Introduction to Infrastructure Financing and Funding

What scope is there to use project finance techniques in the delivery of government infrastructure?

Combining Funding and Financing Alternatives to Deliver Infrastructure

Understanding public private partnerships requires an understanding of the difference between funding and financing of infrastructure projects. These are two distinct concepts, but are often confused.

> FINANCING refers to the short term provision of the funds required to undertake the project (for example, to pay construction costs). Finance for infrastructure projects may be provided by the private sector or by government, through cash surpluses or borrowings. In some cases, projects are also financed by multi-lateral agencies.
>
> FUNDING refers to the means by which the project will ultimately be paid for in the long term. Projects are typically funded through either taxes or user charges. In some cases, projects are also funded by development aid.

The decisions in relation to how a project will be funded and how the project will be financed can (and should) be made independently.

The following diagram sets out how the different choices as to funding and financing affect the form taken by an infrastructure project.

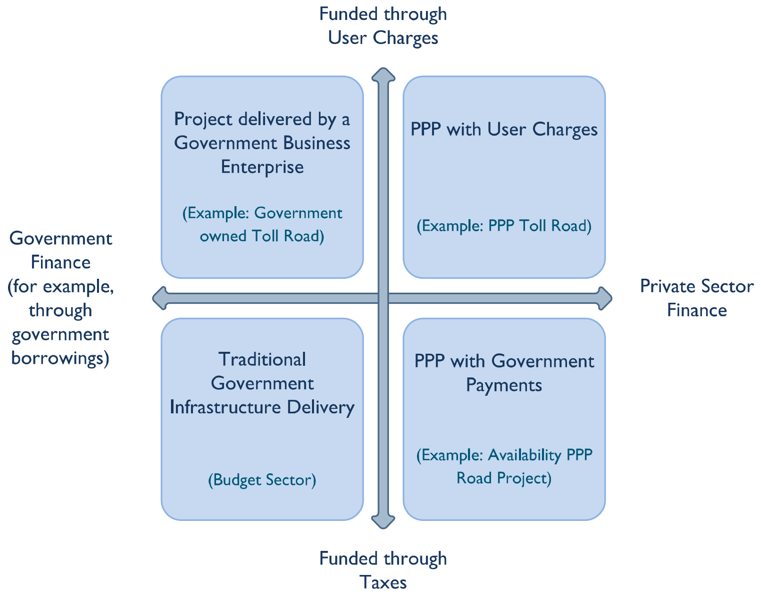

Figure 1: Financing and Funding (Click figure to enlarge).
Source: Foster Infrastructure.