10th Annual Meeting of the OECD Network Of Senior PPP and Infrastructure Officials

21st March 2017, OECD Headquarters, Paris

SYNTHESIS NOTE

This tenth meeting of the OECD Network of Senior PPP and Infrastructure Officials shows that this network has becoming institutionalised, with an increasing number of delegates attending. Having started off with 30 delegates in 2007, this year's meeting gathered 111 participants: 61 country delegates, from 30 different countries, representing Ministries of Finance, Infrastructure and Transport; and 50 high level experts and representatives from International Institutions, such as EU, WB, IADB, EIB. In particular, the WB is now a regular partner of this Network, and new activities are being developed together. Evaluations from participants indicate they considered the topics addressed in the agenda as very relevant. They particularly appreciated the specific country examples, and highlighted the quality of the open discussion.

Session 1: New developments in the infrastructure space in OECD countries

Overview

- This first session provided an overview of the recent institutional reforms and developments in Canada, Unites States, United Kingdom and Italy. The European Investment Bank concluded the session with an overview of the trends in the infrastructure market.

Main speakers and topics

- **Canada's Long Term Infrastructure Plan and existing Programming**, Mr. Alain Desruisseaux, Director General of Policy at Infrastructure Canada
- **The Infrastructure Market in the US,** Mr. William Streeter, Senior Infrastructure Advisor, US Treasury Department
- **About the IPA**, Mr. Andrew Carty, Member of Senior Management Team, Infrastructure and Projects Authority, HM Treasury, UK
- **PPPs in Italy, Legislative and Regulatory Framework and Reforms**, Mr. Gabriele Pasquini, Head of PPP and Public Infrastructure Unit, Representative of Presidency of the Council of Ministers, Department for Planning and Coordination of Economic Policy, Italy
- **Trends in the Infrastructure Market**, Mr. Thomas Barrett, Permanent Representative of the European Investment Bank and Minister of the European Union Delegation to the United States

Key messages:

- Canada introduced a large investment plan for the next 5 years for different sectors of infrastructure. The plan was based on nation-wide consultation process in 2016. Future key milestones included the creation of the Canada Infrastructure Bank, for large and high risk projects, which is planned to start operation in the end of 2017 (CAD 35 billion are set aside to the bank), and the Smart Cities Challenge, launched by the Federal Government.
- Infrastructure development in the US is highly decentralised. Over 90 % of infrastructure financing lies with the state and local governments. The Bond market in the US is very developed and many securities are available to state and local governments. Furthermore, limits on private activity bonds are expected to be increased. Infrastructure Banks (especially in sewage) are common, although a national infrastructure bank was not supported. Although the Capital budget has not been revealed, increased infrastructure spending is expected. Furthermore, cuts in regulation, such as environmental regulation, are planned to reduce the average amount of time of approval. A harmonisation of environmental regulations from all ministries had started under the previous administration.
- In 2016 UK has undergone changes in institutional structures. On 1 January 2016, Infrastructure UK (IUK) and the Major Projects Authority (MPA) was brought together to form the Infrastructure and Projects Authority (IPA), a centre of expertise for infrastructure and major projects at the Centre of Government, which reports to Cabinet Office and HM Treasury. The IPA's remit lies on the continuous improvement of infrastructure and major projects in the UK, including PPPs. Special focus is given to the support to the successful delivery of projects, ensuring projects provide value for money; capacity building (especially senior officials responsible for major projects); and processes, such as the gateway process which reviews all major projects. Furthermore, the Infrastructure Commission was created as a new body responsible for articulating a long-term vision for infrastructure across parties and electoral cycles.
- Italy had undergone many changes in legislative framework. Law no. 208/2015 has attributed new PPP functions to the Department for Planning and Coordination of Economic Policy (DIPE). Within the department a new taskforce has been created, the Interministerial Committee for Economic Planning (CIPE), responsible for finance allocations to strategic infrastructure projects. CIPE is a collective governmental body headed by the President of the Council of Ministers and composed by Ministers with relevant expertise in matters of economic growth. The Public Infrastructure Regulation Unit (NARS), a governmental advisory body specialized in tariff issues, typically facilitates CIPE's decision-making process, producing opinions and recommendations, especially on long term contracts and tariffs regarding public utilities. Furthermore, a new public contract code was introduced on 18 April 2016, limiting the duration of a projects.
- Although classical public resources are limited and resources need to be utilised as best as possible, the main issue is not the money but a focus on financial effectiveness of projects. In the past the availability of funds has led to incentives to spend the money that was available, which has not always let to cost-efficient decisions. EU structural funds,

encompassing 350 billion euros for a budget period of 7 years, have becoming a perpetual machine to support PPP and infrastructure investment. To use these resources effectively, it requires a two-tracked development: Finding ways to be more effective in how we use public resources and developing public sector expertise in collaboration with financial markets and private investors.

- New circumstances require new approaches. To use public resources more efficiently, risk sharing may be approached differently. Previously about 2% of the EU structural funds were used to create revolving funds and risk sharing financing. Currently, about 15% of that budget is dedicated to this purpose of risk sharing. If invested in good projects, very large part of these risk sharing funds will come back to the public sector and can be reinvested. Without knowing the outcome of any particular project, a portfolio approach can provide shared risk. With a chance of 95% successful projects, portfolios give more flexibility in terms of financial instruments and confidence of returns. Experience on this approach has been build up in the EU system and is picked up by others. However, experiences need to be shared and the learning process is going on. Additionally, the issue of transparency was raised.
- Key issues raised in the discussion included: the advantages of a decentralised approach to address infrastructure needs, while creating a coherent national strategy and financially robust projects; debate on the depoliticisation of long term infrastructure plans; and recognising that there is a trend for institutional reforms moving from specialised PPP units to broader infrastructure agencies.
- Delegates highlighted the importance to not only look at large PPPs but – in the context of an growing wave of re- municipalisation – also focus on how smaller projects could access private capital, for example by pool financing and increased capacity of public administration in local governments for them to be able to deal with private sector.

Session 2: Infrastructure Review of Chile – how to invest for long term impact

Overview:

The session presented the recently conducted infrastructure governance review of Chile, in particular on the first (The Governance Framework for Infrastructure and Horizontal Co-Ordination in Chile) and second (Co-Ordinating Infrastructure Policy across Levels of Government). The document was peer reviewed by Canada, France and commented by the World Bank. Peer reviewer and delegates highlighted the report as a precise and comprehensive exercise that proofed that methodological framework of infrastructure governance proofs well and endorsed the recommendations that were given by the secretariat as relevant and pragmatic and operational. Delegates were invited to comment on the report until the 3rd of April 2017, after when it would be considered declassified. The final report will be presented in Chile in May.

Main speakers and topics:

- **The Infrastructure Review of Chile – An Overview**, Mr. Andrew Davies, Senior Counsellor, Directorate for Public Governance and Territorial Development, OECD
- **Infrastructure governance and horizontal co-ordination in Chile and France**, Mr. Salim Bensmail, Director, Infrastructure Finance Unit (Fin Infra), Ministry of Finance, France
- **Infrastructure governance across levels of government**: Comparing Chile and Canada, Mr. Alain Desruisseaux, Director General of Policy at Infrastructure Canada
- **Plan Chile 30/30** , Ms. Jocelyn Fernández Zenteno, Director of Planning Department, Minister of Public Works, Chile

Key messages:

- The review examined Chile's infrastructure in the light of the country's future growth agenda. The success of Chile's infrastructure policies can be ascribed in significant part to the strength of the country's institutions and public administration. The Ministry of Finance has played an important role as gatekeeper by ensuring that the projects undertaken are affordable and do not compromise financial stability.
- Nevertheless, there is no clear long-term vision expressed and communicated via a set of development goals. The Plan Chile 30/30 initiative headed by the MOP has the potential for generating such a vision and guiding framework, particularly given its inclusive and bottom-up consultation processes.
- The study has highlighted issues that are not only relevant for Chile but provide useful lessons for other countries. The changes in Chile mirror the OECD challenges. These include the move from physical infrastructure to environmental and social services; the systematic consideration of transversal issues such as regional equity additional to cost-benefit analysis; and the combination of the central capacity and decentralisation.
- A key similarity of Chile's and France highlighted was the need for strengthening the capacities for long term vision. Due to the short term political mandate, it is necessary to bring together academics, researchers and political authorities. How to the employ this expertise over the whole of government is also a challenge faced by Chile as well as France and other OECD countries. Thirdly, medium and long term planning demands horizontal coordination across ministries. The Ministry of Public Works in Chile has been historically responsible for infrastructure, but other ministries have similar responsibilities which raises coordination issues. Horizontal transversal issues make multiple decisions even more complex. France has reacted to this by integrating the Ministry of Energy and Environment.
- The regional dimension in crucial. Chile is currently at the early stages of a change of paradigm in its governance of infrastructure shifting the role that regions play in the definition of investments policy in their territory. This is a major turning point, as Chile has the most centralised framework of the OECD for public investment, with

88% of that investment decided at the central level – compared to 41% on average in the OECD. A place-based infrastructure policy will help Chile to address territorial disparities and enhance regional productivity by maximising the potential of urban and rural areas.

- In contrast, Canada has a decentralised system, while having strong similarities in Geography, climate, and regional disparities with Chile. Canadian provinces provide priorities together with municipalities. To prevent overlap, responsibilities need to be clear and there must be complementarity of agencies. To address the public, it is important to clearly define responsibilities and accountability, and openly explain these to the general public. Accountability demands transparency. Canada publishes its investments in the national infrastructure plan on website, up to the launch, after which it is in the responsibilities of the subnational governments.
- Productive investment in transport infrastructure is vital for prosperity given that the economy heavily geared towards exports and relies on well-functioning logistics – this means removing bottlenecks and providing last-mile infrastructure such as between ports, highways and railways.

Session 3: From millions to billions – harnessing private financing to boost infrastructure

Overview:

The third session turned to the role of private finance. As on the previous day, one of the main issue during the presentation and discussion was the new role of PPPs. It was agreed that as financial resources are sufficiently available, the PPP approach focuses on risk sharing. However, to attract private investors, long term visibility, a stable regulatory framework, PPP pipelines and sufficient workforce have to be available.

Main speakers and topics:

- **Harnessing private financing to Boost Infrastructure – a Banker's view**, Mr. Thierry Lemaignen, Deputy General Manager, Head of Marketing, France, Sumitomo Mitsui Banking Corporation
- **Incentivize Private Investment in Infrastructure in the US,** Mr. William Streeter, Senior Infrastructure Advisor**,** US Treasury Department

Key messages:

- Money is not the problem, but governance still is. Investors are keen on investing in a broad field of infrastructure projects and the private investments are needed to close the infrastructure gap. However, the lack of stability and clear regulatory environment for investors deter investments. In the response of stronger regulations after the financial crisis, PPPs have decreased significantly, and there is no political consensus on PPPs.
- A rethinking of PPPs is needed. PPP are an instrument for risk sharing and allocation of responsibilities, not to manage public debt. The private sector should not mainly be seen to contribute to financing but brings innovative solutions of managing the project

(infrastructure delivery), where the public sector's technically capabilities are restraint by budget.

- Furthermore, participants discussed the role of the pension funds and their importance for the secondary market: While they seldom invest directly in greenfield, pension funds indirectly involve in green fields by investing in the holding companies.

Session 4: Mega Projects – why are they difficult and what can be done about it?

Overview:

Main speakers and topics:

- **Mega infrastructure projects in Denmark,** Mr. Kaj V. Holm, Deputy CEO, Oresundsbro Konsortiet, Denmark
- **Defining decision making equilibrium for mega transportation projects,** Prof. Dr. Dimitrios Dimitriou, Chairman of Athens International Airport, Greece

Key messages:

- The Danish model (including three main projects: Great Belt (internal Danish), Oresund connecting Denmark and Sweden and Femern Belt between Denmark and Germany) is based on the co-called State Guarantee Model, with shared guarantee from Denmark and Sweden in the case of bi-national Danish-Swedish Oresund projects. All projects were characteristics by their financially independence from State Budget in order to focus on the project, and not on politics. In the process of the three projects, Denmark
- Mega projects can have a direct impact as well as significant catalytic effect on the national and regional economy (in terms of income and jobs). An estimation of the impact of mega project can highlight the overall contribution in an economic system on regional and national scale; the economic impacts on other economic sectors, such as Tourism, Energy, Real estate, Trade and Commission; provide essential economic and social outputs for a variety of stakeholders involved in decision process; and help to monitoring the productivity and the efficiency of transports in economies.
- Challenges identified in the presentation and discussion included the issue of traffic forecasting, risk allocation in multi-national projects, tender processes, and public involvement. These issues should be addressed by the OECD secretariat in their future work programme on mega projects. Furthermore, the OECD secretariat may address the definition a mega project (eg. project with risk issues that cannot be absorbed by the private sector but need public backing). Another relevant mega projects mentioned in the discussion was the Melbourne to Brisbane Inland Rail connection of about 1700 km.

Session 5: Current and future work

The OECD secretariat provided an overview of the Network's publication on the governance of infrastructure: "Getting Infrastructure Right: a Framework for Better Governance" and "The role of regulators in the governance of infrastructure".

The OECD secretariat provided a synthesis of the key messages from the publications. “Getting Infrastructure Right: A Framework for Better Governance” identifies the principal 10 “success factors” for ensuring good infrastructure governance. It is an update of the initial instrument that was welcomed by OECD ministers 3-4 June 2015, in Paris, France, G20 Finance Ministers and Central Bank Governors Meeting, 4-5 September 2015 in Ankara, Turkey. The publication complements the success factors. The publication also includes a snap shot on the state of play in infrastructure governance based on a survey of 27 OECD and partner countries.

The main message of “The role of regulators in the governance of infrastructure” was that regulators were not directly involved in the governance of infrastructure. However, they are well informed about infrastructure needs and participate in the policy process, where they often face tension with regards to policy objectives.

The OECD secretariat furthermore presented future work on infrastructure governance, including refining the infrastructure governance study, a chapter on infrastructure governance in Norway in cooperation with the Economics department, participation in the horizontal work on the Suez Canal Economic Zone, partnering with Word Bank to establish regional Network in Asia and Africa to present and diffuse the framework and the preparation of in-depth country studies on infrastructure governance. Furthermore, as discussed in the last session, the secretariat asked delegates to provide case studies on national and international “Mega projects”, which will feed into the OECD horizontal work on the Governance of Flagship and Mega Infrastructure Projects, which will identify the key threats to successful projects across OECD countries.