



## Finance & Economics

### **The impact of global economic and financial crisis on the financing of transport infrastructure projects**

The current global financial and economic crisis is affecting transport infrastructure projects worldwide in several ways. It has had major negative impact on the availability of both private and public finance for transport infrastructure investment. At the same time, many countries are pursuing policies to ease the current economic downturn with an emphasis on transport infrastructure spending, thus relieving the shortage of financial resources to some extent.

#### **Developing countries**

According to the World Bank (WB), more than three quarters of infrastructure spending in developing countries is currently financed by the public sector. Many low-income countries rely heavily on revenue from commodity exports, the prices of which have declined sharply due to the economic crisis. These countries have subsequently come under intense fiscal pressure which is affecting their ability to invest in transport infrastructure. In several developing countries, major depreciations against the dollar have made foreign currency denominated debt too expensive.

Other sources of funding such as an access to private capital markets and funding from multilateral and bilateral agencies could fill financing gaps. However, according to Institute of International Finance report (2009) private capital flows of all kinds to developing countries are expected to decline by half in 2009, to about 20 percent of the peak level of 2007. According to the World Bank's Public-Private Infrastructure Advisory Facility



(PPIAF) the available evidence as of mid-2009 suggests that liquidity for private infrastructure investment is drying up and most infrastructure projects with private participation in developing countries are facing serious difficulties due to higher cost of financing and more conservative risk allocation structures.

Multilateral development banks are playing a critical role to help fill the financial gap. The World Bank has proposed for an umbrella Vulnerability Fund to which developed countries could dedicate 0.7 percent of their planned economic stimulus. The Vulnerability Fund, which could channel resources through the UN and multilateral development banks, would help countries without the resources to respond to the crisis by funding investments in three key areas including infrastructure projects. The International Finance Corporation (IFC) has launched an Infrastructure Crisis Facility in December 2008 to help ensure that viable, privately-funded infrastructure projects in emerging markets have access to the funding during the financial crisis. The IFC expects to invest a minimum of \$300 million and mobilize up to \$10 billion from other sources. WB is also launching a three-year \$45 billion Infrastructure Recovery and Assets (INFRA) Platform to support infrastructure

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spending including through Public Private Partnerships (PPPs).

### Stimulus packages

Several governments have stepped in to ease economic downturn by introducing stimulus packages including transport infrastructure spending. Due to these measures new transport infrastructure projects are underway around the world. This year the world will spend 2.9 percent of its GDP on infrastructure, up from 2.2 percent in 2008, according to infrastructure projections for 2009 compiled by [US-based consultancy CG/LA](#). The consultancy predicts that the increase, which it estimates to be equivalent to an additional \$280 billion, will be led by developed countries, while developing country infrastructure investment, except Chinese spending, will remain flat.

Amid the current global crisis, government investments in transport infrastructure, from a \$48.1 billion provision for transportation in the \$787 billion US stimulus bill to planned \$220 billion transportation infrastructure spending in the \$586 billion Chinese stimulus bill, present interesting investment opportunities.

India plans to increase infrastructure investments to 4.8% of GDP this year up from 3.3% in 2003. As the Indian government steers away from fully publicly financing infrastructure to partnering with the private sector, it is introducing measures to support private sector participation for a \$500 billion investment needed in the power and transport infrastructure over the next five years. The Indian government is in the process of setting up a special dedicated fund to provide loans to infrastructure

projects - primarily roads, airports and ports - being developed by both private companies and government-private joint ventures.

### Key Documents:

- [Outlook for infrastructure: 2009 and beyond. Can project finance come to the aid of the global economy? The need to radicalise infrastructure delivery](#), Freshfields Bruckhaus Deringer, June 2009. The paper examines the current state of the infrastructure project finance market.
- Kapur, P., Sharma, A. K. M., [Indian Infrastructure: Role of RITES](#), RITES Journal, July 2009. The paper contains a brief analysis and comment on the global financial crisis and its impact on the Indian economy. It elaborates on India's infrastructure growth.
- **Public-Private Partnership: Accelerating transportation infrastructure investment**, McGraw-Hill Construction, May, 2009. This paper identifies trends in US transportation PPPs, provides the understanding of the impact of the current financial crisis on PPPs and presents information on PPP market opportunity.
- Nanto, D. K., [The Global Financial Crisis: Analysis and Policy Implications](#), Congressional Research Service, July, 2009. Nearly all industrialized countries and many emerging and developing nations have announced economic stimulus packages in response to financial crisis. These actions together with the response of

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international financial institutions are analyzed in the paper.

- [Swimming against the tide: How developing countries are coping with the global crisis](#), Background Paper prepared by World Bank Staff for the G20 Finance Ministers and Central Bank

### Presentations:

- Wang Z., [Strengthening Investment in Transport Infrastructure to Address the Financial Crisis by Joint Effort](#), 6th APEC Transportation Ministerial Meeting, 27-29 April 2009, Manila, Philippines
- Lee, J. H., [Infrastructure Investment and Stimulus Package: The AASHTO Perspective](#), American Association of State Highway and Transportation Officials, 22 July, 2009.
- Seibert, T., [Financing Infrastructure in CEE during the Global Financial Crisis](#), European Investment Bank, April, 2009.

### Recommended Links:

- [African Development Bank](#)
- [Asian Development Bank](#)
- [Infrastructure Consortium for Africa](#)
- [Infrastructure Investor for global infrastructure finance and investment news](#)
- [International Monetary Fund](#)
- [International Transport Forum](#)
- [Private Participation in Infrastructure \(PPI\) Project Database has data on more than 4,100 projects in 141 low- and middle-income countries](#)
- [Public-Private Infrastructure Advisory Facility \(PPIAF\) has been producing regular updates on the assessment of the impact of the crisis on new infrastructure projects with private participation since December, 2008](#)
- [World Bank](#)

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### For further information

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