Chapter 1

Infrastructure governance challenges

Infrastructure has always been difficult to get right. Apart from the technical challenges, poor governance of infrastructure is a major reason why infrastructure projects fail to meet their timeframe, budget, and service delivery objectives. This chapter highlights the current challenges that policy makers are facing today, including the lack of leadership, well defined areas of responsibility and pipeline prioritisation; unstable regulatory frameworks and weak institutional capacity across levels of government; political and social opposition, as well as high vulnerability to corruption, capture and financial mismanagement at all stages of the infrastructure governance cycle.

Infrastructure represents a governance challenge

OECD analysis has shown that substantial benefits can be realised by better governance of public investment throughout its life-cycle and that the quality of public governance of public investment is linked to growth outcomes at the national and subnational levels (OECD, 2013a) as well as good budgetary governance (OECD, 2015b). Several recent studies (OECD, 2015a; OECD, 2013a; OECD, 2013b; IMF, 2015; WB, 2014) estimate that improvement in infrastructure management could lead to substantial savings and enhanced infrastructure productivity. The objective of good infrastructure governance is to make the right projects happen in a manner that is cost efficient, affordable, and trusted by users and citizens. The elements and contours of a national governance framework for infrastructure are set out in this document.

Conversely, poor governance is a major reason why infrastructure projects fail to meet their timeframe, budget, and service delivery objectives. The challenges are also similar if not greater in developing countries, where infrastructure investment accounts for a higher share of GDP and institutional frameworks are less mature. The answer to this challenge demands a strengthening of the entire institutional architecture of government in order to deliver the right strategic infrastructure on time, within budget, and in a manner that commands the confidence of all stakeholders. It raises questions such as how the public sector should prioritise, plan, budget, assess, deliver, regulate infrastructure.

By the governance of infrastructure is meant the processes, tools, and norms of interaction, decision-making, and monitoring used by governmental organisations and their counterparts with respect to making infrastructure services available to public and private users, including citizens (See Annex C for a description if infrastructure delivery).

The initial paper this document builds on was welcomed by the OECD Ministerial Council Meeting, 3-4 June 2015, in Paris, France, and at the G20 Finance Ministers and Central Bank Governors Meeting, 4-5 September 2015 in Ankara, Turkey. A list of key relevant OECD Recommendations that inform this work can be found in Annex A.

Strategies, institutions and values need to be aligned

Regardless of how public infrastructure services are delivered, there are a number of challenges, discussed below, that all countries face.

Designing a strategic vision is crucial but difficult. A necessary condition for a successful infrastructure programme is appropriate strategic planning that sets a long term vision for the where the country should be in, say, 20 years and what infrastructure are needed. This requires identifying what investment should be undertaken and determining essential components, needs, and trade-offs and how they should be prioritised – across sectors, projects and regions. However, the many dimensions of infrastructure governance, as discussed below, make this difficult to do.

Infrastructure projects are vulnerable to corruption, capture and mismanagement throughout the infrastructure cycle. The size of the projects, their technical complexity and the multiplicity of stakeholders involved in the infrastructure cycle make them particularly prone to corruption, capture and mismanagement. As noted in The OECD Foreign Bribery Report (OECD, 2014a) two-thirds of all foreign bribery cases occurred in four sectors related to infrastructure; extractive (19%), construction (15%), transport and storage (15%) and information and communication (10%).

Without well-managed consultation good projects may falter. Involving stakeholders such as users, civil society organisations, and the private sector can improve legitimacy, project quality, and ultimately the effectiveness of the asset. Stakeholder involvement can establish a shared vision for development, improve the assessment of investment needs and of the environmental and social sustainability of the project, reveal the importance of cross-border linkages, strengthen trust in government, and cultivate support and adherence for specific investment projects.

Co-ordination across levels of government is difficult. Sub-national governments often play a leading role in infrastructure investment, and infrastructure assets' impact oftentimes does not follow jurisdictional lines, intergovernmental co-ordination is important. However, regional preferences do not always easily align with national ones and intra-regional rivalries may pose a challenge to co-ordination. Therefore, better public investment co-ordination and governance can materially boost investment outcomes (OECD, 2013a; OECD, 2014a).

Uncertainty with regards to revenue flows and sources can erode confidence in a project's affordability. Long-term financial sustainability can be an important challenge in infrastructure sectors that rely on user charges, in particular water, energy, and to some extent transport. Evidence shows that tariff-setting is a very difficult task and can be a highly political endeavour. This can make investors reluctant to invest.

Unstable regulatory frameworks and political systems can prevent long-term decisions. The instability or lack of credibility of institutions in charge of regulating infrastructure development and management as well as burdensome and frequent changes in the political system and consequent regulatory framework will increase the sense of risk for project developers.

A political jurisdiction and an infrastructure asset's functional area are often not the same. Since the efficient scale of the asset often exceeds the boundaries of individual regions or localities (OECD, 2014a) horizontal co-ordination across jurisdictions is essential to increase the most value and affordability of the investment.

Weak institutional capacity undermines project development. As part of the prioritisation of projects and then detailed project preparation a number of studies are carried out with increasing degrees of accuracy e.g. the demand for the infrastructure service, the cost of the asset and environmental impact assessments as well as cost/benefit analysis. This then serves as the basis for the project development. This has proven difficult to do well in a number of cases. This can be because of a lack of organisational, technical, commercial skills, co-ordination and experience, and the process can at times be forced due to political pressures, which leads to a - probably more expensive - scope change. In the end, this may result in an expensive contract, a failed bidding or (if relevant) a project unable to attract private financing.

A lack of systematic data collection on performance undermines evidence based decision making and disclosure of key information. Countries should carefully assess which delivery modality (e.g. public works, PPP, etc.) is likely to yield the most value for money. Good practice requires the use of comprehensive cost-benefit techniques and a robust assurance process, which may be challenging due to a lack of systematic data. Presently very few countries systematically collect and use financial and non-financial data from various types of infrastructure investments.

Allocating risks between public and private parties can be difficult. Many projects flounder due to a misalignment between what private sector partners will accept in terms of risk and the expectations of some public sector entities. The public sector should only transfer those risks which the private side is better suited to manage. For instance, as noted above, the private sector will usually be more suited to handle commercial risks than the public sector, whereas the opposite is usually the case with respect to legal and political risks.

Institutional incentives may generate suboptimal investment choices. At times, projects may be chosen for reasons other than maximising cost effectiveness. Motivations might include a wish to capitalise on an existing subsidy or a wish to finance the asset in a non-transparent manner off the government's balance sheet by using, for example, a PPP.

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Political dynamics may undermine sound decision-making with regards to infrastructure. Related to the above point, the prioritisation of public investment needs is particularly prone to capture and grand corruption. Stakeholders involved at that stage may be tempted to push for or reject infrastructure projects that would primarily benefit or protect their own private or political interests. In the same manner, the electoral cycle may prompt governments to push projects forward that should not have been prioritised.

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