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TRENDS IN TRANSPORT INVESTMENT FUNDING: PAST, PRESENT AND FUTURE

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Trends in transport investment funding: past, present, future

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Over the past fifty years trends in transport investment have changed and become more complex. There has been a clear move away from public funding towards bigger share or "burden" to be undertaken by the users and more involvement of the private investors. The expectations have proved to be too high and in several cases unrealistic. Transport will continue to be part of the Public Expenditure Programs. The trend to rely more on direct users' contribution and involve the private sector in the provision of services is irreversible, though with a better and more realistic balance between the three pillars (public, private and users). Governments will have to cope with this new role and develop a different regulatory capacity compared to what they are used to. What can the transport sector learn from the more advanced telecommunication or electricity sectors? What are the lessons in the more advanced transition economies that experimented with public-private partnership even before the sector had been restructured or the business environment improved? The paper focuses on land transport and within that on roads, railways and urban transport. Still there will be some selected examples from other modes and also from other sectors to underpin the analysis and its findings.

The two sides of the equation

There is a "cat and dog fight" between the treasury and the transport ministry all over the world about the share of transportation in the public expenditure. On the one hand, the transport sector argues for more budget to preserve the assets and even up-grade and expand the network in support of economic development, as well as to pay subsidies that help sustain un-profitable, but socially needed services. On the other hand, the treasury being concerned to maintain the macro-balance is reluctant and in case of large and growing deficit of the country unable to meet all these financial requirements. Therefore they are much more interested in improving the efficiency of spending and operations within each sector. Better sector management in transport calls for more realistic subsidy structure, better service provision and asset management, overall for the use of modern techniques (e.g. performance based contracts to be issued through competitive bidding to the private sector).

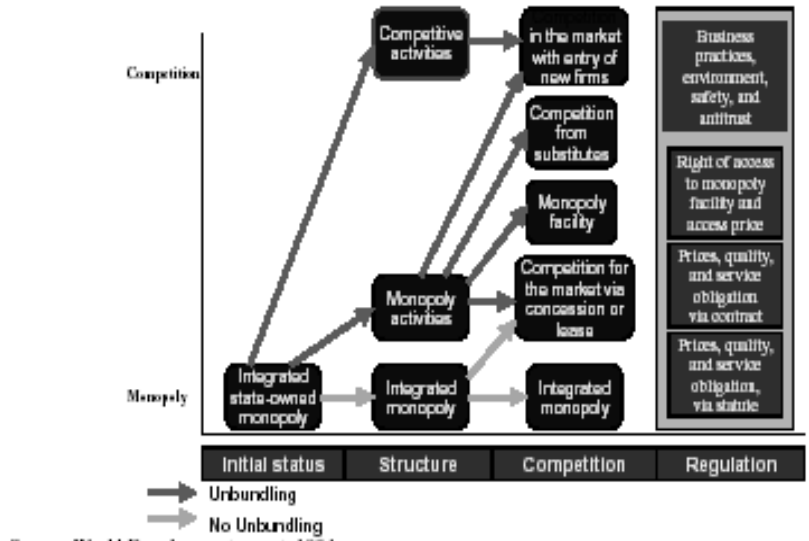
How efficiently money is spent is as important of the equation as the size of the funding coming to the sector. While this paper will not examine the ways of spending and the related sector reforms, this other half of the solution needs to be kept in mind, too.

Forces of change in transport funding

Policy development – deregulation/liberalization and privatization

As Governments move away from the owner/manager/service provider functions towards being more a planner, facilitator and regulator their interest to fund transport investments and services will change, as well as the form of and accountability for budget contributions (see figure 1). The slow down of productivity in infrastructure is a warning signal that countries cannot afford monopolistic transport operators if they do not want to see their economy to get marginalized. Competition for the goods markets creates the demand for low cost high quality transport services. In the globalized economy it is no longer the physical, but the economic distance what determines the competitiveness and wealth of nations.

Figure 1: Unbundling activities increase the options for competition and private sector involvement



Source: World Development report, 1994

The source of funding of transport varies as a result of the changes in the market structure. Distinction needs to be made among the different modes, firstly because their "marketability level" is different, hence the ownership and the level of competition is largely pre-determined. There is also a huge difference between infrastructure and service provision, core and non-core services, passenger and freight operations. From among the transport services logistics and trucking are the most obvious competitive sub-sectors without any need for Government ownership or funding (though in several Central Asian countries road freight transport is still state owned and highly regulated). Inter-city domestic and international bus operations could also graduate for more competition and less public funding in theory. The rather protectionist European system, however, managed to slow down this development both in East and West. Much competition for infrastructure operation and management concessions, like airports, ports, roads and for railway service concessions and urban transport franchises are likely to take place

also in Europe. Their success and the main stakeholders' satisfaction, however, is subject to the harmony with transport policy changes.

Public resource scarcity

While this is taking place on the longer run, the more immediate driving force for changes in transport funding and exploring new, innovative ways to raise money is simply lack of budgetary resources. It has been a common phenomenon in the developed countries, where relatively ample resources dwarfed compared to the infrastructure needs. The large-scale projects (like the Channel tunnel) called for a pool of financiers to make the dream come true. Therefore, Governments in the developed world turned first of all to the private sector and offered attractive projects for funding.

Budget constraints became even more acute in the transition economies. As the political changes started in Eastern Europe, Governments suddenly found them stripped of the already meagre budget revenues that their socialist predecessors could draw on. In the early nineties the economic decline was more severe throughout the Central and East European region than the Great Depression was in 1929-33 for the USA. Recovery from the transition recession was achieved by 1998 only by the Central, the South-eastern European and the Baltic states, while in 2000 in the CIS countries GDP was still around 60% of its 1990 level. [Transition – The First Ten Years. Analysis and Lessons For Eastern Europe and the Former Soviet Union by Pradeep Mitra and Marcelo Selowsky]. As a result maintenance of transport infrastructure and fleet is massively and chronically under-funded in the new members of ECMT. Their investment needs are huge and of a different nature than those in the Western European countries or the ECMT associate members, like the USA or Japan.

East or West the result however is the same: to bridge the financing gap, Governments tend to give preference to off-budgetary funding of new investments. Unless project financing is feasible (adequate traffic, realistic cost-recovery, the users' willingness to pay etc.), the costs – often the increased costs – inevitably fall back on the Government. At least this has been the case with several BOT road concessions in Central Europe. Thus making the off-budgetary funding a costly and temporary solution.

Expanding capital markets

Till very recently capital markets showed a growing interest in funding PPPs in transport and other infrastructure sectors, though events, like the Enron case, the energy FDI results below expectations and the shortcomings in the telecom markets further cooled the expectations.

Understanding the risks associated with the projects is critical. The question is if there is a default, how much can be recovered. For this information should be readily available. The ratings S&P, Fitch and others use are indicative only. High yield and low risk projects are of course the most attractive ones, therefore private investors try to avoid taking over commercial risks (see for example the Varazdin-Hungarian border motorway concession as proposed by the candidate concessionaire), particularly when the economic feasibility of the project is un-certain.

The financial structure of project which financing Banks and investors apply eventually, rests on the legal and regulatory structure of the country and reflect the confidence in the recovery rate. This latter is closely associated with the perceived governance and transparency of the sector.

This underlines the need for legal, regulatory and institutional reforms before national or local Governments can successfully tap the capital markets for their transport development.

Technological innovations

The recent technological and technical innovations make it possible to measure the actual use of transport infrastructure and services and eventually to bill for their use. Modern accounting methods on the one hand and the possible application of ICT in transport on the other hand help convert this sector from being a public good to becoming a service provider where the use of infrastructure and services (at least in most areas) can be measured. The technological changes open up new avenues for transport pricing, which will question traditional transport policy considerations. It is not exactly similar, but broadly comparable to telecommunication, where the technological revolution rearranged the economies of scale and thus made deregulation possible.

The traditional pillar – Public Expenditures

There is an overall concern that public expenditure figures are neither globally, nor regionally comparable. They are not readily available, either. Looking at the IMF statistics, the countries in Central and Eastern Europe and Central Asia (the Europe and Central Asia region of the World Bank) spend around 2 percent of GDP on transport and communications. The EU candidate countries' public expenditure is a bit higher with a 2.3 percent on average. The US Government statistics reveal a much lower spending on the federal, state and local government level. Their transport related expenditure (not only investment!) was around 1 percent of GDP. The EU countries are also reported to spend around 1 percent of GDP per annum, but this is exclusively on investment in transport. Thus their total transport expenditure is likely to be bigger. Do these figures reveal the true picture? Definitely not! The extra budgetary spending techniques disguise the actual transport expenditure, which is usually much below the needs for minimum asset management and the economically justified new investments, that are needed to catch up with the demand of the economy.

In the early nineties, the road sector for example all over in Central and Eastern Europe suffered severely from the shrinking budget. At that time their road expenditure was around 0.5 percent of the GDP. During the past ten years the expenditure increased to around 1 percent of GDP in the EU accession countries. Out of 28 countries of the World Bank's Europe and Central Asia region where data was available only three small countries (Latvia and Slovenia) seem to have covered their estimated maintenance needs in 1999/2001. Another six (Lithuania, Macedonia, Romania, Turkey, Ukraine and Uzbekistan) covered around half of their maintenance needs and 16 countries covered less than 50 percent of their needs. The situation is the most severe in the South Caucasus and the Central Asian countries. The countries in these two sub-regions - with the exception of the oil rich Kazakhstan and gas rich Turkmenistan – and Moldova failed to grow their economy and now belong to the least developed countries in the world that are also under political and economic stress. The poor transport infrastructure quality is highly likely to play a role in this sad outcome, too.

The neglect of road maintenance also shows the lack of responsibility in the administrations to save existing assets. The total road maintenance expenditure in the 28 countries cited above is around US$3 billion annually, while a US$ 5.8 billion per year is the estimated need. This is about 1.3 percent of the estimated replacement value of the total road network in these countries.

Less severe, but similar financing gaps are also in the developed world. The federal government of the United States, for example is facing a large and growing deficit. This has an impact on the future of federal transport funding. Thus the reauthorization of the transport programs (Amtrak, aviation, highway and transit) to take place during Fall 2003 is subject to stormy debates [Transport Research Board Finance Conference, Chicago, November 2002; Transport Research Board Annual Meetings, Washington DC, January 2003].

Box 1: The US highway system

The National Defence and Interstate Highway system launched in 1954 by Eisenhower, who was amazed by the European and mostly the German highway network, now consists of 46,000 miles and 210,000 lane miles. This network represents 2.5 percent of the total US network and carries 24 percent of the total traffic.

In 2001 prices, over US$ 370 billion in federal funds have been invested in the network. This entire amount – though channelled through the federal budget – has come from the fuel taxes.

In light of the deficits in the federal budget of the US, future funding is a concern. Similar financial constraints are on the state levels, therefore more innovative funding is considered by several think tanks and state legislatures. The introduction of Vehicle Mile Fees to be electronically collected; HOT-lanes, where a fee is imposed on the use of the HOV-lanes in rush hours, and other innovative solutions are on the list of recommendations.

Are subsidies a way to waste scarce public resources and support non-efficient organisations?

World subsidies are between $600-800 billion, or 2.4-3.2 percent of world GNP. 75 percent of this is within the OECD countries and mostly go to agriculture. Transport, and first of all public transport has also a sizeable share of subsidies, though much smaller than agriculture. So, this warrants our attention to examine how much is used for the purpose it was meant to and how much could be freed up for transport infrastructure development.

The general arguments against subsidies as such are that, they

- Reduce economic efficiency – reduce allocative efficiency by distorting relative prices –often lead to over-consumption or under-provision of subsidised services;
- Burden the government budget;
- Evoke methods to finance subsidies, that mean higher taxation or higher deficit financing, which further result in resource misallocation;
- Make it possible for middle- and upper-income households to capture the benefits and this raises issues of equity and fairness.

These concerns are particularly true for price subsidies. Therefore it is a high priority task to reform them and make them to serve transport policy goals (like modal split between public and individual transport in congested cities), as well as broader social interest to help the poor have access to public services, job etc.

Recent subsidy reform initiative warns us however, that phasing out the old subsidy regime can be successful only if it is done gradually (unless the Government is particularly strong and there is already a social safety net in place). Therefore instead of quick fiscal savings we could foresee large budget reallocations where subsidies are better targeted and cease to distort competition. It may be that as a result of subsidy reforms the transport sector is losing some state resources that have come into its way in relatively easy way, i.e. through the political bargaining process thanks to the strong trade unions at the railways. At the same time, better-targeted subsidies can result in traffic growth. In case the user charges are correctly set, the revenues would still come to the sector, but it will have to "work for it".

In case of urban passenger transport and sub-urban railways, subsidies are likely to sustain and mostly come from the local government. To achieve this however, the fiscal decentralisation process should be accelerated in the new ECMT member countries.

Subsidies are not worth if they are not paid either in the form of ticket subsidy or PSO compensation payment. The EU accession countries' Governments have already introduced the legal framework for PSO contract arrangement with the railways. Unfortunately not all local Governments are able to pay the PSO compensation. At the same time, railway management is either not allowed or does not enjoy the political support to make efficiency improvements, like line closure, service abandonment or suspension.

Soft budget constraints and the quasi-fiscal deficit

Subsidies to the railways have gone through an interesting change that wouldn't have been possible without the un-bundling as promoted by the European Community. In the EU, operating rail subsidies are legally limited to sub-urban services. Some CEE Governments continue to allocate a lump sum to the railways as compensation to the overall passenger transport timetable and the losses incurred. In Bulgaria, for example, the total State contribution amounts to around 0.8 percent of the GDP. In addition to these contributions, there are also debts the railways in different countries pile up, as they do not pay the bills of other SOEs (e.g. electricity bill). In some countries (e.g. Georgia) there is barter arrangement between the railways and the main suppliers, who are also their customers, so the balance is once in favour of the railways then of the creditors. This situation creates a quasi-fiscal deficit on the public expenditure level, further weakening the state budget.

There is also evidence of "soft budget constraints" when the railway SOE is encouraged to meet its financing needs from short-term borrowing or from bond issues all with Government guarantee. As a result, railways are willing to overspend, since in the end the paternalistic Government will bail them out.

More strategic investment planning for transport

Speaking about constraints in funding one should recognise that in many transition economies there is no or not up-today transport policy or strategy. Even if it exists, it is not linked to the mid-term public investment programs or public expenditure planning. In the low-income countries, that are eligible for concessional borrowing (IDA credits), the main strategic framework is the Poverty Reduction and Economic Growth strategy paper. To establish the interfaces with this latter transport specialists are expected to think in terms of the Millennium Development Goals and how transport will contribute to their achievement.

Partnership within the Government and with the external stakeholders

Public expenditure allocation is not only based on economic and social considerations, but it also shows how strong the partnership is between the transport ministry and the finance, as well as the economy and trade ministries. Further support can also be gained from the civil organisations and the public at large that are free to express their demand.

The impact of the EU accession on public spending

The paradigm of meeting the Maastricht criteria and meeting the sectoral challenges leads to off budgetary solutions, as the often-preferred options. These can work well on the short run. However, they will not work on the longer run if sector reforms are stalled and the revenues generated within the sector are not channelled back to it.

The users' pillar

In the past fifty years transport in the ECMT countries was largely considered to be part of public service and therefore the real costs of the operations were not meant to be born by the users. The first "earthquake" came when the UK decided to privatise its bus operations and introduced a franchising system. This was then followed by many other private sector involvements where cost recovery became an important factor both in terms of the selected market arrangement and also in terms of diverting interest of the public client and the service provider when subsidies were discussed.

Box 2: New waves of transport pricing – the EU principles

Pricing is a tool for transport policy intervention:

- Fair and efficient pricing principles:
- Polluter pays principle - users to be charged for the all costs (internal and external) they impose
- Charging at the point of use whenever possible
- Average full costs vs. marginal social costs (distance based user charges – vignette can be temporary till electronic fee collection)
- Step-wise introduction (now HGVs, but soon also motor cars)
- Level playing field between modes for enhancing competition
- Favour environment friendly modes and solutions

The user *should pay* principle is gaining pace in several different ways:

- Increased conscious of road user charges (see more on this later);
- Increased cost recovery ratio becomes un-avoidable in passenger transport, where international and inter-city bus operations can be profitable provided there is some sort of competition, which makes the operators improve their efficiency. Still a lot needs to be done also on this front (the recent difficulties with the Hungarian Volan companies, that continue to enjoy a monopoly right in the inter-city bus operations);
- The trucking industry is already placed on contestable footing, which also allows bankruptcy of those who are not doing so well;
- As a result of the separation of rail infrastructure and delivery services the access charges have become the major intellectual, economic, policy and regulatory challenges;
- Air-carriers have been paying for the use of the air navigation system (over-flight fees etc.) and for the use of the airport facilities while they are already required to cover their own costs (it was not always like this, in the first half of the nineties the European Commission approved the payment of € 5 billion subsidies to the EU airlines by their national Governments);

Ports in the Western part of ECMT have been expected to cover their costs from their users. The new Members have also started to reform their ports (there are several success stories, like the reorganisation of the Polish ports and most of the Baltic ports; the first, but major steps towards modern port operations in Durres, etc.).

As the users pay principle gets stronger and the cost recovery improves there will be more new opportunities for the public-private cooperation and also for bringing more private capital to the transportation sector. The resistance to these changes, however, is huge and it comes from all possible directions. To illustrate this the discussion in this paper is limited on user charges for the road infrastructure. This selection is partly arbitrary, partly well justified as major changes in road pricing and consequently road financing are to be expected in the forthcoming years. So much so, that insisting on the refinement of the current system (i.e. heavy reliance on the share from the fuel taxes) recalls the case of the British gas lamp industry. It spent awesome amounts on R&D to make the gas lamp production more efficient at a time when electricity was already invented. Unless the heated debate about road funds is converted into a more strategic discussion about the earthshaking reorganization of the road sector we are in for another “innovation to support gas lamp manufacture”.

Earmarking is a usual tool in several OECD countries and it is broadly applied in the developing and the transition economies. There are several good reasons for this solution. The transport sector, however, should not turn its ears deaf on the arguments coming from the macro-

economists and the finance ministries. Table 1 illustrates this debate and the arguments for and against earmarking and channelling the revenues to a Fund.

Table 1: Arguments for and against the road funds

Table 1 : Arguments *for* and *against* the road funds

Strengths	Weaknesses
- Recognised utility function through road fee / road user charges. Users' ownership and oversight – transparency and accountability – less corruption. Multi-annual predictability – multi-year investment planning - Can borrow directly against future revenues - Cannot be easily influenced by political pressure and thus can stick to economic analysis based planning and investments - Prudent financial management, procurement and road expertise	- Can be captured by "local powers" - Limits the government's fiscal re-distribution function and can limit expenditure management - May "over-borrow" – if it loses its creditworthiness, eventually the burden falls back on the government, which will have to bail it out - Difficult to design its re-allocation functions to make them flexible, but not abusive to regional and local governments if all Rocs go to the Road Fund - Road management and fund management can have contradictory agendas
Opportunities	**Threats**
- Can grow into a national road utility that can be commercially managed - Offers more opportunities for public-private partnership and eventually for the private sector - With a well designed RF accelerated road development can be implemented with lower costs than with central budgeting due to the risk factor attached to multi-year predictability	- Not appropriately established RF can be a target of political and public dissatisfaction - The off budget status may narrow/limit the interest of the government to provide for roads as part of public goods - Lack of proper over-sight can lead to mismanagement of the RF and trigger loss of confidence in the road sector specialists - Poor RF management can have a backlash and can bring the sector back to central planning solutions - National roads have too much emphasis at the cost of regional, rural, and urban roads

The main sources of road funding according to the EU supported current system are the share in the fuel tax revenues; the vehicle registration fee (at purchase and annual) and the tolls in case of bridges, tunnels and motorway sections. While achieving this structure is still a task in some new ECMT members, one wonders how fast the move will/can be towards a more sophisticated system. To bring the road sub-sector closer to the utilities, like electricity, telecom or water the vehicle registration fee could function as a one time and annually renewed access fee to the road system. The actual use of the national road network (first class roads) on the other hand can already be measured with ITS technology. The amount to be paid can be based on the amount of km-s and the type of vehicle. With this Vehicle-kilometre-fee (VKmF) a new source of revenue is at hand. However it is expected that the VkmF will gradually phase out the reliance on the share from the fuel tax. This way, the debate on the earmarking will be solved. To facilitate public acceptance a lot of communication is needed. Gradualism is also important – like the German solution to first levy this fee only on the trucks using the Autobahns. It can be a transport policy decision if the revenues of this new – more virtual – tolling are to be used for cross-subsidies e.g. to support public transport in urban areas.

With modern technology discriminatory pricing can also be introduced, e.g. by pricing the value of time in case of congestion pricing as it was introduced in London or in case of premium lanes of the highways as it is planned in the US. The introduction of High Occupancy Toll system allows lone motorists to use the carpool lanes at an additional cost (in California is has proved to be a welcome solution and now other states consider its application).

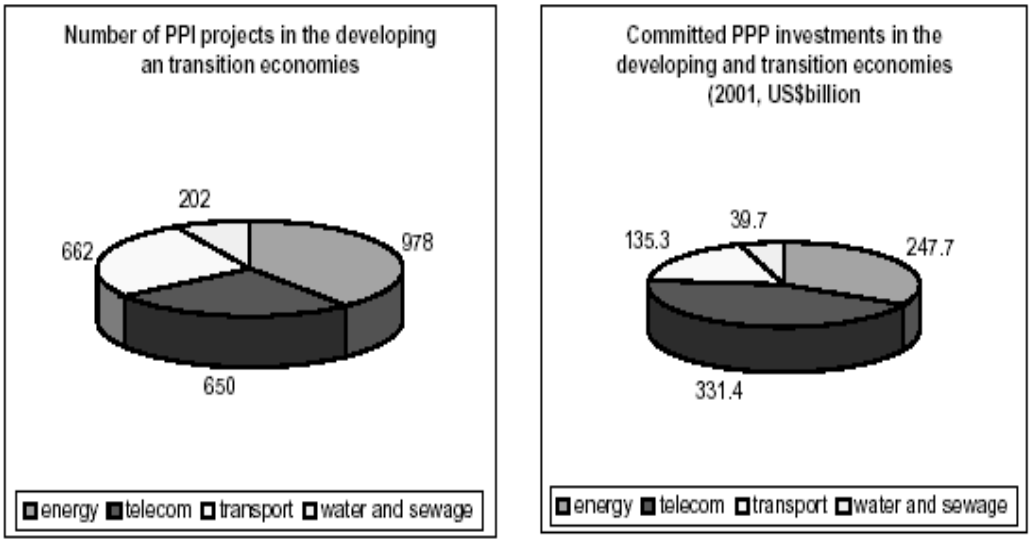
Other value pricing of any transport infrastructure also occurs, when the sector is allowed to share the benefits from the increased property value (e.g. UK Docklands, where the real estate developers shared the cost of the construction of the light rail system). This solution, however, is limited as a rule to a specific area and not to be used countrywide. Besides, with some limited number of exceptions it has been mainly the property market's benefit from transport development and not vice versa. Still it is worth our consideration since "first and foremost, truly sustainable communities need access to jobs – and we are concerned that transport remains the missing ingredient in the plan" – as the British Property Federation echoed early this year. Transport investments can act as catalyst for private sector led development, like it is the case with building the rail line from the Channel tunnel to Fawnkham Junction and from Southfleet Junction to London's St Pancras Station: the 5.2 billion pound Government investment has attracted a further 8 billion pound private sector investment in properties surrounding the key transport nodes [Financial Times].

There is a price for the right of way that the road sector is paying in case of new construction (e.g. land expropriation). This cost usually is not recovered at all or in a rather limited way from the other utilities (e.g. telecom, electricity, water) that benefit from the existence of the road. How to reasonably harvest the external benefits back to the road sector is an area for future examination.

Private sector funding

Between 1990 and 2000, 2,500 infrastructure projects involved private participation in the developing and transition economies (World Bank PPI Project Database). This generated an investment commitment of US$750 billion. Out of these transport did not have the largest share, but its presence was sizable. In terms of value it amounted to 18 percent of all PPI projects in the developing and transition economies and in terms of number of projects it was 27 percent.

Figure 2: Public-Private Investment Projects in Infrastructure



Source World Bank Public Private Investments (PPI) Database

Within transport infrastructure toll roads have the highest attraction to private capital, followed by the ports and airports.

Since 1997 the private interest in infrastructure has fallen fairly steadily. Several projects have been re-negotiated and some even cancelled. The big wave of cancellation was triggered by the failure of the Mexican toll road program. However the water and sewage sector, or the electricity (particularly in distribution) projects have been hard hit too.

The regional distribution of the flow of private capital infrastructure shows that Latin America managed to attract close to half. In Central and Eastern Europe most of the infrastructure projects were part of divestiture and sale of assets and companies (e.g. big telecom and power privatisation's). The transport infrastructure sector was not particularly participating in this wave and many of the projects that eventually took off, were cancelled or re-negotiated.

Box 3: Hungary M1/M15 Motorway Concession Project

The M1/M15 project was the first toll motorway project tendered and implemented in Central and Eastern Europe. Following a successful tender and financing, construction was largely completed on time and within budget even though the construction period was ambitious and Hungary underwent a period of high inflation.

M1 traffic at opening and traffic growth during the first three years was substantially below expectations, rendering debt servicing impossible. The level of toll rates turned out to be the highest in Europe, mostly unaffordable to the Hungarian public. Thus they became politically unacceptable. In the end the court case initiated by the Hungarian auto-motor club ruled against the high toll, that based on the concession contract was at the discretion of the concessionaire. The low traffic and the reduced toll rate made the financial situation untenable. Attempts to restructure company finances remained unfruitful. The Government and lenders agreed on a substitution process after three years of operation.

The Government brought the infrastructure back into Hungarian State ownership while accepting part of the debt. Tolls were reduced (and abolished) and a nation-wide vignette system prepared. Taking on the M1 debt also meant that the motorway construction budget for at least one-year was completely exhausted. In addition, private funding sources for the road sector seem to have become more cautious.. Of the ambitious motorway program of Hungary outlined in 1991, only parts were realised by the end of the century and the early completion of other parts remains doubtful.

The M1/M15 experience shows that sound traffic projections and prudent economic evaluation of projects are essential. While the lack of adequate traffic was the key reason for the private concessionaire's failure, the complexity of the issues and the confidence lost made the Hungarian Government decide against trying to find a viable PPP solution. With the benefit of hindsight a positive lesson from the first BOT project in the region is:

- the construction was completed on time and within budget,
- its operation and maintenance during the short period thereafter were effective and on highest standard,
- during the critical economic period following its opening to the west, Hungary benefited from the M1 whilst not contributing to its financing.

It is worth noting that the subsequent M5 motorway construction was designed by taking the lessons and there the PPP arrangement made the concessionaire’s operation viable.

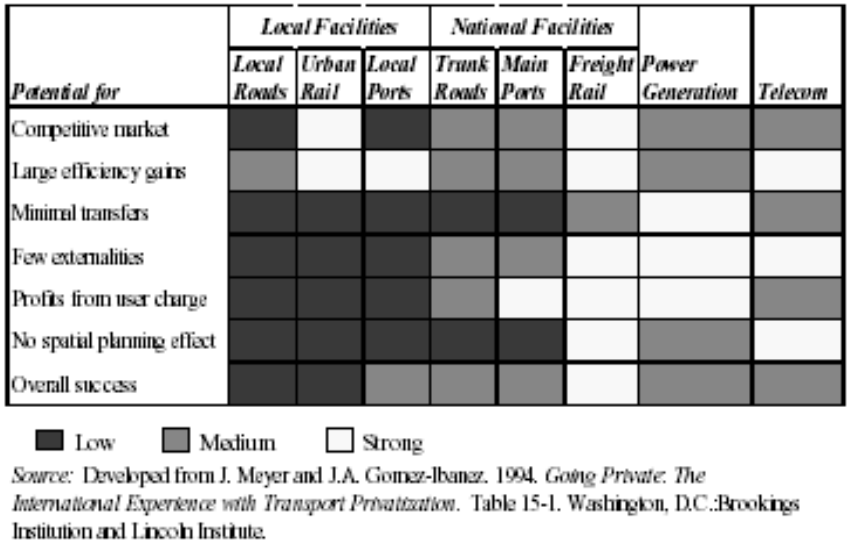
More information on PPPs in Highways can be found on the interactive CD sponsored by the World Bank

Interestingly private funding of new transport infrastructure was mostly the way of large-scale investments in the developed countries, like for example the Channel Tunnel, Oresund

bridge/tunnel, Dartford Bridge in the EU. Due to the famous cost overruns in the Channel tunnel project, there are also lessons for improved project financing and management.

The booming of private infrastructure investment stopped in 1997 and a steep decline can be observed. Nevertheless, in the first half of the 1990s it was proved that there is the private sector can be interested in funding infrastructure development. The recent downturn, however, highlights the shortcomings in the arrangements and calls for careful analysis of the lessons, i.e. (i) private funding is not available free, there is a risk element that needs to be shared and paid for; (ii) sector reforms should precede the issue of a concession or any other PPP arrangement, that includes policy, regulatory and institutional changes; (iii) the willingness to pay the transport infrastructure users is lower than originally assumed. Besides different sectors and sub-sectors have different intensity to attract private funding and this should be duly respected (see figure No. 3).

Figure 3: Why Transport Infrastructure is Less Amenable to Private Financing than Power Generation or Telecommunications?



Source: Developed from J. Meyer and J.A. Gomez-Ibanez. 1994. *Going Private: The International Experience with Transport Privatization*. Table 15-1. Washington, D.C.:Brookings Institution and Lincoln Institute.

With all the recent slowdown of private funding there is a scope of the growth of privatisation, first of all in the areas of transport services and particularly and first of all in the non-core services. In the vast field of non-core services some activities are still to be privatised and exposed to international competition, like locomotive and rail wagon/coach repair. Several traditional ancillary services that were incorporated in the railways or ports SOEs can easily be contracted out where as competition for a long term contract could make the service quality higher and drive the costs down. In the field of engineering and construction services contracting out should be an obvious must for the same reasons. In these cases however, the private sector funds only its own existence and cannot be seen as the source of off-budgetary funding of infrastructure maintenance or expansion. The most obvious forms of public-private partnerships, the increase of which is highly likely can be seen in figures.

In some specific cases the private sector looks to be the financier (e.g. BOT concessions), however, it is the user who in the end pays.

Table 2: Expanding the Scope for Private Sector Finance and Management in Transport Infrastructure Services

	Infrastructure	*Services*
Urban Road	Usually free	All can be private
Inter-urban Road	Private concessions possible for major roads	All should be private
Rural Road	Contracting out of construction/maintenance	All should be private
Urban Rail	Concessioning possible but not fully proven	Concessioning possible but rare
Inter-urban Rail	Privatization/concessioning for freight; commercialization always desirable	Privatization or concessioning encouraged
Waterborne	Largely concessioned; ownership public for strategic	Private operation desired. Abandon protection
Air	Usually public ownership; concessioned facility	Private or commercialized operation

A more balanced approach is called for to judge and facilitate the growth of public-private partnership, as not in all sub-sectors and areas of transportation it is feasible to expect large-scale private participation. Where it is possible however, the Governments are to play the role of the facilitator. Otherwise private services will not develop or only at a very high price.

Table 3: Options for Private Involvement

Option	Ownership	Financing	Management
Service Contract	Public	Public	Public/Private
Management Contract	Public	Public	Private
Lease	Public	Public	Private
Concession	Public/Private	Private	Private
- BOT	- First Private - then Public	- Private	- Private
- BOO	- Private	- Private	- Private

An external pillar for the EU Members and Candidates

EU funding is becoming an important external source of revenue (see Box 4). However, “no rose without a thorn”. This extra-territorial pillar entails a change in the decision-making power structure. In the transport sector the obvious impact is the increased support to the projects that enhance regional integration and inter-connection. Strong Governments that are conscious of the regional and sub-regional disparities can offset this impact by pooling national and local resources to the needs of urban and rural transport. Thus the gains of the external pillar are high.

This is unfortunately not yet the case in several EU accession countries that have a low absorptive capacity of the EU funds partly due to the lack of counterpart funding. As a result very little is left in the budget for the lower level transport network.

Box 4: The different forms of EU support to transport

- Trans-European Network projects within the EU
- European Investment Bank (EIB) and European Investment Fund (EIF) grants and loans
- Structural funds (ERDF) and Cohesion Fund for the Member States
- Instrument for Structural Policies for Pre-Accession (ISPA) for the accession countries and mostly for the TINA projects (Transport Investment Needs Assessment – TINA)
- PHARE for the CEEC
- TACIS for the CIS countries, Traceca along the Silk Route
- South East Europe: Stability Pact a, TIRS (Transport Investment Requirements Study in South-east Europe) and Rebis projects; the European Reconstruction Fund for project preparation

The more developed transport policy and investment planning exist in a country, the more likely that the use of EU support facilitates will help the selection of the most feasible projects that have a regional impact and at the same time serve local interest, too. They will then generate economic growth not only within one country, but also across the borders.

In case of the EU accession countries there is also a concern that the sudden increase of grants will result in the perception of "free" money. This can easily lead to less scrutiny in project selection and implementation, as well as to a dependence on the external funding for transport development. More than usual supervision and continued rigor in investment planning is therefore in the interest of both the beneficiary countries and the European Commission. In addition to the structural issues with regard to the quality of spending, there are also macro economic issues to be born in mind with the increased access to grants. Most of these grants are to make IFI lending concessional, hence ISPA can be used in connection with IFI (mostly EIB) lending. This can increase the indebtedness at a faster rate than the Government otherwise would like to let it happen. The increased external funding may lead to exchange rate appreciation and that can reduce international competitiveness ("Dutch disease"). Since a big part of the external funding concentrates on the transportation infrastructure, there is going to be less pressure to make infrastructure management more efficient. On the medium to longer term, however infrastructure cost recovery is to be achieved by the application of users pay principle (rail access charges, road pricing etc.). If the provision of transport infrastructure is more costly in the accession countries, than in the EU, the users will find it even more difficult to compete on the enlarged single market.

In addition to the availability of EU funds, there are other external sources of financing, like the Bid Facility for South-east Europe initiated and supported by USAID or the Central European Infrastructure Fund that is designed to foster PPPs in municipal utilities.

Summary

Transport funding is expected to change revolutionary, as the reliance on public expenditure transfers is to decrease and the contribution from the users and beneficiaries' increases. With a trend of improved cost recovery of several transport services and some part of transport infrastructure, private entrepreneurship and the opportunities for public-private partnership are likely to grow. Private funding of traditional transport infrastructure however is to be seen as a borrowing facility that works well if the public sector shares the risks and guarantees the enabling environment particularly for the increased cost recovery from the users. This is also an off-budget solution on the short term that has a higher cost (if not more than the interest rate of the commercial loans) and implies contingent liabilities throughout the lifetime of the project.

Table 4: Summary of the four pillars in transport funding

External Pillar: EU Grants	Public Expenditure	User contributions	Private Sector funding
Available not only for Members and candidates, but also for other countries in Europe, Africa and the Middle East	Main Issues: Competition for scarce resources Transparency Efficiency Investment planning	Main issues: Accessibility Affordability subsidies	Main issues: Un-realistic expectations on both sides Lack of conducive environment Interest of strategic investors has recently shrunk
Aim: to serve regional (EU) goals	Likely to have a shrinking share	Likely to have a growing share	Likely to have a growing share, but not as fast as expected and more in the form of PPPs

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