Public Private Partnerships Schemes and Railways Financing

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Conclusions and Recommendations

Experts from various countries, rail authorities, international organizations and private consulting firms shared their experience of applying Public Private Partnership schemes and railway financing. The participants were of the opinion that examples of effective application of PPP schemes to railways could assist in the development of guidelines and/or best practices.

The participants:

- Agreed that at the moment there are – regrettably – only cuts in governments' budgets regarding transport infrastructure investments including railway;
- Observed that there were and continues to be demand on Pan-European level for investments in new infrastructure and / or upgrade of the existing lines;
- Noted that the most difficult part for railways financing is to identify the set of principal funding schemes;
- Observed that infrastructure technology, especially for railways investments, is very complex, resources intensive and expensive;
- Noted that the return on investment of railways projects under PPP schemes is very long, exceeding 30 years; in some cases overpassing 50 years;
- Observed that the majority of railways investment projects under PPP schemes have been focused on the development of High Speed lines and airport / seaport links;
- Observed that there are not many railway investments under PPP schemes, especially compared to road transport;
- Agreed that there is usually less political intervention on road projects – investments under PPP schemes - than on rail projects;

- Observed that railways projects are usually more complex than road projects, as they include viaduct construction, track works, overhead lines, tunnels construction, multisystem vehicles including their testing, signaling and safety systems, etc.;
- Agreed that PPP project construction usually perform better thanks to the rightly set incentives and thus have a potential to ensure better service and less money for investment;
- Agreed that there are different methods for Governments to choose between traditional methods of investments and PPP schemes while the Value For Money should be always the priority;
- Noted that the political interventions can be significantly reduced through their monetization when applying PPP scheme; however it remains very important challenge to reduce the political risk during tender and during execution of a PPP project;
- Noted that investments on railways and not only under PPP schemes are not systematically cheaper than traditional ones;
- Noted that appropriate risk allocation is needed; the risk should be allocated to the partner that can control and mitigate the risk;

Considering the implementation of PPP schemes on railways investment as an important opportunity and parameter for railways development which can only be tackled through collective efforts and cooperation at all levels, the participants agreed on the following recommendations:

Recommendations:

1. The lessons learned during the workshop should be disseminated to Governments, Governments' entities, rail authorities and other organizations that are involved in railways investment, mainly through the sessions of the Working Party on Rail Transport;
2. Governments should have thoroughly analyzed every business case and its validity, profitability and risk assessment before proceeding to tenders for investments under PPP schemes;
3. Governments should make their investment proposals under PPP schemes attractive for the investors mainly through the use of international standards, transparent and open processes and discussions and mainly through clear goals and objectives fully supported by political will;
4. Governments should avoid complex structures and therefore surprises for them and for their investors; the DBFM (Design, Build, Finance and Maintain) or Life Cycle Contracts are the most commonly used;

5. Governments should strengthen their regulatory institutions, prepare standardized contractual documents and remember that the perfect law for PPPs or the perfect financial moment do not exist;
6. Governments should choose the appropriate mechanisms to evaluate their possible PPP projects, such as the VGF (Viability Gap Funding), the VFM (Value for Money Analysis) and the public – private comparator;
7. Governments should manage incentives for train operators in the case the track construction have an impact on the vehicle parameters (typically signaling), e.g. through track access charge discount'
8. Governments should note that International Financial Institutions could provide lending for investments under PPP schemes by considering – among others - the following risks:
    a. Unforeseen technical problems;
    b. Too optimistic timetable, cost estimation, demand forecasts;
    c. Insufficient political support;
    d. Incomplete land acquisition process;
    e. Complex projects with large number of technical interfaces;
9. A central body which will concentrate and disseminate best practices, case studies and lessons learned on railways investments under PPP schemes worldwide is needed;