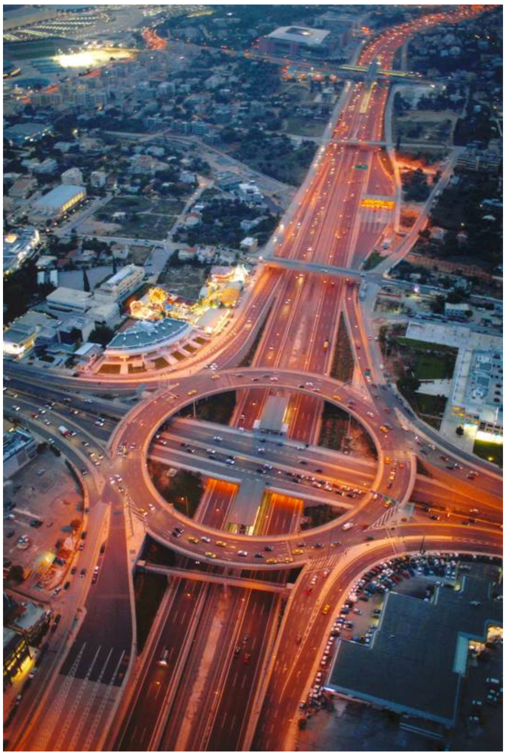
Public-Private Partnerships in Transport

There is no standard definition of Public - Private Partnerships (PPPs) but there are some typical characteristics. These centre on formal contracting between the public and private sectors for transport infrastructure development, maintenance or service delivery; appropriate allocation of risk sharing; and the use of private sector management skills and finance. The main objectives are to gain efficiency, improve accountability, mobilise additional resources and extend access. While it is now recognised that in many countries the public sector will remain the main owner and service supplier, PPPs are seen as part of a range of options that need to be examined to support local poverty reduction strategies, both directly and through economic growth.

As outlined in the World Bank Group Transport Business Strategy, 2008 - 2012 there is a wide and flexible range of PPP business models, covering management contracts, leasing, franchises and concessions through to full privatisation. Such PPPs can also cover construction, rehabilitation, operation and financing of transport for existing or new facilities. The Private Participation in Infrastructure database, tracks expected total public and private investment at financial closure, by sector and region. It is based on available public information and therefore has limited coverage of small-scale projects. In 2006, some 108 transport projects with private participation valued at $ 26 billion in 30 low and middle income countries, were reported as being closed; a record that surpassed the previous 1997 peak. There are no comparable public sector only investment statistics available. The most



common type of PPP observed were concessions for existing assets and greenfield projects. The growth in PPPs is led by roads and bridges, particularly in large, middle income or high growth countries like China, India, Brazil, RSA and Mexico; in most of the 150 or so developing and transition economies, new private finance for transport infrastructure remains very limited. Interestingly, countries like India and China are also becoming major PPP transport infrastructure exporters and financiers in their own right.

Compared to earlier periods, many road and bridge projects now show a diversification in revenue sources, with less reliance on tolls and more government support through capital grants, shadow tolls, output based subsidies or forms of revenue guarantees. Affordability and governance, however, remain key constraints, particularly in poorer, often fragile or landlocked states. Nevertheless, the scale and nature of the transport infrastructure deficit means that all options need to be systematically and rigorously considered.

Practical experience suggests that the most promising areas where significant private sector participation can be pursued are where there are substantive current or future international transport revenues from partner countries. For this reason, PPPs are more common for port and airport terminals, rail and road freight operations, urban or high density toll roads (often associated with export corridors), plus urban public transport. PPPs in maintenance and rehabilitation of surface transport assets can have a wider and deeper rural footprint, but generally revenue and affordability issues limit potential use in providing rural transport solutions. Progress has however been made in using sustainable PPP approaches, for example linked to output-based aid and community-based performance contracting to enhance rural infrastructure networks and improve mobility.

The World Bank Group is a major source of PPP transport investment and knowledge resources; in particular, it hosts the multi-donor Public-Private Infrastructure Advisory Facility (PPIAF), which provides technical assistance grants to facilitate the enabling environment for PPPs in productive infrastructure and also disseminates a range of global knowledge products, including policy notes, research studies, best practice reviews and toolkits. The Bank also has a transport anchor website, as well as regional gateways. Other regional development banks such as the Asian Development Bank and African Development Bank also provide advice and support for PPPs in transport; in the latter case, this is facilitated by the Infrastructure Consortium for Africa (ICA).

Further downstream in the PPP project cycle, a number of investment and advisory facilities have been created to specifically address market gaps or perceived failures. These include the multi-donor Private Infrastructure Development Group, the International Finance Corporation, the UK Department for International Development and the European Union / European Investment Bank. Guidebooks for such PPP donor project preparation and investment facilities are available from the publications section of the ICA website.

Tolls and Concessions

Most countries do not have toll roads and even where they exist, they are normally less than 5 % of the total road network. Toll roads may also be wholly owned and operated by the public sector as well as being public-private partnerships. Based on the PPI database (see www.ppiaf.org), the latter segment is booming. In 2007, some 63 road projects with a total value of £ 18 billion were reported as closed. These are highly concentrated in few countries, mainly India, China, Indonesia and Mexico; none were reported in Sub-Saharan Africa. Government support payments, either fixed or variable (shadow tolls), were also evident in at least one third of the total.

The main objectives for tolling are to raise new finance flows that are also stable and dedicated to the project road. Direct user charges serve to internalise costs and benefits. There may also be regional or private sector development objectives.

Mechanisms vary but include maintain and operate contracts; Rehabilitate, Operate, Transfer (ROT); Build, Operate and Transfer (BOT); and corridor management / maintenance contracts. The ability to mobilise additional finance, deliver new construction or enhanced maintenance clearly varies with the mechanism chosen. BOT, with 20 to 30 year cycles, tend to dominate in Asia while 5 to 10 year maintenance concessions are more common in Latin America.

Again, the World Bank website provides a good introduction to knowledge resources regarding toll roads and concessions. In 2003, PPIAF also created an interactive toolkit, with an extensive bibliography, outlining public-private options for developing, operating and maintaining highways. India is now a market leader in the implementation of toll road projects; the policy reforms and enabling regulations that facilitated toll road development are clearly set out in the October 2004 World Bank report "India - Financing Highways".

Key Documents

- Amos, P. Public and Private Sector Roles in the Supply of Transport Infrastructure and Services. Transport Paper TP-1. World Bank Transport Sector Board, Washington, D.C., 2004.
- US Department of Transportation, Federal Highways Administration, Case Studies of Transportation Public-Private Partnerships around the world, July 2007, final report by AECOM consult.
- Kessides, I. N. Reforming Infrastructure: Privatisation, Regulation and Competition. Policy Research Report. World Bank, Washington, D.C., 2004.

Presentations

- Regional Workshop on PPPs and Transport, Riga, Latvia, March 2007

Recommended Links:

- Asian Development Bank
- Global Facilitation Partnership for Transportation and Trade
- Global Partnership on Output Based Aid
- Infrastructure Consortium for Africa
- International Finance Corporation
- Private Infrastructure Development Group
- UK Department for International Development

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