

Impact of Political Risk on the Efficiency of Public-Private Partnerships

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Abstract

This paper examines the impact of political risk on the efficiency of delivering transportation projects using a public-private partnerships approach. The goal is to develop a model predicting the probability of completion and duration of P3 project procurements.

State and local governments increasingly seek private sector resources via public-private partnerships for transportation project financing and delivery to overcome challenges from increased international competition, aging infrastructure system in the U.S. and binding debt-ceilings. Projects delivered using a P3 approach see reduced delivery time and cost savings through appropriate risk sharing among participating parties.

Despite realized benefits, stakeholders of P3 projects often raise concerns over political risks that can interfere at any stage of the project. Political risks, originated by community, bureaucracy or political opposition, can derail an infrastructure project due to a perceived, real or not, increase in traffic, congestion, pollution or environmental hazards. This can have an important impact on the probability of completion and the duration of the procurement of P3 projects.

To understand how political risks impact P3 projects at each stage of project delivery, this paper first develops a data structure illustrating stages of P3 project delivery. Data points are collected from multiple sources, including the Federal Highway Administration (FHWA), state transportation agencies and private sector websites, Public Works Financing Database, and journalistic accounts. Using the developed database, the paper analyzes the probability of a project making it to the opening of the project to the public and the average time it takes for this. The empirical findings are then used to draw implications to help predict the probability of completion and duration of P3 project procurements.

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