

# Partnerships Bulletin

**The Global  
PPP Market  
2012**

A PPP Bulletin and  
Partnerships Bulletin survey,  
in association with

**Deloitte.**





## Introduction

The inaugural *Partnerships Bulletin/PPP Bulletin* Big 5 survey has revealed where the future of PPP lies, and gives an insight into what the industry needs from the public sector if it is to continue the phenomenal growth of recent years.

The findings are an important indicator for the industry as a whole, mapping not only the landscape as it changes over the coming 12 months, but also highlighting what countries need to work on if they are to attract investment in their PPP programmes.

It is encouraging to see three European regions in the top five countries for PPP activity over the coming 12 months, given the continuing uncertainty surrounding the eurozone. The presence of the Benelux region and France demonstrates that businesses remain confident the PPP model will be vital for these countries regardless of the future state of their finances – and that the euro crisis has not put off investors.

The presence of the US is also promising, as it has long been regarded as one of the sleeping giants of the global infrastructure – and especially PPP – world. Whether this represents a true opening up of the US market or is the result of misplaced optimism from respondents will become clear over the months ahead, particularly as the presidential race gets underway.

As we repeat this survey on an annual basis, it will be fascinating to witness the changing nations making it into the top five – and also

watching how those countries tipped for future success navigate the difficult waters of their early PPP programmes. The survey should also give an indication of the political climate around the world, and the mood of the governments of the day in relation to both spending and the benefits that the private sector can bring.

The poll also gives a guide to emerging PPP markets as to the most successful sectors in which partnerships have operated over the years, potentially making it easier for them to identify the types of early projects they should consider – and the ones to avoid.

Thank you to all those who gave their time to complete the survey, representing 67 global PPP companies.

I would also like to thank Deloitte for their input into this report, and in particular their representatives around the world who provided some important context to the survey's findings.

Paul Jarvis  
Editor,  
*Partnerships Bulletin*

## Methodology

'The Global PPP Market 2012' provides insight into the views and expectations of a broad range of PPP professionals.

The survey draws upon trend data gathered over four weeks during January and February 2012.

The research was carried out predominantly by telephone interview, surveying 67 chief executive officers, managing

directors, chairmen or other senior executives across the world and across the partnerships sector.

Based on these interviews with industry experts, The Global PPP Market 2012 identifies which countries are perceived as the most active in the market, where respondents will be focusing their business and questions some of the challenges facing the industry.



## The Global PPP Market 2012

Perhaps surprisingly, given the fluctuating economies across the globe, almost half of respondents said their PPP activity has remained stable or with a marginal dip. (*question 1 below*).

A high number of the respondents (25.4%) said that over the last 12 months their PPP activity has remained the same. Slightly behind this at 24%, their activity has decreased marginally.

When looking at the respondents who said their activity had either increased or decreased substantially, both represented 17% and 16% respectively – effectively levelling these results out.

Nick Prior, Head of Infrastructure and Capital Programmes at Deloitte LLP in the UK, said: “Despite the very challenging economic environment in which the PPP industry is operating, the fact that the level of activity across the globe remains relatively stable overall pays testament to the strength of the PPP model, and the huge penetration it has had over the last 20 years.

“Clearly, whilst there has been significant growth in some countries, this has been off-set by decline in others. So, whilst the results demonstrate a decline in the level of activity in the UK, there is

much more enthusiasm for the current state of the Canadian market.”

And while some countries may have reached a peak in the PPP projects they bring to market, Prior says we can expect to see any shortfall being bridged by deals from newer markets.

“Clearly there is also growing appetite for PPP in emerging economies, and this has certainly contributed to the overall result,” he said. “Combine this with the huge need for infrastructure investment in these countries and one can be confident that the future of PPP is secure.”

### Question 1: Looking back over the last 12 months, has your PPP activity:



- Increased substantially 17%
- Increased marginally 18%
- Remained the same 25%
- Decreased marginally 24%
- Decreased substantially 16%

**“The preference will always be to go to the markets where you have transacted before, where you have been successful and where you know and understand it”**

**THE ONES TO WATCH**

The questions below sought to discover the most active countries for PPP over the last 12 months, where the areas of opportunity are going forward, and whether this level of activity will directly lead to respondents focusing their businesses in these locations.

The top five countries our respondents rated for activity, for both the last 12 months and the year going forward, are all large, mature economies with reasonably advanced PPP programmes. Our respondents expected the big hitting PPP markets to continue to dominate the PPP industry in the near future, with very little difference in the results between the last and the next 12 months. As Prior says, “It’s interesting that there is not one emerging economy in there. I expect this to change in the relatively near future.”

It appears that although there has been much debate about the use of PPP to drive infrastructure in emerging economies, established markets remain the primary focus for PPP investors, where there is better visibility of pipeline and transparency of process.

**CANADA: LEADING THE PACK**

Unsurprisingly Canada was rated top for PPP activity for both the past and the next 12 months. Provincial governments, led by PPP procurement agencies, have become experienced in driving their PPP programmes forward and projects have not suffered the drying up of debt liquidity as keenly as in other markets.

Gianni Ciufu, Partner in Deloitte’s Infrastructure Advisory team in Canada said:

“The volumes that we’ve seen have been the result of our market not being as constrained during the debt crisis as some of the other markets. Except for the largest deals in the peak of the crisis, there were very few deals that were held up or renegotiated. We’ve maintained really good liquidity in the bond market throughout this time.”

Ciufu predicts the next few years will see an easing off of projects from more mature provinces for PPP, such as Ontario and British Columbia, and more of a drive towards federally-led transactions for municipalities who are newer to the model.

“The federal government is supporting and encouraging them through education and financial support to help them take advantage of P3 transactions at a municipal level,” said Ciufu. “It’s creating new opportunities for that market.”

Although Canada has made great steps in using PPP to close its infrastructure gap, investment is still needed. That, and the strong availability of debt and equity, points to the industry continuing to see new projects coming to market.

However, Canada drops to third when respondents are asked where they will be focusing their business over the next 12 months. Do companies feel the market has reached its peak or is too mature for new entrants?

Ciufu feels the market is very open to both international and domestic partners. “The provincial procurement agencies have been really disciplined and offer a one-window approach where contractors go through one procurement agency, which is more efficient for bidders and reduces cost,”

he says.

Canada’s PPP market may be disciplined and mature, but Ciufu feels there is still room for innovation in the market.

“But there is still the question, how do we maintain our increased service standards, how do we get out of non-core businesses for either a reduction of government expenditure, or potentially a revenue opportunity? I think we are going to see a number of additional alternatives to service delivery transactions.”

**UK: UNCERTAIN FUTURE**

With the furious political debate around the future of PFI, and the ongoing review of the model, it was perhaps surprising that the UK featured as the respondents’ second most active market both now and going forward. The industry has long been warning the government that its reluctance to launch a new raft of projects will lose investors. Our survey shows confidence (or hope) may be higher than you would expect.

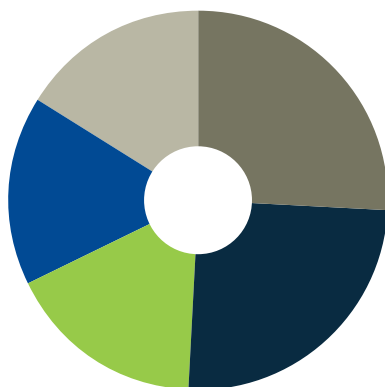
Prior believes the UK’s high ranking is because the market was so strong that even with a significant decline in activity, it’s still one of the largest markets. He also expects the market is encouraged that the government has shown some signs of wanting to continue with the PPP model.

“The UK has set out its national infrastructure plan. It is also setting out its new model to succeed PFI, and I suspect on the back of that, people have identified it as potentially an area of focus.”

However, Prior is less positive about the eventual pipeline that comes out of the review.

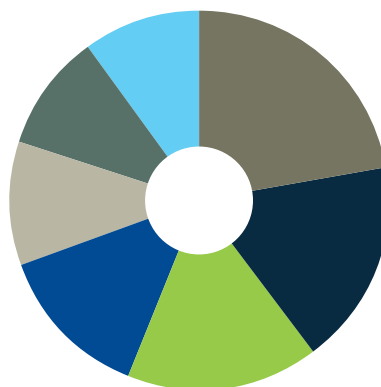
“My own expectation is, while we might

**Question 2: Over the last 12 months, in which countries have you seen the most PPP market activity?**



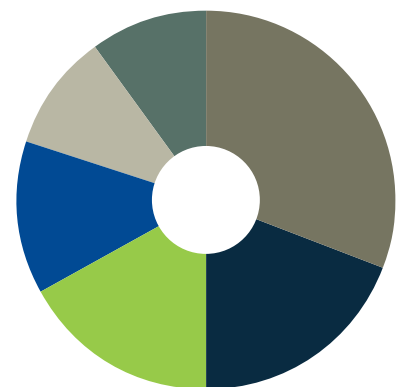
● Canada	26%
● UK	25%
● Benelux	17%
● France	16%
● USA	16%

**Question 3: Over the next 12 months, in which countries do you expect to see the most activity in the PPP market?**



● Canada	22%
● UK	18%
● USA	16%
● Benelux	13%
● France	11%
● Australia	10%
● Turkey	10%

**Question 4: Over the next 12 months, in which countries are you planning to focus your business’s PPP activity?**



● UK	31%
● USA	19%
● Canada	17%
● France	13%
● Australia	10%
● Benelux	10%

have ongoing strong aspirations and a new model to help implement PPP transactions, I still expect the pipeline to be slow because government departments and agencies just don't have the funding to invest."

That the UK is so high in the rankings, despite political indecision around the use of PPP, could be seen as a clear conflict. But Prior doesn't think so. "The fact of the matter is that people liked and understood the UK model – the greatest challenge is that a steady and sustainable pipeline remains some way off, with the exception of a few significant projects such as the Intercity Express Programme, Thameslink, and some activity across waste, renewables and even defence."

#### USA: FINDING ITS PPP FEET

USA's PPP market has often been criticised as offering great potential without ever producing a steady flow of deals. PPP is still a relatively new model in the United States and the take-up across individual states is a little patchy.

However, Irene Walsh, Managing Director of Deloitte's Infrastructure Advisory team in the US, defends the model saying that in some areas, the US is leading the way.

"Some people often think America is a little behind the times in P3, but some view the US's system of financing through the municipal bond market and other means, as even more advanced than P3."

Walsh puts her finger on why the US will generally reach the top five PPP countries, despite a relatively late start: its size.

"The reason it is in the top five is

because of the size of the country, the large economy and the fact that any meaningful infrastructure project is immediately going to jump into multiple billions of dollars," she said. "There are not many small projects here that are suitable for P3. Even if you only had four in the year at a large value, that makes it a bigger market than others."

States leading the way include Texas, Florida and Virginia who have moved away from the early wave of privatisations and have moved towards more traditional PPPs for greenfield projects.

Projects coming to market include the \$2.6bn Ohio River Bridges in Indiana and the \$1.3bn Goethals Bridge in New York, which attracted six and 11 bidders respectively. Size is a theme in the US PPP market and it looks set to continue.

Walsh advises new entrants to approach the US as though it was 50 different countries, as particularly with transportation policy, states can interpret the model in different ways. "To be successful you have to embed yourself in the state that you think is going to be active, and then learn the ropes. Some people stumble in the market, but others have entered the US, done their homework and have been highly successful because they've approached all of these obstacles and addressed them."

Walsh admits that some investors view the US as "tricky" as companies with limited resources have to pick the states to focus on and then make a long-term commitment. You can't do a one-off deal in the US, she warns.

But she is confident the US will continue to feature in the top five PPP destinations

due to its sheer magnitude.

"In general, the US PPP market in terms of volume and opportunity will continue to be a viable market. The things that do get done over the next year will be multiple-billion dollar deals and that makes the US worth the effort."

#### FRANCE: BIG HITTING DEALS

France features in each of the lists, reflecting the strong pipeline seen over the last few years.

The French government's dedicated PPP unit, 'Les Partenariats Public-Privé', has helped to oversee the introduction of new legislation, and facilitate the implementation of PPP projects in a range of sectors.

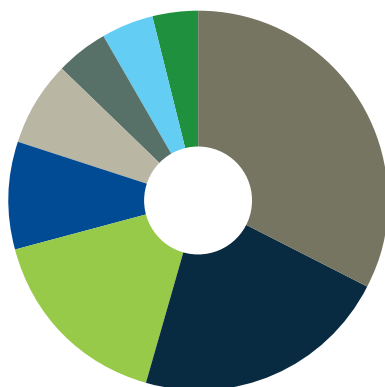
Projects are coming to market from a number of sectors including more traditional transport deals alongside a new raft of higher education and sports stadium projects.

France also boasted two of the largest PPP deals in Europe with the January 2011 closing of the €204m Nice Eco Stadium and the closing of the €5.4bn Tours-Bordeaux high-speed railway project five months later. Big hitting deals such as these contributed to France leading the European PPP Expertise Centre's 'Review of the European PPP market', in which it noted, "the dominance of the French market (in value terms) and a sharp increase in the average transaction size".

For the first time, the report found that France overtook Spain and the UK as the largest European market by value size accounting for 57% of the overall market value.

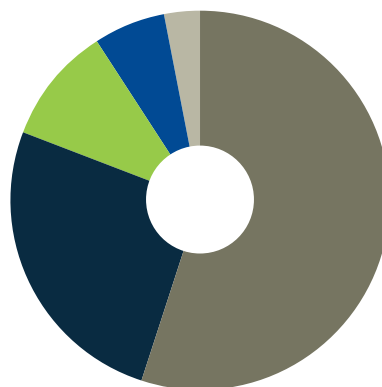
However, the industry is watching

#### Question 4.2: What makes a market attractive?



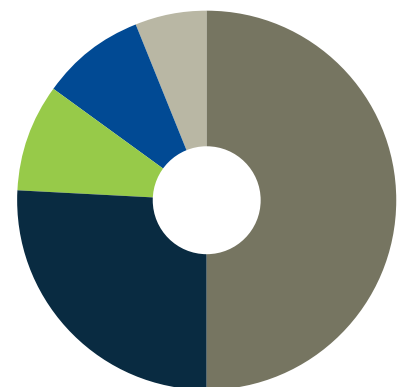
● Pipeline	33%
● Stable political and legal system	22%
● Government/political commitment	16%
● Bank liquidity	9%
● Clear procurement process	7%
● Government funding	5%
● Existing presence in market	5%
● Experienced procurers	3%

#### Question 4.3: Which country has the most desirable PPP model?



● Canada	55%
● UK	26%
● The Netherlands	10%
● France	6%
● Australia	3%

#### Question 4.4: Which country has the PPP model with the greatest challenges?



● UK	50%
● USA	26%
● Poland	9%
● Russia	9%
● Greece	6%

France closely to see if it will maintain the steady flow of projects to market. It is in the last throes of its electoral cycle with a potential significant change in leadership and it is unclear how that will play out in terms of the requirement for infrastructure.

**BENELUX: 3 COUNTRIES, 1 MARKET**

Benelux has seen a steady pipeline of projects come to market and investors have been attracted by transparent and standardised procurement.

Prior says: “Netherlands has a very good model. It’s clear and straightforward and the procurement process is very clean.”

The drop of Benelux (along with Canada) in where the respondents are focusing their business over next year, could point to a tendency for companies to focus on the less mature markets. However, Prior believes mature markets are still top of the shopping list because investors understand them, they know what the issues are and they have established capabilities there. “So the preference will always be to go to the markets where you have transacted before, where you have been successful and where you know and understand it.”

A strong pipeline of large deals across Belgium and the Netherlands is expected to make 2012 a good year for Benelux PPP.

Projects include the €150m N33 road PPP, the €310m Groningen Tram PPP, the A1/A6 and the first section of the huge €4bn Schiphol-Amsterdam-Almere road. Outside transport, a new government policy HQ and a National Institute for Health and Environment came to market in 2012.

Over in Belgium, the €500m A11 in Bruges and the Pegasus light rail project

should keep the market busy.

Netherlands and Belgium have historically led the region in terms of projects, but Luxembourg is coming round to the model and closed its first PPP transaction (a €33m sports centre) in 2011.

**AUSTRALIA: A SETTLED FUTURE**

Australia just missed out on a top five placing, even after enjoying a robust economy and a growing popularity of PPP among different states.

Luke Houghton, Transport and Infrastructure Partner at Deloitte in Australia, said: “We have had very little toxic debt in the banking sector and we’ve got a large need for updating some older infrastructure. So if you were looking at countries that are an opportunity, then I think that Australia makes sense from an international perspective.”

Despite adverse publicity around the bail out of Sydney’s rolling stock PPP, Houghton expects to see more PPP opportunities coming out over the next two to three years. “I think we’ve now for the first time got all the states in Australia genuinely interested in using the PPP model, so that’s pretty consistent now,” he said.

Australia is a large country with only 20 million people and therefore PPP is a relatively small market compared to the US and Canada. Houghton therefore doesn’t expect it to reach number one in the volume of PPP projects. However, he feels it is leading the way in other areas. “We might be number one in terms of innovations to the model and in bringing new deals and concepts to market,” he said.

**ONES TO WATCH**

The five countries identified as the respondents’ ‘top tip’ include some of the big-hitting economies, such as the US, Brazil and India where investors can expect to see a strong pipeline of deals (*question 5, below*).

The scale of Brazil’s infrastructure deficit and the investment needed around upcoming major sporting events means the potential for new projects is huge. With strong natural resources, they also have access to the public funding for this infrastructure.

Deloitte’s Andres Rebollo said: “The pipeline in Brazil has a very good competitive advantage and they are looking forward to entering into partnerships with European companies. In the past, Brazil has had a reputation for a lack of transparency and therefore the challenge for successful PPPs is much higher. However, they are committed to creating a stable, long-term and credible PPP market. The challenges are mainly due to having multiple legal frameworks between the states. Still, it has received huge international interest.”

The PPP market in India, again, is huge. Around 60 different PPP transactions are in procurement at any one time. However, India was not higher in the list perhaps due to the many obstacles for non-domestic companies entering the market.

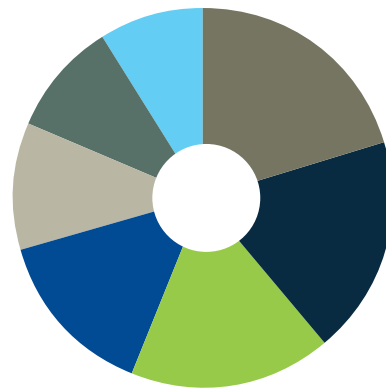
Prior says, “Because of the nature of its framework and the legal environment, overseas firms have found it difficult to break in. A number of companies have dipped their toe in the market, found it hard to navigate and have withdrawn. Others have joined a joint venture with local contractors

**Question 5: Which one country is your top tip as an emerging PPP market in the medium to long-term?**



USA	30%
Turkey	23%
Brazil	19%
India	16%
Colombia	12%

**Question 6: What are the biggest challenges facing the global PPP industry over the next year?**



Consistent political support for PPP structures	397
Availability of affordable debt	361
Lack of government funding for infrastructure	335
Efficient procurement process	283
Lack of return available to contractors / investors	214
Appetite of pension funds	184
Perspective of rating agencies on projects	173

Respondents were asked to rank answers in order of preference, giving a value of 1 to the smallest and 10 to the biggest challenges

– particularly the Spanish – and are having more success.”

Amrit Pandurangi, Senior Director at Deloitte India, says: “India continues to have a reasonable economic growth with an increase of up to 7% over the next few years, and considers PPP an important format for infrastructure investment.”

And there is still lots to tempt investors. India has announced its \$1tn worth of infrastructure investments, of which 50% will be through PPP. Its financial institutions are robust and it was not hugely affected by the global crisis.

But Pandurangi admits the market is very price competitive, and dominated by Indian PPP players.

“When PPP started in India, the size of the projects was around \$50m - \$100m, which was not attractive to international players,” he said. “So projects are now packaged so that they are much larger.”

“Regulatory ambiguities still exist in some sectors. The government is trying to correct that through better frameworks and more internationally accepted legislation. They need to focus more on marketing the opportunities, and communicating more with the international community.”

The wild card in the pack is Colombia, but Prior says more people are looking seriously at entering the market.

Rebollo agrees. “Colombia, in my opinion, is an appealing country in terms of the perception of its credibility, stability and legal framework.

“They have been doing some good marketing of the programme. The PPP framework creation and studies around it were really transparent and there was a lot of interaction with the banks, advisers and promoters.

“It has good economic stability and liquidity in the market. The only thing that Colombia needs is to succeed in the first projects to be tendered out. They have a lot of money and have an interest in pension

funds. The challenge for Colombia is to succeed with the pipeline and stick with its plans.”

### GLOBAL CHALLENGES

The respondents were asked about the biggest challenge facing the global industry over the next year and the three key issues were consistent political support, availability of affordable debt and lack of government funding (question 6, page 6).

A lack of financial liquidity in both the public and private sectors has been well documented and the global PPP market is not immune to the impact. Many governments have been reluctant to introduce large-scale infrastructure investment programmes in the midst of austerity measures and those that do are struggling to secure the senior debt to close the deals.

Prior says, “The availability of affordable debt is a key issue which is why countries will be looking at different models to avoid reliance on particularly the bank debt market. The situation with their own balance sheets, along with the Basel III and other solvency regulations mean that their ability to deliver affordable debt going forward is going to be an ongoing issue over the next five years and particularly in the Western world.”

However, that ‘consistent political support’ came top shows the importance placed on having government backing to launch and progress with a comprehensive P3 programme.

Prior says, “Here, I am a little surprised. There is political support for PPP structures across almost all countries that have adopted the model. I suspect there is a UK bias in the responses to this question, where the lack of clear political support has remained a consistent concern. Hopefully the much anticipated work undertaken by Infrastructure UK will take note and address this when they announce the outcome of their recent review of the UK PFI model.”

But this gives a clear message that investors are looking for a stable government with ongoing support for PPP. Countries like the UK, who have slowed their project pipeline and criticised the model, are starting to see political risk being factored into any new projects which could lead to a shallower pool of bidders, and possibly higher pricing.

### SECTOR FOCUS

Prior says he expected ‘roads’ and ‘defence’ to top and tail the list of sectors suitable for PPP (question 7, below).

The large and unique nature of some defence deals has proved an uncomfortable fit for the PPP model, which can benefit from standardisation.

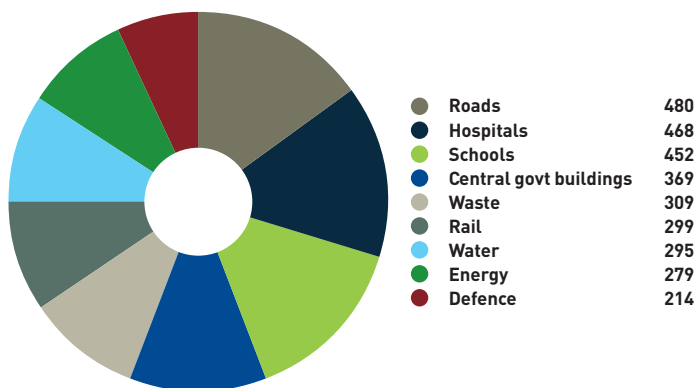
“With roads, there is a very well established model and tolling/shadow tolling/availability-based models are all proven models when used in the right circumstances,” said Prior.

All featuring highly as “successful” PPP sectors, schools, hospitals and government buildings have a good track record of delivery. Prior says where they haven’t worked, the project requirements set out from the start were not suitable.

He continues: “A number of hospital PPP deals have been quoted as being ‘bad’ projects, but it’s not to do with the PPP model. It’s to do with the fact that government bodies have specified a large district general hospital where the healthcare model has been moving towards localised care arrangements, for example.”

Energy and water are low on the list reflecting a lack of projects over the last few years. Although demand is high for both energy and water investment in many countries, the PPP model is still relatively new to these sectors. However Prior expects this to change. “What you will find going forwards is there will be more user-paid type models becoming prevalent” he said.

### Question 7: In which sectors do you think PPP is the most successful?



Respondents were asked to rank answers in order of preference, giving a value of 1 to the least and 10 to the most successful

**“The three key issues were consistent political support, availability of affordable debt and lack of government funding”**



## About the contributors

### Deloitte

Operating in over 150 countries, Deloitte has developed a truly global PPP practice. Our specialists are at the forefront of the sector around the world, advising on many of the largest and most complex PPP projects and policy developments. This network enables us to harness global best practice, together with in-depth local knowledge, to support governments and the private sector in developing innovative pathfinder projects and opening up emerging markets to international investment.

We have extensive international experience in the procurement, management, financing and governance of PPPs, in both mature and emerging markets. Through our in-depth understanding of the sector and expert knowledge of all infrastructure asset types, we advise project sponsors, bidders and investment funds in realising maximum value from public infrastructure assets.

We provide a comprehensive advisory service across the entire lifecycle of a project:

- Supporting the public sector through access to global best practice in structuring and procuring individual PPPs, as well as developing PPP governance frameworks and national PPP policies.
- Working with our private sector clients to help them access global markets and opportunities, as well as advising consortia on bid development and contract negotiation.
- Providing a comprehensive range of transaction-related services for financial investors.

Contact us - To discuss your projects and plans in the PPP sector, please email us at [infrastructure@deloitte.com](mailto:infrastructure@deloitte.com)  
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### Partnerships Bulletin

The Partnerships Bulletin is a monthly subscription-based magazine and website providing in-depth updates on partnership working between the public and private sector, including the private finance initiative (PFI), public private partnerships (PPPs) and newer models, such as asset backed regeneration vehicles.

Each hard-copy edition includes news, interviews with the top industry figures, in-depth market reports on partnership sectors and industry authored articles covering transport, waste, education, healthcare, housing, courts and leisure. Plus, the magazine includes a Business Leads section - giving you information about projects before they are even advertised.

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### PPP Bulletin International

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