

8th Annual Meeting of Senior Budget
Officials from Central, Eastern and
South-Eastern European countries
(CESEE),
Tallinn, Estonia, 28-29 June 2012

How to ensure value for money from PPPs?

Ian Hawkesworth, Co-ordinator, OECD PPP
Network

Budgeting and Public Expenditures Division,
Public Governance and Territorial
Development Directorate OECD

Agenda

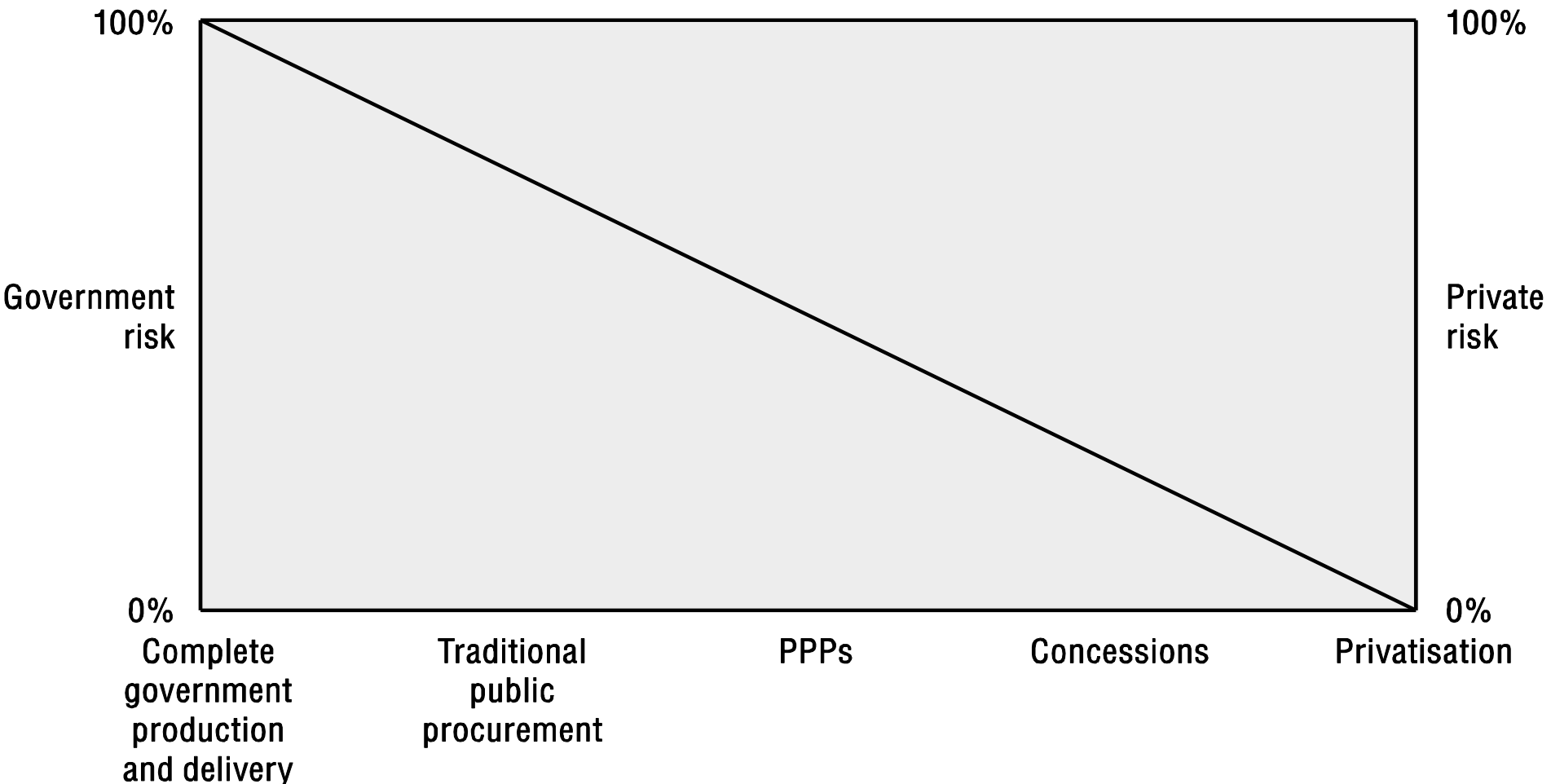
- Defining PPPs
- PPP volumes
- Motivation for PPP
- Particular Challenges for the public sector regarding PPPs
- Example: Portugal
- One response: PPP Units
- OECD Principles for Public Governance of PPPs
- Applying the Principles – diagnostic of Indonesia
- Next steps

Agenda – in a picture



- Defining PPP

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



A number of 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.

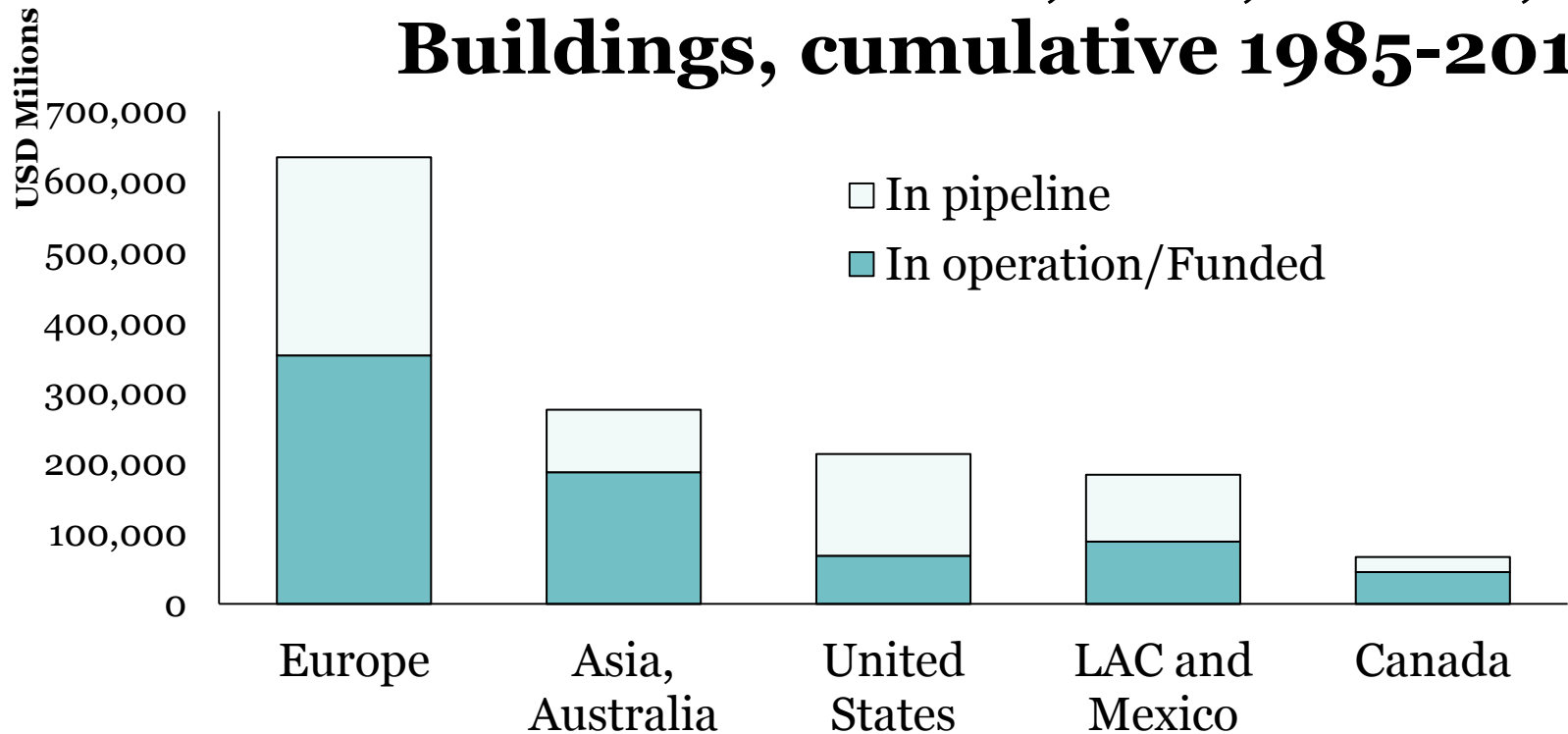
Common denominators:

- Provision by private sector of a public service through a **contract** that **backloads the cash flow payment for the government** arising from the provision of the service
- **Sharing of risk** between public and private sector that is innovative with respect to traditional forms of risk sharing
- Meant to deliver a service that provides **value for money** compared to traditional procurement by
 - harnessing private sector expertise in combining design and operation of an asset (whole of life view)
 - Allocate the risks to the party that manages them best
- Commits the government to **long term obligations** and possible contingent liabilities

- PPP Volume

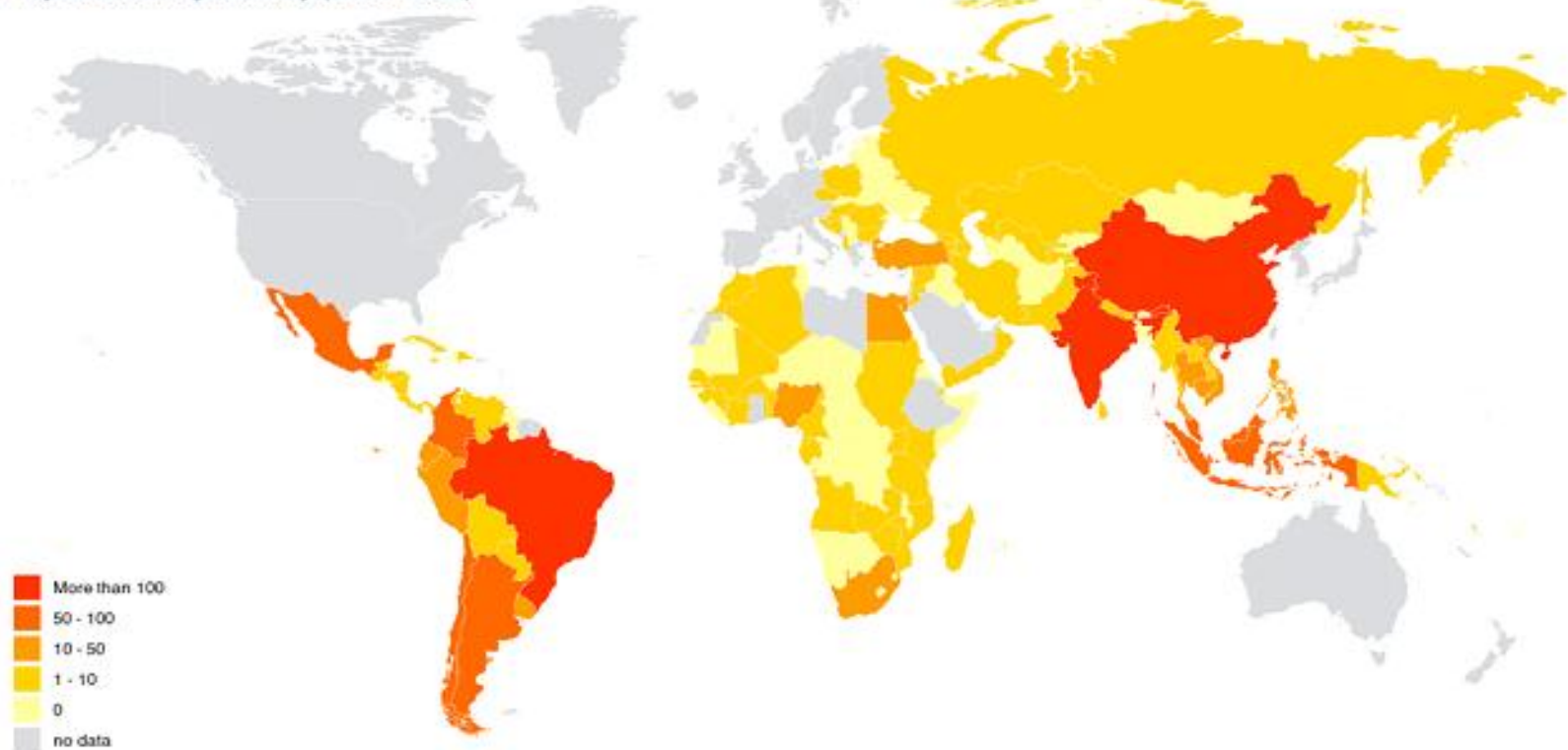
PPPs represent substantial investment in OECD countries ...

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



... and non-OECD countries alike

Project Count by Country (1990-2006)



Source: World Bank (Private participation in infrastructure (PPI) database)

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

Motivation for PPP

Good and less good reasons for doing PPPs

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

	<i>The project generates debt that is not on the balance sheet of government</i>	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

However, there appears to be room for improvement

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?

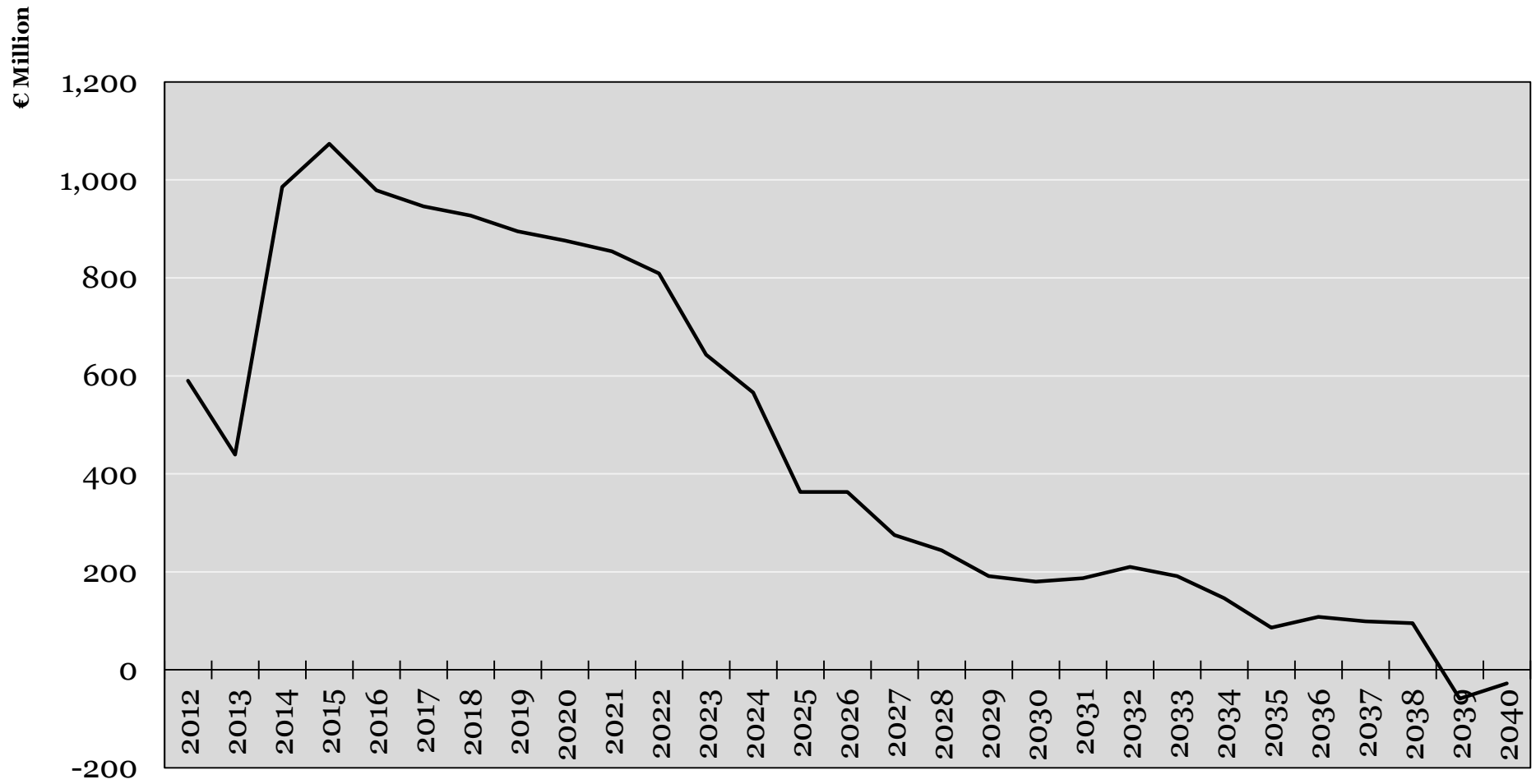
	TIP over PPPs?	PPPs over TIP?
Yes, to a large extent	2	0
Yes, to some extent	5	1
No	9	15
Not enough data to make assessment	5	5
Total	21	21

- Particular Challenges for the public sector regarding PPPs

The main PPP challenges

- Assessing value for money – quantitative and qualitative aspects
- Doing PPPs for the right reasons (VfM)
- Assessing, allocating and costing risk
- Human and institutional capacity to negotiate and monitor PPP contracts
- Ensuring affordability and sustainability – from the budget or end users
- Ensuring budget transparency

Net charges to road PPP concessionaires, Portugal



- One response: PPP Units

Dedicated PPP Unit

- Dedicated public-private partnership (PPP) units include any organisation set up with full or partial aid of the government to ensure that necessary capacity to create, support and evaluate multiple public-private partnership agreements are made available and reside in government.

Is there a dedicated public-private partnership unit at national level?

PPP Units

	Number of countries	Countries ¹
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, Slovak Republic, Spain, Sweden, Switzerland, United States

1. No data for Turkey.

Table I.3. Location and functions of dedicated PPP units¹

	Country	Location	Year est.	Policy Guidance	Technical Support	Capacity Building	Promotion	Investment
Case studies	Korea	Independent	1998	●	●	●	●	○
	Germany (federal)	Independent	2009	●	●	○	○	○
	South Africa	Finance ministry	2000	●	●	●	○	○
	United Kingdom	Independent	2000	●	●	●	●	●
	Victoria, Australia	Finance ministry	2000	●	●	●	●	○
Other countries surveyed	Australia	Independent	2008	..	..	..	..	..
	Belgium (Flemish)	Finance ministry ²	2002	●	●	●	●	○
	Canada	Line ministry	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	●	●	○	○	○
	Poland	Line ministry	2001	●	●	○	○	○
	Portugal	Independent	2003	●	●	○	○	○
	Total		n/a	16	17	8	10	1

Notes: ● = yes, ○ = no, --- = not applicable; .. = missing response

1. No dedicated PPP units in Austria, Finland, Iceland, Luxembourg, Mexico, New Zealand, Norway, Slovak Republic, Spain, Sweden, Switzerland, and United States (see Table I.1).

2. **Belgium:** Flemish Government Executive Staff.

3. **Japan:** PFI Promotion Office, Cabinet Office.

Key questions

- **What functions are given to a dedicated unit?**
 - The units mostly act as consultants for implementing organisations but may also have a mandatory review dimension
 - Units play different roles as to whether they green-light projects
 - MOF key role: approval
- **Where are dedicated units located? Three models:**
 - Ministry of Finance/treasury (e.g. SA, Vic)
 - Arm length agency with a link to the Finance Ministry (Partnership model)
 - locate in an individual line ministry that is the main user of PPPs
- **How should dedicated units be staffed?**
 - Sector technical skills, economics and finance, regulation, procurement, communications and training. Competitive salary + public sector benefits such as interesting projects; job security; work-life balance
- **How are dedicated units funded?**
 - From budget, through user charges from contracting agencies or a combination
- **How can a dedicated PPP unit be assessed?**
 - Should ideally be measurable, realistic and phased. M
 - Measuring number of PPPs is a problematic measure.
 - Promotion and assessment should be split

- OECD Recommendation on Principles for Public Governance of PPPs

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 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

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

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.

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.

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
4 May 2012	Endorsed by the OECD Council

- Applying the Principles – diagnostic of Indonesia (2012)

Indonesia's motivation for PPPs mirrors many other countries'

Do the following make PPPs more attractive in comparison to traditional infrastructure procurement?

	Yes	No	Some-times
The project generates debt that is not on the balance sheet of government	X		
The project requires high level of constant maintenance			X
The project requires a high level of service delivery performance	X		
The project requires skills that are more readily available in the private sector, compared to the public sector	X		
Strong Public Unions in the public sector in the relevant sector			X

Highlights from Conclusions:

- PPP as a service delivery mechanism does not appear to be politically sensitive
- More needs to be done regarding **prioritisation** and assigning **clear roles and responsibilities**
- Stronger **gate keeping role for MoF**, stronger Gateway process
- Stronger PPP Unit needed
- **Capacity** challenges in terms of financing and skills
- Stronger role for the **Supreme Audit Institution** needed
- Expropriation of **land** difficult
- **Unclear criteria** for pursuing PPPs
- Explicit sectoral **VfM tests** need to be developed
- Comprehensiveness of **budget documentation**, transparency about public sector exposure
- **Role of SOEs** unclear– as public side and as private

Next steps

- Reviews of the Public Governance framework for PPPs and other PPP issues
- Study on capital procurement (traditional and PPP) to be presented at next year's meeting of the OECD Network of Senior PPP Officials (March 2012)
- More information:
- www.oecd.org/gov/budget/ppp
- Ian.Hawkesworth@OECD.org