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

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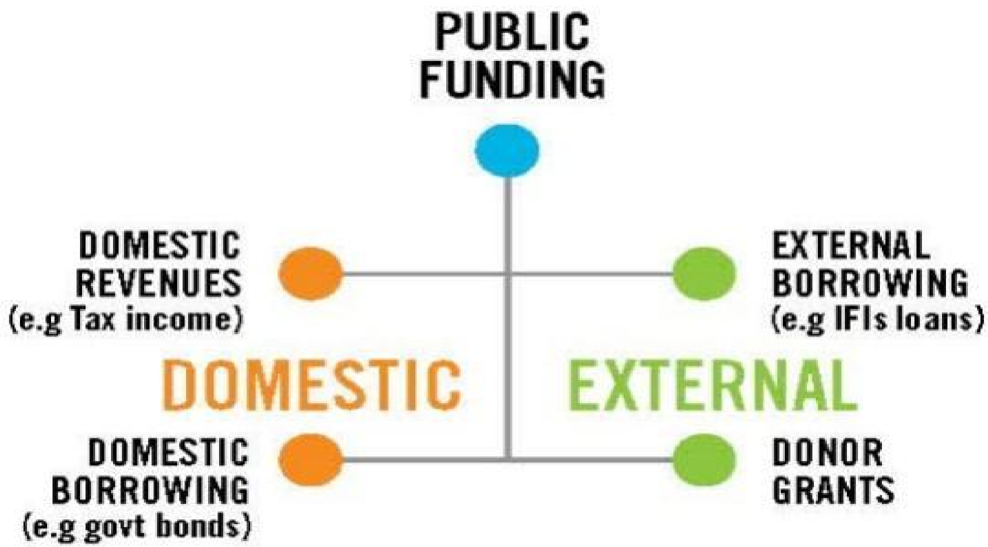
Traditional and Private Sector Sources of Finance

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: Miladinovci - Stip, Macedonia

Key Elements:

- 53km Miladinovci - Stip highway connects North Macedonia's capital Skopje with the eastern part of the country.
- Essential for regional development and the transportation of people and goods across the country.
- Contribute to growth of the economy and the development of the eastern parts of the country along the Pan-European Corridor VIII.
- Public Sector funded complimented by 10% loan from China EXIM Bank
- Construction commenced in 2014 ad highway opened to traffic in 2019.

Key Takeaway:

The project was completed using a mix of public sector funds and a loan from China

Case Study: North–South Railway Line, Turkmenistan

Background:

- October 2007, the Government of Turkmenistan signed a multilateral agreement with Kazakhstan and Iran to construct a north–south railway line to promote regional trade, cooperation, and integration .
- Proposed a new single track non-electrified railway line of 925 km between Uzen in Kazakhstan and Gorgan in Iran.
- The route aims to improve resource-rich Central Asia's access to markets in the Middle East and South Asia.
- Turkmenistan, Kazakhstan and Iran inaugurated the new railway in the year 2014.
- Turkmenistan-loan from ADB and IsDB.
- **Project Benefits:**
- Region transit times-10-12 days compared to 23 days by sea. With the new rail line in place, the distance to transport goods from Central Asia to Persian Gulf ports was cut by about 680 km.
- The project also provides direct employment, supports small business development, and opened up opportunities for tapping coal, gold, and other minerals in areas along the route as well as transporting bulk goods such as oil, agricultural products and textiles

Case Study: North–South Railway Line, Turkmenistan

Key Lessons

- **Project conceptualization:** strong government backing and ownership and had clear objectives for the funding requirements of different parties.
- **Project preparation and approval:** The project preparation, supported by project preparatory technical assistance (TA), provided the government with an opportunity to understand ADB's due diligence requirements.
- **Project implementation: Limited capacity within implementation agency (MRT) leading to delays;** Agencies outside of the MRT had limited knowledge of ADB guidelines and procedures and were not sensitive to project schedules, often resulting in delays in implementation.
- **Program management unit (PMU):** ADB (2018) completion report recommended that a PMU be created for future ADB-financed projects. The PMU should be staffed with full-time experts dedicated to working in the implementation of the project.