Presentation to the UN (OHRLLS) – 6-8th April 2021

Developing Bankable Transport Infrastructure Projects: Case Studies, Experiences and Learning Materials for LLDCs and Transit Countries

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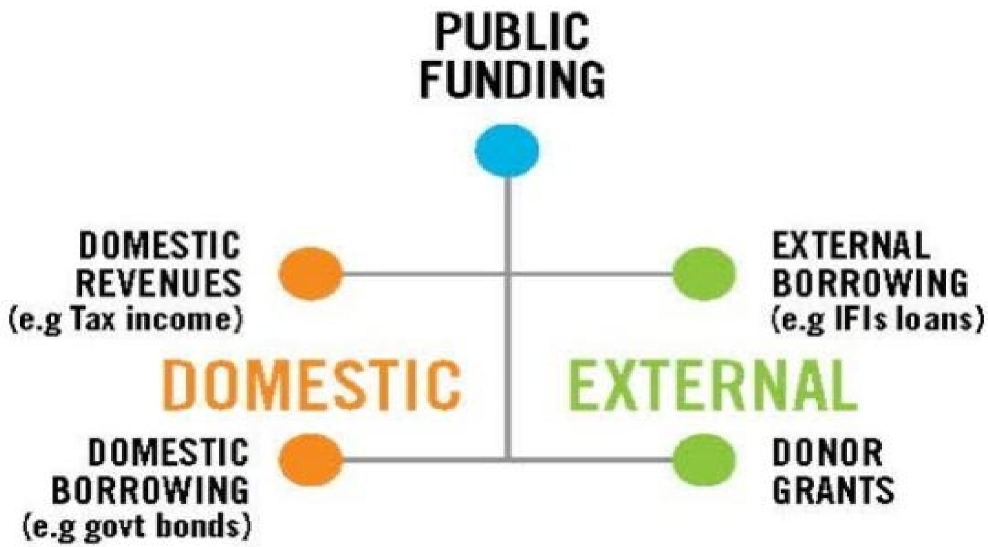
Traditional and Private Sector Sources of Finance

Public Sector Sources of funding

Introduction:

Worldwide, the majority of funding for infrastructure investment has been obtained from the public sector, particularly government budgets (Usubaliev, 2020). Public financing entails direct investment by government from within its budget (e.g., tax income) and domestic borrowing (e.g., government bonds).



Public Sector Funding Sources

- The United Nations (UN) Economic and Social Commission for Asia and the Pacific (ESCAP) has estimated that among the Countries with Special Needs (CSN) , 65% of infrastructure projects are funded by government budgets, 15% financed by the private sector, 10% financed by loans and credits from Multilateral Development Banks (MDBs), and the remaining 10% is financed from Official Development Assistance (ODA).
- A key advantage of financing transport projects through public sector funding is that it allows governments to maintain control of public assets such as highways.
- In terms of public sector funding public infrastructure projects such as roads, railways and airports are often financed either by borrowing through debt or bonds, or by selling equity positions in a project.

Sources of Public Sector Funding

User Fees):

- Transit fares
- Road tolls / airport passenger fees / other similar fees
- Congestion charge
- Parking levies
- Fuel levy / taxes

General Funds:

- Property tax
- Sales tax
- Personal income tax
- Hotel/recreation tax
- Vehicle registration fee
- Land transfer tax
- Land value capture

Sources of Public Sector Funding

Other Funds:

- Domestic / external debt
- Domestic pension funds
- Sovereign bonds
- Contractor finance
- Commercial Lenders

Case Study of Public Sector Funded Project

Dualization of the Beitbridge – Harare Road, Zimbabwe:

- The Beitbridge - Harare Road is the main route for trade between ports in South Africa and Zimbabwe, and countries north of Zimbabwe. It is located along the North - South Corridor and is an important trade route for the SADC region.
- The road serves as an international route for cargo and persons travelling between Tanzania, DRC, Zambia, Malawi, Mozambique and South Africa.
- The road was built over five decades ago and has long been due for rehabilitation and widening, In 2018, Zimbabwe recorded an increase in road traffic deaths from 1,828 in 2017 to 1,986 in 2018. Of the 1,986 deaths recorded in 2018, more than 600 perished along the Beitbridge - Harare highway.
- In 2019, Zimbabwe decided to develop the project using its own public funds. According to the national newspaper, the Herald, the Zimbabwe National Road Administration (ZINARA) intends on channelling a large chunk of the funds it collects from toll gates into the rehabilitation of the Beitbridge – Harare road (The Herald, 2020). So far Zimbabwe has made progress and constructed a total of 132km out of 600km as of end of 2020

Case Study of Public Sector Funded Project

Dualization of the Beitbridge – Harare Road, Zimbabwe:

Key Lessons :

- Creating a stable and enabling economic environment is important for infrastructure development. GoZ's previous attempts to develop the Beitbridge - Harare road were hampered by inflation and an unstable currency.
- Governments should look internally. When the GoZ decided to undertake the Beitbridge Harare Road project using its own funds (toll funds), not only did it make progress (a total of 132km has been completed as of end year 2020 (Ntali, 2020)) but it realised that it will require US$650 million to undertake the project, implying savings of US$1,3 billion from what other project developers had indicated it would take. It is possible for governments to fund their own projects and although it may take longer, they could save money in the long run.
- By working with local contractors, the country has also been able to save foreign currency and according to the Ministry of Transport and Infrastructure Development in Zimbabwe, the foreign currency savings were about 60% (Sunday Mail, 2020).
- Using local companies and resources creates local employment and spurs local production and expertise.