



# The challenges of PPPs within the framework of best practices and international standards

Sistema de Concesiones al 2050

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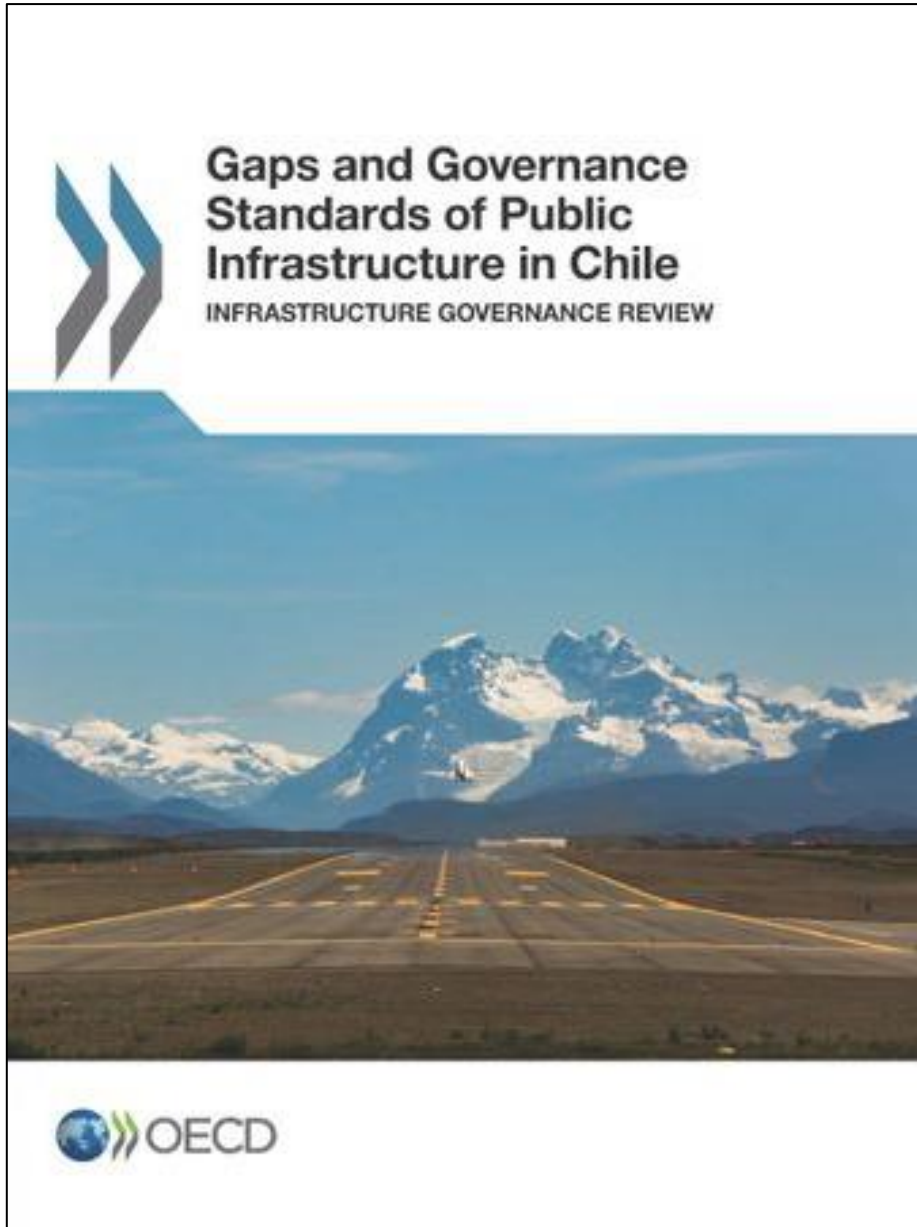
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**»» What potential infrastructure agenda for Chile?**



# 2017 OECD Infrastructure Governance Review of Chile



- A key weakness identified in Chile's governance framework is the lack of **medium- to long-term infrastructure planning**, particularly in the central government.
- The project evaluation and prioritisation system will need to accommodate **transversal issues and multiple policy goals**.
- Chile's central government is characterised by a high degree of **compartmentalisation**.
- To ensure value for money, infrastructure planners need to adopt a **whole-of-life approach** with sufficient capacities at each stage of the project life cycle.



# What has changed since the OECD review in 2017?

## In Chile:

- Chile has established mechanisms to ensure that infrastructure strategies and plans contribute to climate mitigation strategies (e.g., NDCs, net-zero strategies, LT-LEDS): Estrategia Nacional de Electromovilidad, Energía 2050 Chile and Certificación Educación Sustentable.
- 2019-20 Estallido Social with calls for greater social equality

## In the global environment:

- Significant global macroeconomic changes since COVID-19 pandemic & the war in Ukraine:
  - Normalisation of higher interest rates and non-transitory inflation
  - Supply chain disruptions & greater uncertainty due to climate disasters
  - Continued globalization of infrastructure actors
  - Reports of declines in contractor bids leading to less competition
- Re-emergence of concern for Paris and SDG agenda, following COVID-19



# 2020 OECD Recommendation on the Governance of Infrastructure



Long-term strategic vision for infrastructure



Fiscal sustainability, affordability, and value for money



Efficient and effective procurement



Stakeholder participation



Co-ordination across levels of government



Regulatory framework



Management of threats to integrity



Evidence-informed decision making



Life cycle performance



Critical infrastructure resilience

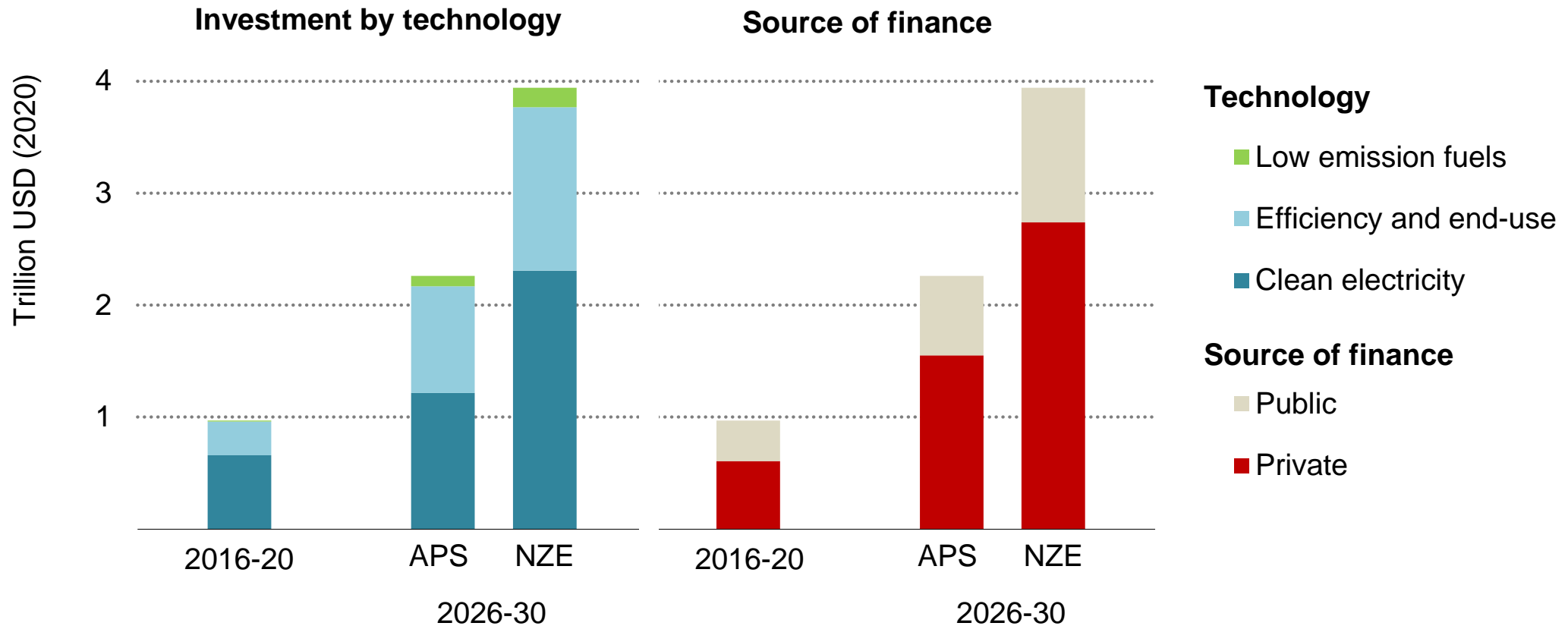


# Delivering sustainable infrastructure



# Going Net Zero will require **infrastructure investments** in alternative energy, efficiency and changes in consumption

Average annual clean energy investment and financing in the Announced Pledges and Net Zero Emissions by 2050 scenarios



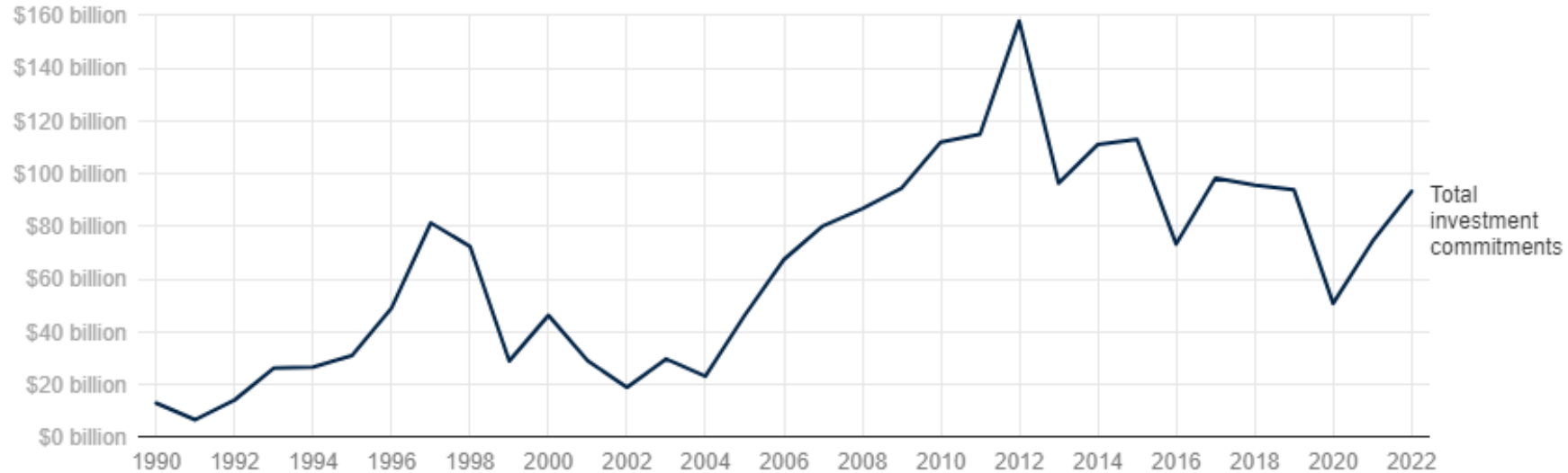
Clean energy investment climbs to USD 4 trillion by 2030 in the NZE, with most growth in emerging and developing economies. Globally **70% is financed by private actors**; public finance plays a critical catalytic role and in networks.



# Need for scaling up private investment in sustainable infrastructure

## How much is the private sector investing in infrastructure?

Since 2000, the private sector has committed about \$97 billion, on average, every year to infrastructure projects in developing countries.



Source: World Bank, 2022 PPI Annual Report

- **Main bottlenecks:** poor quality and non-standardised data, risk allocation and incentives
- **Challenging context:** rising interest rates, uncertain supply chains
- **Reputational risk:** increasing demand for sustainable & quality infrastructure projects

Infrastructure investment gap needs to be closed by improving targeting and performance of public investment as well as attracting private investment.





# Challenges for investment in **sustainable infrastructure**



Improving the Landscape  
for Sustainable Infrastructure  
Financing

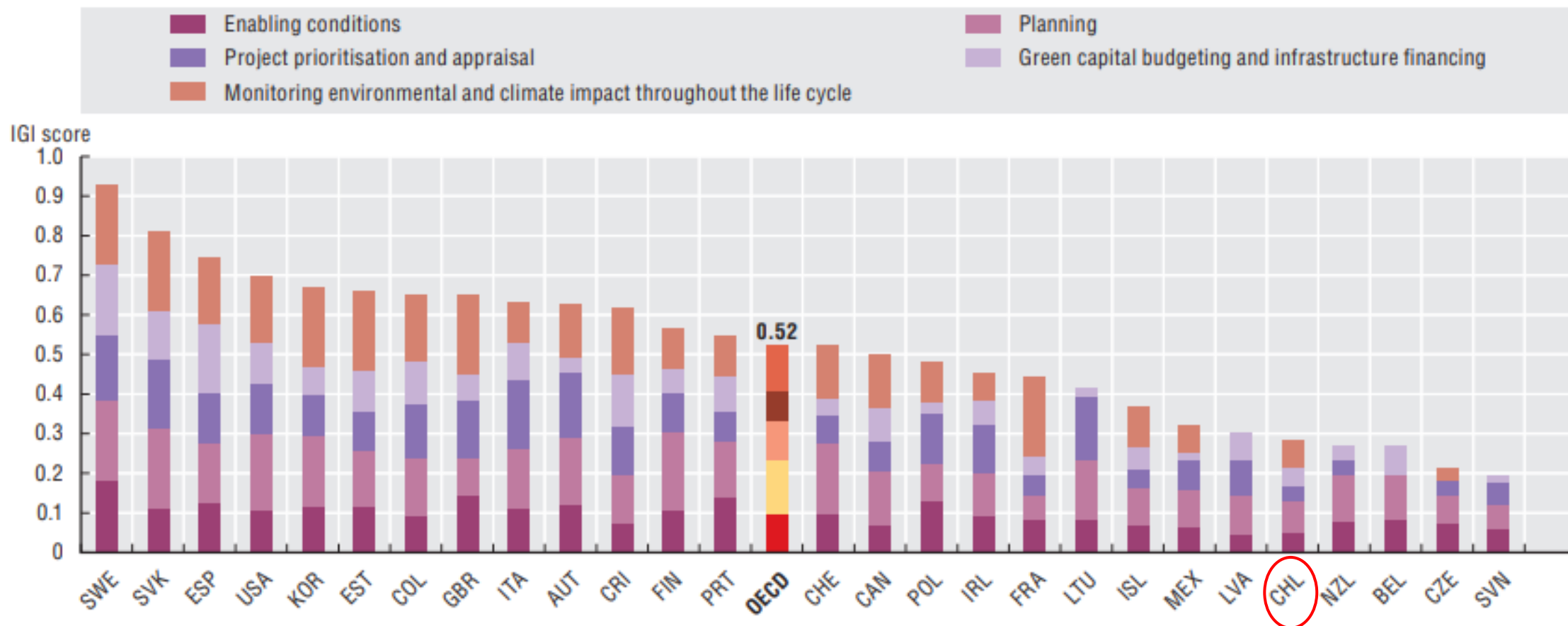


- Traditional planning and decision-making frameworks and instruments for infrastructure investment are ill-adapted for accommodating **multiple objectives**.
- Uncertainties arising from rapidly changing environments create a challenge for **long-term infrastructure planning**.
- Governments have a strong incentive to prioritise infrastructure investments with high visibility resulting in **short-sighted investments**.
- **Multi-level governance** is required to plan and deliver on sustainable infrastructure.



# Chile could do more to incorporate climate considerations into its infrastructure planning & delivery

## Delivering environmentally sustainable and climate-resilient infrastructure, 2022



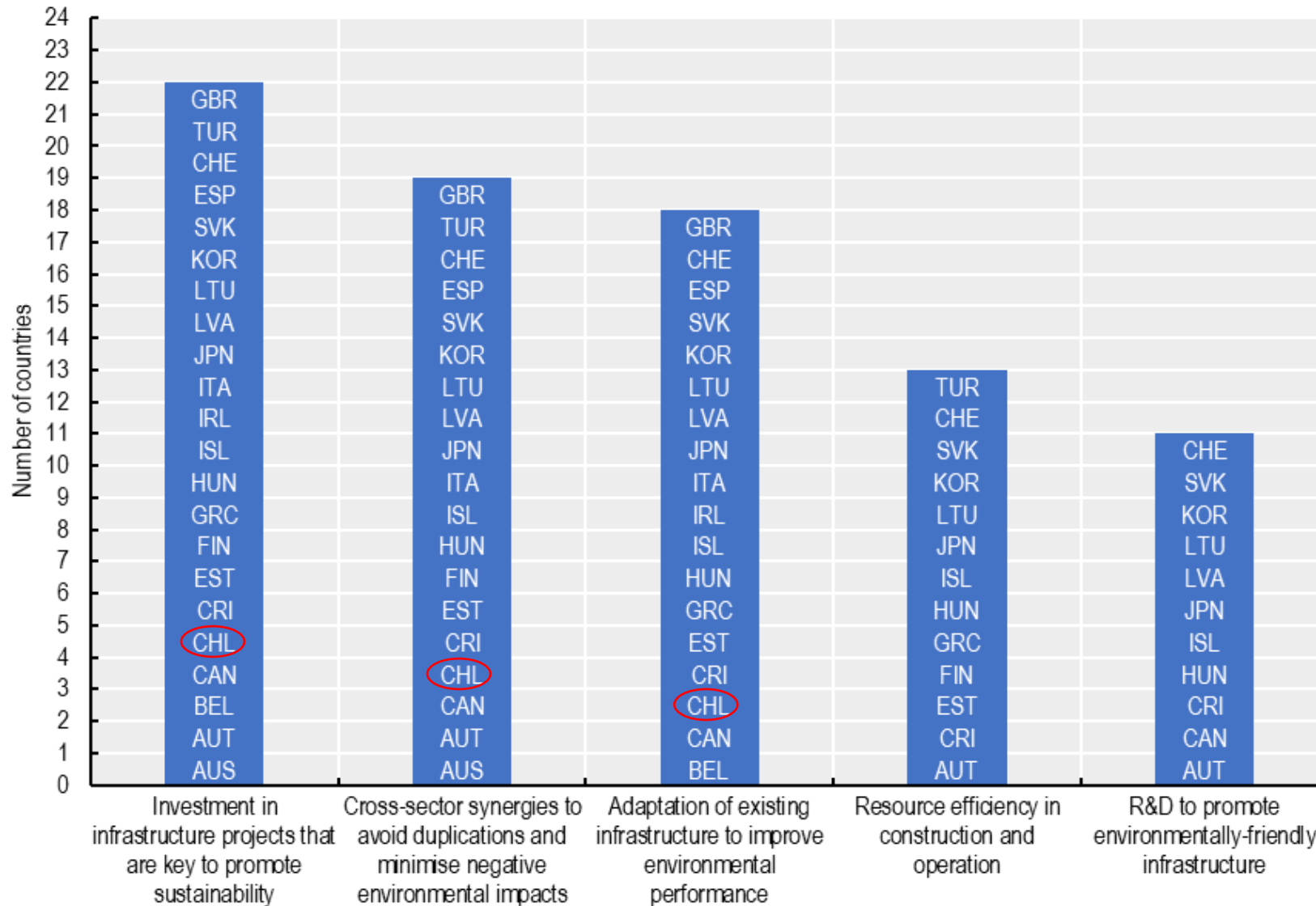
Source: OECD (2022), Survey on the Governance of Infrastructure – Part V: Deliver environmentally sustainable and climate-resilient infrastructure; OECD (2021), Regulatory Indicators Survey.

StatLink <https://stat.link/uhb5z4>

**NOTE:** These data are based on transport sector only.

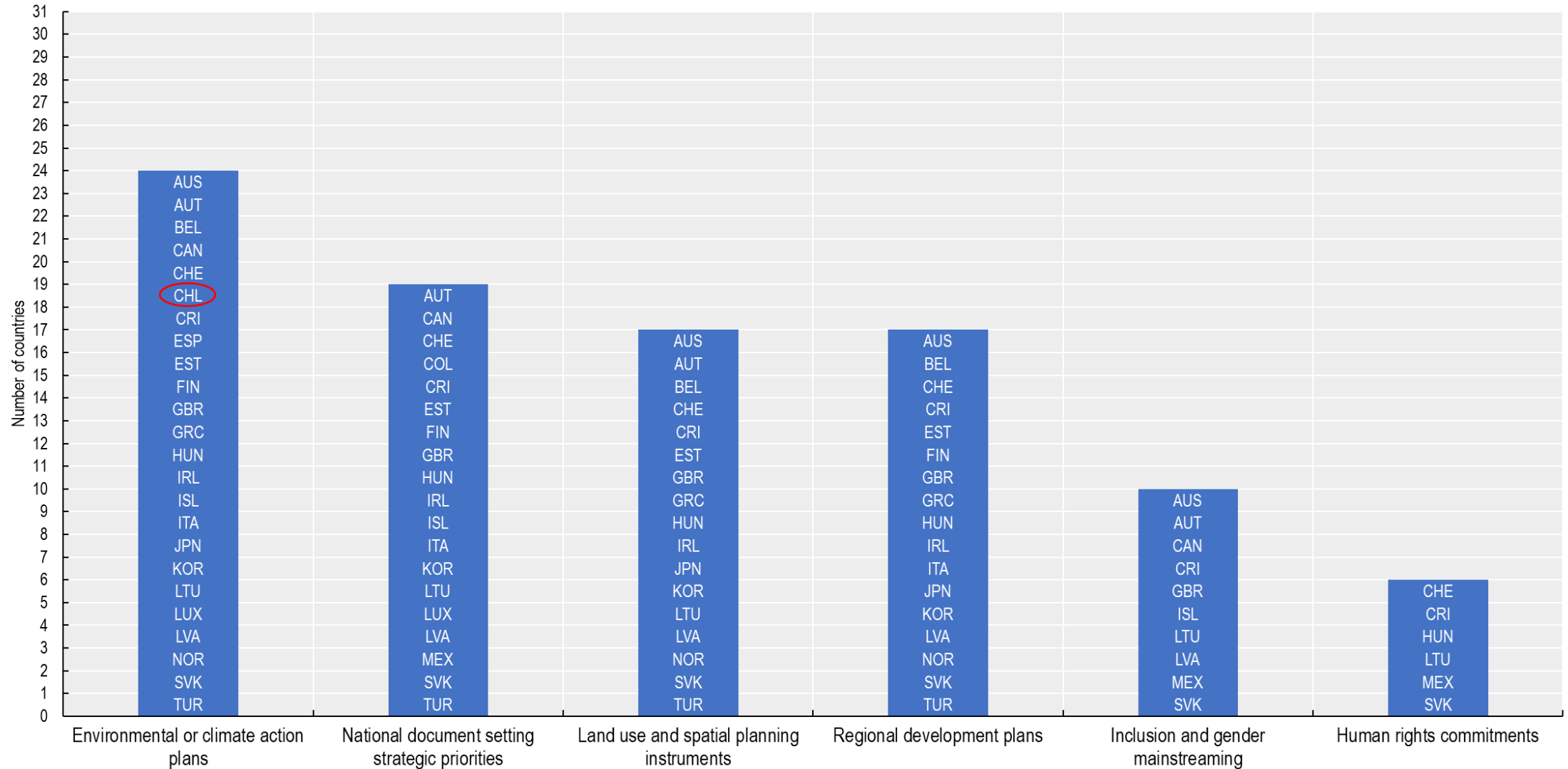


# Chile has established **goals and targets** in the infrastructure plan to promote sustainable infrastructure





# Chile has aligned its infrastructure plan with environmental and climate action plans





# Governance for sustainable infrastructure investment

- **A strategic, long-term approach to infrastructure to respond to climate change.** Infrastructure choices lay the framework for the energy transition & influence consumption. Taking lifecycle costs into account strengthens investment in quality infrastructure, improves resilience and incentivizes maintenance.
- **Infrastructure governance improves spending and delivery** by integrating high-level commitments, improving coordination and policy coherence, and balancing short- and long-term interests.
- **Good infrastructure governance attracts private investment** by improving project selection and management, reducing waste, and improving risk assessment.
- **Public investment has long-term consequences.** Infrastructure investment in today's economic recovery packages will shape transportation, energy, land use, regional development and much more for a generation.

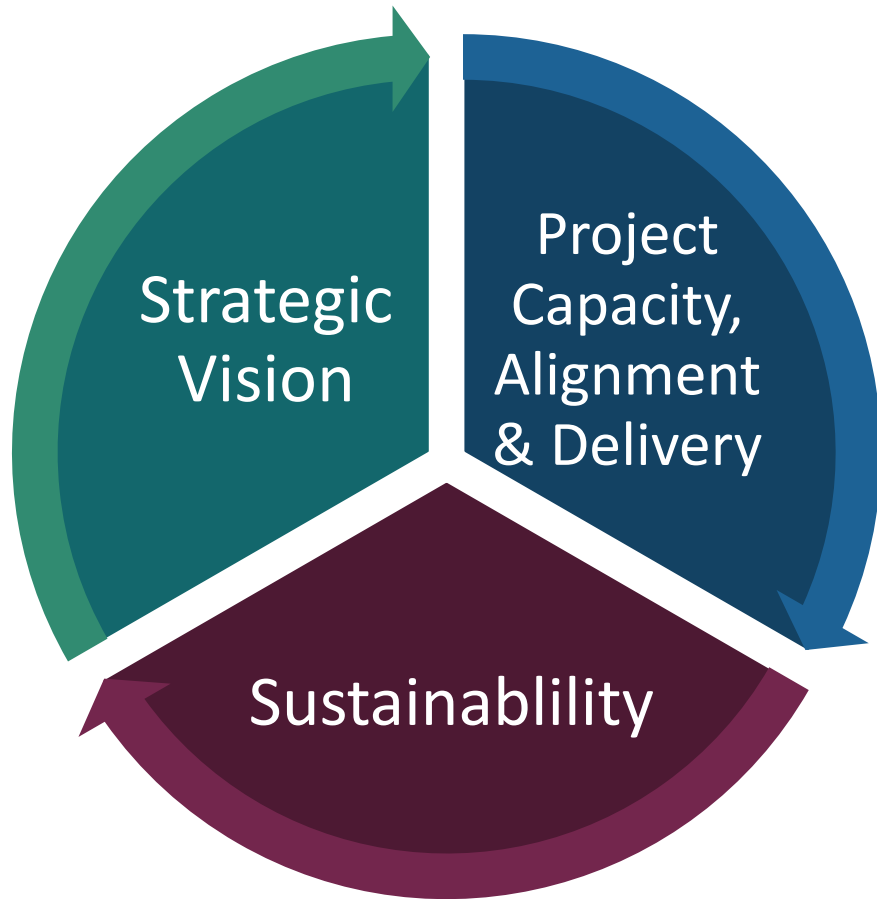




# Strengthening value for money and social legitimacy



# Infrastructure governance for **project bankability and social legitimacy**



- **Strategic vision:** Operationalising national plans into project appraisal criteria for a pipeline of investable projects
  - Clear & predictable government plans for reaching NETZERO, including the required infrastructure investment
  - Integrating environmental & social considerations into cost-benefit analysis
- **Ensuring delivery capacity**
  - Responding to increased uncertainty with new approaches to public-private collaboration and evidence-based contracting
  - Ensuring the needed public sector skills for project preparation, contract management and infrastructure procurement
- **Dialogue between public & private sectors (and citizens!) on sustainability outcomes** to align the expectations and to increase clarity, transparency & trust
  - Reducing investor uncertainty through more standardised and transparent project reporting
  - Demonstrating access & value for money to users
  - Strengthening the acceptability & legitimacy of investments



## What **PPP and concessions framework** is required?

**Next year, the OECD will begin updating its 2012 Recommendation on PPPs to focus on key issues such as the value for money and risk allocation:**

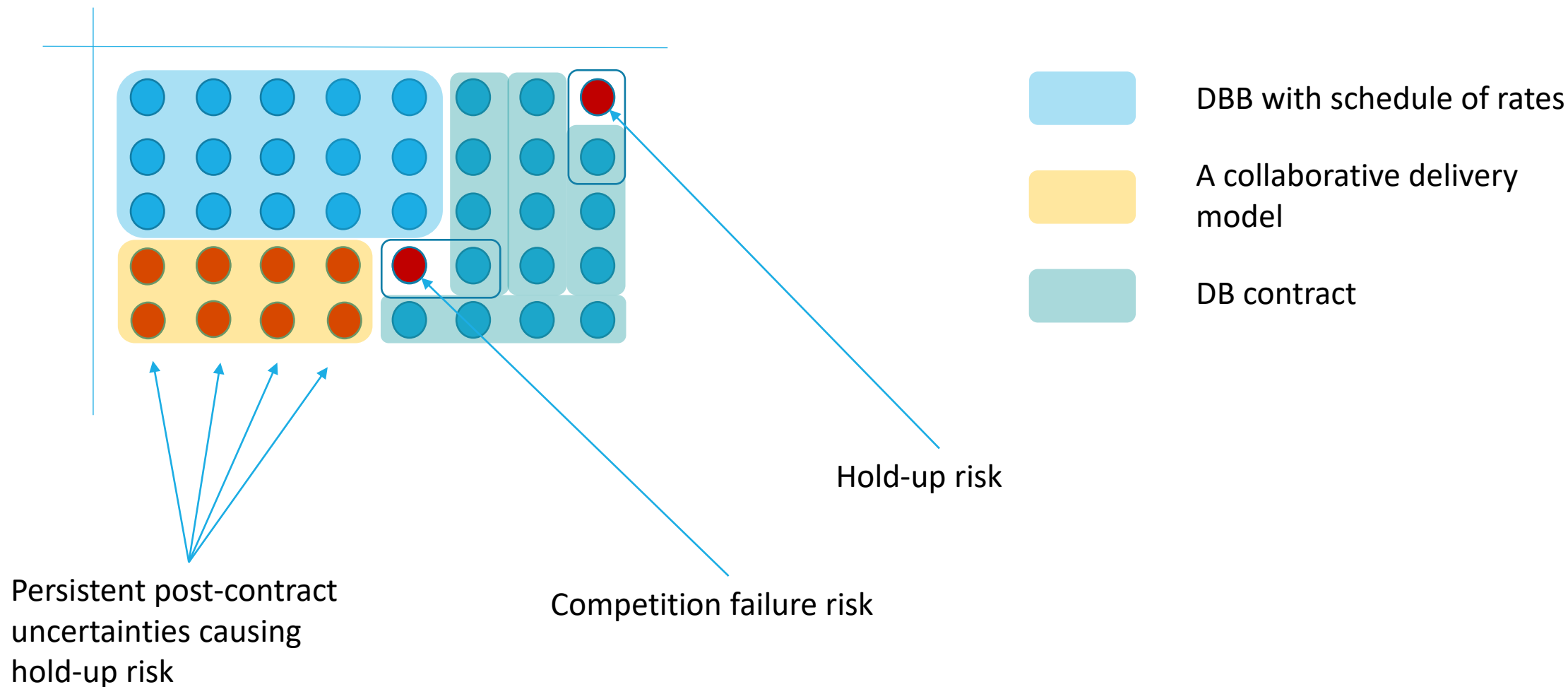
- A continuous concern for PPPs and traditionally financed major projects alike has been an **insufficient competition** (Roumboutsos, 2019).
- Large contracts based on **fixed price** (the very same PPPs rely on) are becoming untenable due to the contractor's exposure to high-impact low-probability (or HILP) risks or colloquially uncertainty, leading to market exists (2023 OECD expert meeting on construction risk management in infrastructure).
- The trust in PPPs as a procurement tool is challenged because countries were unable to defend the choice for **PPPs on a value for money basis** (and also because of **integrity failures**).
- One of the major foundations on which the PPPs were supposed to deliver value for money are challenged, i.e., the **presence, sustainability, and the effectiveness of competition** for major projects, which is directly related to the risk allocation in PPPs.
- OECD countries have mandated independent institutions (e.g. economic regulators or supreme audit institutions) to carry assessments of the PPP programs and highlight the main pitfalls and ways forward





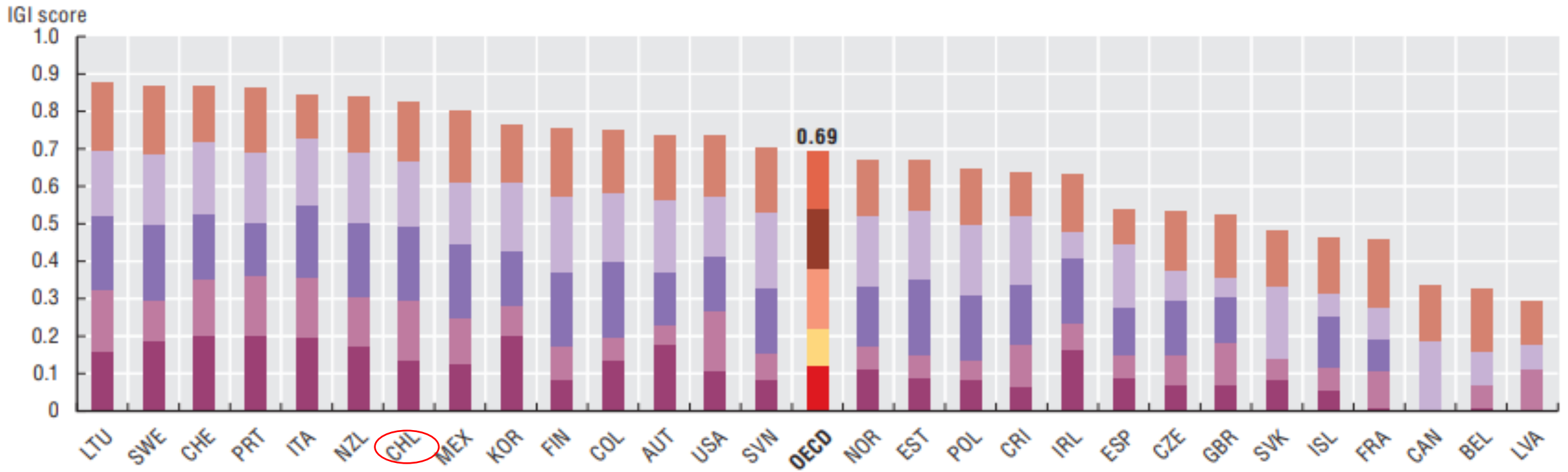
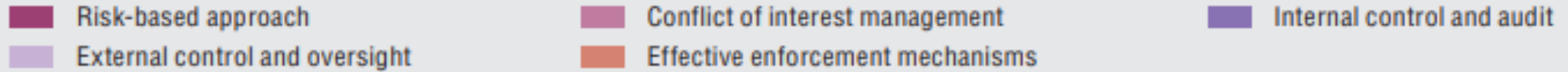
# A holistic risk management framework: OECD Support Tool for Effective Procurement Strategies (STEPS)

A one contract for a project (= one-size-fits-all risk allocation) is easy to administer, but not efficient



# Integrity is key to build trust in PPPs

## Management of threats to public integrity in infrastructure decision making, 2022



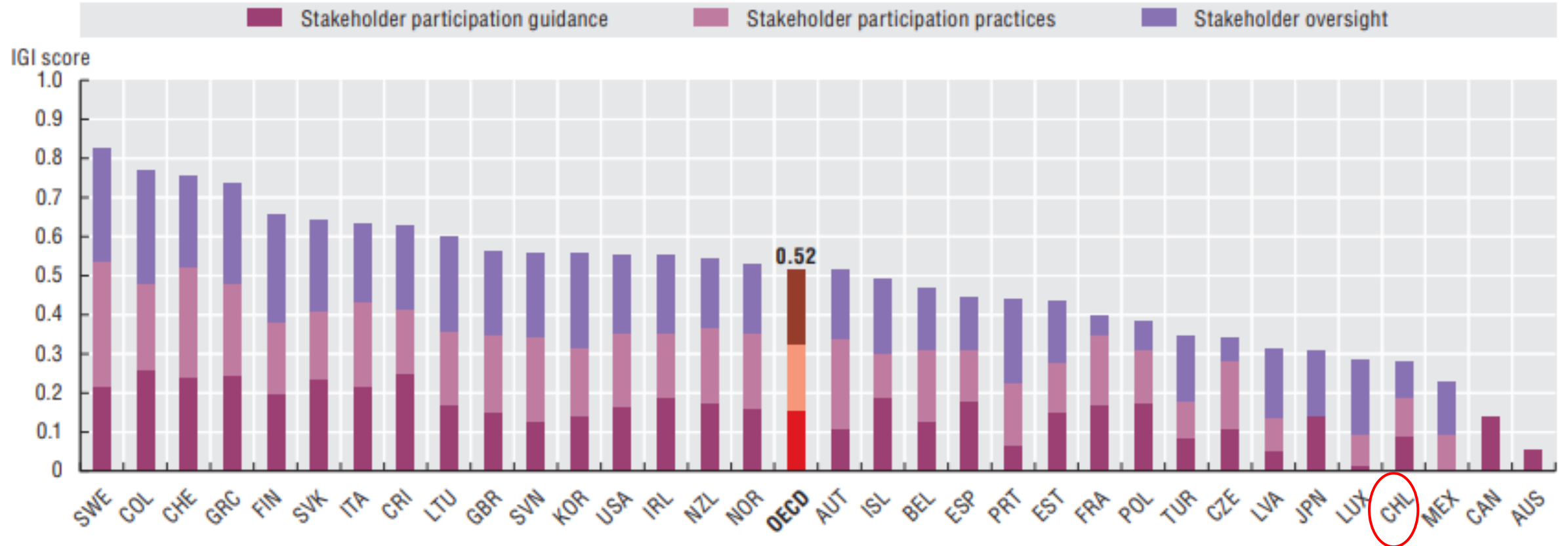
Source: OECD (2022), Survey on the Governance of Infrastructure – Part III: Implement a whole-of-government approach to manage threats to integrity.

StatLink <https://stat.link/1cfxpg>



# Chile could further promote stakeholder participation in infrastructure decision making

## Stakeholder participation in infrastructure decision making, 2022



Source: OECD (2022), Survey on the Governance of Infrastructure – Part I: Ensure transparent, systematic and effective stakeholder participation.

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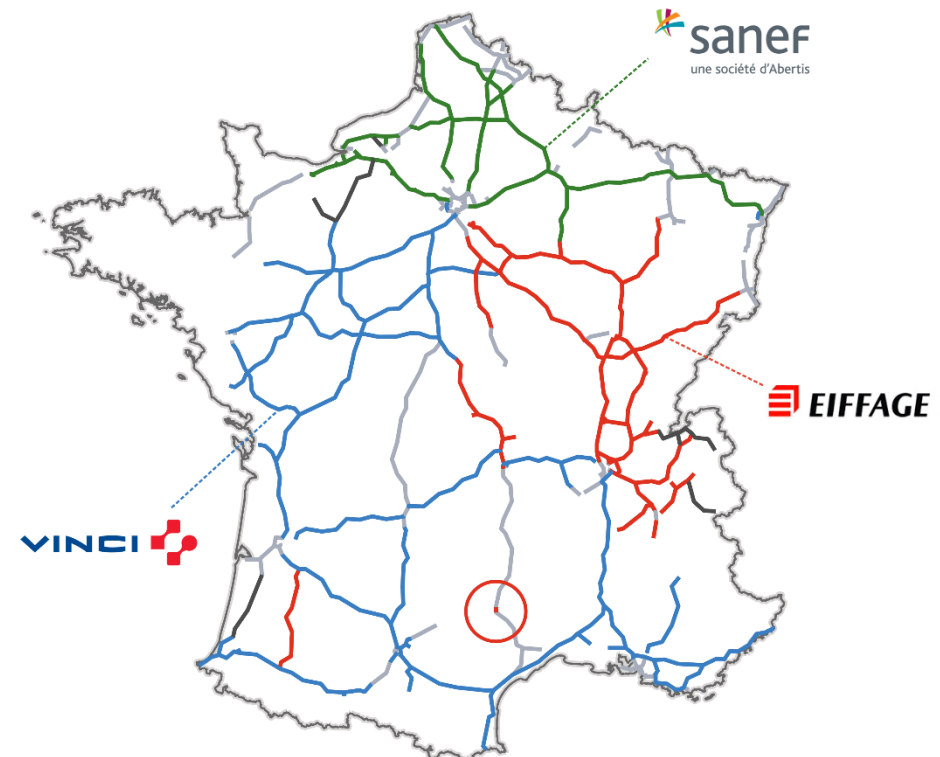
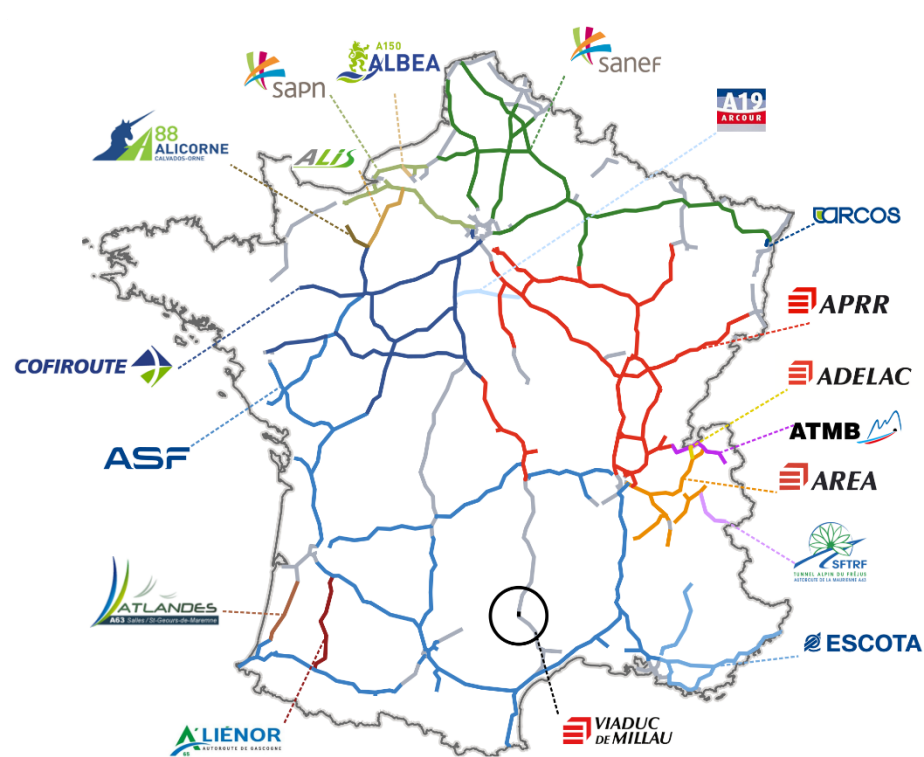
**Example of an early adopter of  
concessions -- Transport  
Regulatory Agency in France (ART)**



# The French motorway sector: The motorway concession companies

Over 75 % of the French motorway network is conceded to 20 motorway concession companies (but behind them are just 3 major players so competition is a problem)

A French concession contract is a Private Public Partnership that has three features :  
(i) it is a global contract ; (ii) It based on user-pay principle ; (iii) it is long term contract





# France will examine three aspects of of the current model in view of the expiry of the historical contracts in 10 years' time

## 1 ANALYSIS N° 1

### Regarding risk-sharing arrangements

Before launching new tenders, an analysis of each model should be conducted, particularly with regard to the transfer of traffic risk

## 2 ANALYSIS N° 2

### Concerning the geographical and temporal scope of contracts

- Consideration should be given to the appropriateness of a geographical redistribution of concessions
- Reducing the duration of concessions is desirable and possible in future contracts

## 3 ANALYSIS N° 3

### On the modalities for revising contracts

- A five-year review would make it possible to revise the parameters negotiated in the context of amendments and to systematize cost and opportunity studies



## The options for the next stage of motorways concessions in France

1. The state takes over the concessions after expiry in a SoE regulated model.
2. The existing concession model is amended (shorter concessions, get better at benchmarking so renegotiations do not lead to rent capture)
3. The existing model is amended , and concessions are broken down to sections of 300km in length (a massive boost to competition for the contract; but at the expense of three big French incumbents)



# Blue Dot Network





# Blue Dot Network: improving information on quality infrastructure investments for investors and citizens



## What are the aims of the Blue Dot Network?

- Provide a **trusted signal to investors, communities and other stakeholders** that a project is aligned with internationally-agreed standards of quality infrastructure investment and has addressed a number of key risks.
- **Streamline and synthesise standards** to make infrastructure development more efficient.
- **Promote infrastructure investment in developing and emerging economies** in concert with global initiatives that share similar values such as PGII and Global Gateway.

## Who is Blue Dot Network for?

- The Blue Dot Network certification is an inclusive framework **open to infrastructure projects across all major infrastructure sectors** in both developed and developing economies.



# Benefits of the Blue Dot Network for stakeholders





# OECD resources for improving infrastructure planning & delivery

## Supporting Better Decision-Making in Transport Infrastructure in Spain

INFRASTRUCTURE GOVERNANCE REVIEW

OECD Public Governance Reviews

## Effective Delivery of Large Infrastructure Projects

THE CASE OF THE NEW INTERNATIONAL AIRPORT OF MEXICO CITY

## Gaps and Governance Standards of Public Infrastructure in Chile

INFRASTRUCTURE GOVERNANCE REVIEW

**Infrastructure Toolkit**

The OECD Infrastructure Toolkit is an online resource to guide policymakers in the planning, financing and delivery of infrastructure. The Toolkit takes a modal approach, addressing various areas of infrastructure. Initially, the governance of infrastructure is featured with other domains expected to be added over time.

- REVIEW**  
Review the pillars of infrastructure and related good practices
- LEARN**  
Learn about infrastructure good practice and trends in OECD countries
- EXPLORE**  
Explore transversal themes and related OECD analysis and indicators

**STEPS**

THE SUPPORT TOOL FOR EFFECTIVE PROCUREMENT STRATEGIES

INFORMING THE PROCUREMENT STRATEGY OF LARGE INFRASTRUCTURE AND OTHER BESPOKE PROJECTS

April 2022

OECD  
BETTER POLICIES FOR BETTER LIVES

**2024 OECD INFRASTRUCTURE FORUM**

Infrastructure for Resilience

9-10 April 2024 – OECD, Paris

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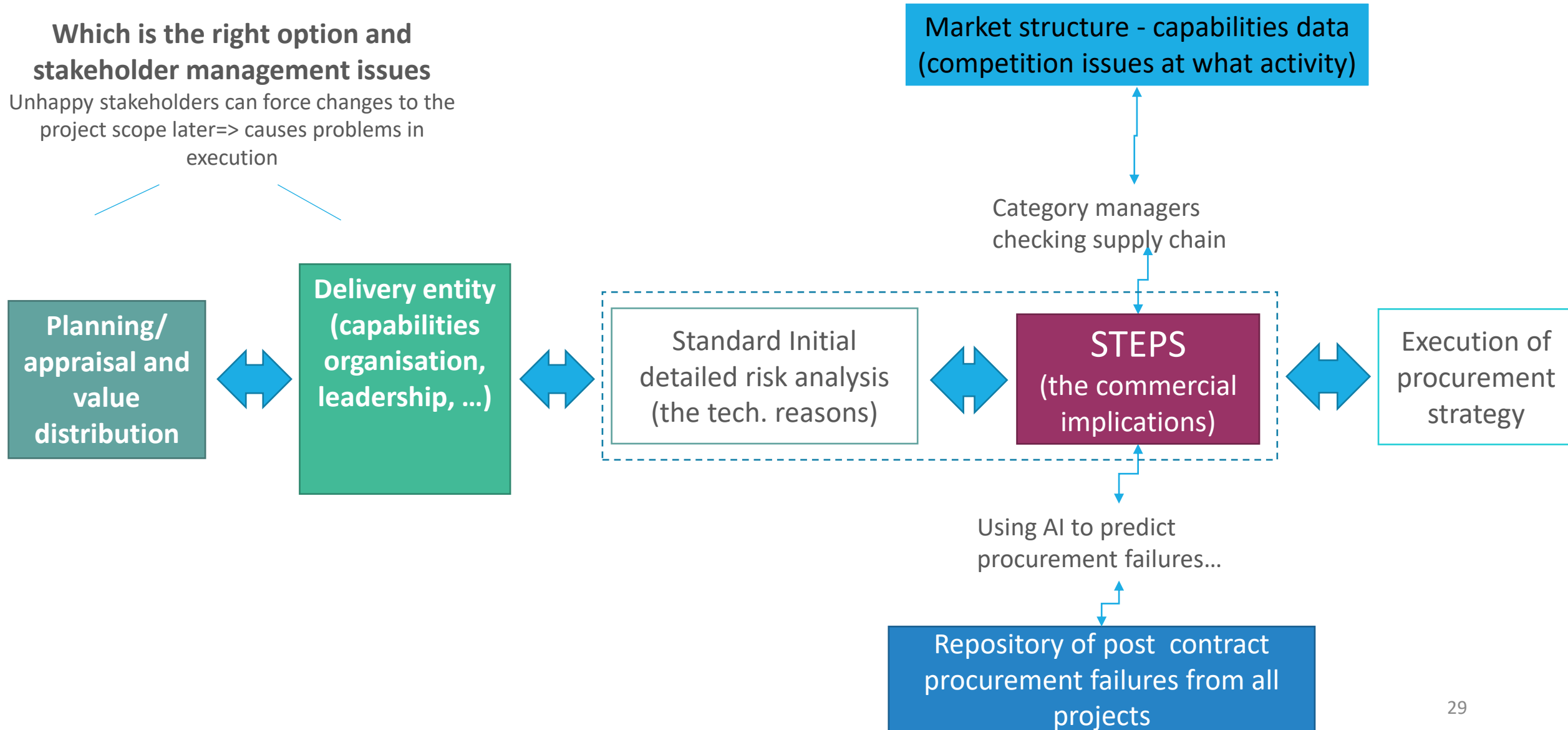




# Towards a holistic risk management framework – going beyond STEPS

## Which is the right option and stakeholder management issues

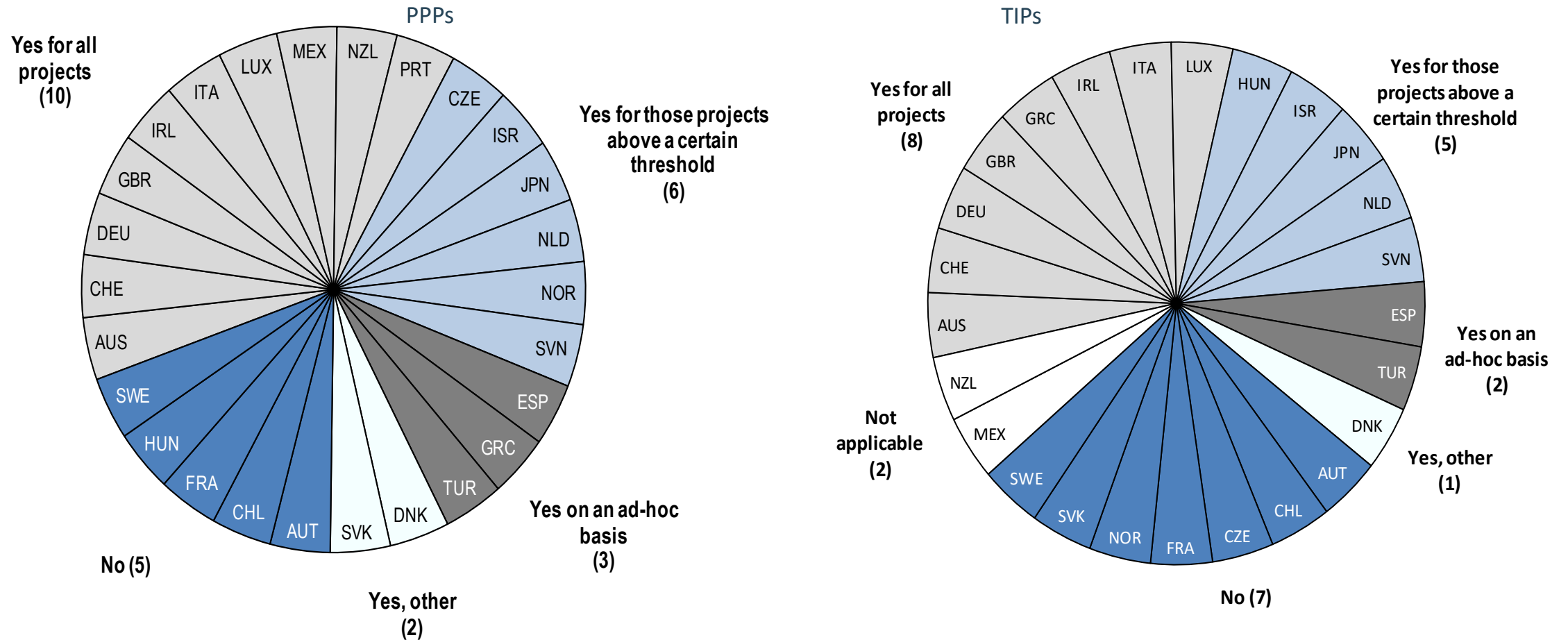
Unhappy stakeholders can force changes to the project scope later=> causes problems in execution





# VfM process more likely for PPP relative to traditional infrastructure projects

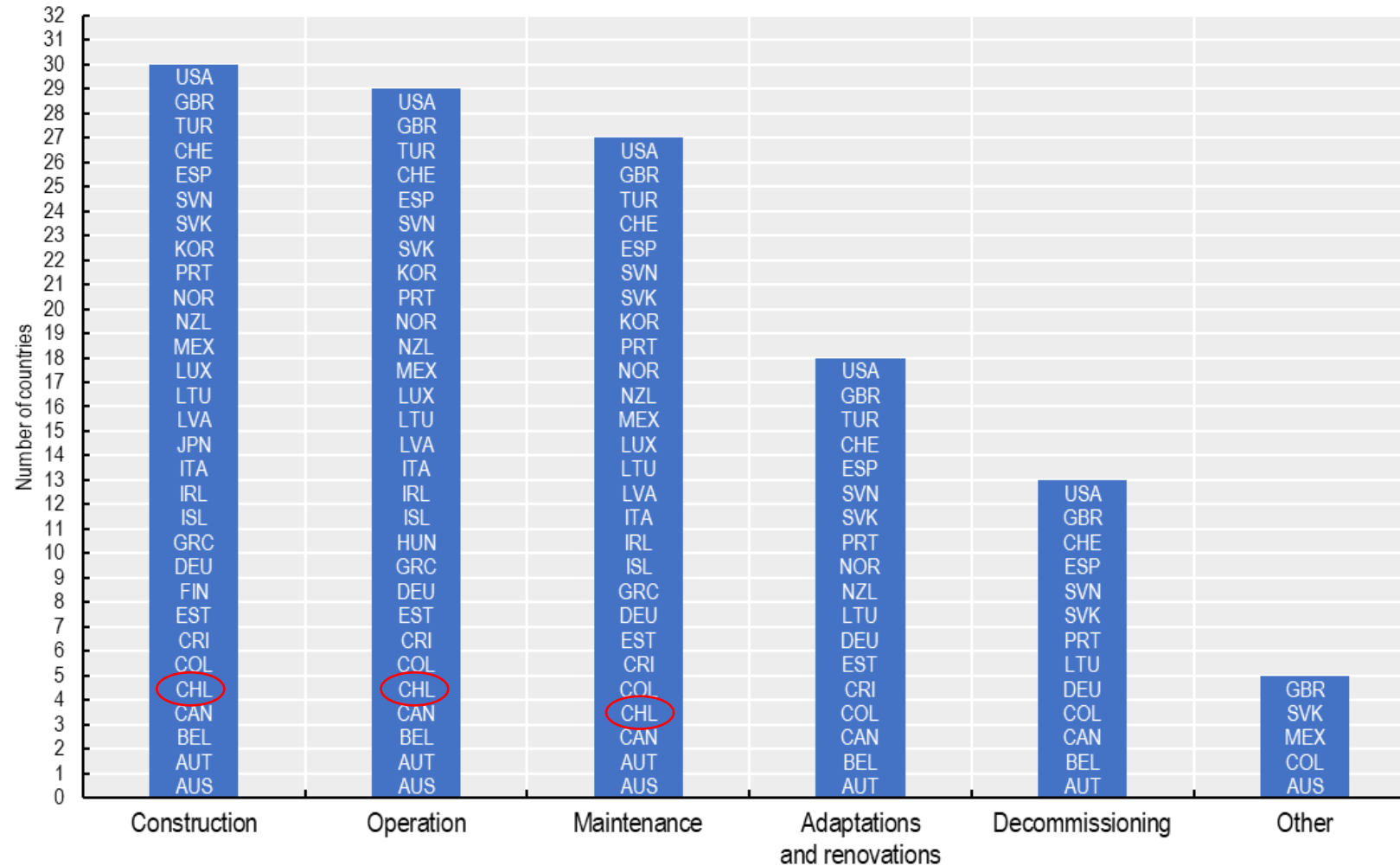
Formal process/legal requirement to demonstrate value for money in infrastructure projects





# Chile would benefit from a **life cycle** approach to project appraisal and selection

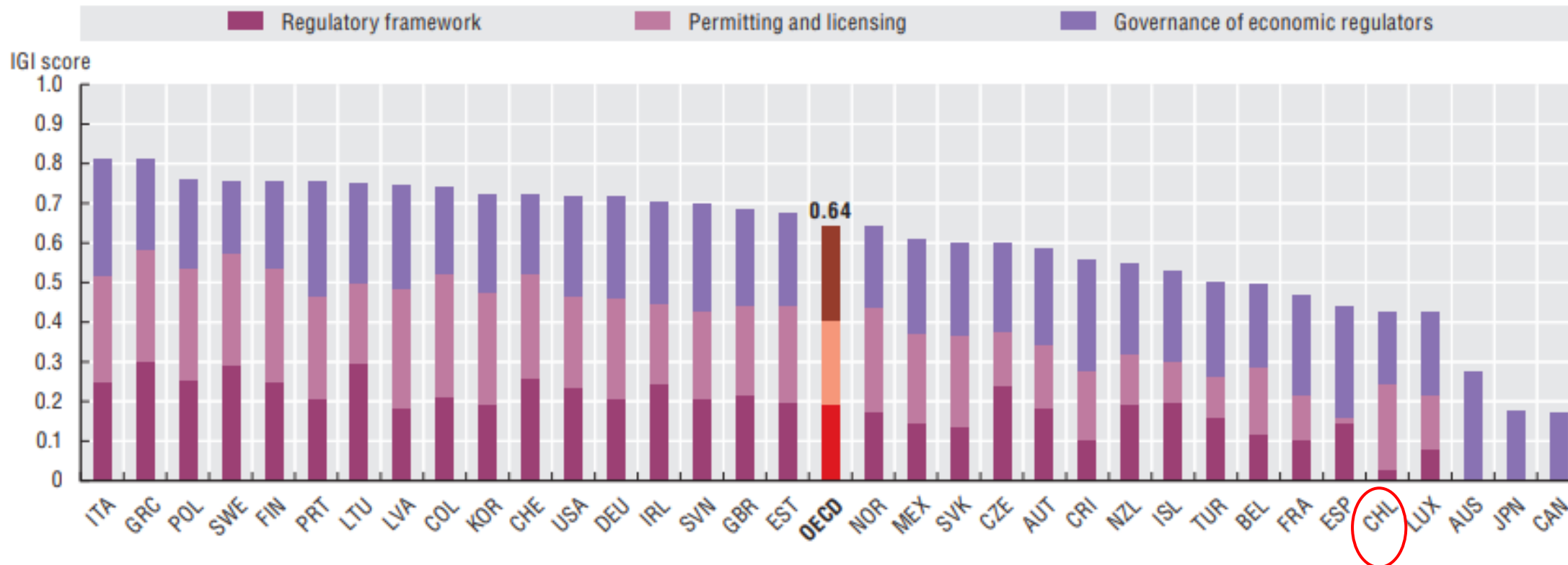
Costs estimated to assess affordability of new infrastructure projects, 2020





# Are **regulatory frameworks** fit for purpose for timely and sustainable infrastructure delivery?

## Regulatory frameworks for public infrastructure, 2022



Source: OECD (2022), Survey on the Governance of Infrastructure – Part II: Promote a coherent, predictable, and efficient regulatory framework; OECD (2018), Survey on the Indicators on the Governance of Sector Regulators.

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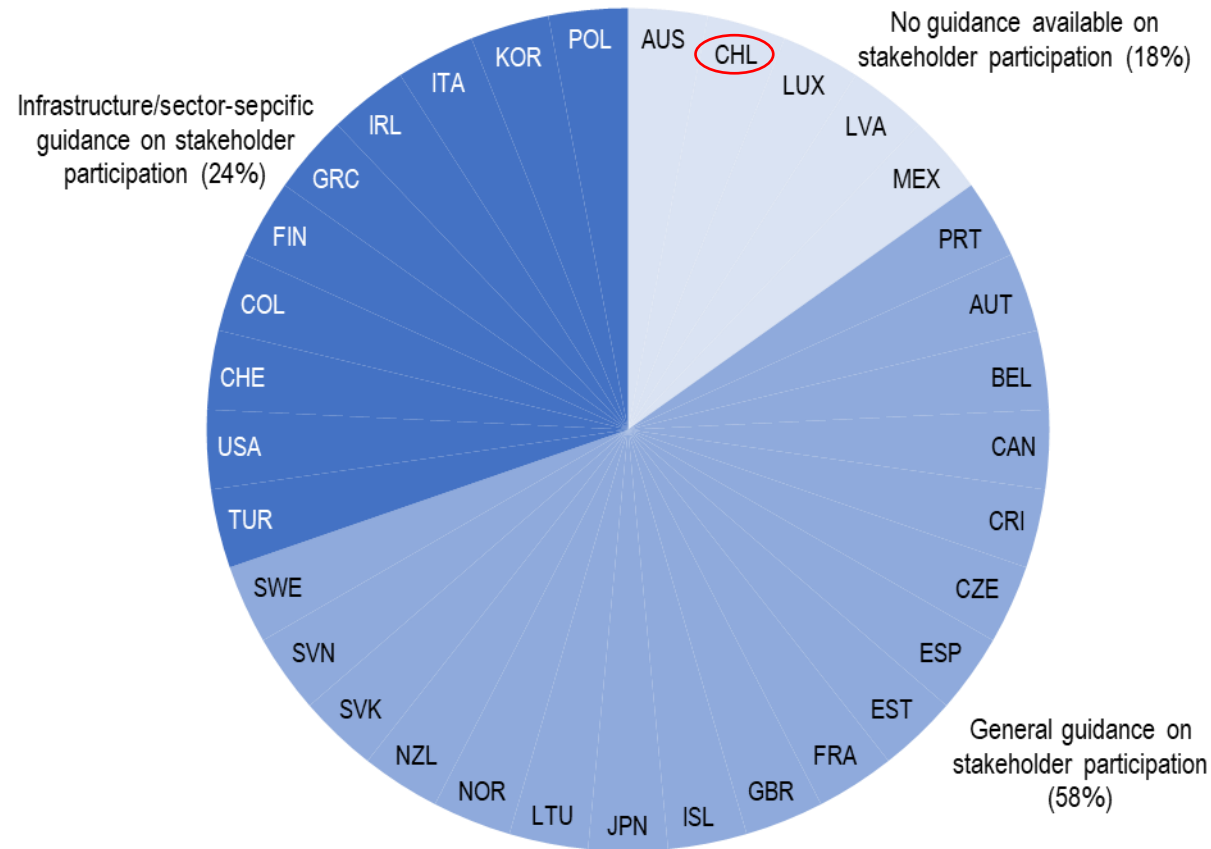
# Chile could strengthen its infrastructure integrity framework by adopting a **risk-based approach**

Is each major infrastructure undertaking backed by an assessment of public integrity risks, identifying as a minimum specific types of relevant integrity breaches, the actors likely to be involved, as well as the expected likelihood and impact if the risk



# Guidance on stakeholder participation

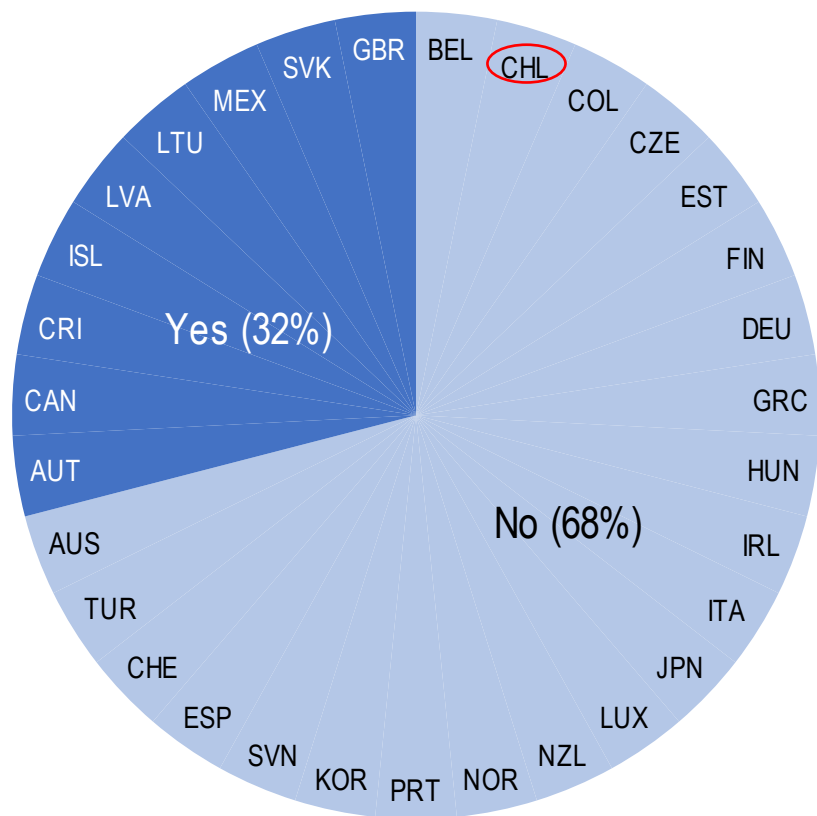
## Existence of a national guidance on stakeholder participation, 2022



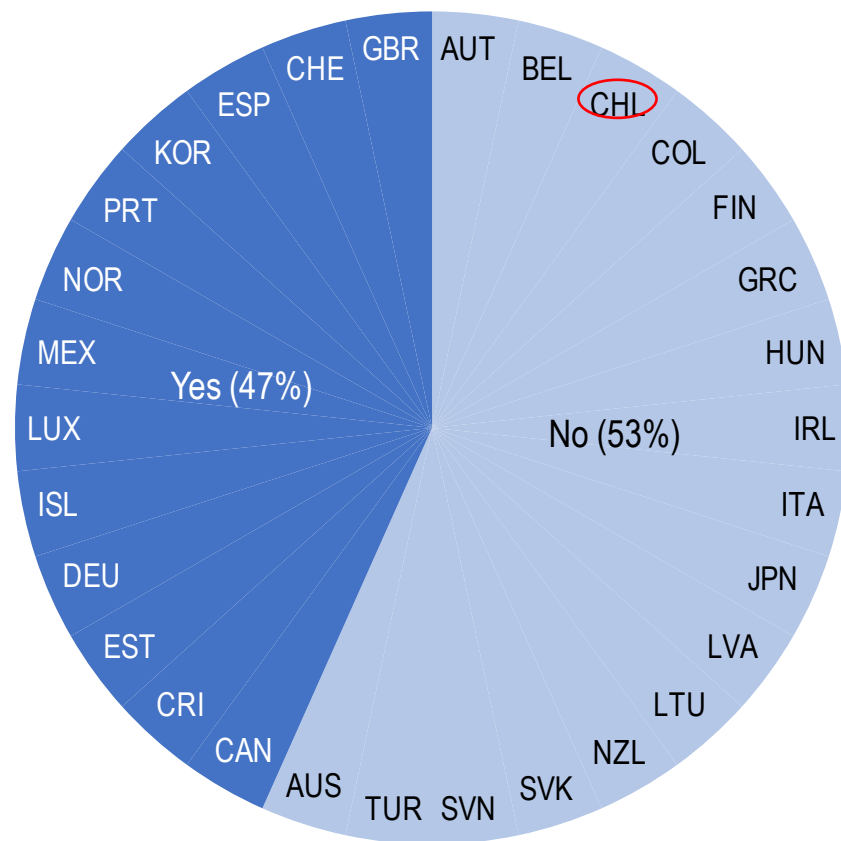


# Chile's infrastructure planning and procurement could integrate better gender and inclusion considerations

Alignment of the infrastructure plan with inclusion and gender mainstreaming policies, 2020



Provision of support to the procurement workforce on how to promote gender equality in infrastructure procurement, 2020





What do we do ?

# ART's concrete action in the motorway sector

ART regulates motorway companies for the direct and indirect benefit of users

ART monitors the procurement procedures implemented by concessionaires for construction works, materials and services



Suppliers

Upstream markets

- selects
- supplies
- - - economic regulation for the indirect benefit of users
- tariff regulation for the direct benefit of users

State

Motorway company

Operators of motorway service areas



Downstream markets

Related markets

ART monitors the procurement procedures implemented by concessionaires for the operation of service areas

ART verifies that a criterion relating to fuel price moderation is applied to select the applicant

ART issues an opinion on the evolution of toll tariffs when contractual amendments are made and when new concession contracts are awarded



Users





What do we do ?

## ART's reports on the economics of concessions

ART plays a unique role in shedding light on the economics of motorway concessions



**2020**

To provide explanations on a model that has been highly criticised



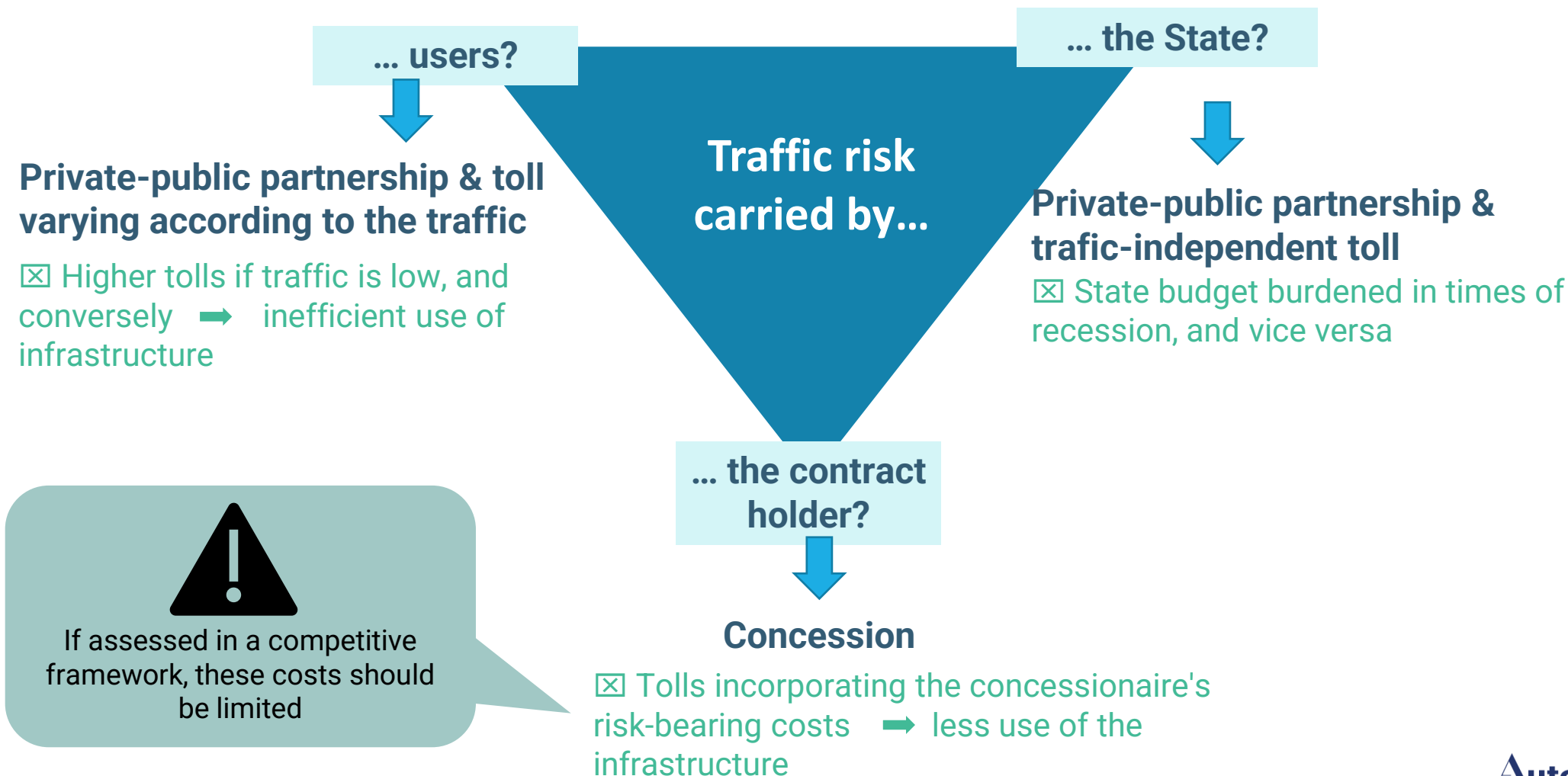
**2023**


Open the debate on the future of the concessionary motorway network (2031-2036)



# Three aspects of the current model need to be re-examined in view of the expiry of the historical contracts

## 1 - One question deserves to be asked: who should bear the traffic risk?



  
If assessed in a competitive framework, these costs should be limited



## Three aspects of of the current model need to be re-examined in view of the expiry of the historical contracts

### 2 – The scope of the contracts should be reduced



The size of concessions should remain sufficient to maximise scale effects

**However, reducing the geographical scope of concessions would limit barriers to entry when contracts are reallocated**



The current model is characterised by long duration contracts, which implies:

- Impossibility of regular re-tendering
- Inevitably, new needs emerge during the course of the contract
- Necessary negotiations with the incumbent, who is in a strong position

**The duration of future contracts should be shorter than that of current contracts: considering the constraints on road management, a contractual duration of around 20 years would be relevant**



One solution for reconciling the possibility of major investments and short contracts is the payment of a balance by the incoming contract holder to the outgoing contract holder



# Three aspects of of the current model need to be re-examined in view of the expiry of the historical contracts

## 3 – Contract review procedures should be improved

In the current framework:

- Financial parameters of the amendments are never reviewed although they are established outside any competitive procedure
- Investments are made on the basis of rudimentary cost and opportunity studies

Strengthening regulation by regularly (e.g., on a five-yearly basis):

- reviewing the negotiated parameters
- systematising cost and opportunity studies



Competitive tendering is the only case in which the concessionaire has no market power

⇒ As is already the case today, the parameters resulting from the competitive bidding process should not be revised during the course of the contract (except through the effect of mechanical clauses from the initial contract)