Why PPP?

The biggest investment boom in history is now under way. Over half of the world's infrastructure investment is now taking place in developing countries. In total, developing countries are likely to spend an estimated USD 1.2 trillion on roads, railways, electricity, telecommunications and other projects this year, equivalent to 6% of their combined GDPs – twice the average infrastructure-investment ratio in developed countries.

It is predicted that developing economies will spend USD 22 trillion on infrastructure over the next 10 years, of which China will account for 43%, India for 13%, Russia for 10% and Brazil for 5%.

The pace of investment is considerable. China is spending around 12% of its GDP on infrastructure, compared with a total investment of around 5% a year at the peak of the UK's railway mania in the 1840s.

The vast scale of investment will require more private-sector money. To attract that, developing countries will need to offer investors a decent return and that will require reform of their regulatory systems and a move towards market pricing. In turn, the financing needs of massive infrastructure investment could encourage the development of domestic bond markets, bringing additional long-term benefits.

Economic Focus, Building BRICs of Growth. The Economist, 2008

The global recession which commenced in late 2008 may reduce PPP investments in the short-term, due to restriction of funds for private finance. However, the longer-term investment trends are likely to be maintained, supported in the short-term by government stimulus packages recently initiated by several major economies worldwide.

The importance of the road sector for economic development

Good infrastructure has always played a leading role in economic development, from the highways and aqueducts of ancient Rome to Britain's railway boom in the mid-19th century.

Infrastructure investment can yield big economic gains. Building highways immediately boosts output and jobs, but it also helps to spur future growth, provided the money is spent wisely. Better transport helps farmers to get their produce to cities, and manufacturers to export their goods overseas. Countries with the lowest transport costs tend to be more open to foreign trade and so enjoy faster growth.

The World Bank estimates that a 1% increase in a country's infrastructure stock is associated with a 1% increase in the level of GDP. Other studies have concluded that

East Asia's much higher investment in infrastructure explains a large part of its faster growth than Latin America.
In most countries, the road network constitutes one of the largest community assets and is predominantly government-owned. Many road agencies have the responsibility to manage assets comparable in value to those of the largest private international firms.

SIZE OF NATIONAL ROAD NETWORKS IN ASSET VALUE

Road Agency	Asset Value USD billion	Comparable Forbes Global 2000 Company
Japan Highway Public Corporation	216	BP, Vodafone, Volkswagen
Austroads (Australia and New Zealand)	150	General Motors, American Express, Swiss Life
Highways Agency, UK	80	Mitsui & Co, Johnson & Johnson
Roads Department, South Africa	7.3	Samsung, US Airways, Ryanair

Source: Websites of road agencies, Forbes

In view of the scale and national importance of their assets, many highway agencies have adopted asset management principles which aim at managing a road network (roads, bridges, traffic facilities, etc) to satisfy the requirements of business and private road users, at the lowest possible cost over a long period of time.

In developing countries, road networks have a proportionally greater impact on the national economies due to the greater share of agriculture in national economies and lower rate of urbanization and resulting spread of the population.

Road networks in developing and transition economies carry 60 to 80 percent of all passenger and freight transport. Ensuring quality and development of road assets thus constitutes a key element of economic development.

New challenges faced by the highways sector

While the role of road transport in the economy remains predominant, new challenges faced by the sector call for the rationalization and modernization of the organization and management of the system

- Industrialization. Many more countries are now industrializing than ever before and are investing in infrastructure at a much quicker pace than rich economies ever did.
- Population growth. Concentrated in developing countries, population growth is producing a rapid increase in motorized traffic levels and congestion of existing highway infrastructure.
- Investment gap. Governments, even in industrialized countries, are not able to fully finance the requirements of the highway sector through the government budget. With traffic typically growing significantly faster than GDP, and road

agencies rarely being exposed to market discipline to increase their efficiency, the investment needs of the highway sector tend to grow faster than the government is able or ready to supply as a proportion of its tax revenues. The result is a growing backlog of maintenance and investment with the ensuing investment gap presenting a challenge to conventional procurement methods and spurring governments to seek alternative sources of funding.

- Loss of road asset value. In the 85 countries that had received World Bank assistance in the 1980s, 15 percent of the capital invested in main roads (roughly USD 45 billion) has been eroded (Heggie, 1999). Improvements noticed in the second half of the 1990s, due to a stronger emphasis on maintenance versus new construction, in particular in Latin America, are not yet sufficient to reverse the trend.
- Poor quality of service with a direct impact on vehicle operating costs, road safety, duration of the trips, and continuity of access to transport (roads becoming impassable).
- Poor accessibility to remote rural areas impeding the development of the poorest populations.
- Globalization of production and trade calls for reliable transport facilities capable of supporting “just-in-time” operations for reduction of stocks and costs
- New services such as intelligent systems for traffic management are required to prevent adverse effects of rapid motorization on congestion and safety. Technology is indeed a distinct advantage in the development of revenue collection methods (Module 1, Current trends)
- Pressure to address environmental and social concerns is increasing and imposes necessary constraints on the road sector development.
- According to the decennial World Bank review of the transport sector, Government provision of transport services has frequently been found deficient in technical and allocative efficiency.
- Governments may thus benefit from the assistance of the private sector in order to respond effectively to the challenges faced by the sector and in ensuring the optimum contribution of the highways sector to economic development.

A Sourcebook for Poverty Reduction Strategies, World Bank, 2002