

Private Finance

Increasingly, governments have looked to attract private finance for investments in roads. Private finance brings about new dimensions in financing transportation infrastructure as well as new partners around the table. Sources of private finance are **equity**, the capital held by a company's shareholders or sponsors, or **debt**, the capital provided by lenders. For both types of private finance international and domestic markets exist.

Private investors apply a **project finance approach** to road investments: their commitments rely on the performance of the project. The revenues generated over the lifetime of the project need to cover the costs of the initial investment, maintenance and operation and provide for a profit margin in order to make a project "bankable". In case of a 100% privately financed project, revenues can come from direct user charges like tolls. When financing is jointly undertaken by public and private partners, they can come from shadow tolls (an amount per vehicle paid by the client authority), from periodical payments paid by the client authority related to performance (annuity scheme), or a mixture of these.

To successfully attract private investment in the infrastructure, certain conditions have to be fulfilled on a national level, as is recommended by a [recent World Bank/ICA/PPIAF study](#):

- There must be a clear political will and long term commitment to attract private participation in infrastructure investment;
- Proper legal frameworks should be (put) in place;



- Transport investment plans should be clear and undisputed;
- The issue of affordability should be assessed; affordability of the general public for the services to be provided or affordability by the government in case of joint financing;
- Governments should have or develop the institutional capacity to deal with complex PPP arrangements.

The relationship between the client authority and the private investor(s) is formalised in a [Public Private Partnership](#) agreement.

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Key documents:

- Mor, N. and Sehrawat, S., [Sources of Infrastructure Finance](#), Institute for Financial Management and Research, Centre for Development Finance, Working Paper Series, India, 2006.
- Fisher, G. and Babbar, S., [Private Financing of Toll Roads](#), RMC Discussion Paper Series 117, World Bank, 1996.
- World Bank/ICA/PPIAF, [Attracting Investors to African PPPs, A project preparation guide](#), World Bank, 2009.
- Noel, M. and Brzeski, W. Jan, [Mobilizing Private Finance for Local Infrastructure in Europe and Central Asia, An Alternative Public Private Partnership Framework](#), World Bank, 2005.
- Halpern, Ricardo and Patrick Malone, [Overview of World Experience in Private Financing in the Roads Sector](#), World Bank ECSIN Working Paper no 2, 1999.

- Hamilton, Michael J, [Privately Financed Road Infrastructure: A Concession Company's Point of View](#), May 1996

Key presentations:

- Caroline Visser, [Introduction to Private Finance for Roads](#), presented at Senior Road Executive Course, Module 1: Road Finance and Road Fund Management, University of Birmingham/International Road Federation, 2009.

Recommended Links:

- [For data on Private Participation in Infrastructure \(investments, number of projects, regional allocation, sectoral allocation\): the Private Participation in Infrastructure Advisory Facility of the World Bank has an extensive database available online](#)

For further information

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