

Leading Practices on Promoting and Prioritising Quality Investment

In April 2014, G20 finance ministers and central bank governors committed to develop a set of leading practices to promote and prioritise quality investment, particularly in infrastructure. These leading practices are detailed below.

Preamble

The purpose of the Leading Practices is to assist governments to put in place the conditions and frameworks necessary to encourage greater private sector involvement in infrastructure delivery, where private sector involvement can contribute to achieving the highest value for money for taxpayers. The Practices provide guidance to governments on ways to identify, prioritise, plan and deliver infrastructure projects. The Practices take as their premise that governments first put in place the preconditions for an attractive market for investment in infrastructure by the private sector. These preconditions are elucidated below.

- Governments should provide a clear, strong and consistent **commitment to infrastructure investment** in order to attract, and provide a stable environment for, private sector investment. This should include top-level political support and broad stakeholder agreement.
- Governments should support **stable macroeconomic conditions** that encourage private sector investment, including through appropriate fiscal and monetary policy frameworks, and financial sector regulation.
- Governments should create the conditions for a **competitive** infrastructure market, through measures such as sound competition frameworks and access regimes, and lowering barriers to entry. This includes removing excessive and lengthy regulation and processes, and reducing complexity.
- Governments should uphold the **rule of law** through predictable, stable, transparent, fair and reliable regulation, supervision and procedures. This includes putting in place appropriate regulatory and supervisory frameworks to ensure sound corporate governance.
- Governments should build **public sector institutional capability** in project development and implementation, and foster greater knowledge sharing and transparency across levels of government, jurisdictions, the private sector and other stakeholders.
- Governments should be responsible for setting public investment at a level that is **fiscally sustainable** and ensuring that fiscal risks from public-private partnerships are well managed.
- Governments should foster the **efficiency** of investment in infrastructure, including through encouraging market determination of prices.

1. Project identification and prioritisation

- 1.1. Governments are more likely to attract private sector investment in infrastructure where they have clearly articulated a long-term integrated national infrastructure strategy and the key projects required to achieve them.

- 1.1.1. The national infrastructure strategy should describe the roles of the public and private sectors and clearly lay out the criteria under which private sector participation is permitted or encouraged for a given activity or sector.
- 1.2. Clear and credible infrastructure project pipelines are important in conveying governments' intentions to meet particular infrastructure needs, prioritising projects and providing transparency and certainty to the private sector and other stakeholders.
 - 1.2.1. Project pipelines should be consistent with long-term integrated infrastructure strategies.
 - 1.2.2. Projects should be prioritised on the basis of cost-benefit analysis, affordability and the need for particular types of infrastructure or projects. The assessment of the project should not only include the anticipated economic benefits and costs, but also the social and environmental impacts.
 - 1.2.3. Where possible, project pipelines should include an indication of likely timing and procurement methods.
- 1.3. Guidelines on effective project needs assessment can assist in selecting and defining projects. Project needs assessment should include:
 - 1.3.1. Establishing that there is a gap in infrastructure needs that a project will fill.
 - 1.3.2. Considering projects in the context of a long-term infrastructure strategy.
 - 1.3.3. Examining all reasonable options for the scope, structure and delivery of a project, including the possibility of user charging, with a focus on affordability, risk allocation, bankability and value for money.

2. Project preparation

- 2.1. Rigorous, transparent and consistent project preparation is necessary in order to develop and structure individual prioritised projects appropriately to attract private investment and deliver the best value for money to the taxpayer. Where possible, governments should seek to standardise approaches to project preparation. Such approaches could include:
 - 2.1.1. Detailed project design and costing.
 - 2.1.2. Business case appraisal of project proposals, using detailed cost-benefit analysis including assessments of project externalities and independent demand and revenue forecasts.
 - 2.1.3. Granting of regulatory and legislative approvals (such as land acquisition, planning and environmental approvals) prior to bidding.
 - 2.1.4. Choice of procurement option and structure.
 - 2.1.5. Market sounding through consultation with the private sector.

2.1.6. Provisions for resolving disputes between parties if they arise.

2.2. Private sector investment will be best facilitated by structuring projects in such a way as to have appropriate risk and return characteristics. This should be informed by market sounding, and could include:

2.2.1. Assessing capital, operational, decommissioning and life-cycle maintenance costs.

2.2.2. Considering appropriate mechanisms for risk sharing.

3. Project procurement and decision-making

3.1. Governments can facilitate private sector investment through tender and decision-making processes that are:

3.1.1. Open and competitive, including by reducing barriers to entry for domestic and international participants.

3.1.2. Transparent, with appropriate procedures to ensure integrity and prevent corruption in all public and private sector parties.

3.1.3. Streamlined, to provide clarity regarding process requirements and decision-making responsibilities, and avoid unnecessary costs or duplication for public and private sector parties.

3.1.4. Consistent across sectors and over time in both the structure of tender processes and the application of decision making, where possible.

3.2. Where possible, governments should seek to simplify and standardise project documentation and tendering processes. This could include developing standard processes and documentation for various stages of project procurement and decision making, including areas such as market sounding, expression of interest, bidding, and final decision-making and negotiation stages. Governments could also consider providing advisory support to the private sector on fulfilling process and documentation requirements when submitting tenders and project proposals.

3.3. In the event that they pursue unsolicited proposals governments should develop guidelines for their clear and transparent consideration and facilitation in order to manage any risks to competition and transparency and provide value for money, whilst capturing the benefits of innovative and unique proposals developed by the private sector.

3.4. Governments should develop a project data reporting system and promote ex-post project assessment.