More with Less: Shrinking Budgets and Growing Demand

SESSION SUMMARY

Wednesday, 25 May 2011

The demand for high-quality transport services is growing fast, and meeting it requires major expenditures for investment in, and maintenance of hard and soft infrastructure. But the scarcity of public funds, amplified by the increase in public debt in many advanced economies, brings into question traditional funding structures. Panellists will discuss to what extent new funding mechanisms are a solution, and whether funding requirements need to be revised downward.

Chair

- Lord Macdonald of Tradeston, Special Advisor, Macquarie Infrastructure and Real Assets

Panellists

- Roberto Aguerrebere, Director, Instituto Mexicano del Transporte, Mexico
- Joris Al, Director, Rijkswaterstaat, The Netherlands
- Paolo Costa, President, Venice Port Authority, Italy
- Gabriel Gutierrez, Project Director, Cintra, Spain
- Urban Karlström, President, Forum for Innovation and Strategies in the Transport Sector, Sweden
- Hélène Mizrahi-Walden, Head of Transportation, BNP Paribas, UK.

Bridging the funding gap

The gap between how much transport infrastructure is needed and how much is available is large and is broadening, because of growing demand, lagging investment in new infrastructure, and limited maintenance of what exists. It is surprisingly uncontroversial to say that to address this gap:

- Funding strategies need to shift away from a heavy reliance on general public funds towards increased reliance on user charges, while recognising that one extreme should not replace another.

- There are opportunities to benefit from the private sector's strengths more widely than is done now.

While there is considerable agreement that there are opportunities to improve the funding structure along both lines, experts disagree about exactly how much can be expected from user charges and increased private sector involvement.

User charges generate revenues but are first and foremost demand management tools. When other sources of funds are scarce, the political appeal of user charges increases, but social acceptance for charges is limited unless they can be shown to produce benefits in terms of reduced congestion or lower environmental impacts, for example.

Private sector involvement or privatisation?

Private sector involvement can help increase the efficient operation of infrastructure, in a context where government sets performance standards. But it can also be pushed further, towards privatisation. Some countries have privatised infrastructure and the understanding of when privatisation is a good solution and how precisely it should be done is increasing. To make it work, the need for a strong regulator that is independent from the politicians of the day and from the firm, was emphasised.

So should the privatisation effort be intensified? One view is that there is considerable potential for more socially beneficial privatisation, if it is done right, and the supply of capital looking for transport-type investment opportunities is large. But others point to downsides or false hope. One downside is that privatisation deprives government of the possibility to correct mistakes, for example when assets are sold to parties that pursue objectives very different from what the government had in mind. And one false hope is that privatisation can deliver large social savings in addition to those to be had from more efficient management. Obviously infrastructure needs to be paid for, under any funding approach, so that funding approaches differ mainly in terms of who pays what, and not so much in terms of total costs, again conditional on cost-efficiency. Private funds are better in some cases, and public funds in others.

The impact of the financial and economic crisis

In the wake of the crisis, the pressure for off-budget financing of transport infrastructure, e.g. through public-private partnerships or outright privatisation, is mounting in some (but not all) economies. As said above, such funding approaches can be justified, but care needs to be taken that funds are directed to the projects with the largest long run social benefits, while ensuring sufficient incentives for private investors where they have a role. Also, it was suggested that the impact of the crisis on the ability of governments to fund projects is sometimes overstated. Therefore, the crisis certainly provides opportunities to improve cost-efficiency, but whether that should imply a massive shift towards private funding is less obvious, other than for the reasons already understood before the crisis.

The crisis has damaged the reputation of some financial techniques, including securitisation. But these techniques have their place in a well-functioning financial system, for which a strong independent regulator is essential.