Innovative Funding and Financing for Infrastructure

Investment in infrastructure is critical to economic growth, quality of life, poverty reduction, access to education, good-quality healthcare – that is, a dynamic economy. Yet amid scarce public capital, heavily indebted governments, and increased demands on government resources, infrastructure projects often suffer from investment shortfalls and inadequate maintenance. These challenges merit renewed efforts at finding additional sources of funding. *Innovative Funding and Financing for Infrastructure* focuses on innovative approaches to financing as well as debt and equity from new sources and structures. It provides critical methods to increase the capital available for infrastructure, reduce fiscal liabilities, and improve leverage of scare public resources. Designed for students and specialists in the fields of investment planning and finance, this book offers a survey of creative approaches from around the world, resulting in a practical guidance for policymakers and strategists on how governments can enable and encourage innovative funding and financing.

Jeffrey Delmon is a senior infrastructure finance specialist at the World Bank. He is the author of numerous books, articles, and blogs, including *Private Sector Investment in Infrastructure: Project Finance, PPP Projects and PPP Programs*, 4th ed. (2021), *A Decision-Makers Guide to Public Private Partnerships in Airports* (2020), and *Public-Private Partnership Projects in Infrastructure: An Essential Guide for Policy Makers*, 2nd ed. (2017). He is an adjunct associate professor at the National University of Singapore, lectures at the Singapore Management University, and is a member of the International Advisory Panel of the Climate Impact Exchange.

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Addressing Scarcity of Public Resources

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Preface

This book is about how to mobilize more money for infrastructure, how to earn more revenue ("funding") for and from infrastructure investments, and how to borrow more ("financing"), in order to develop new or better infrastructure. More money for infrastructure means more investment, more jobs, better quality of life, and more economic growth.

Chapter 1 sets the scene and provides a summary of the topics covered by this book.

Part I ("Funding") looks at innovative sources of revenues. While more financing is important to enable infrastructure development, to the extent that new infrastructure does not generate sufficient revenues (e.g., through user fees), government must fill the resulting financial gaps. More funding reduces government liabilities and makes infrastructure more self-sustainable. This book will discuss some of the more innovative methods for mobilizing funding for infrastructure.

In particular, infrastructure investments tend to increase the value of land around the infrastructure assets or in the service delivery catchment area. Chapter 2 discusses land value capture (LVC) and the mechanisms to capture some of this increased value, the windfall that landowners may receive thanks to the infrastructure investment, and the use of part of that windfall to help fund the infrastructure investment that creates the value.

Infrastructure investments also create opportunities to generate economic activities and commercial revenues. The infrastructure investment can be structured so as to capture some of these commercial activities and/or the revenues generated by them to fund the infrastructure investment (commercial value capture or CVC). Chapter 3 describes various types of CVC used in different sectors and in countries around the world, sharing best practices and seeking to inspire planners, developers, and financiers alike to pursue and benefit from CVC. Chapter 4 discusses programmatic efforts to mobilize LVC and CVC, using the

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example of transit-oriented development and investments in transit infrastructure, which create transit corridors or areas, provide an opportunity to drive economic opportunities, and create a more livable context in the urban space. By embedding LVC and CVC into development policies like transit, government can generate innovative sources of revenues more consistently and efficiently.

Some very creative and innovative approaches have been adopted when mobilizing financing for infrastructure. Financing is a very complex topic, so Part II ("Financing") starts with a general overview of key issues. Innovative financing does not alter the fundamental nature of financing; hence Chapter 5 reviews these fundamental issues. Then Chapters 6–8 explore three important types of innovative financing that offer a new dynamic when mobilizing financing for infrastructure: climate finance, Islamic finance, and blended finance.

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