



# THE PUBLIC SECTOR AND HOW TO MAKE COLLABORATIVE DELIVERY WORK

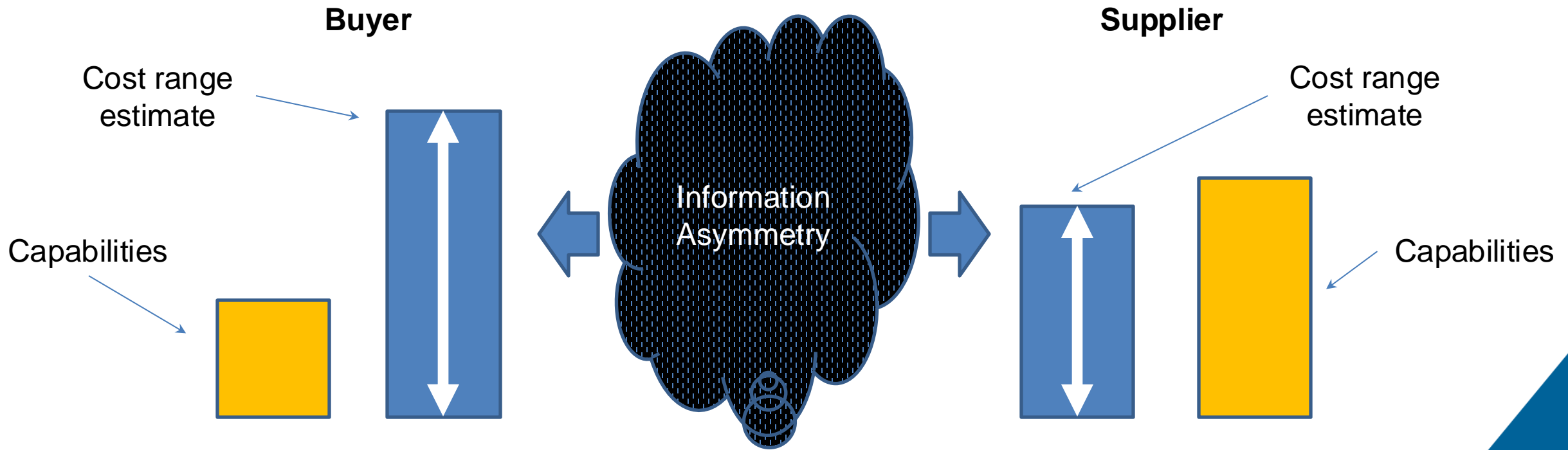
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Dejan Makovšek, PhD  
Infrastructure and Public Procurement Division  
Public Governance Directorate



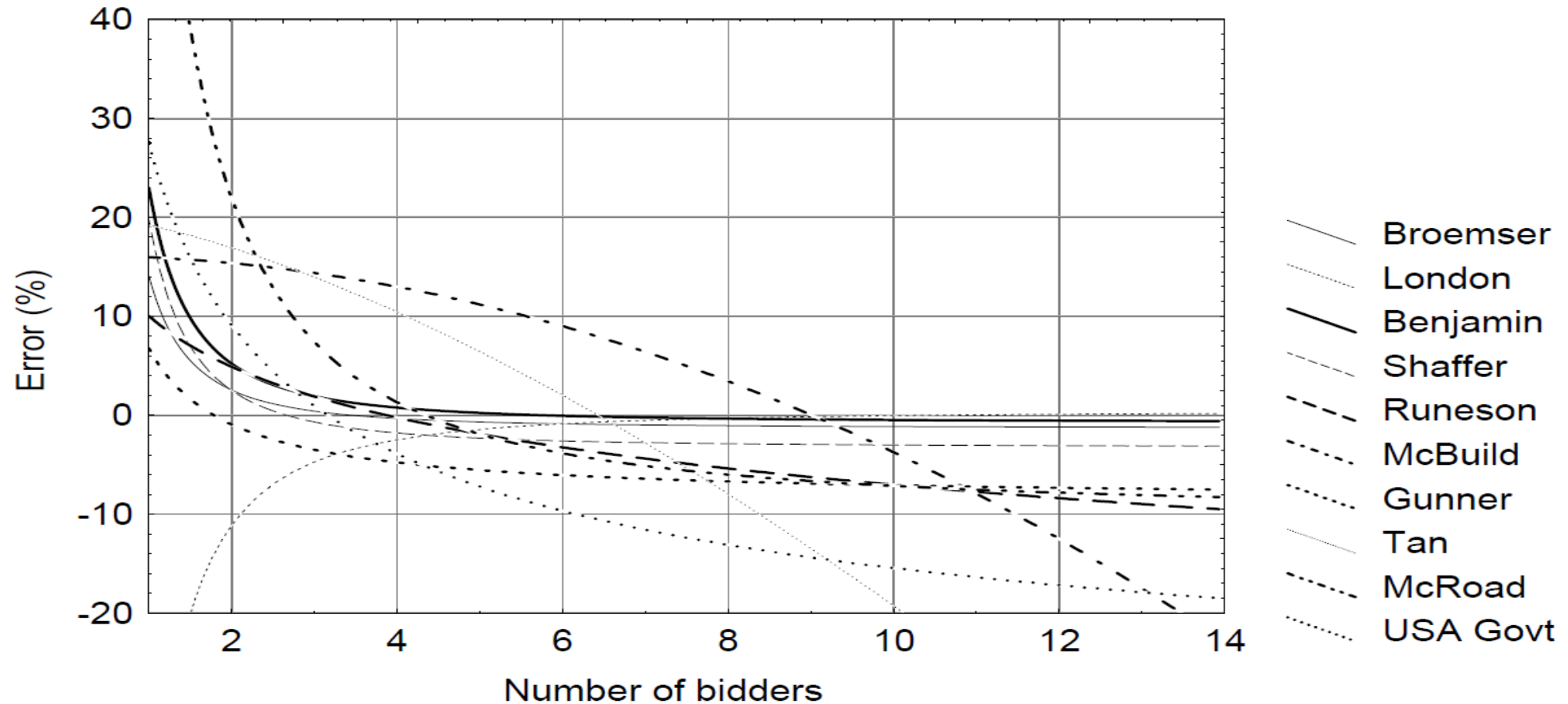
# Not forgetting why price-based competition was the gold standard: information asymmetry

**What is the efficient cost of the product in a negotiation?**





... and if you're tendering reasonably simple contracts, competition does work (despite variation claims)!



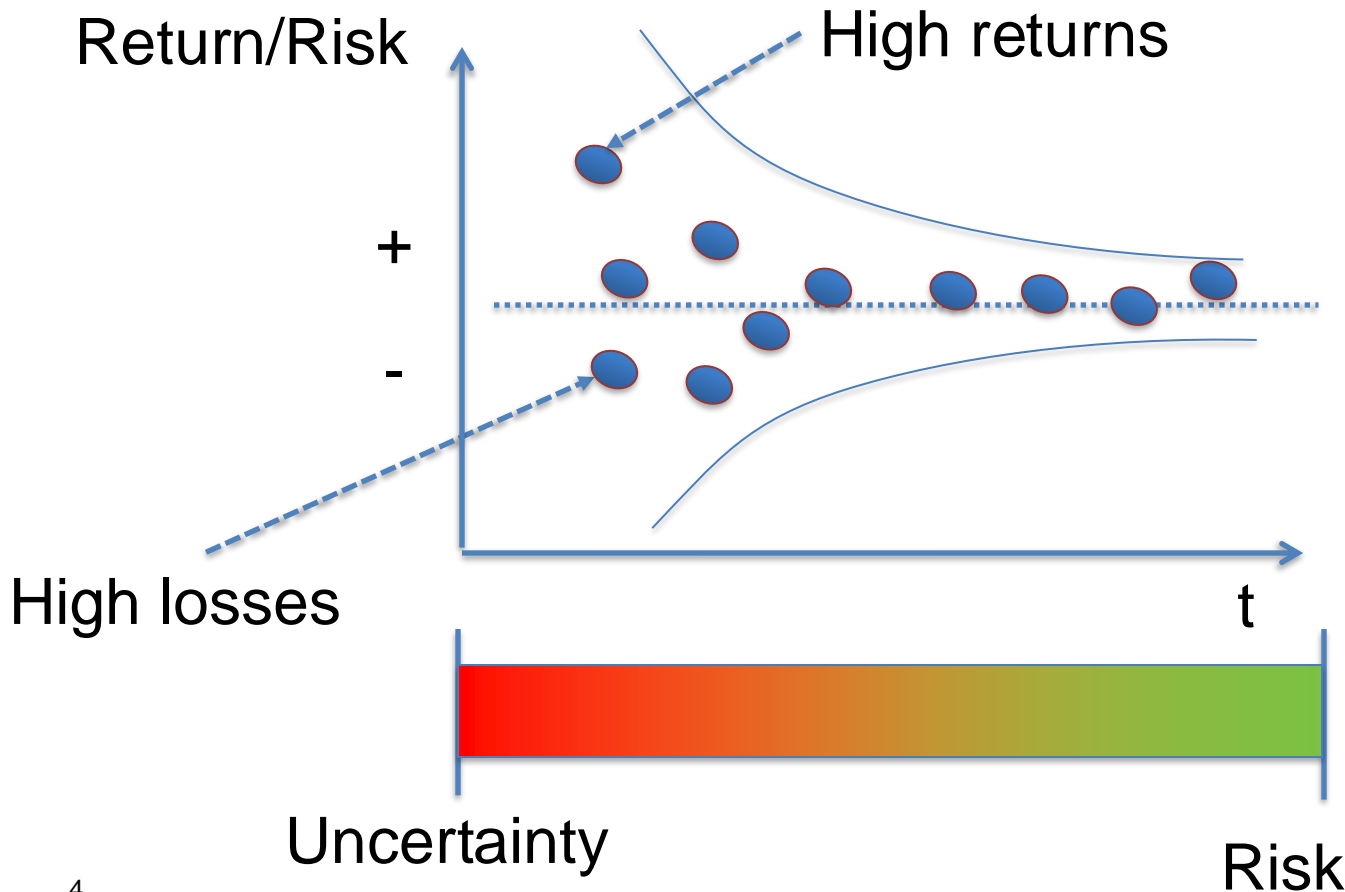
Notes: The "Error %" represents the difference of the lowest bid compared to the tender estimate (the reserve price). The names of the curves represent different datasets.

Source: Skitmore (2002).



# How does uncertainty matter in risk pricing (same in conventional financial economics... or construction)

## Bidding “aggressiveness” v risk pricing efficiency



Two conditions for efficient risk pricing?

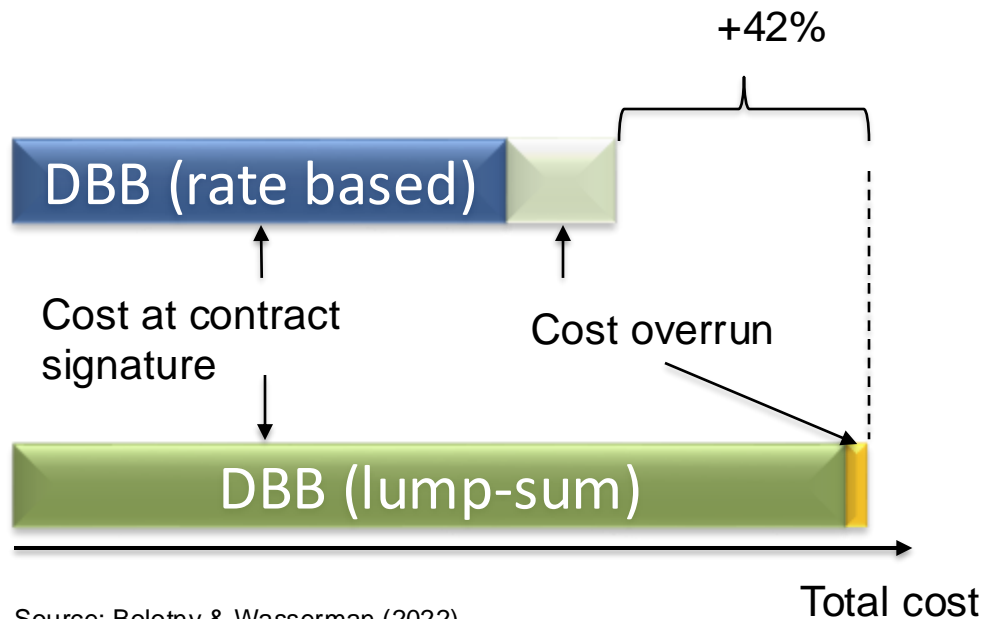
1. Credible commitment
2. Competition
- 3. Information (about risk)**

Ad 3) Who has serious cost benchmarking data on major infra project outcomes?



# The current DB/EPC market is exhibiting symptoms of inefficient risk pricing

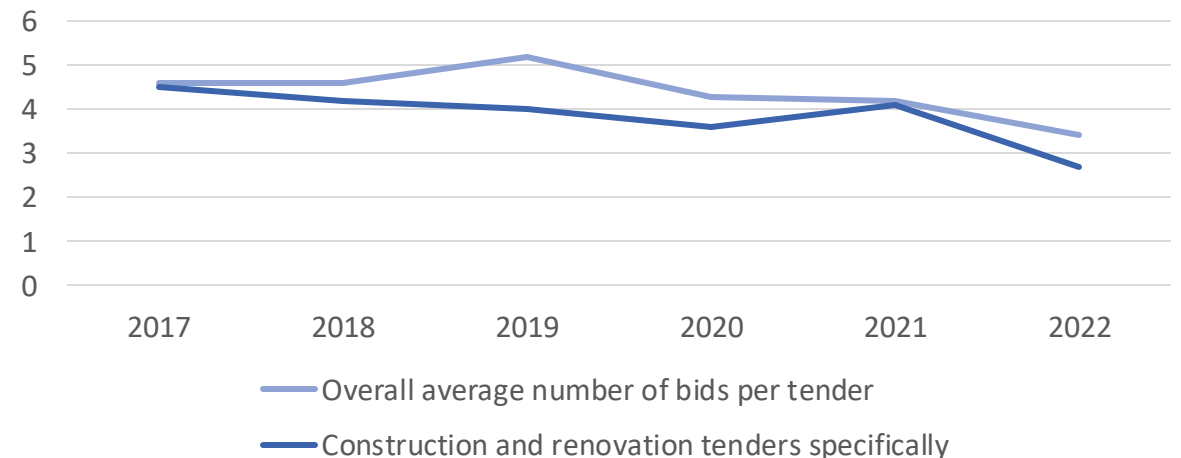
- Empirical studies demonstrate excessive contingencies in lump-sum infra contracts



Source: Bolotny & Wasserman (2022).

- Big contractors exiting the market (transport, water...)

Number of bidders for infrastructure works (DB/EPC contracts) – example from NL/RWS

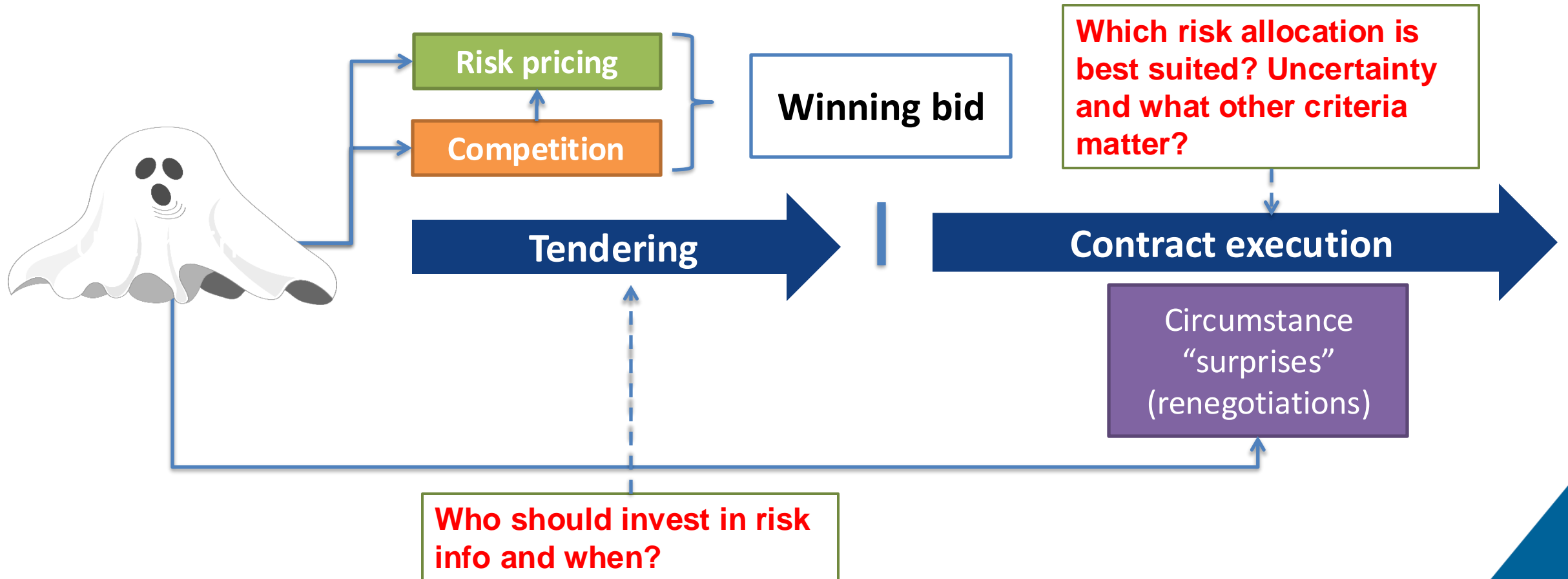


Source: Construction Risk Management in Infrastructure Procurement: The Loss of Appetite for Fixed-Price Contracts (OECD 2023).



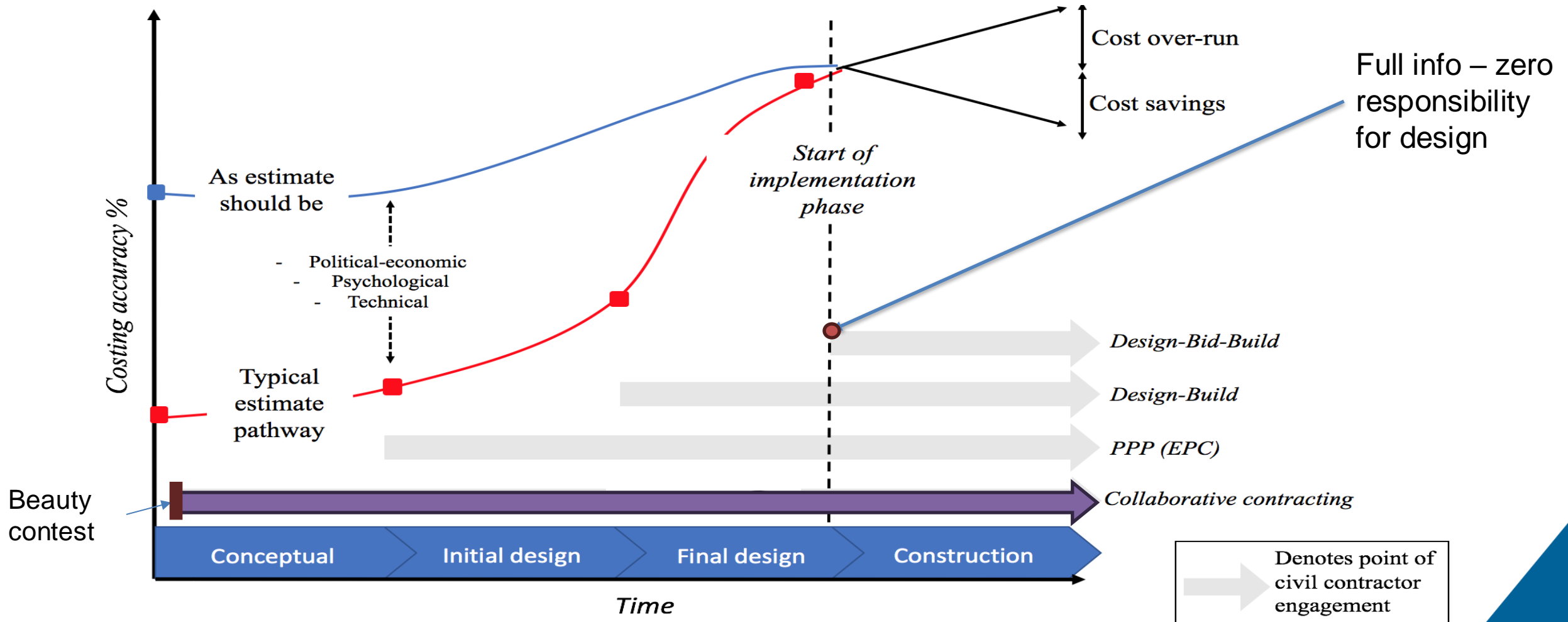
Uncertainty affects risk pricing upfront + the potential for renegotiations undermines the very idea of competition

The role uncertainty plays in contracts more broadly





# Collaborative delivery models allow maximum pre-contract info exchange at the expense of competition





# Key challenges to a politically sustainable use of collaborative delivery models? (I)

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- What are the capabilities that a fit-for-purpose public infrastructure buyer should have to competently engage with a private consortium in collaboration? What should inform the boundary between in-house provision and market?
- Can a lack of in-house capabilities be completely offset through engaging private consultants?

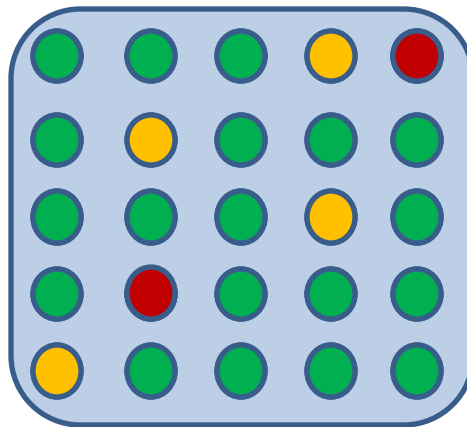




## Key challenges to a politically sustainable use of collaborative delivery models? (III)

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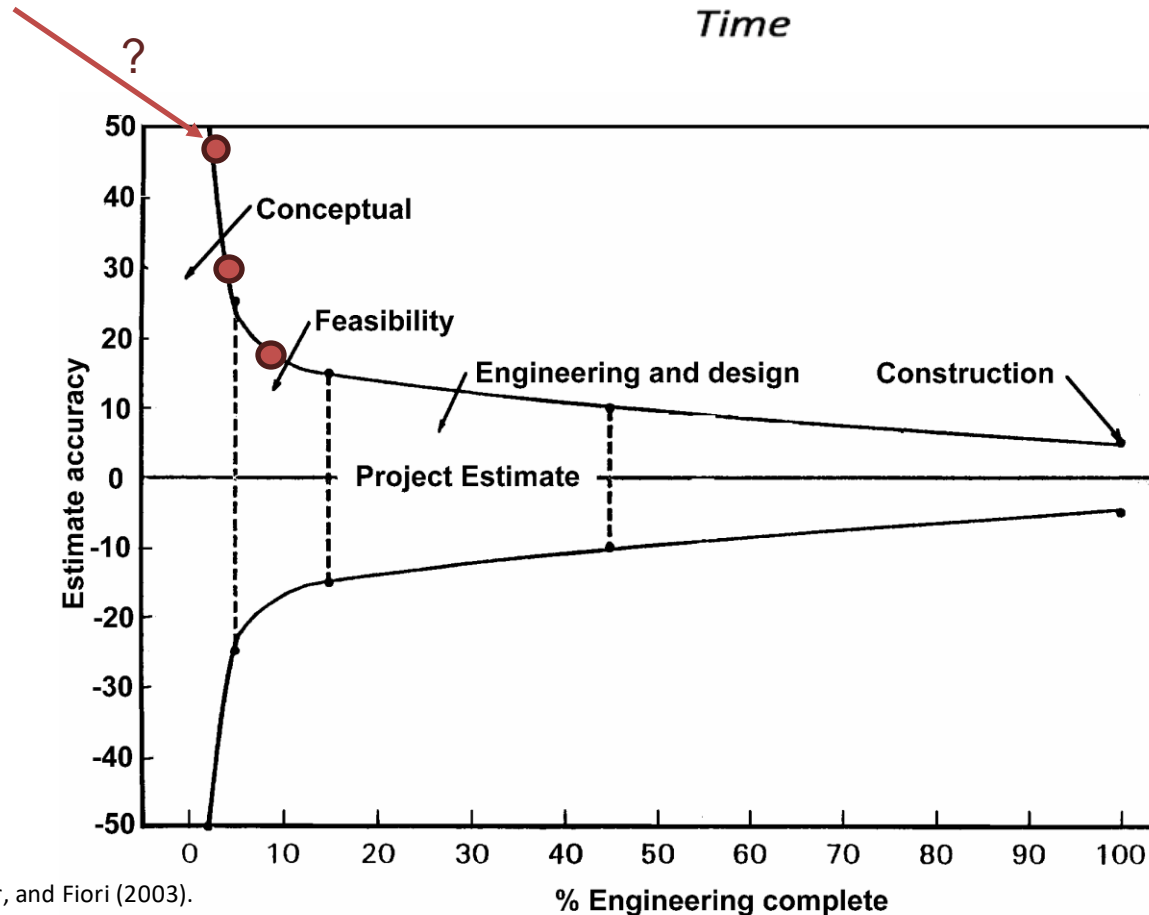
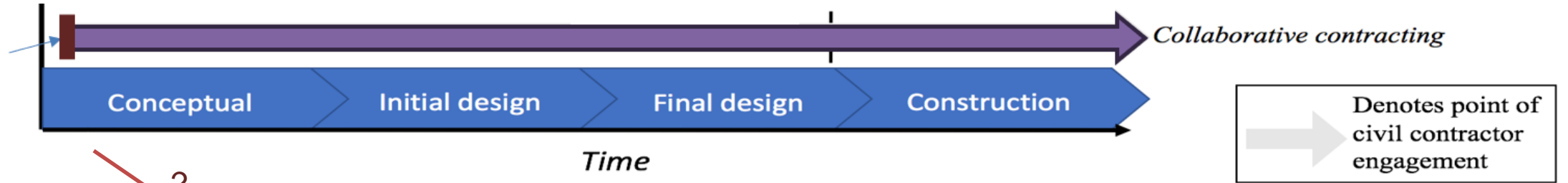
- How can we ensure a more targeted application of collaborative principles in infrastructure projects so it is used where it can add the most value?
- One aspect is cost, the other value – when will a collaborative delivery model lead to superior product compared to a competitive counterfactual?





# At what level of design maturity do we set the target price?

Beauty contest



Who has granular cost benchmarking data on major infra project outcomes to inform estimates?

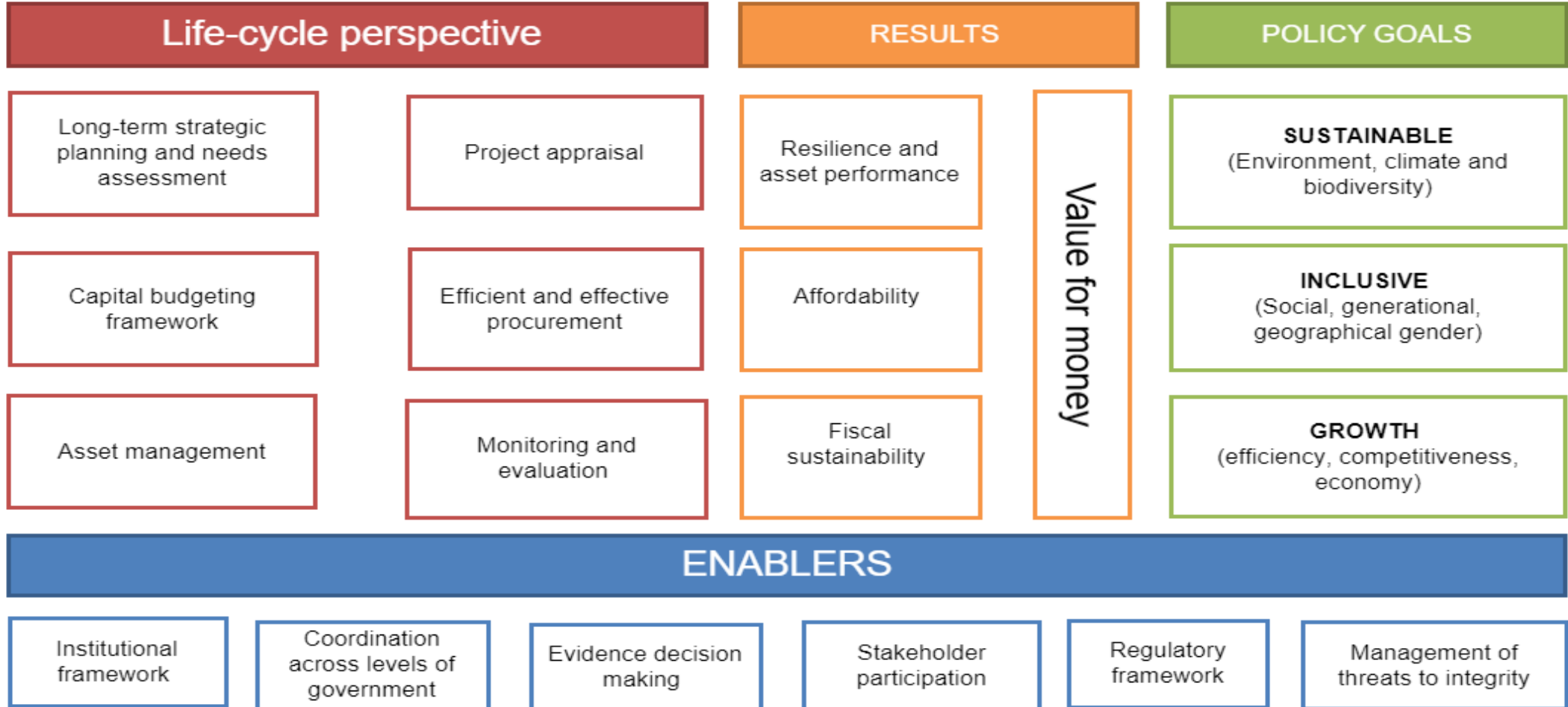


# Engaging in an evidence-based dialogue with the OECD



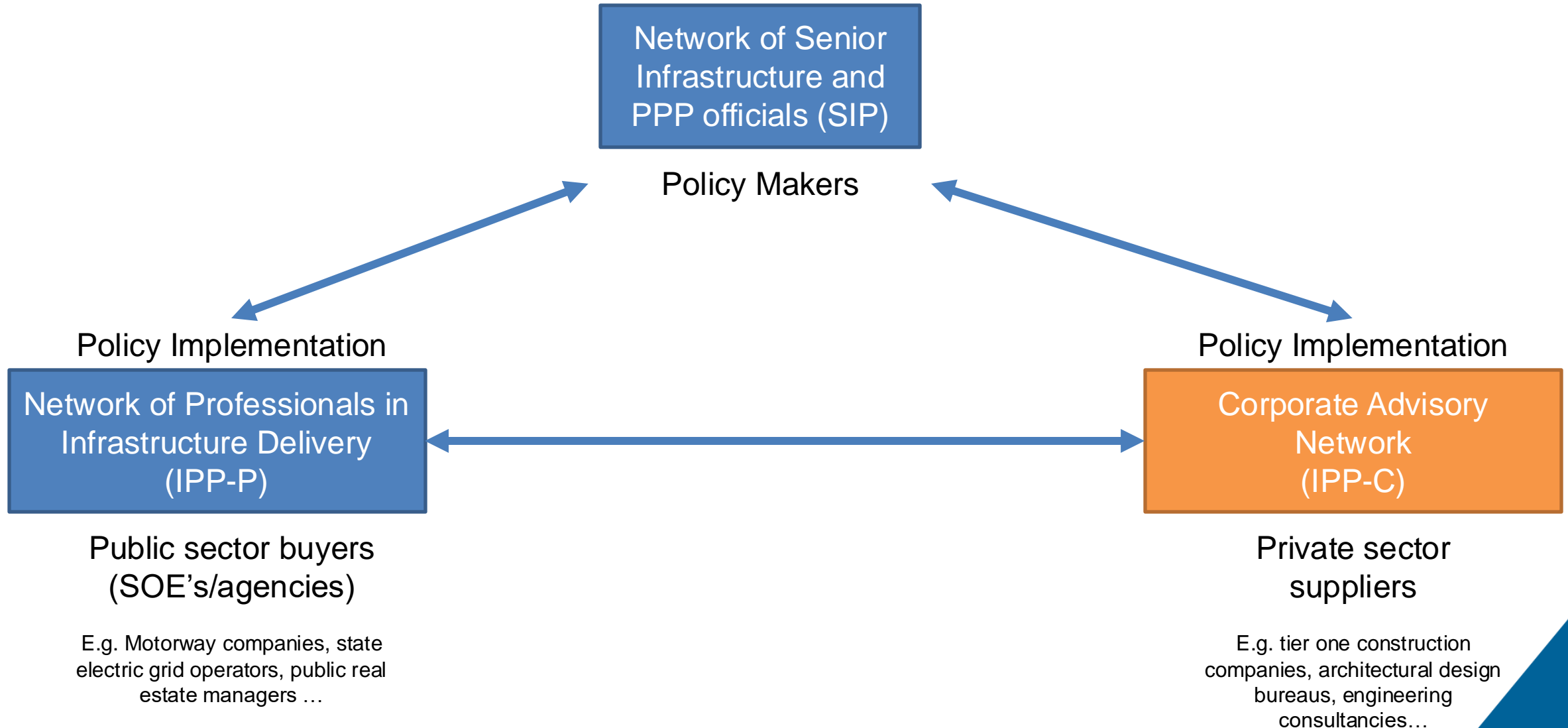
# The OECD infrastructure governance recommendation

(governance = decision-making frameworks)





# The context of the Networks of the IPP





# Networks in gestation

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- **Network of Professionals in Infrastructure Delivery**
  - Target: public sector project owners
  - Orgs already on board to date (Trafikverket, Nye Veier, Infrastructure Canada, National Infrastructure Commission, NZ Infrastructure Commission...) + more discussions ongoing.
  - Funded by supporting organisations.
  - Launched in April 2024.
  - First research topic – cost control during infra permitting and permitting acceleration.
- **Corporate Advisory Network**
  - Target: major private sector contractors, engineering consultancies, design bureaus...
  - Successful precedent at the OECD/ITF
  - Supplier perspective and “win-win” issues to be investigated.
  - Funded by supporting organisations.
  - Launch when at least 5 expressions of interest from major players attained.



## The modus operandi of the new networks

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- **Not just a discussion platform** – the networks fund the OECD’s research on current and forward-looking policy and implementation issues (win-win research/policy proposals).
- **Participants in the networks help inform the research agenda** of each network through a consultation process, however the OECD retains its independence.
- **Multiple opportunities to facilitate communication between SIP, Network of Professionals in Infrastructure Delivery, and Corporate Advisory Network.**







THANK YOU  
DEJAN.MAKOVSEK@OECD.ORG



# What then are the symptoms of risk pricing inefficiency?

