

Financing Of Transportation Networks

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Private Participation in Transport Infrastructure

- Infrastructures can be funded, implying that the public sector provides capital from general funds or taxation and that this capital is not expected to be recovered.
- Infrastructures can also be financed, mostly by private sources, and in this case capital recovery is expected.
- Conventionally, transportation, particularly roads, was seen as a **public good** not to be subject to market forces and be free of access. A similar trend applied to port and airport infrastructures that were placed under the management of public authorities.

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Challenges Facing Finance:

- **Lack of funding.**
- **Divergence of purpose**
- **Uncertainty in outcome**
- **Time frame misalignment.**

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- The trend towards greater private involvement in the transportation sector initially started with the privatization (or deregulation) in the 1980s of existing transportation firms. New relationships started to be established with financial institutions since public funding and subsidies were substantially reduced and new competitors entered the market. Then, many transportation firms were able to expand through mergers and acquisitions into new networks and markets. Some, particularly in the maritime and terminal operation sectors, became large multinational enterprises controlling substantial assets and revenues.

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Causes and Forms of Public Divestiture:

- **Fiscal problems**
- **High operating costs**
- **Cross-subsidies**
- **Equalization**

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Privatization and Financing Models:

- **Sale or concession agreement (lease) of existing facilities.**
- **Concessions for new projects.**
- **Management contract.**

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Private – Public Partnerships:

- Public – private partnerships (PPP) are **contractual agreements** between a public agency (federal, state or municipal) and a private sector entity that allow for the design, building, operation or financing of transport infrastructure.
- They thus confer a wide range of options in terms of capital allocation and respective levels of participation. They can simply cover the standard design / build contracting process common in many road projects or involve innovative approaches where a private operator takes charge of the construction and management of a transport infrastructure over a long term concession. This business model has been in use for centuries, particularly in the public utilities sector.

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- However, like most initiatives where governments are involved, there are unintended consequences, implying a difference between the expected and the real outcomes. The two most prominent unintended consequences of a PPP involve undermining innovation and risk:
 - **Innovations.**
 - **Risk.**

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