


TOWARDS AN EFFECTIVE GOVERNANCE FRAMEWORK FOR INFRASTRUCTURE

11th Annual Meeting of Central, Eastern, and South-Eastern
European Senior Budget Officials

21-22 May, Warsaw, Poland

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Agenda

1. Background and definitions
2. Challenges of infrastructure investment
3. Towards a governance framework for infrastructure
- 4. *Nine Governance preconditions***
5. The decision tree
6. Next steps

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Background

- 2014 OECD meeting of Senior PPP and Infrastructure Officials - need for more guidance on modality choice etc.
- Drawn from accumulated infrastructure work of the OECD
 - PPPs
 - Multi-level governance
 - public sector innovation
 - Budgeting and fiscal policy
 - Regulatory policy
 - integrity and anti-corruption
- Substantial input from national officials, international organisations and academia
- Latest developments:
 - High Level Focus Group of decision makers and experts
 - Framework endorsed at the 2015 OECD meeting of Senior PPP and Infrastructure Officials
 - Endorsed by the Public Governance Committee on April 10 2015

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Good governance is a necessary condition for good infrastructure

- Quality of public governance correlates with public investment and growth outcomes
- Substantial benefits can be realised by better managing public investment throughout the life cycle of the asset
- but, the governance of infrastructure entails its own distinct set of challenges and requires a considered, systematic approach.
- The ambition is to harness OECD country experience into a coherent framework that countries can apply to ensure that their infrastructure investment is effective, efficient, transparent, user centric and affordable.

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Some definitions

Governance of infrastructure: the processes, tools and norms of interaction, decision-making and monitoring used by governmental organisations and their counterparts with respect to making infrastructure services available

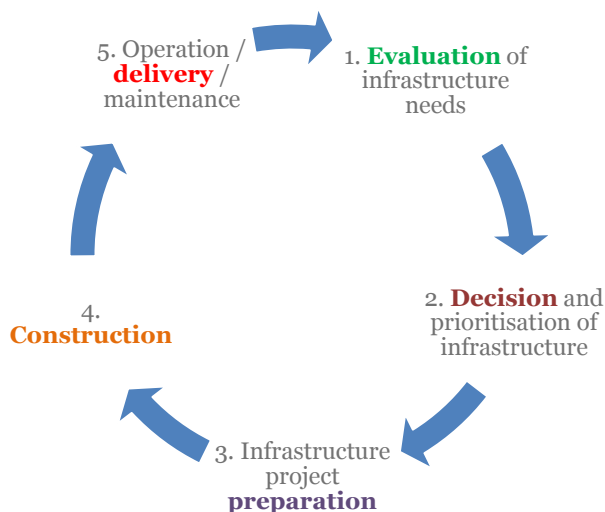
Public infrastructure: structures, networks, systems or physical assets that provide public goods, or goods that meet a politically mandated, fundamental need that the market is not able to provide sufficiently.

Ranges from the direct provision of military installations to privately-owned and -operated utilities under government regulation, such as energy.

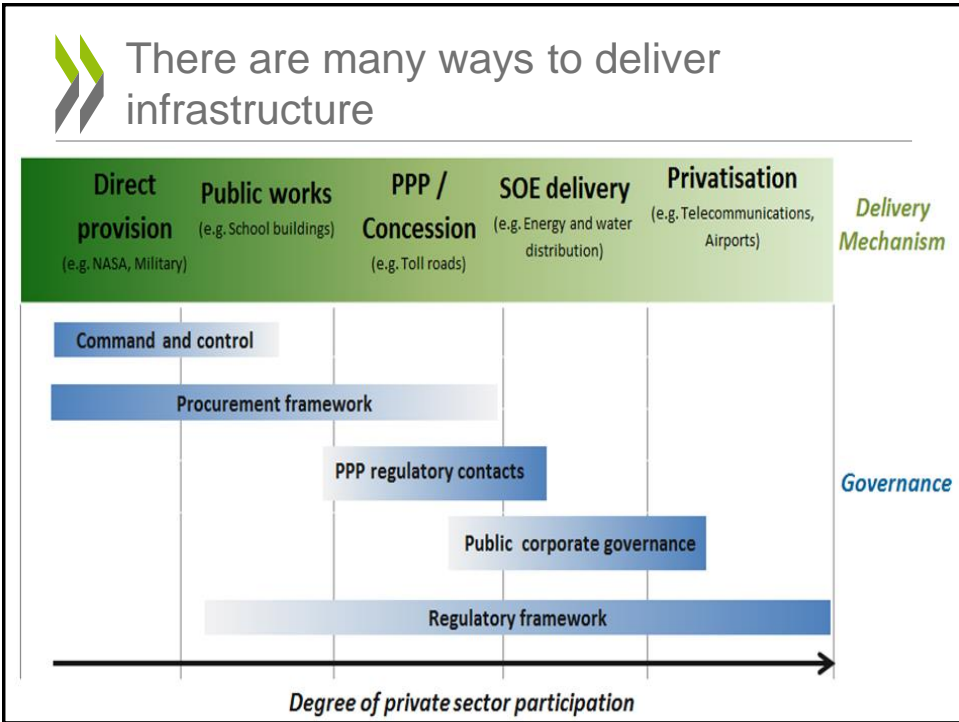
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Infrastructure governance relates to the whole life cycle



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CHALLENGES OF INFRASTRUCTURE INVESTMENT

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Governance challenges 1

1. Weak capacity for **designing a strategic vision** for infrastructure undermines the development of a sustainable development plan
2. Infrastructure impacts communities - without well managed **consultation** good projects may falter.
3. The **coordination** challenge - a multiplicity of actors across levels of government may derail good projects.
4. The **skills** challenge with respect to the life cycle of infrastructure
5. **Uncertainty** with regards to revenue flows and sources through the life cycle of the asset can result in a lack of confidence in the project's affordability

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Governance challenges 2

6. Infrastructure decisions tend to be bound by **administrative perimeters** rather than relevant functional economic ones
7. The **lack of data** and evidence on service delivery performance makes it difficult to use assessment tools well
8. **Adverse incentives** provided by regulatory frameworks may generate suboptimal investment choices
9. **Instability** of the regulatory and institutional framework can also prevent long-term decisions hereby undermining sound decision-making from both public and private actors
10. Infrastructure procurement is vulnerable to **corruption**
11. **Political and business cycles** issues strongly impact the phases of infrastructure

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TOWARDS A GOVERNANCE FRAMEWORK FOR INFRASTRUCTURE

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The objective of the framework

is to ensure an infrastructure program that

- makes the **right projects** happen,
- in a **cost-efficient** and
- **affordable** manner, and that
- is **trusted** by users and takes citizen views into account.

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2 Elements of the Framework

A. A list of governance preconditions - these concern the overall enabling governance environment for infrastructure.

B. A decision tree, which guides countries with respect to making sectoral decisions and overall infrastructure decisions.

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A. Governance preconditions

1. A long term **strategic vision** for the use of infrastructure, which takes into account the **multi-dimensionality of the challenges**.
2. Institutional and regulatory frameworks that **encourage the sustainable development, the management and the renewal of infrastructure**.
3. The process for managing infrastructure projects over their life-cycle delivery should be **user-centric**. It should rest on broad based **consultations and have a primary focus on the users' needs**.
4. **Coordination across levels of government** and jurisdictions should be frank, regular and performance oriented.

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A. Governance preconditions – cont'd

5. The appropriate skills and procedures to ensure rigorous **project assurance, affordability, value for money** and transparency should be in place.
6. Project assessments should be based on **data** and a balanced value for money procedure.
7. Systems should be in place to ensure a **focus on the performance** of the asset throughout its life.
8. **Transparency and integrity** should be secured via appropriate capacities and values.
9. The choice of the appropriate delivery modality should integrate **political, sectoral, and strategic aspects**.

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THE DECISION TREE FOR INFRASTRUCTURE MODALITY CHOICE

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B. The infrastructure Decision Tree

- **Designed to identify ways to optimise infrastructure investment decisions**
 - Insufficient attention given to choice of delivery mode – often driven by expediency and habit
 - Decisions relating to mode of delivery should be based on set criteria and consider the full range of available options
- **Three levels in the decision tree:**
 1. Set a preferred sectoral approach by assessing reform objectives and the characteristics of the sector
 2. Assess how the country circumstances (political economy, government's capacities, private sector's capacities, enabling legal environment, etc.) impact the sector
 3. Choose a delivery model based on the project characteristics and overall approach

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Set a preferred sectoral approach

<i>What are the prioritized sectoral policy objectives?</i>	<i>What characterizes the market and how politically sensitive is the sector?</i>
✓ Improving quality of services	Extent of Market Failures? <ul style="list-style-type: none"> • Potential for competition • Non-excludability • Network effects
✓ Improving access to infrastructure	
✓ Improving efficiency	
✓ Reducing the need for government subsidies	
✓ Promoting innovation	Political Sensitivity? <ul style="list-style-type: none"> • Equity Considerations • Environmental, land Issues • National Security
✓ Speed of delivery	
✓ Improving quality of services	
⇓ Optimal sector approach	

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Assess how the country circumstances impact the sector

Dimension	Components
Political economy	<ul style="list-style-type: none"> • Distribution of the political resources within an economy?
Government's capacities	<ul style="list-style-type: none"> • Public sector capacity for implementation, regulation, and monitoring?
Private sector's capacities	<ul style="list-style-type: none"> • Skills and abilities, the degree to which the market is competitive, whether there is a level playing field between incumbents and new-comers, including those from abroad?
The enabling legal environment	<ul style="list-style-type: none"> • Clear and prudent legislation? • Dispute resolution mechanisms? • Legal enforcement?

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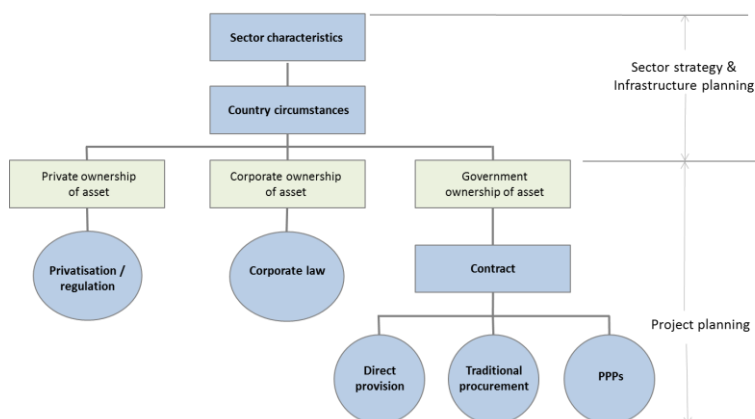
Choose a delivery model based on the project characteristics

- **The size and financing profile of the investment** - e.g. a large initial investment followed by significant operating and maintenance needs could indicate advantages to bundle the construction, operation and maintenance of the assets in a single contract.
- **The potential for cost recovery from users or land value capture** - e.g. for investments in sectors that have a non-excludable nature, user fees will not be practicable and the project will need to be funded via government spending
- **The extent to which quality is contractible** – e.g. when quality is difficult to specify and monitor, then contracts are likely to be costly and time consuming to develop, and will be highly vulnerable to renegotiation.
- **The level of uncertainty** – e.g. many of the most catastrophic infrastructure investments are the result of poor assumptions, often made worse by excessive optimism. In sectors where change is highly unpredictable (e.g. where technology is in flux), preferred modes of delivery should be adaptable, not locked.
- **The ability to identify, assess and allocate risk appropriately** – e.g. are we sure which parties should carry what risks?

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An Integrated Framework



Summary

- The new OECD Framework aims to help countries identify **ways to optimise** their infrastructure decisions.
- It provides an opportunity to assess a country's infrastructure portfolio in an analytical and timely manner.
- It integrates a **sectoral, a country and a project** approach to infrastructure delivery, and the **governance** of such delivery.



Complementarity with the Juncker plan

- Both financing conditions and an optimal environment must be met for efficient public investment
 - 3-pronged plan: EFSI (fund focus), technical assistance on structural reform (project focus), and a more investment “friendly” environment (regulation focus)
 - Last point in particular aligns with governance preconditions set forth by the OECD framework

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Next steps

- Circulated to other committees across the OECD
 - Public Governance Committee (PGC) consulted by written procedure by the 10th of April 2015
- To be presented at the upcoming OECD Ministerial Council Meeting on June 3-4 2015 in Paris
- **Comments and contributions** by country officials most welcome as to whether the issues and approach are in line with their needs and state of play for infrastructure
 - Possible follow up activities? (ex: Chile has requested an assessment on the basis of the framework)
- Aim is to develop indicators that countries can use to assess their infrastructure governance preconditions

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