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Joint Transport Research Centre

Transport Infrastructure Investment: Funding Future Infrastructure Needs

Efficiency in Transportation Financing Innovations

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Role of Efficiency

- Incorporating private sector efficiencies is a key justification for using innovative financing mechanisms (IFMs)
- Efficiency is about doing more for the same cost – raising productivity, increasing effectiveness and enhancing VFM
- Efficiency results from financing discipline and accountability, related to profit maximisation and need to increase shareholder value

Types of Efficiency

- Productive efficiency (VFM, higher output for the same or lower costs)
- Individual efficiency (gains in specific aspects of construction, e.g. processes, operation, financing, risk)
- Cost efficiency (overall cost reduction)
- Construction efficiency (on time, under budget, better quality)
- Operational efficiency (private sector management techniques and innovation, better staffing levels, more flexibility)
- Financing efficiency (life cycle approach)
- Risk management efficiency (assignment of risk to those best able to manage it)

Value for Money

- Key question in choosing to use IFMs: “Will this bring VFM?”
  - The additional cost of private sector borrowing must be kept in mind
  - Cost efficiency cannot be allowed to compromise quality
- Also need to consider:
  - Does the public sector have the ability to oversee and ensure allocative efficiency?
  - Can the private sector effectively manage its share of risks?

Can Public Entities Achieve the Same Efficiencies?

- Stock market listed companies are more efficient than non-listed companies
- Depends on degree of control by state-run management
- Depends on extent to which company is obliged to produce non-priced social goods
- Depends on strength and influence of public sector unions