Improving the Environment for Investment

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Secretary-General

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The International Transport Forum at the OECD

Think Tank

Annual Summit

Intergovernmental Organisation
2013 Summit Funding Transport
Leipzig, May 22-24
# Funding for transport infrastructure (% of GDP)

<table>
<thead>
<tr>
<th>All transport infrastructure</th>
<th>1980</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed economies</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Emerging economies</td>
<td>1.9</td>
<td>3.1</td>
</tr>
</tbody>
</table>

*McKinsey Global Institute*

Investment in inland transport infrastructure by region 1995-2010

*OECD average 2011*
Financing Gap

• Only two sources of funding: users and taxpayers
• Finance: government expenditure, private equity, public and private debt
• Most governments looking to public private partnerships to increase investment
• World bank sees $3-4 trillion gap in developing world for public infrastructure investment
• Always tempting to postpone maintenance, but service may suffer sudden severe deterioration
Governments seek PPP investment for reasons of public finance...

- Accelerating investment when public finance short
  - Limited ability to collect taxes
  - Limits on public spending under national or international policy to contain deficits

- To circumvent limits on public spending
  - Where public accounting rules treat PPPs differently from public procurement
  - And rules fail to discriminate investment from other spending

- Wholly counterproductive to use PPPs to keep spending off-balance sheet in financial crisis
And for reasons of efficiency

• Insulating projects from stop-go funding
  – Bundling maintenance with construction
  – Quality of service conditions

• To reduce the risks of cost overruns
  – Bundling construction contracts together in PPP company
  – Led by developer expert in project management

• To benefit from major potential cost savings
  – Through project redesign
  – Under contracts that specify outputs (services) not inputs
  – If design and construction regulations permit innovation
The record of PPP performance is mixed, their fiscal sustainability must be reinforced

• Resource PPP contracting expertise in government, especially on demand / revenue forecasting
  – But even most experienced administrations get it wrong

• Improve accounting and budgeting rules
  – Treat PPP finance flows as on-balance sheet in public accounts, publish data counting PPPs as public expenditure
  – Set limit for size of liabilities that can be accumulated, through fixed PPP budget (this also improves certainty)
  – Fiscal rules to treat PPPs as creating public assets+liabilities
Attracting institutional investors

- Banks only lending to long term clients in crisis
- Insurance & pension fund portfolios split between
  1. Equity – 20% return on investment sought
  2. Long term infrastructure – ultra low risk sought
- Attracting institutional investors to infrastructure requires:
  - Long term relationships of trust between developers, fund managers, pension funds
  - Steady pipeline of projects to make investment in infrastructure risk expertise viable
- Focus shifts to project selection, realistic risk transfer, freedom to innovate
Thank you

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