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Gianfabio Florio

PROJECT FINANCE
AN INNOVATIVE PERSPECTIVE
IN MOTORWAYS DEVELOPMENT

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in motorways development

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INTRODUCTION

Infrastructure development has increased as a priority for most countries, especially in Central and Eastern Europe (CEE), becoming a major key to trade and attracting foreign investments. Typically, project finance is considered to be the most successful financing method for the construction and operation of large-scale, complex, and capital-intensive infrastructure projects such as motorways, airports, waste disposal, power plants or pipelines, which are developed and managed either by the public or the private sector.

However, even though project finance is usually a valid method of raising capital for infrastructure developments, in some cases investors and foreign contractors will not take the risk of financing huge projects if the expected revenues generated by the investment are insufficient to manage the risk allocation.

In recent decades some new mechanisms of financing have emerged. The P.P.P. (Public Private Partnership) partly replaced the traditional Project Finance structure, especially in sectors where there are no revenues generated by a project, as happens with the construction of infrastructure projects such as hospitals, schools or prisons. Hence, P.P.P. normally relates to the so-called 'social infrastructure'. Whereas project finance relies on private capital sources for financing, in a P.P.P. financing structure the concession agreement is granted by a Government or a local authority to the private sector, with the aim to provide public services with shared responsibilities between private and public sector, due to the usually more efficient skills of the private sector in building and then running the assets. Public Private Partnerships usually requires the private sector to build, operate the infrastructure assets, and normally transfer them back to the public sector.

In many cases, however, the expected project may comprise extremely expensive infrastructure, such as a motorway, and there will be no granted and proper cash flow which the investors can rely on. To avoid such issues, a new **hybrid mechanism of financing** has recently emerged, namely the **governmental funding** to projects given to private investors, which require a public economic contribution, whose justification will be found in the value for money and the optimization of the public sector, transferring the risks to, and harnessing the skills of, a private company. In a *hybrid* financing mechanism, the public sector intervenes and contributes economically to projects which cannot be classified as social ones, like highways or railways.

This dissertation will explore the different ways to develop motorway infrastructure and demonstrate the contribution made by the Government funding in high risk projects, where lack of revenue or poor cash-flow may dissuade the lenders from funding the project. Therefore, it will be suggested that Government guarantees or other instruments should take place in the project in view of a possible relief of the lenders' concerns.

Particular attention will be given to innovative Government funding applied to project financing, which could be the way to bypass the investors' hostility in raising capital for highly expensive infrastructure and to keep the projects as "off-balance" sheet instruments, according to the provisions of European legislation (Eurostat). It is also the goal of this paper to propose an organisational methodology, financial application and risk management techniques, and to explain the main aspects of project finance.