CERIS Civil Engineering Research and Innovation for Sustainability

Understanding the effects of the competitive access to the European Union financial support policies on the traffic forecast overestimation in transport infrastructure projects

Summary

The complexity of Project Finance Contracts (PFC) has opened some doors for contractual failures. The different combinations of financing sources developed under this kind of contract have raised the stakes for opportunistic behaviour. However, after a long debate, findings consistently repeated that bad forecasts tend to produce bad outcomes (Vassallo and Baeza 2007). This statement may sound redundant, but it might be presenting a different research question. Why were these forecasts accepted in the first place?

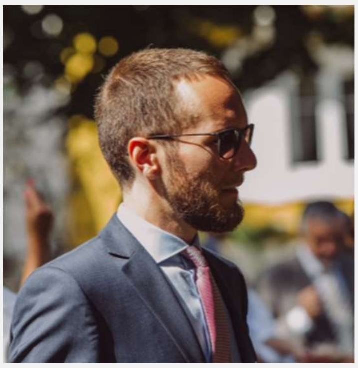
This dissertation analyses the link between the emergence of financial support mechanisms and traffic forecast overestimations to understand the financial incentives at PFC decisions. The study proposes a theoretical framework for this analysis by observing how the speculative scenario observe in United States of America (USA) housing sector before the 2008 mortgage crisis has affected the financial stakeholders' (*e.g.* Banks, Credit Rating Agencies and Mortgagers) decision process before the crash.

After a financial shock, the proposed theoretical model understands that stakeholders tend to compete for a greater market-share instead of finding the optimum decision. In contrast with the expected competitive adjustment processes, this system is expected to enter in a speculative spiral if the economic growth expectations start to feed new investment rounds. In the end, the investment bubble bursts when the projects' actual value realizes below the forecasted equilibrium. In these cases, projects become insolvent and governments must bailout part of those investments.

Based on this framework, the dissertation consolidates the author's research on the role of EU financial support vehicles in the transport infrastructure investment decision. The study has observed the emergence of a similar context in the EU between the 1989 regional development fund's reform and the 2008 EU sovereign debt crisis. The comparison considers five dimensions: i) the financial shock caused by the expansion of the EU financing vehicles; ii) the impact of these subsidized credit in the assessment of the project finance risks; iii) the impact of these finance veh0icles in the traffic performance of undertaken investments; iv) the emergence of circularity effects in the EU financing vehicles' decision.

Keywords

Finance, investment policies, transport and society, economic crisis, EU financing policies, infrastructure.



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Period
2013-2018

Funding
CAPES scholarship (9227/13-0)