PPPs: Value for money, governance and management

Challenges, lessons and principles
SBO Asia, Bangkok 13-14 December, 2012

Ian Hawkesworth, Co-ordinator of the
OECD Network of Senior PPP Officials

DES POLITIQUES MEILLEURES
POUR UNE VIE MEILLEURE

Agenda

- PPPs - a number of (similar) definitions
- PPP Volumes
- Why do PPPs?
- PPPs present particular challenges for the public sector
- OECD Principles for Public Governance of PPPs
- Conclusion

PPPs– in a picture

PPPs - A number of (similar) definitions

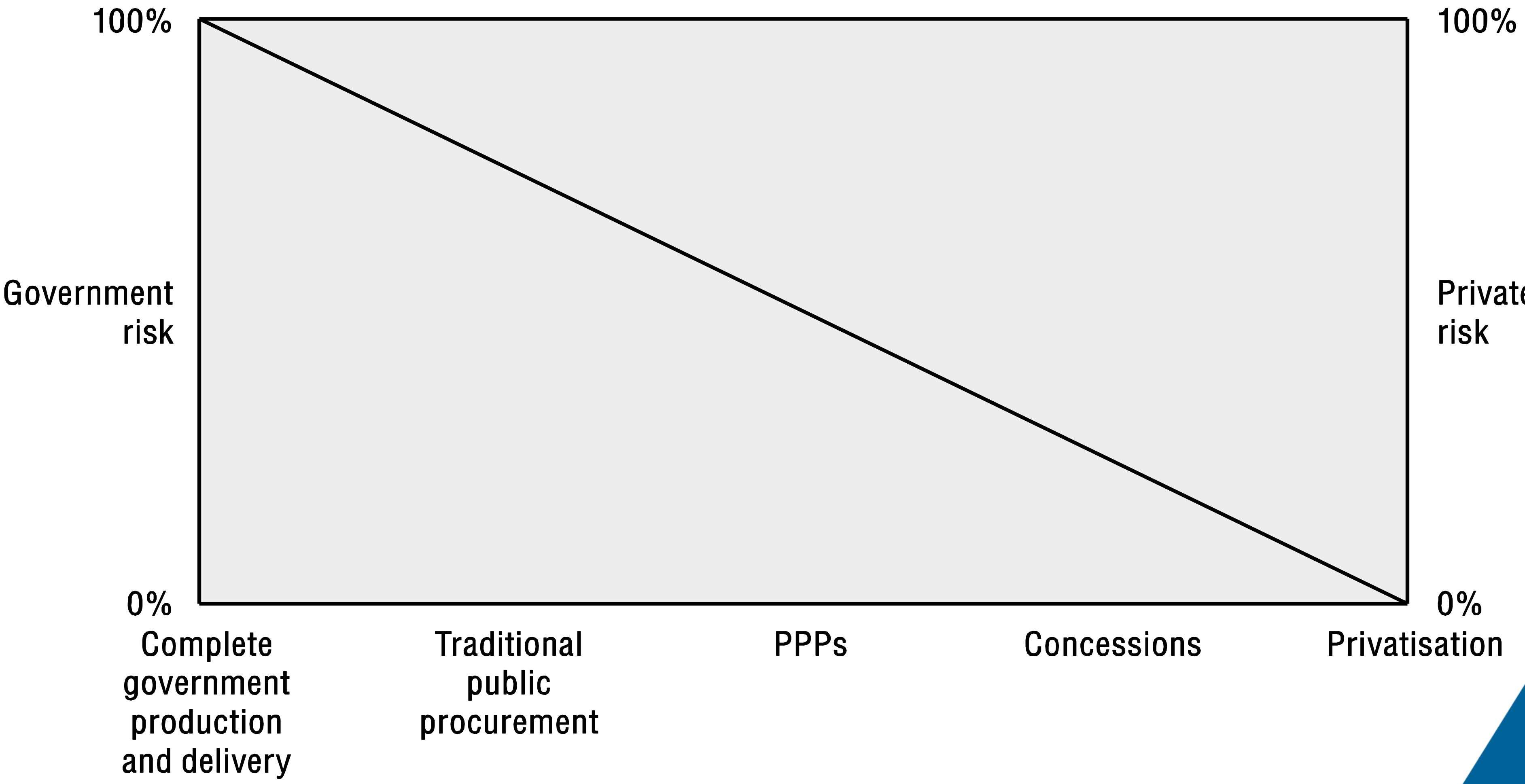
A form of procurement of public assets with private involvement. Specific characteristics:

	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.

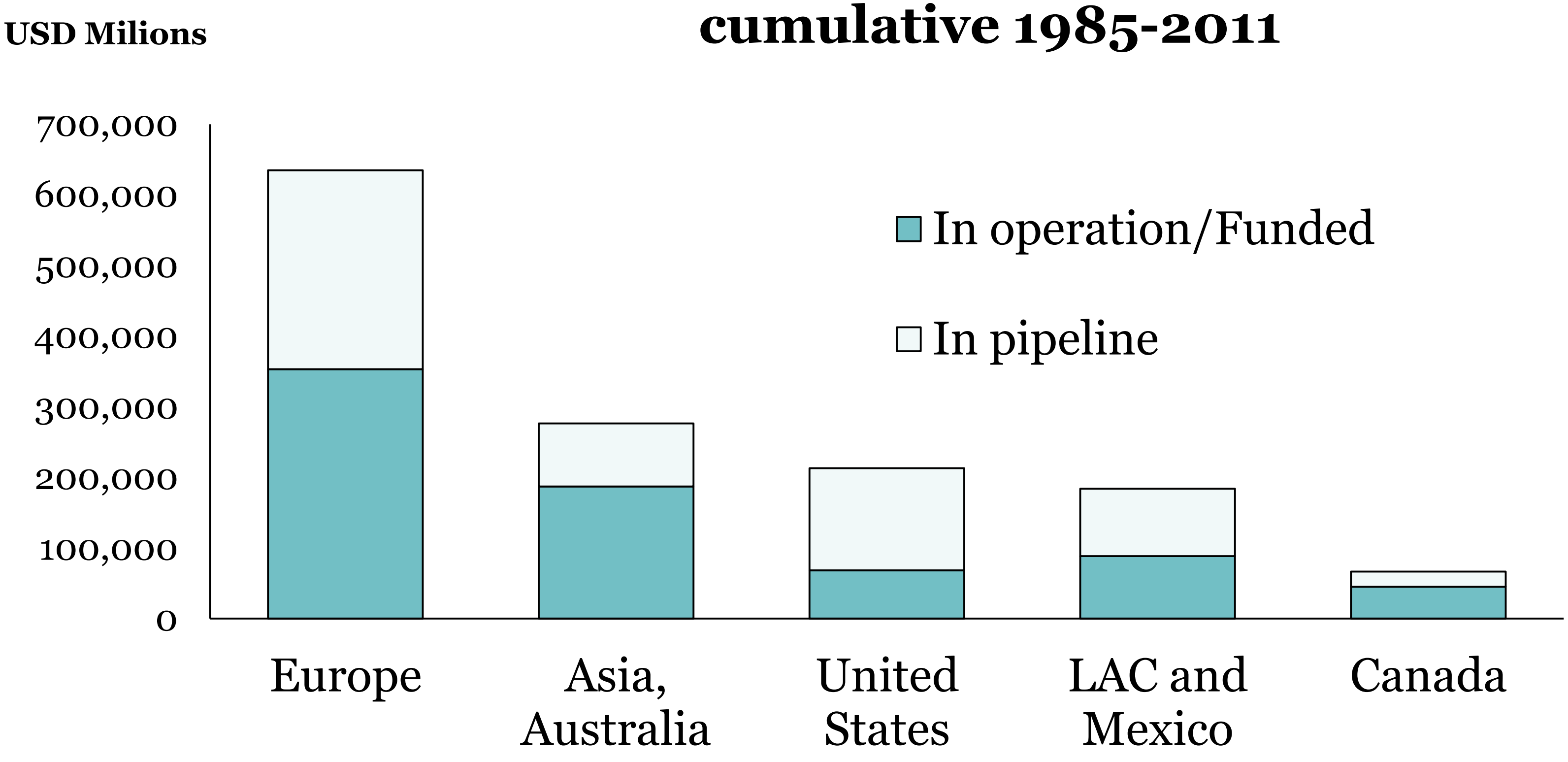
Source: IMF and OECD

Public and private participation classified according to risk and mode of delivery



PPPs represent substantial investment in OECD countries …

PPPs for Roads, Rail, Water, Buildings, cumulative 1985-2011



Public Works Financing October 2011, Vol. 264

But in general, PPPs only represent a small part of total public sector infrastructure investment

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

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
>20%	2	Mexico, Chile
Total	21	

Note: No responses for 15-20% band

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

Why engage with the private sector?

Common reasons include:

- poor performance of traditional procurement, SOEs
- expectation of better value for money
- improve efficiency and quality of services
- form synergies with other economic activities e.g. mining-railroads
- address increasing demand b/c of economic growth or population growth
- New regulatory framework makes change possible

Good and less good reasons for doing PPPs

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

… more value for money from PPPs is possible if the rules are adjusted …

Do you think …

a) the rules in **place impede attaining the maximum value for money by** creating incentives to prefer traditional infrastructure procurement over PPPs?

b) the rules in place impede attaining the maximum value for money by creating incentives to prefer PPPs over traditional infrastructure procurement?

Incentives to prefer one form of infrastructure investment over another?

	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

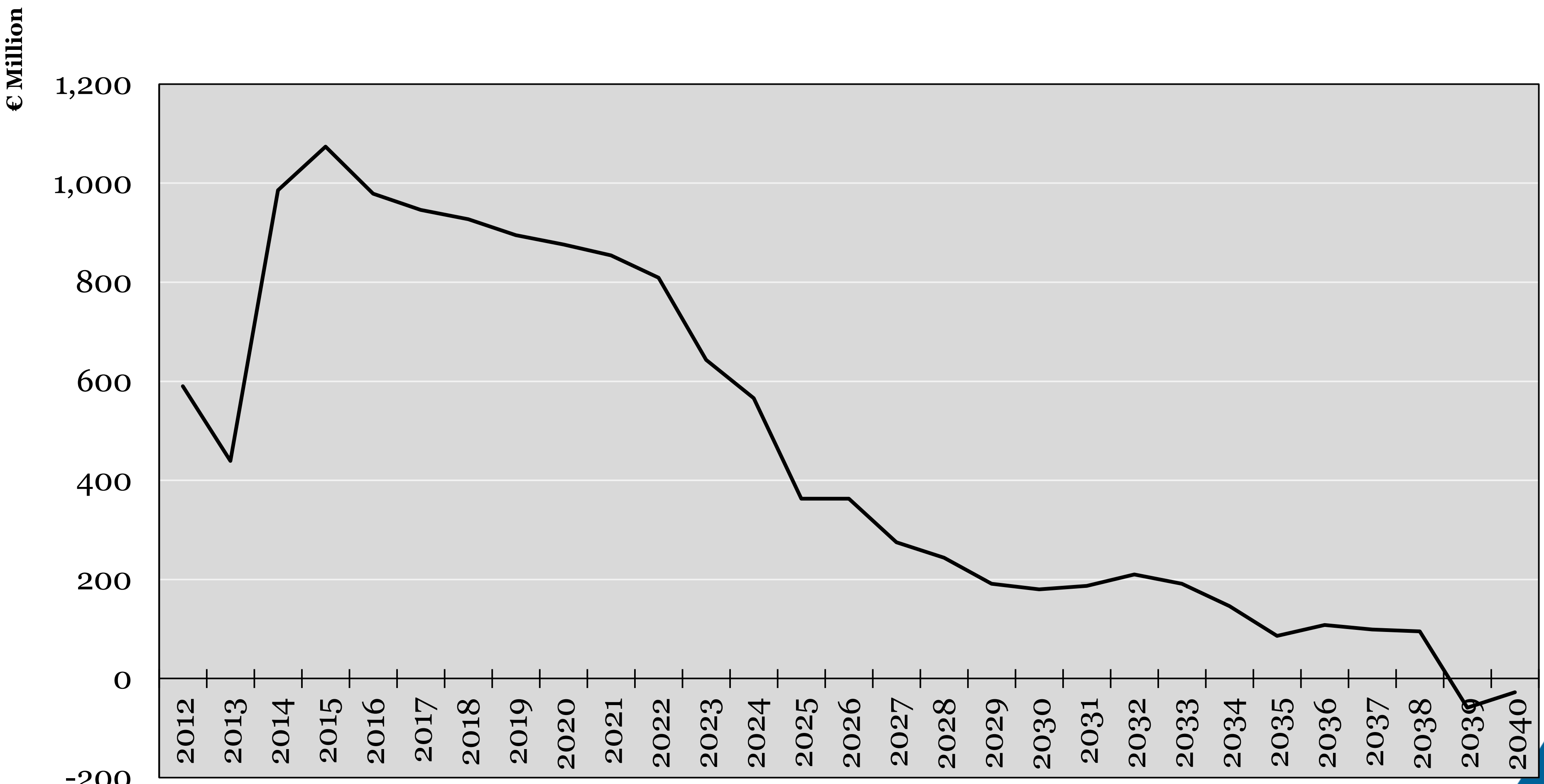
P. Burger & I. Hawkesworth. 'How to attain value for money'. OECD Journal on Budgeting, No. 1, 2011

But PPPs present particular challenges for the public sector

- Weak human and institutional **capacity** to negotiate and monitor PPP contracts.
- Assessing **value for money** – quantitative and qualitative aspects
- Assessing, allocating and costing **risk**.
- **Ensuring affordability** and **sustainability** – from the budget or end users.
- PPP commits the government to **long term obligations** and possible **contingent liabilities**.
- PPPs can **obscure real spending** and make government actions **un-transparent** (**off budget financing**).
- Political and popular resistance.

… and can lock in public expenditures …

Net charges to road PPP concessionaires, Portugal



2011 August PPP Report, Ministry of Finance of Portugal

How does the OECD Recommendation on PPP governance adds value

- The Recommendation is neither for or against PPP – *if you do it, do it right!*
- Based on what works on the ground
- 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 three headings:
  A. Establish a clear, predictable and legitimate **institutional framework** supported by competent and well-resourced authorities
  B. Ground the selection of PPPs in **Value for Money (quantitative & qualitative)**
  C. Use the **budgetary process** transparently in order to minimise fiscal risks and ensure the integrity of the procurement process

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. Key institutional roles and responsibilities should be present **(Procuring Authority, PPP Unit, CBA, SAI, regulators)**
- 3. 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

4. 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** …
5. Carefully **investigate which investment method is likely to yield most value for money** (procurement option pre-test e.g. **no**, if rapidly changing technology (**IT**), **yes**, if established and straight forward to assign risk (**Roads**)
6. **Transfer the risks** to those that manage them best i.e. party for whom it costs the least to influence, prevent and/or deal with the consequences of realised risk (e.g. regulation vs. construction)
7. Securing VfM during **operation requires vigilance**
8. VfM should be **maintained** when renegotiating
9. Value for money requires sufficient **competition**

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** (e.g. SOE liabilities).

12. Guard against waste and corruption by ensuring the **integrity** of the procurement process.

Procurement option test (selected)

- Is the potential **PPP project of a size sufficiently large** to justify the transaction costs?
- Is the planned project operating in a **rapidly changing policy or demand** environment?
- Are the underlying assets to be used to deliver the output in an area subject to **rapid technological change**?
- How large are the whole of life benefits from combining the construction and the operating phases of a project in one contract?
- Can the risks, cost and quality trade-offs be quantified and managed by the public sector?
- What is the potential level of **competition** in the market? If competition is lacking, is the market **contestable**?
- If **end-user charges** are levied will demand be **sufficient** over the lifetime of the project to ensure that the private partner generates the revenue required ?

Conclusion

- The benefits of PPPs **depends on the circumstances**; sometimes traditional procurement is preferable – important to make an **informed and reasoned choice**
- Need to build an **enabling framework**, a planning **pipeline**, public-private **trust** and experience
- Much depends on the public sector: planning, due diligence, capacity, political will etc.
- Many countries at different levels of experience – important to share & learn
- **OECD Recommendation on PPPs**: institutional framework, value for money and transparent budgeting