International Transport Forum

Improving the Environment for Investment

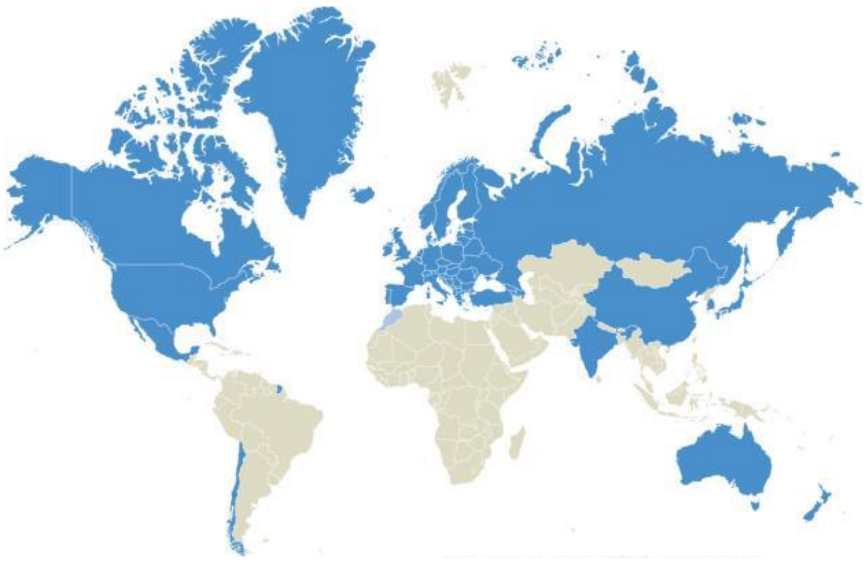
Jose Viegas
Secretary-General

APEC Transportation Ministerial Meeting
Tokyo 5 September 2013

OECD

The International Transport Forum at the OECD

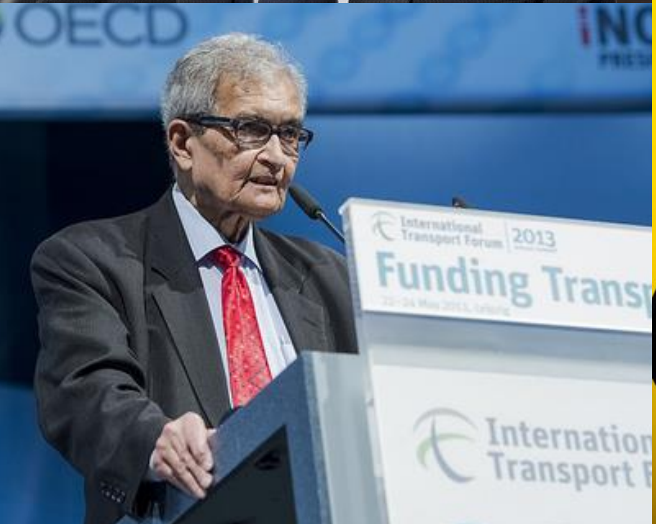
Think Tank	Annual **Summit**	Intergovernmental **Organisation**



International Transport Forum

2013 Summit Funding Transport

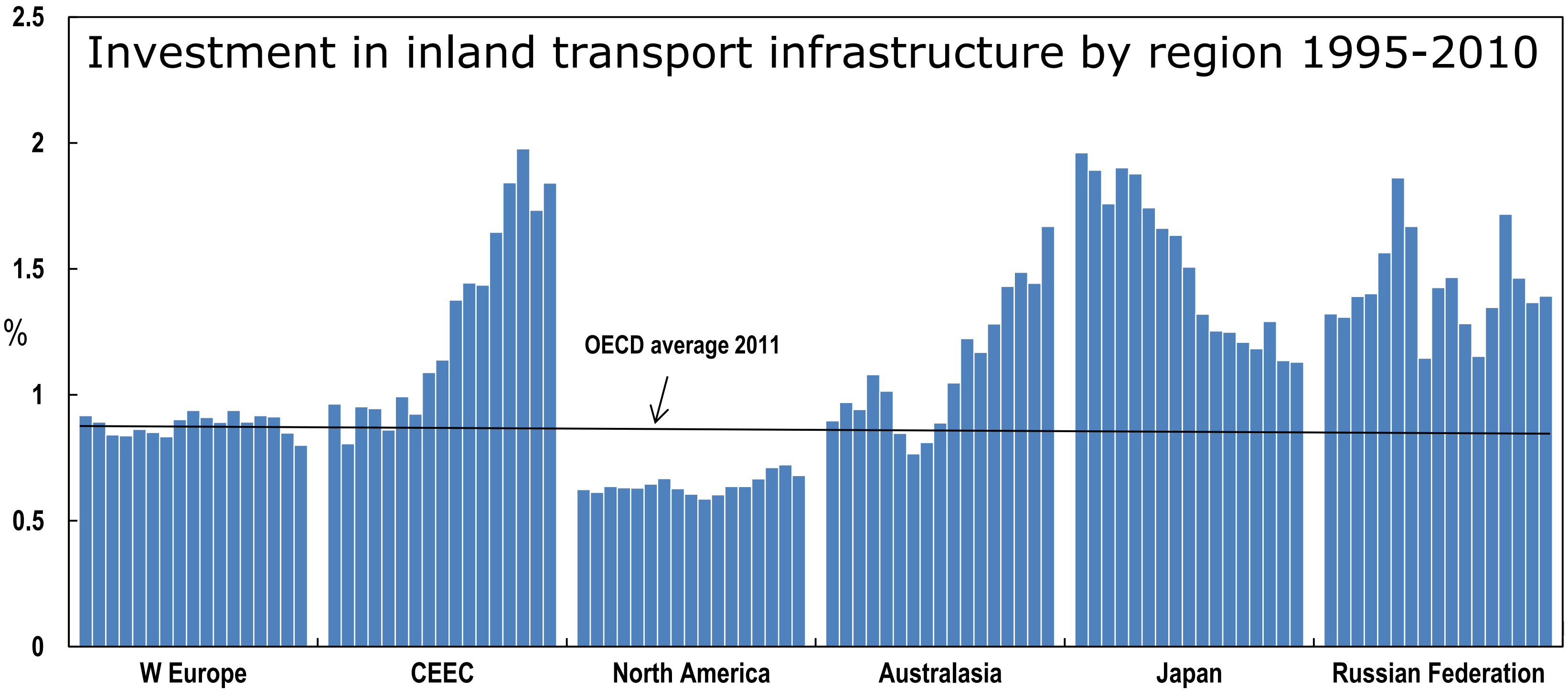
Leipzig, May 22-24



Funding for transport infrastructure (% of GDP)

All transport infrastructure	1980	2008
Developed economies	1.5	1.3
Emerging economies	1.9	3.1

McKinsey Global Institute



ITF Stats

Financing Gap

- Only two sources of <u>funding</u>: users and taxpayers
- <u>Finance</u>: 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

José Viegas
jose.viegas@oecd.org

Postal address
2 rue Andre Pascal
75775 Paris Cedex 16