



The politics of delivering light rail transit projects through public-private partnerships in Spain: A case study approach



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ABSTRACT

This paper illustrates the influence of partisan politics on transit projects delivered through public-private partnerships (PPPs) by analyzing two case studies of light rail projects in Spain. The use of public-private partnership (PPP) arrangements to deliver urban transit projects is supposed to reduce the influence of politics on project-level decisions. However, the paper illustrates how relevant decisions about these light rail projects were based primarily on political considerations, starting with the decision to deliver the projects through PPPs. Our analysis shows how the influence of political considerations have impacted on a range of factors that affect the performance of these projects, including the route selected and the integration of the system into the wider transit network and urban landscape.

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1. Introduction

Many studies have recognized that political factors strongly influence investment decisions regarding urban transit projects (Gomez-Ibanez, 1985; Kain, 1990; Pickrell, 1992). Partisan politics can influence decisions about the selected route, the choice of transportation technology, the type of grade separation, the project procurement model, and the integration of the new project into the wider urban landscape (Siemiatycki, 2006). It is typical that incumbent governments tailor the specifications of high profile transportation projects to win approval from important voting districts or key constituencies within a city (Joanis, 2011; Tennant and Clayton, 2010; Hagen, 2007). As Cadot et al. (2006: 1151) write, “roads and railways are not built to reduce traffic jams: they are built essentially to get politicians reelected.”

This paper illustrates the influence of partisan politics on transit projects delivered through public-private partnerships (PPPs) by examining two case studies of tramway projects in Spain. Our analysis shows how, in spite of being procured as PPP projects, relevant decisions about these light rail projects were based primarily on political considerations, starting with the decision to deliver the projects through PPPs. Spain is an ideal jurisdiction to examine the impact of political considerations on PPP projects. On the one hand, this country has emerged as global

leader in using the build-operate-transfer (BOT) model of PPP to deliver transport and social infrastructure, particularly motorways, tramways, and hospitals. On the other hand, the BOT model of PPP as applied in Spain is designed to transfer substantial construction, availability and demand risk to the private sector, which in theory should minimize political influence on project planning decisions.

The two light rail transit PPP projects analyzed in this paper were built in Spanish cities (Zaragoza and Murcia), and were awarded the same year in 2009 (see Table 1). Both were granted by the municipality and both were inaugurated in 2011 and have been in operation for four years. These two projects are particularly interesting as case studies for several reasons: (1) They have been built in medium-size cities (~700,000 inhab.), therefore the outcomes may be of interest for many cities in other countries; (2) The respective local governments belong to the two main political parties in Spain (the conservative party in Murcia and the socialist party in Zaragoza); (3) Both projects took place during the height of the global financial crisis and the onset of severe austerity measures in Spain; (4) The projects were procured within a national context of a rising number of bankruptcies of Spanish PPP toll road projects that received government bailouts when traffic volumes fell well below expectations; (5) They illustrate very different realities regarding the outcome of the influence of political factors on a PPP project.

Overall, the paper shows that the PPP model as practiced in Murcia and Zaragoza did little to mitigate the place of partisan politics in transit decision-making. Yet the implications of such politicization of decision making is not clear-cut. The case of

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Table 1
Characteristics of the two projects.

Source: Elaborated by the authors with data provided by the local governments of Murcia and Zaragoza

City	Inhab.	Year of award	Year entering in operation	Invest. (M€)	Length (km)	# stops	Concession period
Murcia	680,000	April 2009	May 2011	211	16.7	25	40
Zaragoza	700,000	July 2009	1 ^a : April 2011	355	12.8	25	35

Zaragoza shows that political considerations can lead to choosing a route that is the optimal according to the viability studies and undertaking transformative urban interventions to accompany the project. In the case of Murcia the opposite happened. Our research also shows that while a PPP project can be successful in terms of ridership, the project can still face community criticism for all sorts of reasons, some of which are connected to the concessionaire, and others that have to do with broader government or service restructuring.

The remainder of the paper is organized as follows. In the next section, we review the literature related to the influence of political factors on urban infrastructure projects (Section 2). Subsequently, we move on to present the methodological and empirical work underlying the paper (Section 3). We then examine the two case studies (Sections 4 and 5) with a focus on analyzing the influence of the political factors on various aspects of the projects. Finally, the findings from the analysis of the two case studies are presented in Section 6.

2. Literature background

More and more state functions have been handed over to the private sector during the last two decades, driven by the search for positive externalities, resource complementarities, cost savings, and in many cases an ideological belief in the superior efficiency of the private sector (Rangan et al., 2006). In this context, PPPs have gained popularity as a way of providing urban infrastructure in many countries, particularly in the transportation sector. Theoretically, the use of the PPP formula reduces the influence of political factors on infrastructure investment decisions (Flyvbjerg et al., 2003; Grimsey and Lewis, 2004). This represents a relevant aspect of public sector procurement since many scholars have recognized that political factors strongly influence investment decisions regarding urban infrastructure projects (Kain, 1990, Richmond, 2001).

There have been significant developments at the intersection of public procurement and politics in the last years. Some studies have enriched the theoretical background regarding the functioning of public organizations, such as Prendergast (2003) and Bozeman (1993). The first one develops a model to address agency issues within the public sector that affect bureaucratic decision-making, while the second one provides a theory of the origins of red tape and analyzes why government organizations have more red tape. Other studies have focused on the difference between public and private organizations such as Boyne (2002), who argues that the available evidence does not provide clear support for the view that public and private management are fundamentally dissimilar in all important respects. This study provides some interesting insights about the differences between the public and private organizations.

Some scholars have focused on the relationships between the public sector and the private sector. Kivleniec and Quelin (2012) proposed a theoretical framework on the mechanisms of value creation and capture based on a comparative analysis of two conceptually distinct public-private structural alternatives. This study provides interesting insights about public-private ties as a

distinct interorganizational phenomenon that we have used in order to frame our research, as discussed in the next section. Other studies have analyzed the organizational models in which the relationships between the public sector and the private agents are structured, such as Henisz (2006), Mahoney et al. (2009), and Margolis and Walsh (2003).

Moszoro and Spiller (2012) have developed a model to rationalize the basic features of public contracting focusing on the public agent's perspective. They argue that public contracting is more expensive and rigid than private contracting, but it does not mean that transferring those activities to the private sector would reduce political risks and hence make them more efficient. Other studies in economics and public administration emphasize the hazards of private actor opportunism and potentially suboptimal social welfare outcomes from public-private arrangements (Ben-net and Iossa, 2006; Chong et al., 2006; Hart, 2003).

Within the literature on PPP projects, some studies have focused on the influence of politics on this kind of projects. Grimsey and Lewis (2004) and Flyvbjerg et al., (2003) argue that PPP projects are supposed to be less influenced by political factors, although it does not mean that they are excluded from the decision-making process (Gawel, 2011). Rather the use of the PPP arrangements is meant to make it more difficult to make decisions that while politically advantageous to win votes, are clearly wrong from the point of view of the cost-effectiveness or social benefit of the project (Engel et al., 2011). The rationale is that in a PPP project both the equity provided by the sponsors and the debt provided by the lenders are at stake, since the private sector assumes relevant risks such as construction, demand and operational performance (Phang, 2007, Väilä 2005), which have some particularities in the case of urban transport projects (Sánchez Soliño and Vassallo, 2009).

Some scholars, however, argue that PPPs do not always guard against wasteful spending (De Jong et al., 2010). If the capital investment in the project is repaid by user fees, the presumption is that private firms will not participate unless the project is profitable, which provides a defense against inefficient projects. Yet many socially beneficial urban transit projects do not recover their full capital and operating costs from the fare box. In such cases where PPP transit projects receive an operating subsidy from government or where the initial private capital investment is repaid through a government availability payment, there is no market test for the project. PPPs have been criticized as being politically motivated by an ideological belief in the efficiency of the private sector and a desire to obscure the true costs of large public investments by drawing on up-front private financing (Engel et al., 2011, Loxley, 2010). Moreover, some studies highlight how local politicians aim to deliver high profile infrastructure projects while at the same time avoiding the appearance of burdening the local taxpayers (Loxley, 2010, Altshuler and Luberhoff, 2003; Pickrell, 1992).

3. Methodology and framework

The empirical data for our research were collected through interviews with representatives of the stakeholders involved in

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