

# **Providing for Future Infrastructure Needs**

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## Joint OECD/ECMT Transport Research Centre

- Combines transport research activities of the OECD and ECMT
- 50 members from Asia-Pacific, Europe and North America
- Key support for annual Ministerial transport forum
- Project on meeting future inland transport infrastructure needs:
  - Chaired by Dr. Urban Karlström, DG, VTI
  - “How can governments realistically best make use of *alternative* models for the provision of inland transport infrastructure?”

# Our Starting Point

- All governments are facing pressures on their ability to meet transport infrastructure needs
- Public budgets are not perceived to be sufficient
  - Conflict with other policy priorities
- The public discourse has thus turned to “innovative” financing as the solution, especially PPPs
  - Often seen as a way of bringing in “new money”

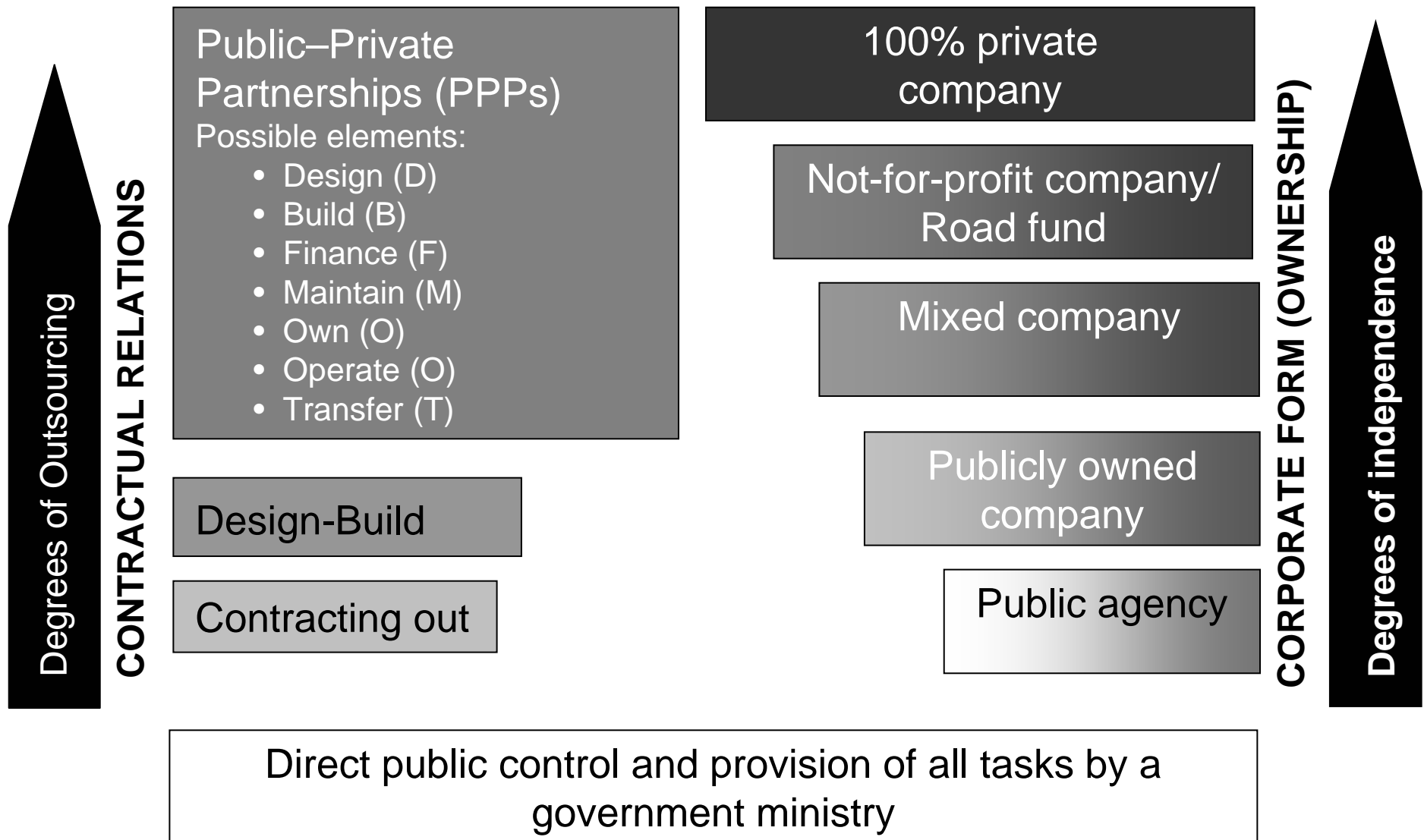
# The State of Play

- Public roads
  - Most are publicly provided
  - Most are not directly charged for
  - PPPs account for a minority of investment, and usually focus on high-profile, high capacity, individual links
  - Some countries have transferred entire existing networks to single providers, which can be public or privately owned
- Rail
  - In Europe, mostly publicly owned, independent operators
  - Great variety in public subsidisation and cost recovery
  - PPPs more rare, similar focus as in roads

# Infrastructure Provision – the Challenge

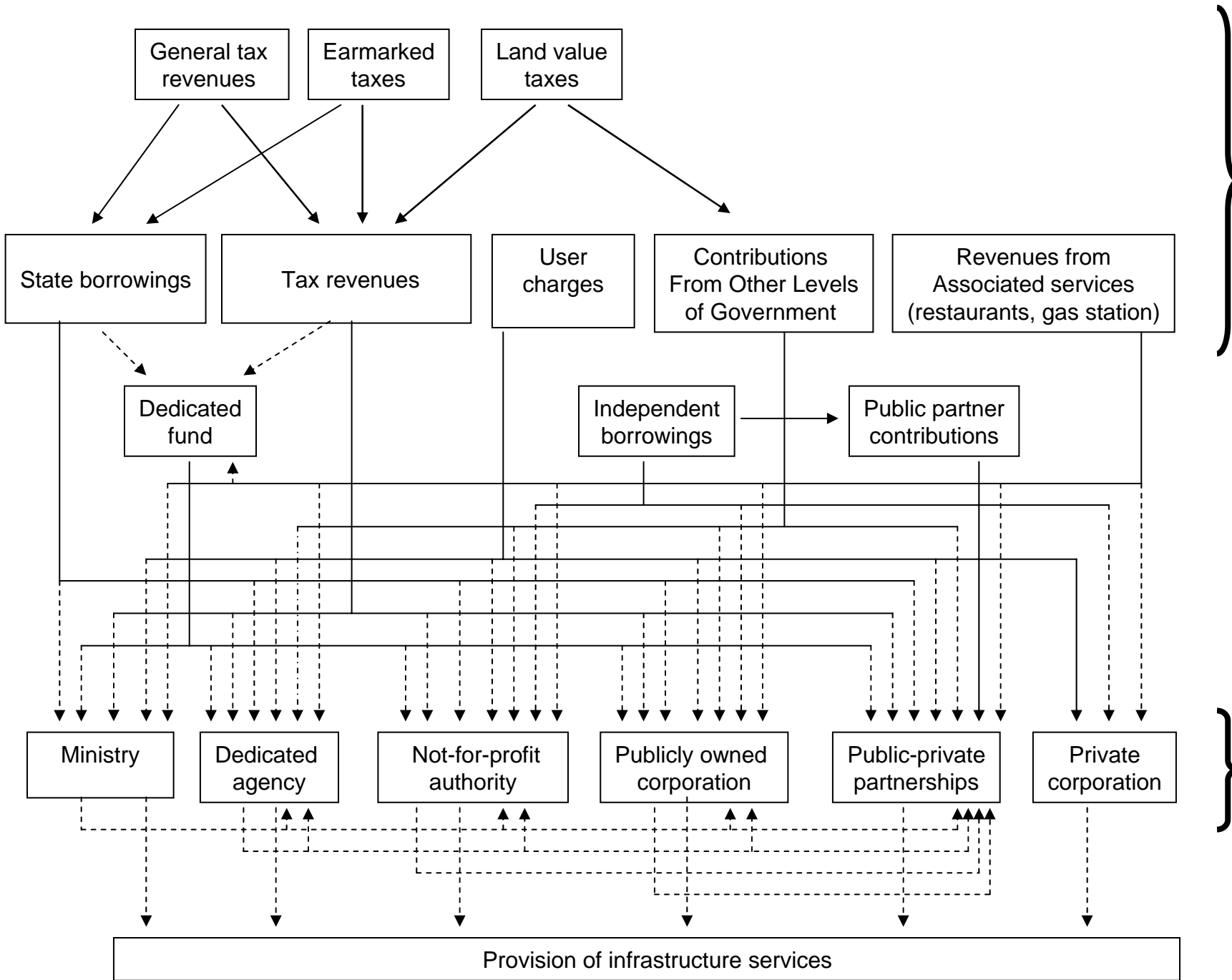
- Ensuring the adequate provision of infrastructure is key government responsibility
  - Transport has important implications throughout society and the economy
  - The nature of inland transport infrastructure does not allow for full reliance on market forces
- It involves a wide range of tasks over a long time period:
  - Administrative (policy setting, planning, needs assessment, project conceptualisation and development, procurement, regulation, oversight)
  - Financing (of the sector and of specific initiatives)
  - Works (building and maintenance)
  - Operation
- Not all of these must be carried out by government:
  - Some tasks are *sovereign* (inalienable from government); some are *operational* (can be delegated)

# Delegation of Responsibility – the Models



# Financing

- There are only two main sources of financing – users and taxpayers
- Channels for financing are also limited:
  - Subsidies
  - Public and private borrowing
  - User charges
  - Related services and property
- Financing is independent of the model
  - Degree of user charging has fundamental implications for the model employed, affecting both finances and use
  - Choosing which blend to use is a key sovereign responsibility, that must occur “up front”



Financing mechanisms

Models for the provision of works, operations and, in some cases, financing



# Efficiency

- The ultimate justification for any choice of model is that it optimizes efficiency (= outcomes – costs)
  1. Allocative
  2. Productive
- Each model has inherent costs:
  - e.g. tendering processes, management of infrastructure provider, government oversight mechanisms, development of regulation, etc.
  - Key efficiencies, as well as additional costs, can result from the transfer of risk
- Each financing method also has its costs
  - Operational (e.g. the cost of collecting tolls or taxes)
  - Financial (e.g. the cost of borrowing)

# How Can PPPs Enhance Efficiency?

- More effective management practices
  - Life-cycle cost management
  - Better risk management
  - Innovation
- What is required?
  - Integrate construction and maintenance over long contract periods
  - Competition (*i.e.* many qualified bidders)
  - Detailed quality specifications
  - Financing arrangements that ensure private partners' commitments and that do not outweigh benefits with new costs
  - Appropriate institutional arrangements (laws, public sector capacity, oversight, etc.)

# How Can Devolution Improve Efficiency?

- Specialisation
- Commercial management practices
  - Private borrowing
  - Life-cycle cost management
  - More commercial orientation
- Depoliticisation of decision-making
- What is required?
  - Clear assignment of tasks
  - Clear revenue streams and sources
  - Strong regulatory environment and institutional capacity

# Public Policy Objectives

- Transport infrastructure cannot be developed in isolation from larger policy goals
  - For society, the transport sector, and mode in question
  - Includes economic development, sustainability, social cohesion, etc.
  - The model should reflect this
- Financing to meet public policy goals may not be consistent with self-sustaining infrastructure
  - Independent, commercially oriented infrastructure providers will require compensation to pursue non-commercial objectives, or for any limits on their ability to maximise rents
- Delegation of responsibilities does not cease government involvement, but changes its role
  - This includes developing appropriate legislation/regulation
  - Appropriate institutional structures must be created for oversight and monitoring

# Choice of Model

1. What provides the greatest allocative efficiency?
  - At this point, the means of financing must be considered
  - Robust cost-benefit analysis
2. What are you *really* trying to achieve?
  - *i.e.* Where does this fit into government's higher objectives?
3. What is possible?
  - What will the public accept?
  - What does the law allow
4. How is the transport system organised?
5. What are the specifics of the initiative that need to be taken into account?
  - *e.g.* greenfield or mature asset, expected demand, geographic considerations, etc.
6. What is the most efficient option, given what is possible?

# What is Probable

- PPPs won't meet most of your needs
- They offer considerable opportunities, but
  - Most likely for high-profile, highly used, specific links
  - Must be approached realistically, including clear objectives and realistic pricing
  - Must be well-designed and executed
- This leaves government with the rest of the system
- Mature assets offer a wider range of choices
  - Devolution under various models, particularly with regards to network management

# Basic Prerequisites

- A clear policy, based on clear objectives
  - Political buy-in
  - Public buy-in
- The right institutional capacity
  - You can't run before you can walk
  - You may need to buy knowledge
  - Learn from others
- “Pure”, or at least transparent, motives
  - What are you really trying to achieve?
- Clarity regarding financing
- Realism
- A strong legislative framework
- Well-designed processes (tendering, contracting, regulation, oversight, renegotiation, etc.)

**more information:**

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