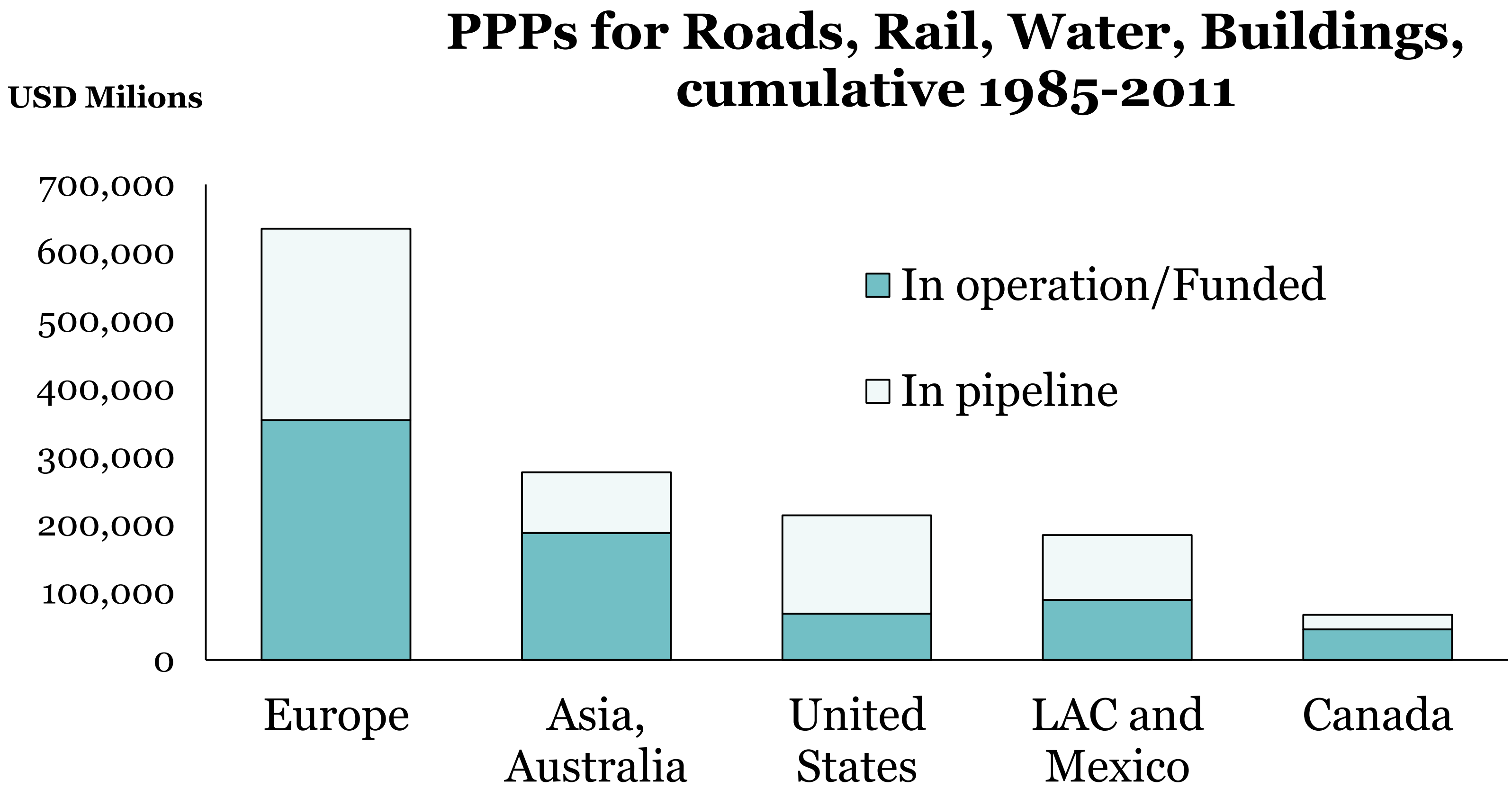
What are the economic dimensions of PPP?



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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 is traditionally the case
2. PPP commits the government to **long term obligations** and possible **contingent liabilities**
3. PPPs represent **particular challenges** to the public sector e.g. with regards to the transfer of risk and managing contingent liabilities
4. PPPs can **obscure real spending** and make government actions **un-transparent (off budget financing)**
5. PPPs are potentially **risky for fiscal sustainability**, possibly **leading to credit rating down-grades**

How does the Council Recommendation on PPPs add value?

- The Recommendation is neither for or against PPP – *if you do it, do it right!*
- In order to get PPPs right **several governance issues** must be tackled at the same time.
- The Recommendation will **ensure new projects add value and stop bad projects** going forward

- The Recommendation addresses this with 12 Principles under 3 headings:
  1. Establish a clear, predictable and legitimate **institutional framework** supported by competent and well-resourced authorities
  2. Ground the selection of PPPs in **Value for Money (quantitative & qualitative)**
  3. Use the **budgetary process** transparently in order to minimise fiscal risks and ensure the integrity of the procurement process

How does the Council Recommendation on PPPs add value? (2)

- A few highlights regarding the Recommendation:
  1. Gives **concrete guidance** as to when PPPs can be worth pursuing based on practitioner experiences (**No**, if rapidly changing technology (**IT**), **yes**, if established and straight forward to assign risk (**Roads**))
  2. Gives concrete guidance on **how to pursue PPP for reasons of value for money**, not **accounting** or similar reasons.
  3. **Horizontal and vertical in nature**: incorporates institutions, regulation, competition, budget, fiscal issues, integrity at **all levels** of government
  4. Directly addresses the **budgetary consequences** and how budget **transparency** must be ensured
  5. Emphasises the **decision to invest should be separate from how to procure** and finance the project
  6. Focuses on the post-contract signature **operational phase of PPPs**, which is often neglected in other guidance

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How did we get here?

February-March 2011	Draft circulated internally in OECD, World Bank, IMF, EIB, TUAC, BIAC, Member countries
24-24 March 2011	Draft endorsed at Network Meeting of Senior PPP Officials
13-14 April 2011	Discussed at the Territorial Development Policy Committee Meeting
6-7 June 2011	Draft endorsed at Meeting of the Working Party of Senior Budget Officials
3-4 November 2011	Discussed at the Regulatory Reform Committee meeting
9-10 November 2011	Discussed at the Public Governance Committee Meeting
12-13 April 2012	Endorsed by the Public Governance Committee
23 April 2012	Endorsed by the Investment Committee

Next steps

- Reviews of the Public Governance framework for PPPs and other PPP issues
- First Review: Indonesia (2011/2012)
- Study on capital budgeting and PPPs to be presented at next year's meeting of the OECD Network of Senior PPP Officials (March 2012)

- More information:
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