Session #8: Infrastructure Financing

Key Questions

- We have learned about the special characteristics of infrastructure (lumpiness, long duration, and other features associated with public goods). What implications do these characteristics have for financing infrastructure projects?

- Please choose a few major infrastructure projects in your home country or another country of interest to you. Collect some basic information on the financing vehicles for these projects. 1) Reflect on the reasons behind the choice of the dominant financing vehicle (eg. the characteristics of this kind of infrastructure, fiscal and macro-economic conditions of the country, the institutional context, as well as the traditional role of government). 2) Discuss the advantages and disadvantages of the particular financial vehicle. (You can use the taxonomy by the Canada West Foundation sourcebook as a reference)

  Share your information and thoughts in class.

Specific questions on each article

Canada West Foundation: A Sourcebook for the Financing, Funding, and Delivery of Urban Infrastructure.

- Imagine a city that is discussing a proposal of building a new bridge. What financing arrangements would the following actors each prefer, given the advantages and disadvantages of the traditional finance tools as analyzed in the Canada West Foundation report?

  Actors: 1) tax payers/homeowners, 2) the current mayor running for re-election, 3) local finance bureau, 4) the central government,

  Finance tools: 1) using capital reserves 2) capital leasing 3) short-term bank financing 4) long-term municipal bonds

- The report has discussed some innovative finance tools for infrastructure projects. Pick one innovation as an example and discuss what kind of projects/contexts it would be particularly suitable for.

Chan et al.: Public Infrastructure Financing: An International Perspective

- Information asymmetry is identified by Chan et al. as a major hurdle to allocative efficiency. What contributes to the problem of information asymmetry? What risks does it create? How do the authors suggest to solve the problem?

Ehrilch and Rohatyn: A New Bank to Save Our Infrastructure

- What are the key features of the "Infrastructure Bank" proposed by the authors? How does it remedy the weaknesses/problems of the current government programs? In light of the findings and conclusions of the previous two readings, to what extent do you think such kind of bank will work? What about other factors not considered by any of the readings?

11.165 / 11.477 Infrastructure in Crisis: Energy and Security Challenges
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