

**COMPREHENSIVE LONG-TERM
CONTRACTS
issues at stake**

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Project information

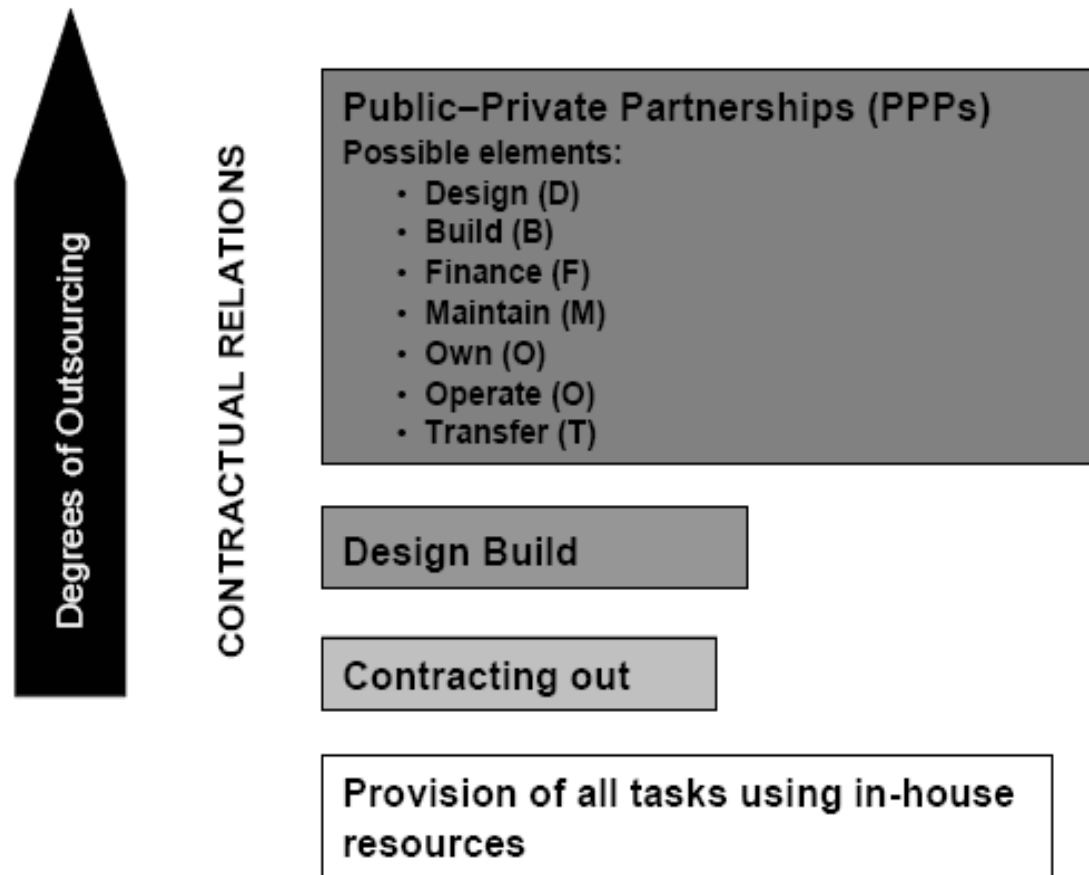
- Report under the aegis of JTRC of OECD and International Transport Forum
- Working group with experts from 19 countries
- Report forthcoming in November 2007
- Titel: “TRANSPORT INFRASTRUCTURE INVESTMENT – options for efficiency”

Purpose:

“ examine the elements that should be considered by governments in choosing the appropriate models for the provision of surface transport infrastructure”

Transport infrastructure investment: options for efficiency

Figure 1.1. *Outsourcing in the Provision of Surface Transport Infrastructure*



Empirical Findings

Cumulative Funded PPPs 1985-2005

Region	Roads	Rail
Europe	106	43
North America	112	17
Asia and Far East	79	30
Latin America and the Caribbean	85	22
Africa and Middle East	7	1
Worldwide	389	113
Additional planned projects	375	142

Source: Public Works Financing (2005)

The Key Messages

- There are alternatives to provide transport infrastructure
- Efficiency should be the key
- Private financing does not generate “new money”
 - Users
 - Taxpayers

How to enhance efficiency?

1. Adequate ex ante cost-benefit analysis
 - Maximize social welfare (NPV)
 - Optimal usage implies marginal cost pricing
 - Cost of financing

How to enhance efficiency?

2. Designed to minimize life-cycle costs

- Trade-off between investment and maintenance
- Profit-oriented companies motivated to minimize cost over the life cycle
- Annual public budgeting prevents this
- Long term contract

How to enhance efficiency?

3. Effective tendering is essential
 - Procurement process carefully designed
 - Sufficient competition core condition

How to enhance efficiency?

4. Risk must be appropriately allocated
 - Transfer induces cost savings, but comes with a cost
 - No simple formulae
 - + Project risks stay with the private partner
 - + Global risks stay with governments
 - Demand risk complex

How to enhance efficiency?

5. Contracting – safeguard quality and promote innovation
 - Detailed quality specifications
 - Reliable performance indicators
 - Incentives and penalties

How to enhance efficiency?

6. Private financing can enhance commitment and expedite projects

How to enhance efficiency?

7. Cost of capital is a key determinant
 - Difference between private and public borrowing

How to enhance efficiency?

8. Adequate institutional arrangements are essential
 - Legislation
 - Adequate public capacity

Thank you