

Press Release

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Transport Infrastructure Investment:

Public-private partnerships have the potential to improve efficiency, but there are limits and risks to manage

All governments are faced with the challenge of maintaining surface transport infrastructure networks and adding new capacity in strategic areas. This requires very large expenditures. To meet this demand, governments are turning to a wide range of alternative models characterised by increasing use of private sector resources, expertise or management. Options include the selective contracting out of specific tasks, public-private partnerships (PPPs) and outright privatisation.

Internationally, in the period 1985-2005, 390 PPP road projects were funded and a similar amount planned, representing a total of over USD 380 billion. PPPs are also increasingly common where rail is concerned. From 1985 to 2005, 133 rail PPPs were funded internationally and a similar number planned, for a total of over USD 270 billion. In many cases PPPs provide for key infrastructure in important, strategic areas, and move a high proportion of total traffic. They are often employed to provide special, high-profile services, such as high-speed lines or city-airport links.

Ultimately, it is a combination of users and taxpayers money that should finance most infrastructure investment. And while innovative financing models access new sources of borrowing - which can bring infrastructure on stream more quickly - they will not create new funding sources *per se*. Hence the additional costs entailed by private borrowing need to be offset by efficiency gains, but cost reductions can be achieved by aligning incentives and risks appropriately.

The way risks are shared between the public and private partners determines the success of PPPs. Risks should be assigned to the partner best able to manage them, with private partners taking on the risks that result from the factors under their control: such as construction costs and the costs of project management, as well as any delay. Failure of a PPP project results in political as well as economic costs and this can provide private partners with significant leverage in any renegotiation process. Care must therefore be taken to avoid the unrealistic assignment of risk to private partners. Demand (*i.e.* road use or rail ridership) is highly susceptible to changes in circumstances that are exogenous to the project, such as overall economic growth rate, and any transfer of this particular risk must be subject to careful consideration and formulation. Experience shows that many PPPs have failed, at great public expense, because demand risk was inappropriately assigned to the private partner. Project bids need to be carefully vetted to eliminate those that are based on unrealistic assumptions.

Interestingly, part of the interest in PPPs is linked to the issue of public deficit spending limits. But the reason for limitations on deficit spending is to provide for long-term growth and stability. Efficiency should be the primary objective in the choice of model for infrastructure provision, not simply moving expenditures off the public balance sheet.

What should governments do to enhance efficiency? They should:

- Ensure adequate cost-benefit analysis at the planning stage, with a thorough examination of demand.
- Bundle together responsibility for construction and maintenance, so that there is no temptation to overlook long-term maintenance costs.
- Ensure strong competition during the tendering process.
- Ensure that quality is appropriately accounted for in the request for proposals and that innovation is encouraged.
- Take care to allocate risk appropriately.
- Emphasise project realism.

Transport Infrastructure Investment: Options for Efficiency, published by the OECD and the International Transport Forum, examines the principles for determining the most appropriate models for investment in surface transport infrastructure. It also reviews experience with PPPs to date. While the PPP concept has become pervasive in public debate in recent years Governments are still only learning the potential and limitations of these investment models. This publication surveys the lessons learned so far. These lessons are important for even if only a limited part of total transport infrastructure investments are expected to be covered by PPPs (around 15% in the countries with most experience to date) PPPs will be employed for the creation and operation of significant assets worth billions of dollars.

For further information and a copy of the report, journalists are invited to contact Mr. Jari Kauppila of the Joint Research Centre of the OECD and the International Transport Forum (tel. + 33 1 45 24 97 21).

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