

Review of Best Practices in the Use of Public Private Partnership for the Development of Local Roads

Abstract

This paper presents the results of a review of Best International Practices in Public Private Partnership (PPP) with Regard to Regional Policy Issues. The review aims to cover the following topics:

- Summary of global best practice common to countries with successfully implemented PPP transactions in the road sector, with a primary focus on the fiscal policies in place and the share of responsibilities between central and local governments;
- Recommendations as to the consequences of application of those policies.

The review was carried out over a sample of countries selected to be representative of a wide variety of PPP experiences around the world to allow drawing conclusions that are applicable to a broad context of PPP initiation as well as governmental organisations. Consequently, the sample was selected to permit wide variations over the following three key parameters, expected to play major catalyst roles in the delivery of PPP transactions at the local level, to allow the study of their impacts:

- Common vs. Civil Law countries;
- State vs. Federal government structure;
- Well established vs. infant structures in the process of implementing PPPs.

The resulting sample was organised in two categories. A first category (Group A) representing the most successful PPP experiences and includes variations among the first and second criteria above. The countries selected were:

- Australia;
- Hungary;
- Netherlands;
- Portugal; and
- UK

To this regard, a definition of what is a successful PPP experience at the local level was established.

The second category (Group B) included countries at the early stages of implementing PPPs with a mixture of failing and successful experiences. The following set of countries were selected to be representative of this category, where local authorities have already been involved in the process with no clear rules of decentralisation and share of responsibilities, and where PPP legislation still to be improved:

- Croatia;
- Czech Republic;
- Romania.

The review involved a desk research and interviews with key government agencies in charge of promoting PPPs as well as with major stakeholders. The review was geared towards understanding the specific reasons and measures behind success or failure of road PPP transactions. In particular, the following aspects were the main focus:

- the government structure and levels of decentralisation;
- the PPP legislation in place;
- the country regional fiscal policy;
- the risk allocation, procurement process and funding methods;
- the procurer's experience with PPP transactions and level of use of advisors' expertise;
- the technical and financial viability of the approved schemes; and
- the country's credit rating.

Management practices of local governments' debt levels were also among the aspects considered during the review with the aim of providing answers to the following questions:

- How, and to what extent municipal borrowing contributes to the State debt?, what are the rules for taking on debt for a PPP within a local authority? and who has overall control of that debt level?
- What fiscal tools are available to local authorities and what freedom do they have to use them with/without prior state approval?
- How does the state monitor and manage the local debt levels? i.e. how local spend/borrowing levels are defined within the states PSBR levels?

The review was then completed with an understanding of how the arrangements between central and local Governments in relation to the above questions have contributed to the success and pitfalls of PPP transactions.