

Transport Economics

Lecture 9

Ashraf Samir Ph.D.

1

The Regulation and Financing of Transportation Networks

2

The Role of the Public and Private Sector in Transport Infrastructure : PPP Options

3

3

The Role of the Private and Public Sector

■ The Economics of Transport Infrastructure

- Infrastructure investments are inherently “lumpy” (involve **huge sunk costs** and create **assets** that are **long-lived** and **location-specific**).
- Creation of infrastructure has **economics both of scale and scope** (i.e., minimum size of facilities, inelastic adjustment of capacity to demand, long term project completion, etc.).
- Transport supply systems contain elements of **natural monopoly**.
- Demand is wide spread (difficult to **target**).

4

4

- Revenues are usually in **local currency** (mismatch if foreign debt financing).
- Services have an essentiality component that raise legitimate **public policy concerns of affordability**.

However

- Transport has a great impact on **poverty alleviation** and MDGs.
- Sound transport infrastructure allows countries to **integrate to the global economy and increases competitiveness**

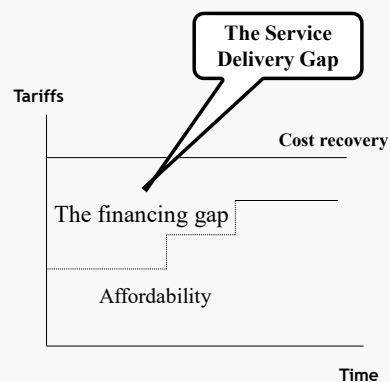
5

5

The Role of the Private and Public Sector

■ The Service Delivery Gap

There is **limited affordability** in the provision of most of the transport services (when including the costs of the required infrastructure facilities), specially when considering low income end-users.



6

6

- Affordability is determined by **household income** levels and the **cost** of delivering the transport service.
- Transport services has strong characteristics as a **public good** and creates major positive **externalities**.
- **Full cost recovery** is only possible in some situations (i.e., air transport). Most of the public mass **transportation system** have strong limitations to reach **full cost recovery** even in developed markets.
- There is a role for the provision of “**smart**” **subsidies** to make possible the delivery of the service.
- The financing gap is a function of the gap between **cost recovery and affordability**.

7

Public Sector
is driven by the optimization
of **public welfare**

Private Sector
is driven by **economic incentives** provision

■ **Public Sector**

- Role in the **design, development** and **enforcement** of transport sector **policies**.
- (In particular in the definition of **cost recovery** and **affordability issues** in the context of **financial sustainability** of the sector).

8

8

- Role in the establishment of **smart regulation** regarding provision of public services)
- Role in the provision of transport services where **externalities** and **sector constraints** do not provide **adequate incentives** for full private sector engagement.
- ex. (Political, Regulatory, Financial, bureaucratic, technological)

Political

- related to actions of governments and political conditions

Regulatory

- Restrictions regarding safety and quality standards

Financial

- Credit constraints

bureaucratic

- excessively complicated administrative procedure

Technological

- barriers to the implementation of recent technologies

9

9

Thank you

10