Fifty semi-structured interviews were conducted with senior professionals involved in public-private partnerships (P3s) across Europe. Interviewees included bankers, equity providers, financial advisors, economic consultants, credit rating analysts, concessionaires and senior government officials. A variety of opinions were expressed yet recurring themes, or “lessons learned,” soon emerged. These lessons derive, not from theory or any particular political ideology, or from judiciously selected case-studies—often the case with P3 “research”—but from the collective experience of seasoned practitioners who have been working on P3s in various roles for nearly two decades.

Space constraints limit the detail that can be reported here. For the full survey results, see my website at www.robbain.com.

P3s & Rail
The European experience of P3s in the rail sector—on high speed rail projects, airport links and underground metros—is one of mixed success. A number of high-profile projects have encountered problems or have failed to deliver the expected benefits. Interviewees felt that rail projects simply incorporated more risk than other asset classes, not all of which can be anticipated at financial close.

Risks that have beset the European P3 rail sector have resulted from the sheer size (capital intensity) and complexity (technical intensity) of some deals. Large projects (1 billion+) may be attractive to a restricted number of bidders—limiting competition—and questions were asked about the ability of fixed-price contracts to deliver best value on highly complex projects when bidders respond by pricing-in significant contingency provisions.

Interviewees also pointed to the multitude of interfaces with third parties that rail projects entail—over which the private sector partner may have little control—and the difficulties associated with accurate demand projections for services or passengers. High speed rail in particular requires low gradients, leading to more structures (bridges and tunnels—with increased geological risk exposure) and involves stringent engineering tolerances with low error margins.

In a number of jurisdictions, the approvals processes associated with rail—for licences, consents and permits—were reported to be unduly onerous; again exposing projects to the whims of parties disassociated from P3s (or possibly opposed to them). Additionally, resistance from within the sector was noted, from an ingrained railway culture with traditional operating practices fighting against what it regards as creeping privatization. Finally, political risk loomed large as these projects feature prominently on politicians’ radar screens—such is their size, visibility and importance, and the fact that they typically require sizeable financial commitments from public sector budgets over many years.

P3s & Roads
Road projects on the other hand—highways, bridges and tunnels—were reported to “sit” much more comfortably with the P3 procurement philo-

(Continued on page 20)
P3s Work Best When:

- Projects have a strong policy rationale, retain characteristics of essentiality, and enjoy broad public support and political commitment.
- Service outputs can be clearly defined and specified contractually.
- The integration of various project and financing contracts makes sense.
- They are applied in mature, stable sectors where (a) the pace of development is gradual and (b) service delivery requirements and usage are predictable.
- Real competitive tension can be maintained throughout the procurement phase.
- Transaction structures avoid over-sophistication and projects retain sufficient financial (and contractual) flexibility to accommodate departures from expectations.
- Applied to straightforward assets of a modest size (P3s sit less comfortably with highly complex mega-projects involving major technical challenges).
- Risk allocation appropriately reflects stakeholders’ capabilities and capacity.
- Private finance (real 'hurt money') is at risk.
- They are selected because of efficiency and their value-for-money benefits (rather than being off-balance sheet, fashionable or the only game in town).
- The procuring agency commits to a long-term active partnership, is commercially literate, has strong negotiating skills and responsive decision-making processes.
- The procuring agency selects a sustainable private sector partner, not necessarily the cheapest provider.
- Used for separate, stand-alone projects with minimal interface risks.

Warning:

A project that does not make sense—or a contract that cannot be let to the market on a sensible basis under a traditional procurement model—is unlikely to be transformed by making it a public-private partnership.
Interviewees reported positive experiences with on-time and within-budget asset delivery, when related to road projects. There were clear design/build (and build/operate) synergies to be exploited and good examples of private sector innovation with construction design, techniques and materials were noted.

Payment mechanisms which simply re-profiled government commitments could cause similar long-term affordability problems in other countries.

Despite this, the use of P3s in the European road sector was reported to be largely successful. Roads have been at the forefront of many countries’ P3 programs and this trend looks set to continue.

Closing Comments

Throughout the interviews, comments were made about the strengths and weaknesses of P3s in different circumstances. The key lessons learned from the survey are summarized in the panel that accompanies this article.

Other frequent observations included the fact that P3s are not just about procurement—they’re about long-term relationships; active partnerships between the public and private sectors. And the partnership model continues to evolve as different countries test the traditional boundaries between state provision and private enterprise. However, one issue above others stood out from the survey. P3s deliver best value when applied to distinct, stand-alone projects that can be separated operationally, institutionally and economically from other activities. Interviewees remained skeptical about the value-for-money benefits which could be realized from projects artificially carved-out simply to make them “P3-able.”

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