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**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC GOVERNANCE COMMITTEE**

Working Party of Senior Budget Officials

MEETING SUMMARY

8th OECD MEETING FOR SENIOR INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIP OFFICIALS

**OECD Conference Centre, Paris,
23-24 March 2015**

This meeting was organised in co-operation with the International Monetary Fund and was chaired by Mr. Gordon McKechnie, former Head of PFI Policy, HM Treasury, United Kingdom.

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TABLE OF CONTENTS

Introduction	3
Day 1 – Monday March 23, 2015	
Session 1: How to make it work: a new Infrastructure governance framework	3
Session 2: Getting more bang for your public investment buck	6
Session 3: The evolving UK PPP Framework – An OECD Review	7
Session 4: Is there an infrastructure gap? If so, where is it and who should fill it?.....	9
Day 1 - Conclusion – A new framework for infrastructure governance?	12
Day 2 – Tuesday March 24, 2015	
Session 5: Recent PPP and infrastructure developments	14
Session 6: What role can private finance play in addressing infrastructure gaps?	17
Session 7: Reforming the PPP framework in Italy, and how to manage the risks from infrastructure PPPs?.....	21
Day 2 - Conclusion	24

**8th OECD MEETING FOR SENIOR INFRASTRUCTURE
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MEETING SUMMARY

Introduction

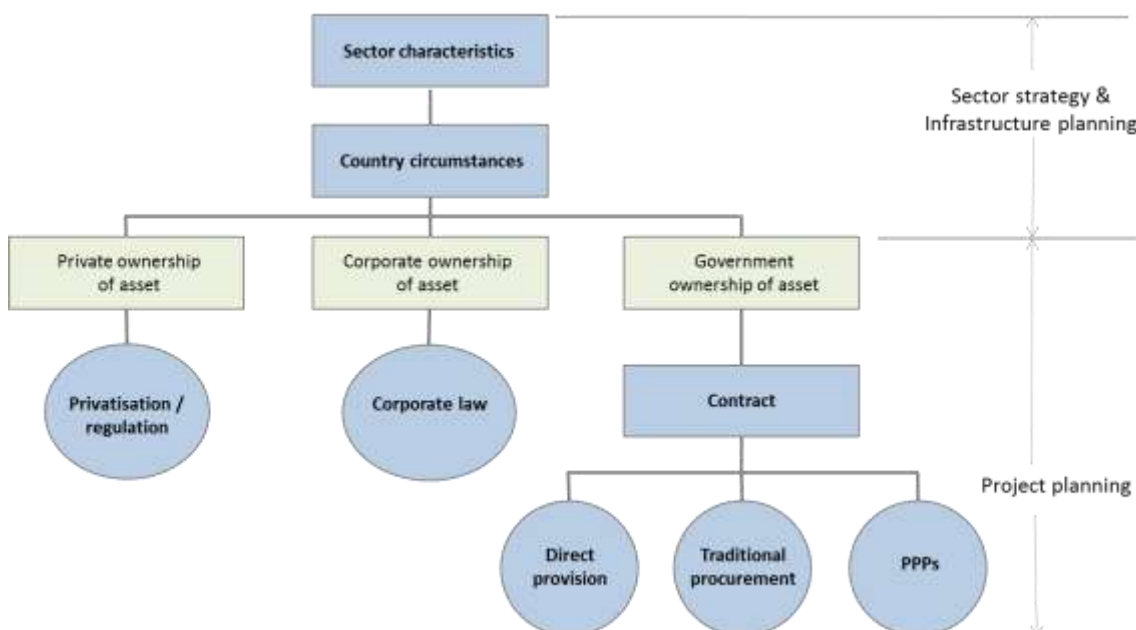
The Meeting of Senior Infrastructure and PPP Officials took place on March 23-24, 2015 at the OECD's Headquarters in Paris. This year's meeting was organized jointly with the IMF. It was attended by over 100 participants representing 37 delegations, including officials from 25 member and non-member countries, private sector representatives, and multilateral institutions. Participants convened around the issues of needs, vision, delivery and coordination of infrastructure –including PPPs, where countries are asking for solutions. The meeting was an opportunity for the OECD to present its latest Review on the Governance framework for PPPs in the United Kingdom. Several key messages emerged with regards to the governance of infrastructure. First, countries underlined the needs and difficulties in developing a strong national infrastructure vision that commands political support and meets the needs of society from a long term perspective. Second, putting in place and strengthening the right skills within the public sector, including for the management of projects during their operational phase is necessary. Finally, the national framework needs to continuously adapt to market conditions and national needs.

Day 1 – Monday March 23, 2015

Session 1: How to make it work: a new Infrastructure governance framework

Mr. Rolf Adler, Director, Public Governance and Territorial Development Directorate and **Mr. Ian Hawkesworth**, Head of PPPs and Capital Budgeting, Budgeting and Public Expenditures Division, **OECD Secretariat** presented the new OECD Framework for Public Governance of Infrastructure. Countries in the OECD and across the world have competing priorities, but good governance remains a necessary condition for good infrastructure. By harnessing OECD experience, the OECD aims to provide a framework that countries can apply to ensure that their infrastructure investment is effective, efficient, transparent, user centric and affordable. It proposes a list of necessary governance preconditions that create an overall enabling governance environment for infrastructure. The second element of this framework is a decision tree (see figure 1), which provides a guide for countries to optimize the delivery modalities of their infrastructure. It provides an integrated, three-tier framework that takes into account sector, country-specific, and project criteria.

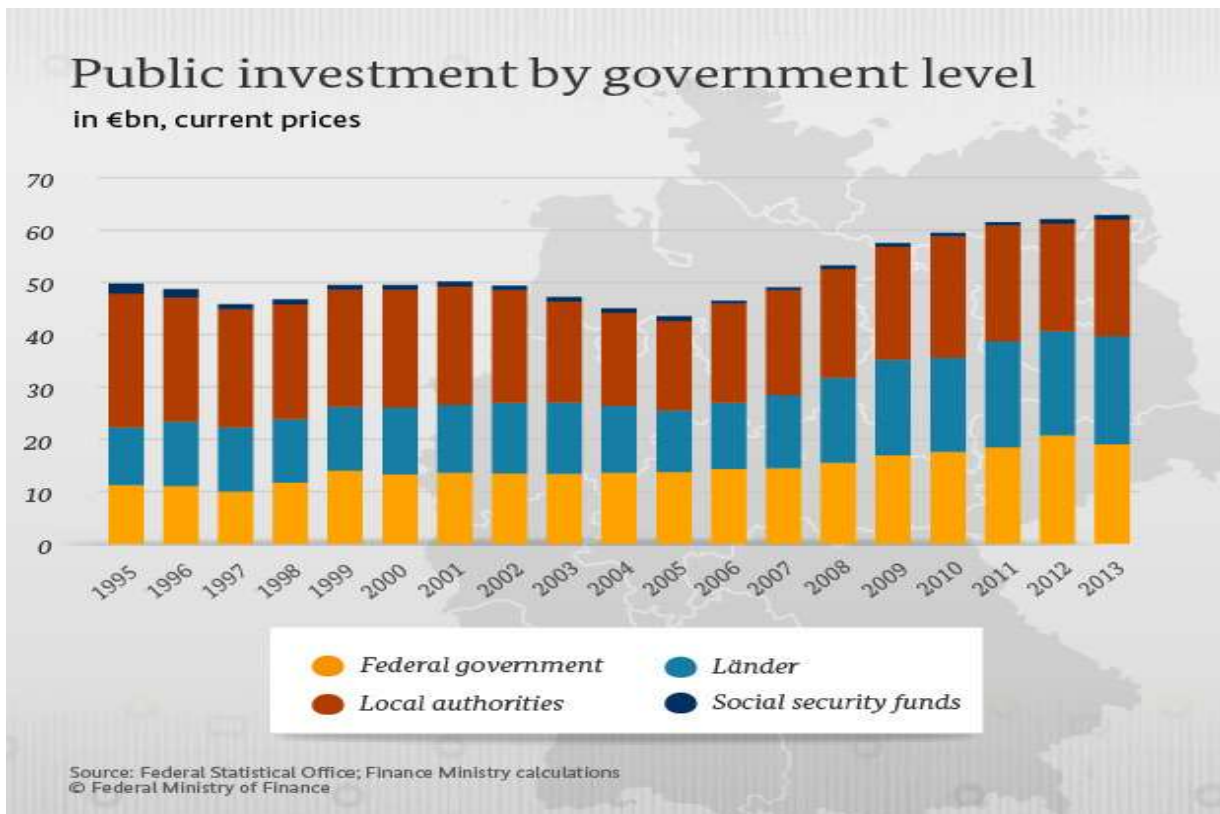
Figure 1: The Decision Tree: an integrated OECD framework for the governance on infrastructure



Source: Alter, R., & Hawkesworth, I. (2015), “Towards an integrated governance framework for infrastructure”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 23, 2015.

Mr. Martin Kelleners, Deputy Director General, Budget Directorate, Federal Ministry of Finance, **Germany**, shared the latest developments in Germany’s public investment portfolio and framework (see figure 2). As the OECD frameworks emphasizes very clearly that there should be a distinction between the decision to invest and the choice of the delivery mode. Selecting the appropriate delivery mode in Germany happens at the project level, where questions of cost efficiency and affordability are taken into account, including through cost benefit analysis (CBA). The importance of citizen trust and involvement through transparency e.g. about the relative costs and benefits of projects was raised as a key point.

Mr. Salim Bensmail, Director, PPP Department (MAPPP), Directorate General of the Treasury, **France** highlighted the relevance of the OECD’s contribution to the infrastructure debate, and invited the Secretariat to further develop the framework. Mr. Bensmail discussed a number of issues: First, the difficulty of building a strategic vision that results in a clear and robust pipeline of infrastructure projects, and aligning it with evolving political priorities. In France, since 2013, a focus on CBA aims to partially address this challenge. Second, the MAPPP is working closely with the national audit institute in order to strengthen the use of ex-post analysis of PPP projects in particular. Third, there is a challenge with regards to skills availability at different levels of government, including technical expertise and management skills. This may in some cases push contracting authorities to rely extensively on the private sector in the various phases of the project.

Figure 2: Evolution of Public Investment in Germany

Source: Kelleners, M. (2015), “Infrastructure Investment in Germany from the Federal Government’s Perspective”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 23, 2015.

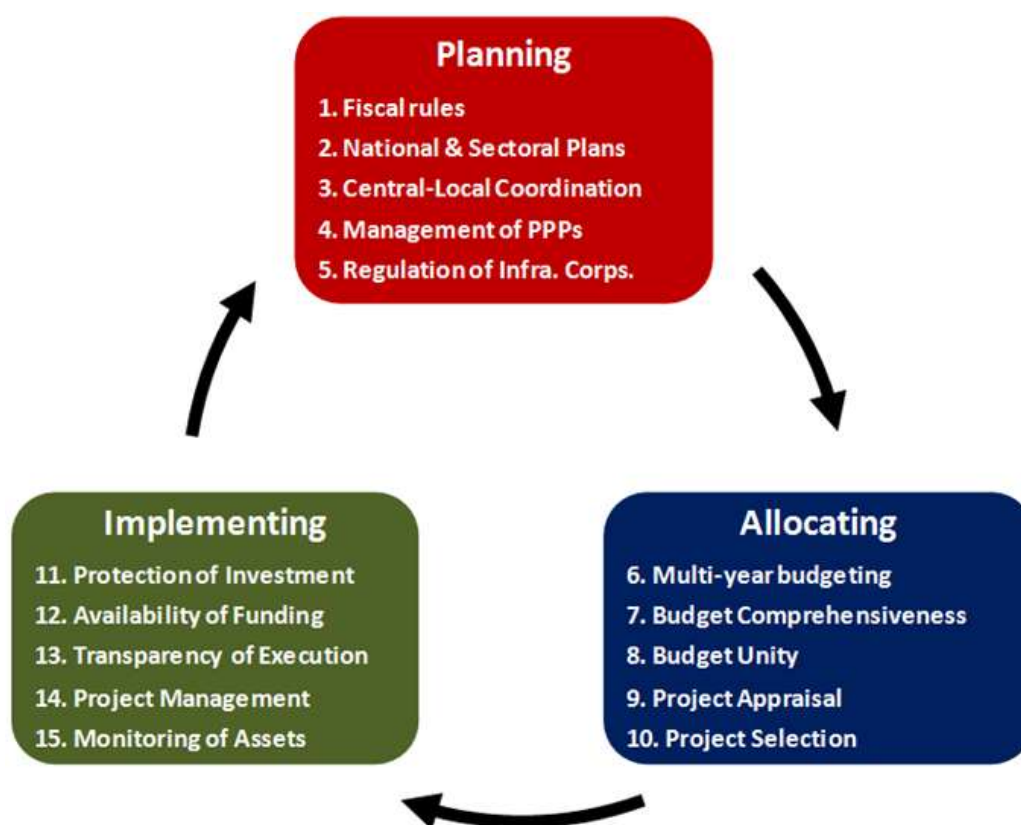
Mr. Charles Lloyd, Partner, **PWC**, United Kingdom emphasized three points. There is a need for an objective strategic framework, for both public expenditure and infrastructure. As an example, the UK has a project pipeline that is accessible to the public, accountability through the Spending Review process, and scrutiny by Parliament on expenditures for infrastructure development. It is also important to approach projects on a whole of life basis, considering maintenance costs in addition to capital cost, as well as the management of evolving user demand. The strengthening of public officials’ skills, through initiatives such as the Major Projects Leadership Academy in the UK, has direct linkages with the successful delivery of infrastructure projects. Further sharing and learning of experiences among countries, through a benchmarking exercise, could provide useful lessons to further improve infrastructure delivery.

The subsequent discussions reflected the endorsement of the proposed framework by member countries and international organizations, with suggestions on how to integrate further elements that may be relevant such as a more nuanced perspective on delivery option modalities, or a greater emphasis on the operational phase of projects. Citizen engagement was once again raised as one of the more complex but essential elements of an integrated approach for the good governance of infrastructure projects.

Session 2: Getting more bang for your public investment buck

Mr. Richard Hughes, Head of the Public Financial Management Division, Fiscal Affairs Department, **International Monetary Fund** presented the IMF’s latest work in assessing and improving the efficiency of public investment management (PIM). The IMF has developed an index for a Public Investment Management Assessment (PIMA) framework (see figure 3), which was recently tested on 25 sample countries. Stronger PIM practices and institutions allow governments to improve the efficiency of their investment, more sustainable levels of investment, less overspending, and less opportunities for rent-seeking. Some preliminary findings indicate that a strengthening of central/local coordination could benefit advanced economies, while emerging economies should adopt a more rigorous and transparent approach with regards to the appraisal of investments, and developing economies could pay close attention to managing fiscal risks associated with PPPs. A cross cutting recommendation across all country groups was about the strong benefit that can be gained from integrating strategic investment planning and budgeting.

Figure 3: IMF Public Investment Management Assessment (PIMA) Framework



Source: Hughes, R. (2015), “Getting More Bang for Your Public Investment Buck”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 23, 2015.

Mr. Anand Rajaram, Sector Manager and Leader, Public Investment Management Community of Practice, **World Bank** also pointed out the increasing present-day focus on infrastructure investment, emphasizing that not enough of the discussion centres on institutions. Common problems such as engaging in projects with a low socio-economic value or poor maintenance and operation can result in public investments that fail to improve social welfare, among others. To this effect, the World Bank has recently developed a knowledge base on the effectiveness of PIM systems. It looks at the eight main steps in a project’s lifecycle, from the development stage to ex-post project evaluation. Preliminary conclusion show that countries with good PIM outcomes usually integrate all eight aspects of the framework well, but that

very few countries in reality do so. Investment is important, but the quality of its management must also be strengthened. The main challenge remains to ensure high calibre governance within countries that have limited capabilities.

Ms. Ursula Carreño Colorado, Chief of Investment Unit, Ministry of Finance, **Mexico** introduced the government's investment planning framework. The Ministry of Finance has an important role in ensuring that resources are allocated efficiently. The National Development Plan sets objectives, strategies, goals and priorities for the country, and enables project prioritization. All projects within the government's investment portfolio must result in social benefits and links with the National Investment Plan. PPPs have been prioritized by the government in recent years as a new resource for public investment. There are ongoing efforts such as new PPP legislation, new financial instruments being explored, and PPP training. Some challenges remain, such as identifying good projects for PPP and ex-post evaluation.

Mr. Youngsob Yoo, Deputy Director, PPP Policy Division, Ministry of Strategy and Finance, **Korea** discussed Korea's commitment to improve its public investment management, which faces competing priorities. The challenge of an aging population will result in increased social expenditure, implying a decrease in capital expenditures under a set budget constraint. One of the options to mitigate this is the increased use of PPPs. In recent years, the government has introduced new modes of PPP procurement, expanded the project scope of PPPs, and shortened procurement length by one third. Other ongoing efforts include improved project appraisal and selection procedures, and stronger linkages between performance and budgeting.

Clarifications were made during the discussion on the measurement used by the IMF's new tool to measure investment efficiency, which relies on a hybrid index of access to social and economic infrastructure and their efficiency from the citizens' perspective such as access to key medical equipment, roads, etc. The audience also delved further into PPP investments, which should be considered one among several modes of infrastructure delivery modes.

Session 3: The evolving UK PPP Framework – An OECD Review

Mr. Ian Hawkesworth, Head of PPPs and Capital Budgeting, Budgeting and Public Expenditures Division, Public Governance and Territorial Development Directorate, **OECD Secretariat** unveiled the preliminary conclusions of the OECD's Review of the Governance framework of PPPs in the United Kingdom against the OECD [*Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships*](#) (the 2012 OECD PPP Principles). An analysis of the institutional and regulatory framework for PPPs in the UK shows transparent and comprehensive communication about the relative costs, benefits and risks of PFIs, with clear lines of accountability and responsibilities in the public sector (see figure 4). Public investment management skills are generally well established but could be further strengthened, such as at the local level. With regards to ensuring value for money, the newly established National Infrastructure Plan (NIP) sets a global strategic vision with respect to infrastructure development in the UK, and the Green Book provides specific guidance for the appraisal of projects receiving central funding – on a quantitative and qualitative basis. The National Audit Office's role in evaluating individual projects *ex post* has also significantly contributed to extracting lessons learned and pushing for improved value for money from projects. Finally, the budget process benefits from close interactions between the Treasury, the Office of Budget responsibility, and other institutions to ensure the affordability and fiscal sustainability of projects. The Whole of Government Accounts transparently account for PFI commitments and contingent liabilities in the UK, regardless of their classification on the budget. Efforts to guard against waste and corruption in the procurement process include training of public officials and the creations of a new public equity team to manage public stakes in PF2 projects.

Figure 4: Capital investments management roles in the UK



Source: Hawkesworth, I. (2015), "OECD Review of the PPP Governance Framework in the United Kingdom: Preliminary Results", Presentation during the OECD's 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 23, 2015.

Mr. François Bergère, (former) Head of MAPPP, Ministry of Finance, France and current Program Manager of the Public-Private Infrastructure Advisory Facility (PPIAF), the **World Bank** intervened in his capacity of peer reviewer on this review, noting that what affects the UK PPP market is also of much interest to the global PPP community. One change that has garnered much attention is the removal of the centrally-issued Public Sector Comparator tool, which is a simplified, quantitative model that was used as a determining factor in the pursuit of PPPs. The relatively basic model was never meant to be a pass/fail test, but had been increasingly used as such. In the future, contracting authorities will be responsible for building their own relevant models. Of particular interest during the OECD mission was the 2012 update of the Private Finance Initiative (PF2). It includes the use of public equity stakes into SPVs with the purpose of providing better public sector insight. Additionally, bundling of projects, such as under the Priority School Building Programme (PSBP), has been used as a tool to garner a new class of institutional investors. PF2 clearly responds to some of the criticisms of former PFI projects, and it will be interesting for the rest of the Network to learn from the coming years' experiences.

Ms. Jo Fox, Head of PPP Policy, Infrastructure UK, HM Treasury, **United Kingdom** welcomed the positive report and shared several personal reflexions. One area that could improve value from money from projects in the long term is strengthened contract management. In this regard, the Operational Savings programme has paved the way for identifying potential cost savings. The systematic collection of lessons learned and ex-post reviews of projects could also strengthen the management of projects, such as through better data collection. As far as the quantitative, one size fits all PSC model, it has been removed due to not being sufficiently flexible. However, it is important to emphasize that the government has not done away

with the quantitative assessment of projects and delivery modalities. With regards to the PF2 market, the first two school projects under Priority School Building Programme have recently closed, with a third on its way. Even through these first few projects, the government has learned a lot of useful information by being on the board of projects through the newly created, central public equity team. As for the current pipeline, which has been decreasing in recent years, it has to be put in the context of a 20 year PFI-program as well as significant spending on economic infrastructure.

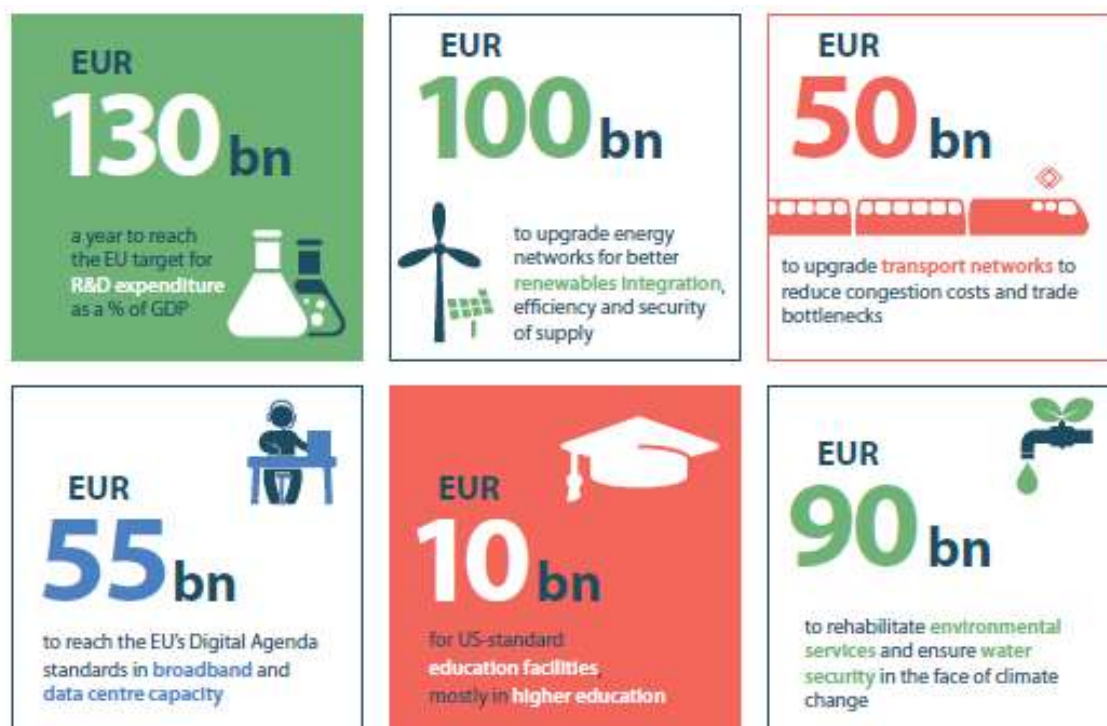
Mr. Andrew Carty, Member of the Management Board, Infrastructure UK closed the UK's remarks by sharing that the PFI program has benefited from a constant evolution and very little revolutions. Infrastructure has been openly debatable, even leading up to recent elections in the country. The new PF2 programme builds on the steps made throughout the years, and is today an integrated part of infrastructure investment under the oversight of IUK. PF2 will be a small but significant subset of the NIP's Top 40, and is likely to evolve as time goes by. It is also important to note that a number of the good practices from PFI have been transferred to other procurement modes, such as the review of major projects which has been expanded from PPPs to all infrastructure projects through the Major Projects Authority. The government has expanded significant efforts to collect data on projects in the past but with no conclusive results.

A lively discussion followed, touching upon different elements of the UK PFI/PF2 scheme and parallels with PPPs in other member countries. Participants raised the question about risk and returns of PFI projects in the UK, which continue to see investors that are keen on investing in the market such as for Priority School Building Programme. The challenges of contract tracking and management were discussed, as contracting authorities tend to focus much more on launching new projects instead of post-contract coordination and management. The benefits and potential complexity of introducing a public equity stake into contracts were raised. It can help address information asymmetry and enforce contractual agreements. Nonetheless, not all project information is accessible by the public sector. Finally, PFI standardized contractual guidance was further explained, emphasizing that although it contains mandated contract drafting, it can be tailored to specific needs. It is also important for governments to consult the market before issuing standardized contracting documentation in order to make sure that it is economically viable.

Session 4: Is there an infrastructure gap? If so, where is it and who should fill it?

Mr. Thomas C. Barrett, Director and Chief Representative to the United States, **European Investment Bank** noted that existing estimates of infrastructure gaps are to be taken with a large grain of salt. Real investment has been falling both in the corporate and public sectors, with initiatives such as the Juncker Plan aiming to redress the downward trend observed from 2008 onward. The discussion about infrastructure gaps often tends to focus on tangible or physical infrastructure, but economies that have performed better on the global scale have been investing in intangibles such as R&D and ICT. From a European policy-maker perspective, it is important to consider whether the right set of questions are posited to stimulate wealth, employment and international competitiveness (see figure 5). On the financial markets side, it is the imputed role of public authorities to create an environment that would allow risk-free, long-term institutional investment in infrastructure. One frequent challenge in the EU has been the mismatch between assets' economic life and the time horizon of credit lines available in the market for their financing. It might be useful to rethink the approach with regards to the type of financing tools, attitudes and mechanisms that are used for infrastructure. In summary, the infrastructure gap is a very difficult term to define and use; the political economy of decision-making very much needs to be considered.

Figure 5: How big are Europe’s investment gaps?



Source: Barrett, T. C. (2015), “Investment Gaps and Competitiveness”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 23, 2015.

Mr. Gerardo Reyes-Tagle, Senior Fiscal Economist, Fiscal and Municipal Management Division, Inter-American Development Bank also posed the question of what the infrastructure gap is being measured against. In theory, investment leads to development, but this is not always the case, as it is key to take into consideration the type of investment that we are talking about.

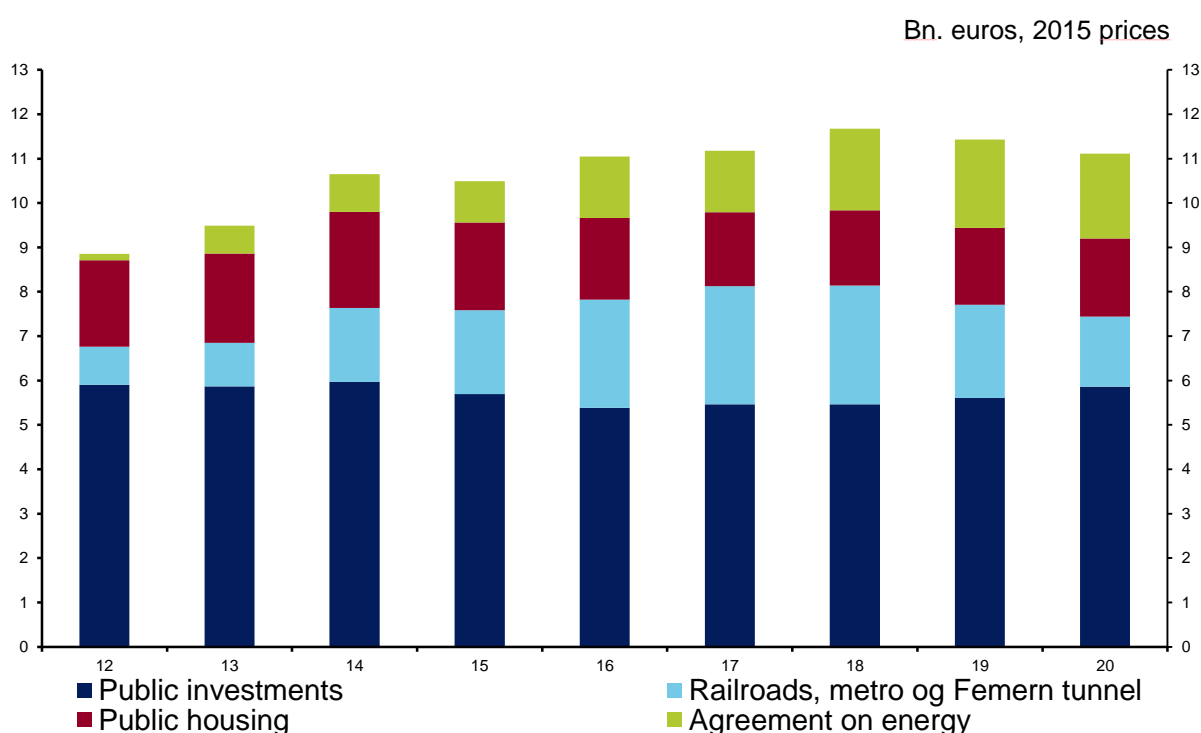
In Latin America, investment figures over the years show that productive economic investment is very low relative to the level of investment. The capital stock ratio to GDP performance in Latin America and Asia over the last thirty years has been quite different. During the period 1980-2013, the capital stock in Latin America grew 18% compared to 39% in Asia. A higher gap can be found between Asia and Latin America with respect to Total Factor of Productivity, which explains why Latin America is lagging in growth terms. Over the years, infrastructure gap in LAC has widened so governments are looking at PPPs as one avenue for additional investment that can reverse this gap, but apart from a few countries they have not been used to the extent that has impacted overall investment.

Mr. Martin Kelleners, Deputy Director General, Budget Directorate, Federal Ministry of Finance, Germany noted that there is a lot of anecdotal evidence when it comes to infrastructure investment gaps across and within countries. To measure those gaps, one proposed comparative indicator has been the comparison of infrastructure expenditure between countries and regions (e.g. per capita). But construction costs may vary substantial between different locations; high cost levels of investing in a region might be a problematical basis to preclude it from public investment. A historical comparison within a country doesn't provide sufficient answers either, as it is difficult to determine whether the infrastructure stock is appropriate at any given time. At last, different regional conditions (e.g. topography) may require a different amount of infrastructure and/or might result in different infrastructure costs. There is therefore a need to define what is meant exactly by the infrastructure gap. The deficiencies of measurement methods

show very clearly, that the definition of an appropriate level of public infrastructure at the end is a profoundly political process. This includes the danger, that too much is being spent on new projects, and not enough on the maintenance of already operational projects. This begs the question of whether an infrastructure gap is reproducing itself if limited resources are focused on investing in new projects without allocating enough to maintenance. One option could be to look into delivery modes which, by their nature, support infrastructure maintenance and development, e.g. PPP.

Mr. Henrik Thomasen, Senior Advisor, Ministry of Finance, **Denmark** showed the evolution of infrastructure investment trends in Denmark. Comparatively speaking, Denmark's public investment appears to be on the middle to lower side of the spectrum (2013). However, historically speaking, public investment has steadily evolved, with a tendency to generally increase. In the wake of the 2008 Global Financial Crisis and the European fiscal crisis, Denmark was in a fiscal position to gear up for a big push in public investment from 2011 onward. These figures are expected to fall in 2014-2016 due to the frontloading of public investments in previous years. When looking at investments that are politically driven but that may not be purely publically financed, a different picture emerges in terms of infrastructure investment as can be seen in figure 6. National Account statistics do not reflect key investment such as by SOEs in the Copenhagen metro, or government subsidies towards the energy sector generated from user fees. When looking at whether or not there is an infrastructure gap, perhaps other important questions ought to first be considered: are the projects profitable ; and can the projects be financed without increasing public debt and fiscal risks. Infrastructure investment can indeed support growth, but it depends on the labour market and the economic situation of a country, as well as projects' likely contribution to potential growth.

Figure 6: Public and Politically Driven Investments in Denmark



Source: Thomasen, H. (2015), "Public Investments: Some Danish Experiences", Presentation during the OECD's 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 23, 2015.

Following the presentations, the discussion centred on how to assess and measure the need for and benefits from investment projects. The debate is often on the quality of existing infrastructure, although it is easier

politically to obtain support for new infrastructure. A good project is one that is socio-economically beneficial, which the public and the private counterpart would want push forward. This is a separate question on how the financing should be structured, such as through a PPP or TIP. Finally, it might be preferable to have sector specific strategies in place to select which investments to pursue. The infrastructure debate and prioritization on the budget should ideally be project specific in order to assess the right priorities against one another.

Day 1 - Conclusion – A new framework for infrastructure governance?

Mr. Gerd Schwartz, Deputy Director, Fiscal Affairs Department, **IMF** noted that there is a clear need and demand for additional, productive investments on the global scale. One important element is how these investments are managed, as investment processes tend to be very fragmented. The discussion provided an opportunity for consultation, idea sharing, and reflection on public investments. The meeting has helped identify what work is important in order to support countries in this area. It is important to take a comprehensive approach to strengthening public investment management, one that considers all the individual stakeholders. Some countries such as the UK have taken a very dynamic approach to promote certain investment types like PPPs within an integrated context of infrastructure investment. Many countries are also trying to bring about investment through new financing routes, but perhaps not giving enough thought to traditional processes and methodologies and how those should be strengthened. The frameworks presented today are in many ways complimentary, and it is important to ensure that they feed into one another. While the IMF framework tries to provide a comprehensive diagnostic framework at all stages of an investment, the OECD roadmaps how infrastructure investment decisions should be made, and the World Bank looks at about individual investment projects more closely throughout their life cycle. This forum and the various interventions have been extremely valuable in informing the IMF's thinking about its own work in the area.

Mr. Rolf Adler, Director, Public Governance and Territorial Development Directorate, **OECD Secretariat** concluded with remarks on some remaining challenges that deserve to be further addressed. First, strategic visions tend to be very broad and thus disconnected from the real world. When designing a strategic vision for infrastructure investment, it is important to look beyond growth to consider the effects of infrastructure investment on *inclusive* growth. This required a demanding, forward looking reflection on what strategy is needed, and exploring what investments mean in terms of maintaining –and changing– countries' competitiveness. In its new report on global value chains, the OECD has looked at trade and exchanges, and what is a very different picture today with regards to changing products and components. To maintain competitiveness, countries need to assess investments against the global value chain, with factors such as technology to be taken closely into consideration. A strategic vision must also incorporate citizens' views and inputs in order to be legitimate. Second, country specific experiences are most important in informing the infrastructure debate. Different areas such as skills coordination, financial regulation, or data collection need be benefit from an improved, agreed-upon framework, but also to become better interconnected for greater results. Third, international organizations will continue to work on bringing their frameworks together, with an emphasis on exchanging country experiences and including non-governmental actors in the discussion.

Chairman **Mr. Gordon McKechnie** closed the day by noting the high level of contributions and sessions. This year's agenda covered a broader infrastructure context, which is where the current debate falls. Some of the key message from the OECD's paper, the IMF's new tool and the World Bank's research are:: the importance of having a sound institutional structure for the governance of infrastructure, which may be obvious today but was not sufficiently emphasized some years ago; the emphasis on building a strategic vision instead of simply moving from one project to another; putting the right skills in place within the public sector to oversee projects, even if they are primarily executed by the private sector; management and maintenance is a vital aspect of infrastructure, one which countries must think of, especially when a lot

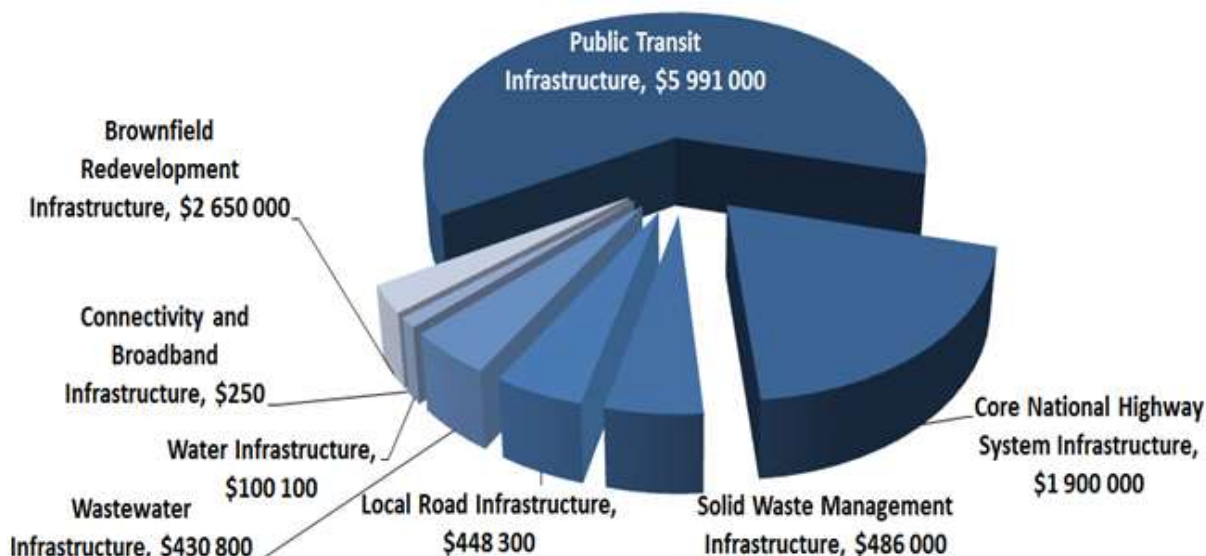
of infrastructure already exists. Not on this list is data collection, which is so often talked about but has never happened. The possible impact of democratic issues on what kind of infrastructure is needed was another relevant point that was raised. The UK was thanked for accepting to subject itself to an independent review by the OECD. Finally, a look at the infrastructure gap launched a reflection about what issues governments are trying to address, and what type of investments are important for growth –indeed for inclusive growth– and public welfare

Day 2 – Tuesday March 24, 2015:

Session 5: Recent PPP and infrastructure developments

Ms. Lisa Mitchell, Director, Strategy and Policy, PPP Canada, **Canada** started by introducing the newly announced CAD 53 billion New Building Canada Plan, a federal program used to support infrastructure at the provincial, territorial and municipal levels of government, including the P3 Canada Fund administered by PPP Canada. A new component of the New Building Canada Plan is the introduction of new mandatory PPP screening for projects over CAD 100 million, to make sure that the selected delivery modality achieves the highest value for money. In 2014, 14 PPP projects equivalent to more than CAD 5 billion reached financial close compared to six in 2013. There is a wider focus on healthcare and an increase in megaprojects (min. CAD 1 billion) – especially in the rapid transit sector. On the financing side, the project bond market witnessed its lowest spread since the financial crisis, and a variety of funding mechanisms are being developed to finance projects (ex: British Columbia became the first Canadian province to issue a green bond for a PPP project in July 2014). The P3 Canada Fund issues annual calls for applications, with round six showing a greater number of projects taking place at the municipal level, and in the water and wastewater sectors as shown in figure 7.

Figure 7: P3 Canada Fund – round six CAPEX by infrastructure category



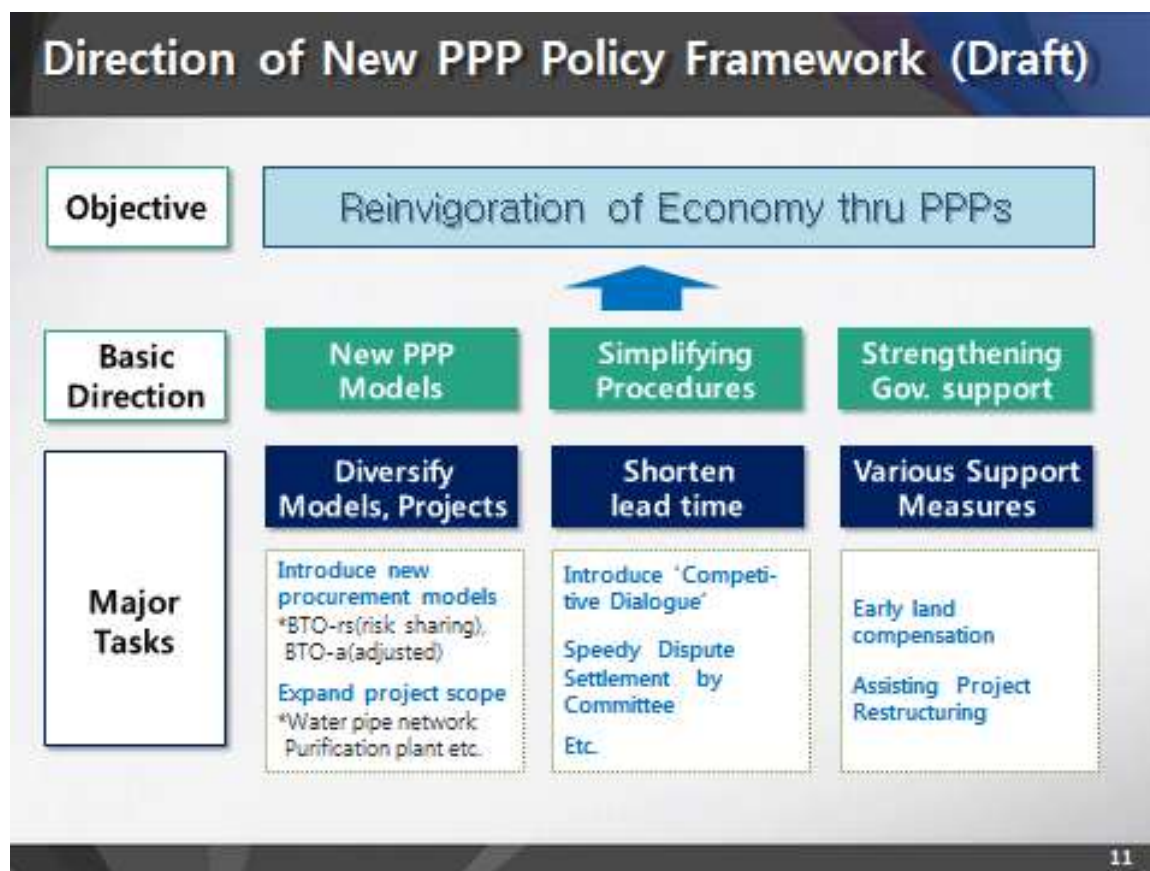
Source: Mitchell, L. (2015), Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Mr. Barry White, Chief Executive, Scottish Futures Trust (SFT), **United Kingdom** indicated that Scotland had a large PPP pipeline of about EUR 5 billion, half of which has already gone through financial close, and a majority of which are in the education and transport sectors. There have been several positive developments in relation to private sector participation in infrastructure. SFT, a government owned company of 70 professionals that provide commercial support for projects, has managed to reduce procurement time for contracts to between 17 and 24 months generally. Attractive financing and construction costs for projects and abundant financing in the market have been observed. The main Scottish PPP model, the Non-Profit Distributing model, has a feature of capped returns for the private sector, which usually fall within the range of 9-12%. Contracts have also displayed a very high degree of cost certainty thanks to rigid upfront project preparation, and robust skills and capabilities to interact with the private sector side. SFT’s PPP expertise has also been used in broader infrastructure in Scotland, notably to develop an investment programme in digital infrastructure.

Ms. Hulya Pasaogullari, Head of Department, Department of Public Private Partnership, Turkish Treasury, **Turkey** introduced a new instrument developed by Turkey to enhance the credit quality of senior loans in PPP contracts. The Treasury generally focuses on the economic and financial evaluation of PPP projects, provides debt assumption commitments and investment sovereign guarantees as appropriate, and closely monitors PPP-related fiscal risks and contingent liabilities. In order to address legal and political project risks, the government has issued several credit enhancement tools, such as the debt assumption mechanism overseen by the Turkish Treasury. This model differs from classical investment guarantees that enhance the creditworthiness of procuring authorities. Debt assumptions are measures of contract termination by which lenders receive the full or pre-agreed portion of the outstanding debt payment by the government. This instrument has played an important role, especially in the transport sector, but has certain limits. For instance, is restricted to BOT and BLT projects with a minimum investment threshold, and has a yearly budgetary cap of USD 3 billion.

Mr. Youngsob Yoo, Deputy Director, PPP Policy Division, Korean Ministry of Strategy and Finance & **Mr. Hojun Lee**, Director of PPP Division, Public and Private Infrastructure Investment Management Centre (PIMAC), Korea Development Institute, **Korea** started their presentation with the current status and challenges of Korean Infrastructure and PPP market. Korea is currently facing a trilemma of challenges: a fiscal limit with decreasing social overhead capital and local government budget; increasing infrastructure demand in several domains, especially in the education sector; and a clear downturn trend in the Korean PPP market after 2007-2009. This is due to several factors, among which the harsh public criticism of minimum revenue guarantees (MRGs) for PPPs, and the ensuing private sector lack of interest due to their abolishment in 2009, the reluctance of ministries to engage in PPPs, among others. After the government's consultation with several stakeholders such as the relevant agencies, KDI PIMAC, civil professionals and construction companies, the policy response aims at reinvigorating the economy through PPPs by introducing several reforms (see figure 8). The introduction of new innovative PPP procurement models should, among other things, help meet investors' more conservative risk appetite, thereby attracting a new class of players such as institutional investors. Additionally, the government has worked on shortening the procurement process by one third, which is expected to result in more unsolicited project proposals, and a reduced documentation burden. Finally, an advance land compensation scheme is among the various support measures that will contribute to improving the operational framework for PPPs in Korea.

Figure 8: Direction of the new PPP policy framework in Korea



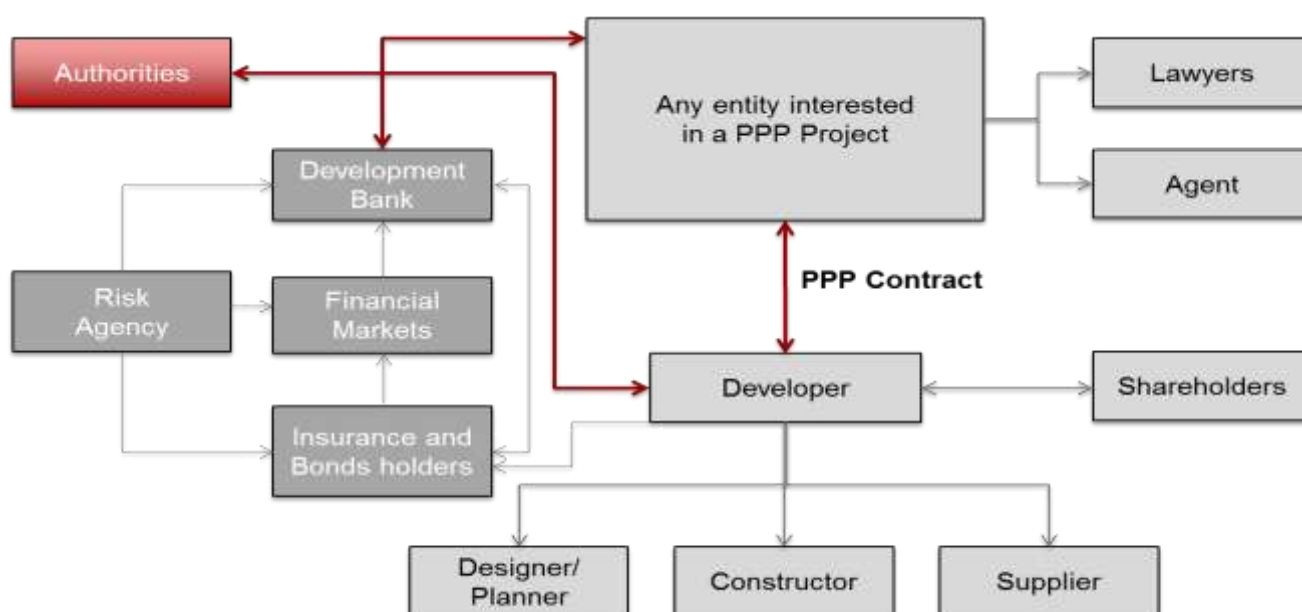
Source: Lee, H., and Yoo, Y. (2015), "PPP Developments in Korea", Presentation during the OECD's 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Mr. Jose Miguel Torres, Chief Advisor, Cabinet of the Minister, Ministry of Public Works, **Chile** noted that the PPP unit, which is located in the Ministry of Public Works, was meant to be a small coordination unit mainly dedicated to transport infrastructure. However, 20 years into the Chilean PPP programme, almost 60 projects are operational for total expenditures of about USD 14 billion. The country faces similar issues as other OECD member states, with a negative sentiment from the public towards PPPs, and a declining project pipeline. To counter these issues, the government has created a long-term agenda to modernise and develop the country's infrastructure by 2030: the Infrastructure, Development and Inclusion Agenda, or Chile 30.30. With regards to PPPs, there are two main changes to be noted. First, a new regulation aims to address the oftentimes unmet 45-day approval deadline for projects proposed by the private sector. Second, improvement will be made to the institutional framework for PPPs. The PPP Unit is at the same hierarchical level as other Directorates in the Ministry, has no formal institutional setup for its employees, and its expertise available is limited by a focus on the procurement of roads. A draft law aims to address these issues by creating a General Directorate of Concessions of Public Works, which will benefit from a higher and more formal status, as well as the incorporation of some key areas into its work such as units for project finance and for citizenry participation. A reinforced institutional setup will help support state bodies in other areas and government levels, as well as facilitate the promotion of PPPs internationally.

Dr. Alberto Peredo, Executive Technical Secretary, Inter-Ministry Commission of Public Expenditure, Financing and Divestment (CIGFD), **Mexico** shared the current status, challenges, and developments in the area of PPPs. Mexico's first PPP project was a concessions scheme based on the UK model in 1989, but

the legal framework was established with the PPP Act in 2012. The government has devised a multi-layered approval process before the inscription into the Federal Budget Expenditure Draft Bill and vote by Congress (see figure 9). The inclusion and prioritization of projects is determined by the CIGFD, which includes representatives from nine Ministries such as Finance, Public Works, or Labour and Social Welfare for the analysis of PPP projects that are pre-approved by the Public Investment Unit. 11 and two projects proposals were made in 2014 and 2015 respectively, but only one was approved each year, for a total of two ongoing PPPs in the health sector. 10 project proposals are expected next year. The importance of good planning, government intervention such as through guarantees, and broad-based communication to develop familiarity and trust with regards to PPPs throughout the public sector were highlighted as important elements for a successful PPP program.

Figure 9: PPP stakeholders in Mexico



Source: Peredo J., A. L., (2015), “Public-Private Partnerships (PPPs): The Mexican Experience”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

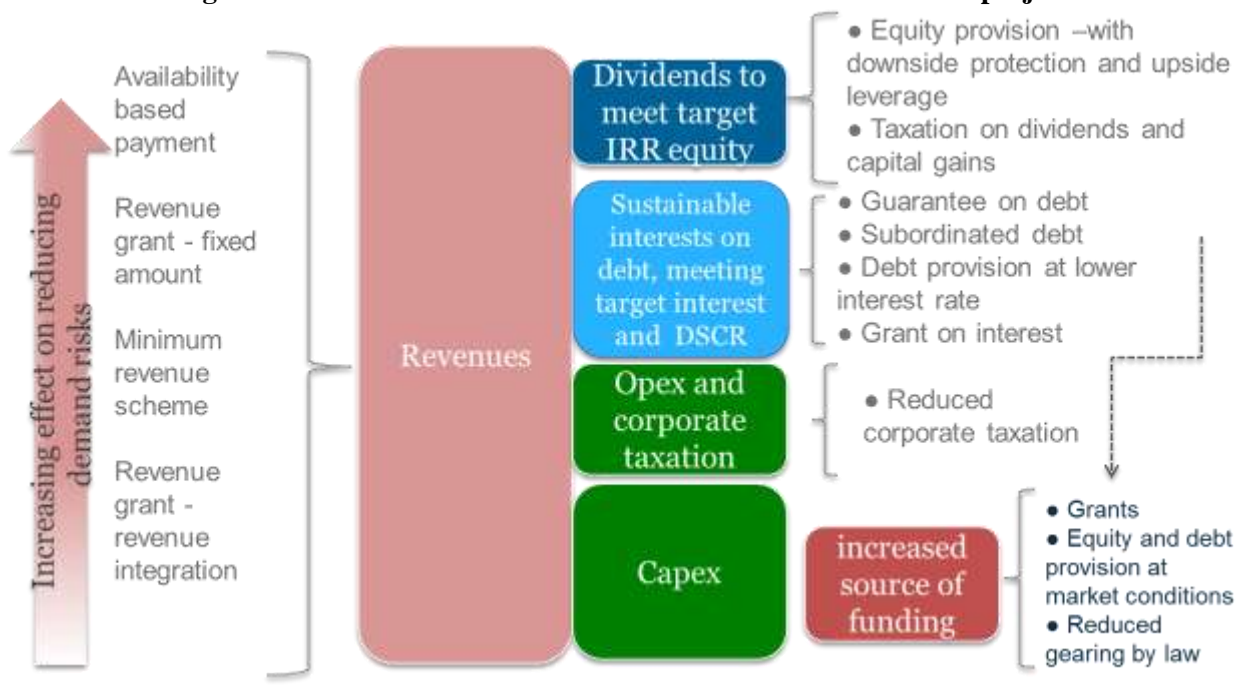
The discussion touched on different aspects of the presentations and developments in OECD PPP markets. Unsolicited proposals and the nature of the financing structures and instruments that are available for PPPs were expanded upon by Korea, Canada, and Scotland. The Mexican PPP law was lauded by participating international organizations, but questions were raised with regards to its alignment with already existing laws, especially given its optional nature. In Chile, the close involvement of the Ministry of Finance in the approval process was emphasized as an essential condition for maintaining value for money, regardless of the location of the PPP unit.

Session 6: What role can private finance play in addressing infrastructure gaps?

Mr. Raffaele de la Croce, Manager, Long Term Investment Programme, Financial Affairs Division, Directorate for Financial and Enterprise Affairs, **OECD Secretariat** provided an update on the G20/OECD project on Institutional Investors and Long-term Investment. All institutional investors in the OECD, including investment funds, insurance companies, pension funds and other entities, experienced a growth of their assets in 2013. Infrastructure as an asset class represented only a minor share of direct investments. Bridging the infrastructure financing gap requires an array of policy instruments. A stable and predictable business climate, a sound and harmonized framework for the governance of infrastructure (ex:

standardized legal framework for PPPs), and bankable projects to engage investors are all essential elements. The OECD has developed a taxonomy of instruments and incentives to better understand the wider financing landscape for infrastructure, and help attract long term institutional investment. There are two aspects in particular that the taxonomy aims to map out in depth: 1) instruments for access to finance (ex: difference types of debt and equity), and eventually alternative financing instruments; and 2) specific risks mitigation instruments (ex: guarantees on debt) that affect risks, project cash flows and ratios as shown in figure 10. This work is closely aligned with other ongoing initiatives within the organization. Going forward, the project will feature research in several areas, such as data collection on the performance and characteristics of infrastructure investments.

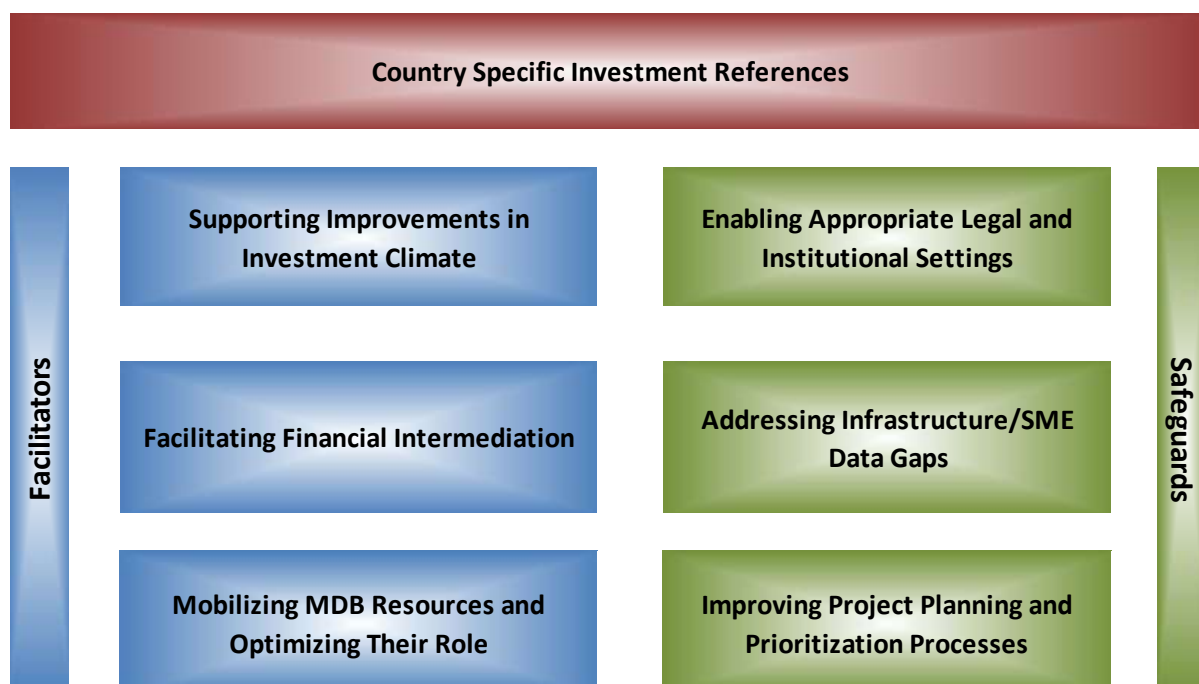
Figure 10: Effect of different risk instruments on infrastructure projects



Source: Della Croce, R., (2015), “OECD Project on Institutional Investors and Long-term Investment”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Ms. Hulya Pasaogullari, G20 Rapporteur, Investment and Infrastructure Working Group, **Turkey** presented the work led by the Turkey presidency of the G20, which will focus on inclusive and robust growth through the interplay of three main elements: inclusiveness, investment, and implementation. Investment in particular has direct effects on the employment rate, investment climate, and other factors affecting growth. The G20 Investment and Infrastructure Working Group has two main streams of work: investment facilitators and safeguards (see figure 11). The deliverables both streams are expected to result in a collective 2% increase in GDP for G20 countries. Facilitators include improving the investment climate for higher efficiency in public investment, and facilitating financial intermediation in a time where innovative financing models such as Islamic finance are developing. There is a special focus on SMEs in these two work streams. They also benefit from close input and support from the work of the G20/OECD Taskforce for Long Term Institutional Investors. With regards to safeguard mechanisms, member countries are urged to focus on strengthening the legal and institutional frameworks aspects to enable projects that are bankable for the private sector. The initiative also aims to address information dissemination asymmetry, the data gap with regards to SMEs and other collection procedure models. Improving project planning and PPP model good practices is an important element of this framework, and would benefit from a joint OECD-WB checklist on PPPs.

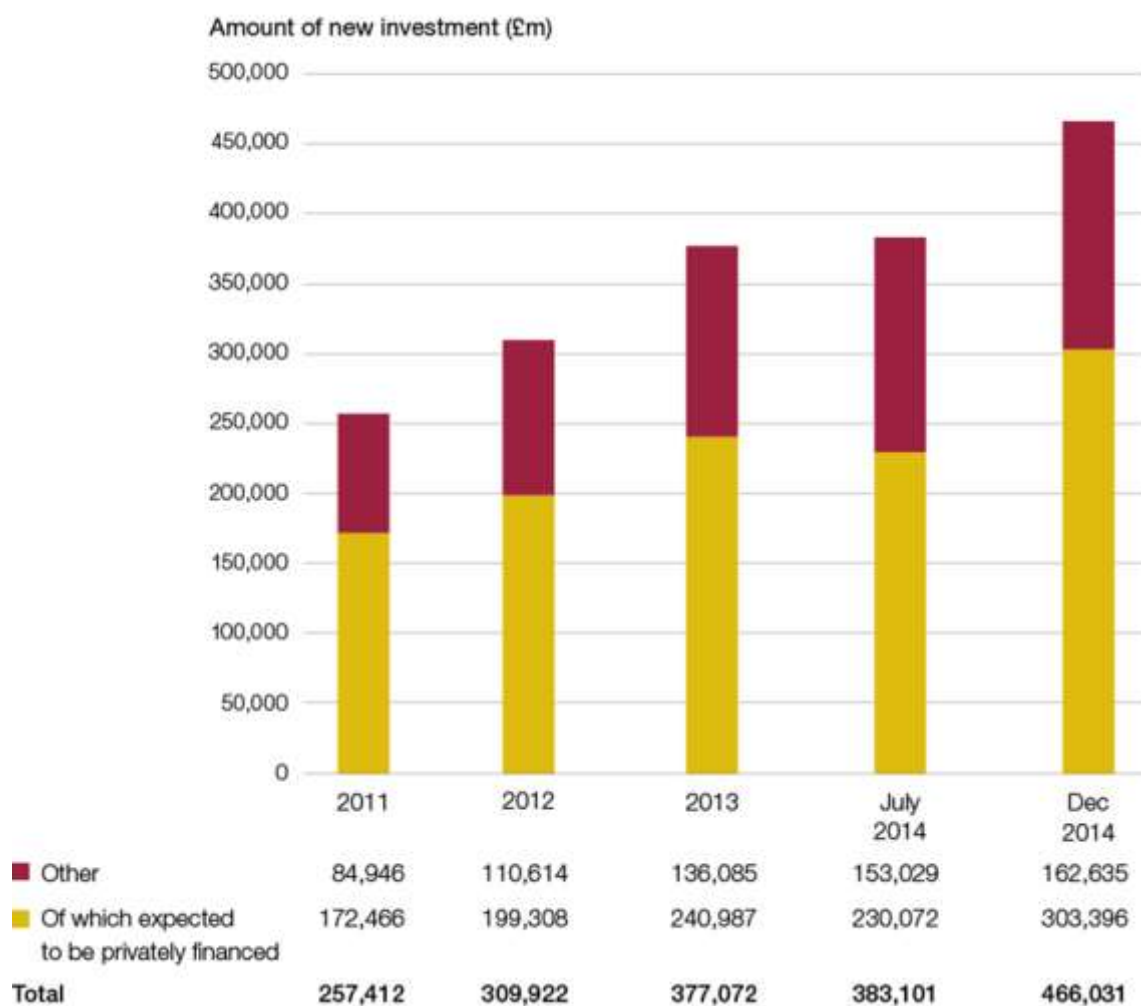
Figure 11: The G20 investment narrative under the Turkish presidency



Source Pasaogullari, H., (2015), "G20 Investment & Infrastructure Working Group", Presentation during the OECD's 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Mr. Matthew Rees, Director, Corporate Finance, National Audit Office, United Kingdom presented findings from two reports recently published by the NAO. The first, *The UK Guarantees scheme for infrastructure*, is a standard value for money study focusing on the government's policy behind this new scheme. The second, *The choice of finance for capital investment*, recapitulates the UK government's investment over the past 50 years. Figure 12 shows that privatization is playing a growing part in the provision of capital infrastructure as a result of the downward public investment trend, with an independent regulatory system well in place in several sectors. The 2014 National Infrastructure Plan envisages that 79% of investment until 2020-2021 will involve private financing. PFI contributions, which have represented about 10% of total public investment with 728 contracts that took place in the UK, have decreased in line with the downward trend of public sector gross investment. The 2014 Treasury PFI project pipeline shows that two thirds of operational projects are in accommodation, largely social infrastructure such as hospitals, schools, and offices. Financial market conditions have caused the government to rely substantially on bank financing due to the lack of bond wrapping after the financial crisis, but the market has marked a significant improvement in recent years. Value for money will improve though increased competition and the compression of premiums towards the true market value of project bonds.

Figure 12: New infrastructure investment identified by HM Treasury in successive National Infrastructure Plans



Source Rees, M., (2015), “What role can private finance play in addressing infrastructure gaps and how to manage the risks from infrastructure PPPs”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Mr. François-Yves Gaudeul, Director, Infrastructure Debt, **Allianz Global Investors** highlighted three points in his intervention. First, institutional investors have a strong interest in infrastructure as an asset class. It allows them to reduce the mismatch between their investment duration and their liabilities, and has a low probability of default in addition to a recovery rate that is much higher than non-financial corporates. Second, the role that institutional investors has evolved over time, but was limited in the past due to the complexity and lack of liquidity of infrastructure compared to other asset classes. This prompted them to invest through asset managers in order to share this resource with other investors. Third, on the question of whether there is truly an infrastructure gap, there appears to be a large amount of funding available in the market for investing into projects. The gap is not a resource gap; it has more to do with the lack of projects where institutional investors can invest in, in part due to cuts in government budgets but also in some instances to ideological resistance to use of PPPs. Additionally, some projects are not bankable because they are located in a challenging country or region, or carry too much risk. On those projects, governments should ideally propose subsidies in order to reduce for instance the level of traffic risk that the private sector is asked to carry. Another recommendation is to focus the EC-EIB Project Bond Credit

Enhancement (PBCE) product on projects which wouldn't be rated investment grade on their own, for instance because they are located in countries which are non-investment grade or split rated.

Mr. Andrew Davison, Senior Vice President, Infrastructure Finance Group, **Moody's** closed the panel by showing the attractiveness of infrastructure compared to other asset classes based on several measures. It is by nature less volatile. Moody's 2015 update of its study on historical performance of rated infrastructure debts shows that the credit value from loss from infrastructure investment on the medium to long term is less than half of comparably rated non-financial corporates. Infrastructure also remains attractive from a risk-return perspective, although there is a compression of the spread due to competition. There is "wall of capital" available for well-structured projects, which extends to core infrastructure and stable economies and creates a patchwork of pension investments. There are however several key risks that private finance providers have a limited ability to manage them, including country risk and tariff risk ; the latter can be included in the cost of debt if it can be priced and managed. Initiatives like the EC-EIB Project Bond Initiative play an important role in opening the field to countries that wouldn't otherwise be able to benefit from financing from institutional investors such as insurance companies and pension funds by allowing the rating of projects above sovereign ranking.

Part of the discussion centred on ways to reconcile the interests of the public and private sector interests. The role of the State is to decide which projects are important for the public – a role that can also be assumed by the private section–, but also to assess whether these projects are bankable. If a project is essential, the government can ensure that it is bankable through subsidies or credit enhancements tools like the above-mentioned, or involvement from multilaterals. In this respect, the efforts of the G20 Turkey presidency were applauded in trying not only to increase investment, but to do so efficiently. An update of the G20 Infrastructure hub setup by the Australian presidency was shared by the OECD as part of its role in this structure, which will include MOUs with different organisations in different areas of interest of the hub.

Session 7: Reforming the PPP framework in Italy, and how to manage the risks from infrastructure PPPs?

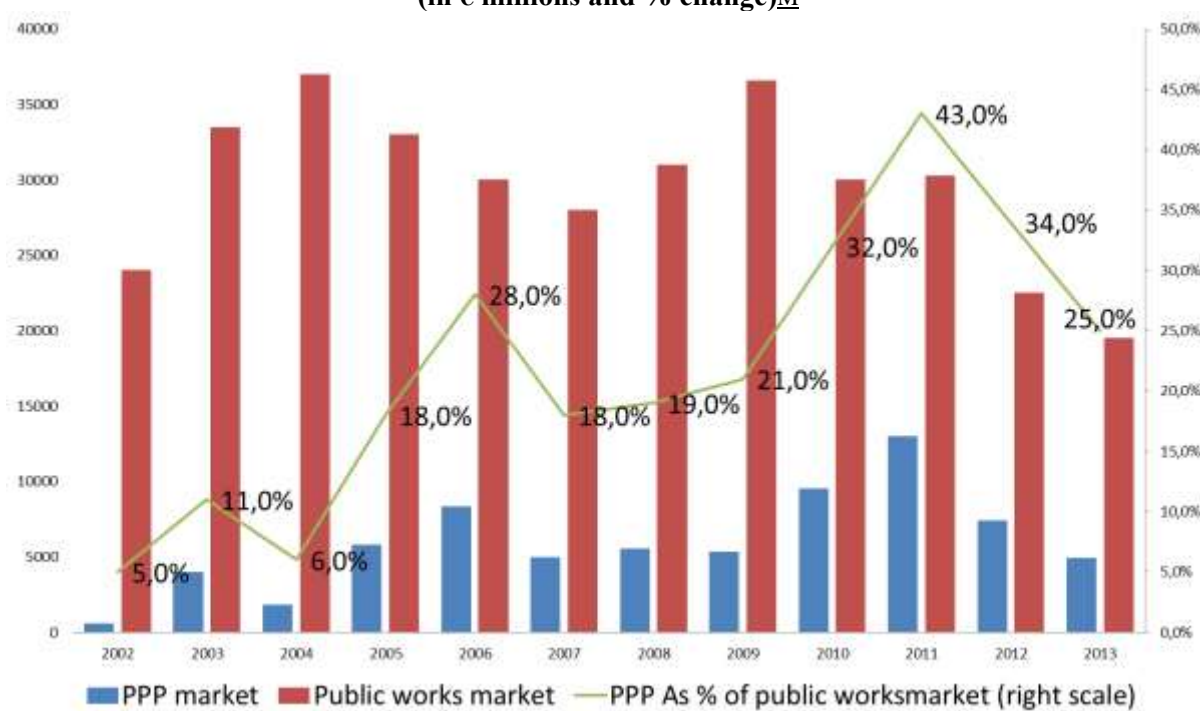
Ms. Grazia Sgarra, Manager, General Inspectorate for Public Accounting and Public Finance (IGECOFIP), State General Accounting Department, Ministry of Economy and Finance, **Italy** shared a comprehensive update on PPPs in Italy, which increased from a ratio of 5% of total public works in 2002 to almost 25% in 2013 (figure 13). The number of projects awarded has witnessed a big jump, at an average 24.7% growth annually, with four financial closes worth EUR 4.4 billion in 2013 right behind the UK. The prevailing sectors are energy, transport, healthcare construction, as well as social infrastructure.

The National Institute of Statistics (ISTAT) – represented by **Ms. Giovanna Ottaviani** has monitored 24 PPPs-during the period 2010-2014, more than 70% of the PPPs which have been classified on-government balance sheet in line with Eurostat risk allocation-based classification rules. The Italian government has taken several measures in order to align itself with the [2012 OECD PPP Principles](#). Under the first heading of the principles, Italy has different institutions involved with PPPs, each with distinct responsibilities. For instance, the PPP Taskforce located within the Presidency of the Council of Ministers (PCM) provides technical assistance to local public authorities, while the newly established National Anti-Corruption Authority (ANAC) monitors the regularity, while the State General Accounting (RGS) Department within the Ministry of Economy and Finance is responsible for monitoring public investment expenditure.

With regards to the second heading of the PPP Principles, there is no specific value for money approach, but the legislation has presented an alternative instrument by including risk analysis and allocation in the feasibility study of all PPP contracts. The third heading on using the budgetary system transparently is in

large part ensured through the RGS, which has launched a comprehensive monitoring system for all public works. The government continues to work on improving certain aspects of its PPP framework, specifically greater inter-institutional coordination, a simpler regulatory framework but with higher enforcement, and greater discretionary powers at the local level to be complemented with higher skills and capacity. In particular RGS has been coordinating an inter-institutional working group with the purpose to develop a Standard Model Agreement for the public administrations, in order to better control public finances, reduce litigation, and reach financial closing. The same working group prepared the document “A Focus on PPPs in Italy” presented at this OECD meeting.

Figure 13: The development of PPP market in the last 10 years (in € millions and % change)M



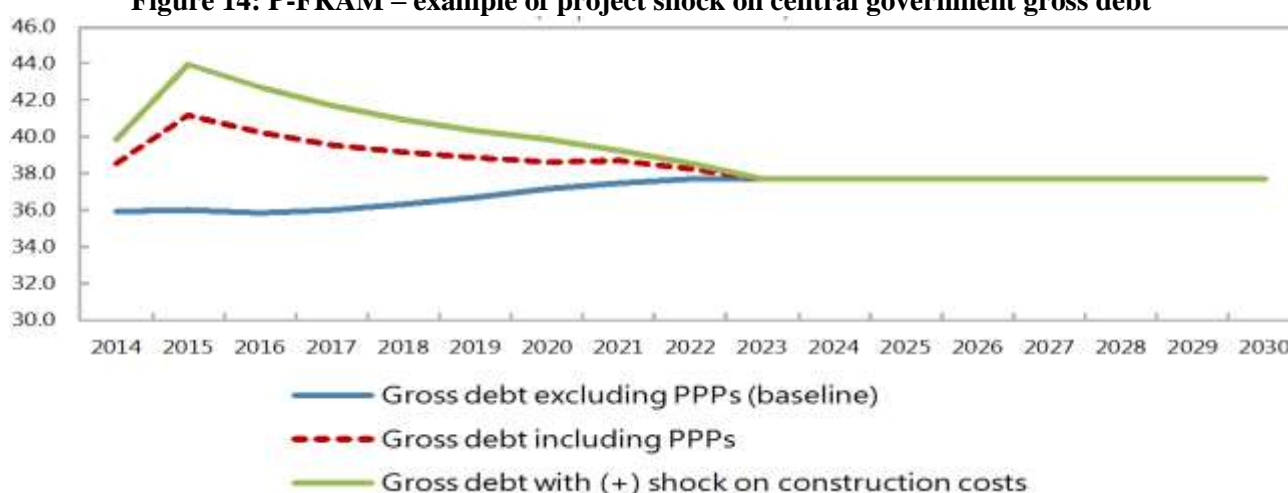
Source: Sgarra, G., (2015), “A focus on PPPs in Italy”, Presentation during the OECD’s 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Mr. Gabriele Pasquini, Head of Secretariat, and **Mr. Marco Tranquilli**, Senior Expert, Public Infrastructure Regulation Unit (NARS), Department for Coordination and Planning of Economic Policy, Presidency of the Council of Ministers, **Italy** presented an overview of the evolving PPP legislation. A key milestone for the Italian PPP legislation was marked in 1998 through the «Merloni ter» Law, which tried to reduce obstacles and red tape, and introduced new solutions for public works and service contracts. A dedicated unit, the UTFP, was created shortly after in the Ministry of Finance in order to improve PPP and concession schemes at the local level, before being later moved to the Prime Minister’s Office. Another significant advancement in Italy’s PPP legislation was the consolidation of 257 articles into the Public Works Contract Code in 2006. Several innovations can also be noted on the financial front through the introduction of PPP project bonds in 2012, and the availability of tax credits to private partners (generally SPVs). A compensation fee can also be attached to concessions that are not fully viable economically. The decision-making process for strategic infrastructure projects, including PPPs, goes through a variety of checks and institutions in Italy. Launched in 2001 by the Inter-ministerial Committee for Economic Planning (CIPE), the Strategic Infrastructure Programme, aims at promoting and supporting the modernization of the country through a series of strategic infrastructure interventions. . NARS includes

representation from nine different ministries, and provides technical advice and support to different institutional facilities, including CIPE, with a focus on tariff issues.

Ms. Isabel Rial, Senior Economist, Expenditure Policy Division, Fiscal Affairs Department, **IMF** unveiled the IMF's new tool to assess potential fiscal risks from PPP investments. The purpose of the PPP Fiscal Risk Assessment Model (P_FRAM) is to provide governments with an intuitive interface that allows even non-experts to gain an understanding of the macro-fiscal implications of PPP projects, in order to stop projects that are not affordable or that involve major risks for the state from going forward. Potential users of this tool are Ministries of Finance or the PPP Unit, including in the beginning stages of a PPP programme. P_FRAM is essentially a simplified Excel tool that can be filled through systematically reading PPP contracts, extracting relevant information, and answering a series of questions. Questions relate to who manages the project, who controls the assets, who is responsible for costs, or whether the government provides support for the projects through guarantees or other. The model then provides a set of outcomes, including: cash flows of the project throughout its life cycle; budget charts and graphs; and the long-term impact of PPPs on public debt and deficit. P_FRAM has a flexible accounting basis, allowing governments at different stages of their public accounting (cash basis, accrual basis, modified basis) to use it. The tool is currently in its piloting phase and will be available for broader access in 2015.

Figure 14: P-FRAM – example of project shock on central government gross debt



Source: Rial, I., (2015), "PPP Fiscal Risk Assessment Model: P_FRAM", Presentation during the OECD's 8th meeting of Senior Infrastructure and PPP Officials, Paris, March 24, 2015.

Clarifications were provided by the Italian delegation on how the PPP assessment decision fits into the yearly budget process, and what are the main actors involved in the decision making process – namely The issues of risk assessment of Italian PPP projects and tax relief measures were also further explored during the discussion. Several questions were directed towards the IMF concerning its new P-FRAM tool, which aims to open the discussion about how a PPP project is or isn't embedded into headline fiscal indicators in order to increase transparency in the reporting process. The Korean government shared that it undertook a similar work last year to review the government's fiscal burden from PPPs, with some technical challenges.

Day 2 - Conclusion

In his closing remarks, Chairman **Mr. Gordon McKechnie** noted that one of the big questions of our time is how to best promote inclusive growth within fiscal limits. Infrastructure plays an important role here, but questions remain about its quality, its management, and the overall efficiency of public investment. Although measuring the efficiency of infrastructure can represent a challenge, initiatives such as the ones presented during the meeting by the IMF and the World Bank are very much welcomed and needed. PPPs specifically have evolved over the experience of different countries, and brought with them a new level of thinking and scrutiny about infrastructure decisions. The development of PPP-type specifications and guidelines, the reinforcement of public sector skills and capacity, the upfront work that is put into the preparation of projects are some of the rigorous practices that have been transferred from PPPs to traditional infrastructure procurement in some of the countries more experienced with PPPs. The institutional support needed to successfully tender and implement projects was notably highlighted by the OECD's new Framework for the Governance of Infrastructure, which was received by positive reactions on the first day of the meeting.

The breath and reach of the Network has expanded the broader issues of infrastructure, rendering it one of the richest events so far. The Network has been officially renamed the Network of Senior Infrastructure and PPP Officials, and will be meeting next year in **Paris on February 29-March 1, 2016.**