A HIGH RISK GLOBAL INFRASTRUCTURE AGENDA:
THE ROLE OF THE MULTILATERAL DEVELOPMENT BANKS
Functioning infrastructure is a pre-requisite for our daily lives within the modern economy. Our use of all different kinds of infrastructure involves its inevitable degradation and, together with ongoing developments in technology and science, results in an on-going need to fix, replace, upgrade and constantly develop infrastructure. Major high-technology projects are the focus of attention, debate and controversy the world over, chiefly due to the twin needs of replacing aging twentieth-century infrastructure in the developed world and introducing modern infrastructure in the developing world. In tandem, the new champions of infrastructure rely on the role of infrastructure investment in restoring economic growth, demand and jobs to a global economy still struggling in the aftermath of the 2008 economic crisis.

In an increasingly multi-polar world, a consensus has emerged on a 'new infrastructure model' that is as striking as the scale of the investments required:

- The OECD estimates that an additional $70 trillion in infrastructure will be needed by 2030 – an average expenditure of more than $4.5 trillion per year, compared to the $3 trillion per year currently spent.
- In Europe alone, the European Commission estimates that as much as EUR 2 trillion in investment is needed in transport, energy and Information and Communications Technology (ICT) infrastructure across the region by 2020.

Those vast expenditures are being justified under the following narrative: across communities, regions, countries and continents, life will be enhanced by improved infrastructure, (including water, sanitation, electricity) plus there will be gains from the accompanying economic stimulus effects. Out of the ashes of the economic crisis, infrastructure is being promoted as a "magic bullet"1.

1 Counter Balance (2015), Going for Broke – why financialisation is the wrong fix for infrastructure. See: http://www.counter-balance.org/going-for-broke/

Multilateral Development Banks (MDBs): key drivers in this process

Through the financial and economic crises since 2008, large-scale infrastructure has been promoted by governments and financial institutions as a key means to boost economic recovery and accelerate growth and development. Leading economies, especially those of the Group of 20 (G20) countries, seek to mobilise the private sector to finance a new wave of “megaprojects”2.

Perhaps it is no coincidence that the mostly Western-led MDBs intensified their collaboration about the same time as China was announcing its Asian Infrastructure Investment Bank (AIIB) and the BRICS were announcing their New Development Bank (NDB) for infrastructure and sustainable development. (See below.) Indeed, the seven traditional Multilateral Development Banks (MDBs) and the IMF have never been so united than in the arena of infrastructure financing.

In November 2014, these institutions - including the World Bank and the European Investment Bank (EIB) – have issued a joint statement re-affirming their commitment and capacity to lead the new global infrastructure agenda. While boasting of their collective $130 billion per year for infrastructure financing, the statement details the various levels of interventions of MDBs: "We work on the ground in countries

at all levels of development to support the full life cycle of infrastructure development - from advice on sectoral and business climate reforms, and project preparation, transaction structuring and financing, through to implementation and ongoing maintenance, as well as monitoring and evaluation of development impact”.

Then, in order to meet the so-called “infrastructure gap”, MDBs pointed out to the need for “renewed efforts to mobilize resources from existing as well as new sources of finance, including from institutional investors”. The MDBs have lived up to their promise: since 2013, a multitude of new initiatives and platforms to mobilize private finance for large-scale infrastructure has been launched:

- New financial institutions and partnerships are being created, such as the Global Infrastructure Facility (GIF) led by the World Bank at international level or the Project Bond Initiative led by the EIB in Europe. Those initiatives rely on the use of public money to offset the risk of private firms. The GIF is experimenting with ways to “financialize” infrastructure by attracting long-term institutional investors (such as pension funds) to invest particularly in the implementation phase of infrastructure development.

- In Europe, the EIB is in the driving seat of the “Juncker Plan” aiming to attract EUR 315 billion of investments in the 2015-2017 period – with infrastructure projects as a top priority. However, the “Investment Plan for Europe” falls short of bringing fresh public money for infrastructure projects but rather aims at providing a public guarantee and risk-sharing mechanisms to the private sector. It is already been criticized, including by private investors, for financing projects that would have been financed by the private sector even without any public intervention or inducements.

- Project Preparation Facilities (PPFs) are strengthened or created in order to develop a sufficient pipeline of bankable projects to be implemented. New PPFs include the Asia Pacific Project Preparation Facility (AP3F) and the African Development Bank’s Africa50 Initiative. The ultimate goal of those facilities is to come up with corridors of mega-infrastructure projects, in which projects would be bundled as an asset class – in order to reduce spatio-temporal distances between where goods are produced and consumed. One megaproject, such as the Central Corridor Project in Eastern Africa, can comprise hundreds of sub-projects.

3 Frankfurter Allgemeine Zeitung, 27-10-2015, Zweifel an Investitionsplan
MDBs such as the World Bank or the European Bank for Reconstruction and Development are stepping up their efforts for legislative and regulatory reform changes in their countries of operations to create an enabling environment for Public Private Partnerships (PPPs).

 MDBs are working together to develop standardized PPP contracts and procurement policies as well as harmonised regulatory environments for PPPs and investments in infrastructure projects: in August 2015, the MDBs published the report “Partnering to build a better world: MDBs’ common approaches to supporting infrastructure development” detailing their workplan in this regard.

As noted above, the motivation for intensified MDBs cooperation of the G20 in the field of infrastructure is the reality of fierce competition coming from new actors in the block. First, the New Development Bank (NDB) - with majority shareholding by Brazil, Russia, India, China and South Africa - was launched in July 2014. With start-up capital estimated at USD 50 billion, it will largely focus on infrastructure financing. Then, in October 2014, China launched the Asian Infrastructure Investment Bank (AIIB) with $100 billion in registered capital, which is primarily targeting investments in mega projects in the transport and energy sectors. Both banks will become operational from 2016 onwards.

The creation of these new institutions shows how actively governments from emerging developed countries are competing for infrastructure that provides access to resources and markets. In this regard, new and existing MDBs are driving the new model. Like ring leaders, they are attracting investors with trillions of dollars as a “magic bullet” for infrastructure development.

If even a modest portion of the anticipated global investment volumes materialize, a number of crucial issues need to be addressed.
Emerging markets and developing countries are experiencing a slowdown in growth; in many cases, their private sectors are on the verge of a debt crisis. As described below, a new wave of austerity and contraction will begin in 2016.

A major concern of affected communities around the world, as well as of civil society groups that monitor infrastructure finance, is that the top-down ‘mega project’ emphasis that has prevailed for decades has not generally proven to be effective in delivering good outcomes for people and communities on the ground, or for society in general.

Many parts of the developed world enjoy large-scale (though often aging) infrastructure. However, if projects, including megaprojects are not selected and implemented wisely, they come with significant economic, environmental and social costs and risks. The frequency of poor outcomes in many countries can be observed in major dam projects, energy related infrastructure such as power generation and distribution grids, transport projects (roads, train lines, airports), and water and waste management provision. The implication of creating infrastructure as an “asset class” to attract institutional investors, such as pension funds, is that large portfolios of PPPs will be created. Those in favour of this type of financialisation say that this diversifies the risks of PPPs. On the other hand, those opposed to financialisation could claim that, since almost all megaprojects and almost all PPPs are very risky, little diversification of risk is possible.

Observed outcomes of megaprojects and PPPs:

Authoritative studies show that 9 out of 10 megaprojects are delayed and run over budget, while producing a shortfall of expected benefits.

The Economist Intelligence Unit, in collaboration with several banks, measures the readiness and capacity of countries to implement infrastructure PPPs around the world. In its evaluation of 15 countries in Africa, it found that, with the exception of South Africa, 14 countries had low or very low abilities to implement infrastructure PPPs. In the evaluation of 17 developing countries in the Asia-Pacific region, only India and the Philippines had “good” ratings; the others had low or very low ratings.

A new generation of austerity and structural adjustment

The risks of megaprojects and PPPs are magnified because of the increasing fragility and indebtedness of so many emerging and developing country economies. In trade, many of them are dependent on exporting raw commodities and – if trade facilitation infrastructure (e.g. mine to port transportation) is built at the anticipated rate – dependency will grow. Yet commodity prices are at a 16-year low, which means that countries would export more and more and earn lower and lower revenues.
In addition, given the coming austerity times likely to come (as described below), the domestic resources mobilized for large projects could force terrible trade-offs in the national budgets; that is, cross-border railways or other large projects could come at the expense of basic social services.

The authors of *The Decade of Adjustment: A Review of Austerity Trends 2010-2020* state that, according to IMF projections, 2016 marks the beginning of a major period of expenditure contraction globally. Overall, budget reductions are expected to impact 132 countries in terms of GDP and hover around this level until 2020. The forthcoming shock is expected to impact more than two-thirds of all countries annually, affecting more than six billion people or nearly 80 per cent of the global population by 2020.

The fact that infrastructure projects costing millions, billions or trillions are “on the drawing board” at a time of impending austerity is important. Firstly, it means that the reforms of investment regimes required to attract private capital will shift rights from the state to investors. In some cases, the state could lose some capacity to regulate in the public interest when it affects the profitability of private firms. Secondly, it could mean that expenditure cuts which are already envisioned may be deeper and more far-reaching than anticipated at this time. This is especially the case since, as described above, risk diversification is difficult when dealing with intrinsically risky megaproject and PPP portfolios.

An evaluation of PPP operations over 10 years by the Independent Evaluation Group of the World Bank Group shows that:
- “PPPs generally do not provide additional resources to the public sector.”
- Results are largely unknown. Of the 128 PPPs in the sample, the number with results on the following six dimensions appear in parentheses: access to services (14); pro-poor (3); quality (10); efficiency (8); financial (6); and fiscal (1).
- “Fiscal implications would go unrecorded as well as affordability issues.”

A recent Eurodad report on PPPs finds that there is a lack of evidence that PPPs perform well. The cost of financing is higher for PPPs than financing public sector works. In addition, they often entail higher construction and transaction costs and are subject to poor planning and project selection. In the case of a PPP failure, the state assumes significant liabilities (off-budget or “contingent” liabilities) and can be forced to shoulder the costs of rescuing the project or even the company, in order to ensure the delivery of public services. In this process, the state may assume not only off-budget (contingent) liabilities, but also the debts of the private firms.

Access and Affordability. Antonio Estache, in his report on *The Impact of Private Participation in Infrastructure in Developing Countries: Taking Stock of about 20 Years of Experience* (2012) measured four areas of performance: fiscal/financial, efficiency, governance, and equity/poverty. With regard to the latter, the report states: “The really bad news from a poverty perspective is that providing access to the poor has proven to be not good enough. What is needed is affordable access”.

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Danger of Minimum Revenue Guarantees. The South Korean experience shows that a high percentage of PPPs were renegotiated – especially those of the Build-Transfer-Lease (BTL) type. The Minimum Revenue Guarantee (MRG) system was originally introduced to attract the private sector and prevent the termination of PPP projects or the bankruptcy of concessionaires. However, it transferred excessive risk to the government by drastically decreasing demand risk to the concessionaires (allowing them to estimate excessive demand volume). Ultimately, the MRG was reduced and finally abolished in 2006 for unsolicited projects and December 2009 for solicited projects.

How to challenge the global infrastructure agenda?

Infrastructure development is critical to achieving dignity and progress for the world community. However, the global agenda is inappropriately biased in favour of large scale projects, PPPs, carbon intensivity, and financialisation. These biases need to be eliminated in favour of appropriate scale projects.

The new infrastructure agenda represents a huge challenge for the capacity, education and advocacy of civil society. Therefore it is key for civil society – especially watchdog organisations, which are monitoring MDBs and national development banks (e.g., the Brazilian National Bank) to envisage the scale of this new infrastructure financing wave and new campaigning strategies in order to develop an ambitious and collective counter narrative.

The counter narrative should identify the real needs of populations, especially the most vulnerable and marginalised people. This could lead to the identification and promotion of smaller scale, less risky and less costly infrastructure. Finding ways to “de-financialise” infrastructure and to get back to the concept of “real economy” is key so that the goals of reducing poverty and inequality, achieving women’s rights, or ensuring a liveable planet become the genuine objectives of future transformed development models.
**Over-optimism.** In general, PPPs - especially mega-PPPs - run the risk of creating enormous liabilities for governments (for instance, when demand projections are over-optimistic) while tariffs and user fees for infrastructure services can become unaffordable. Thus, even where PPPs deliver services more efficiently than the public sector, they can intensify inequality in access to these services; this is especially the case in low-income regions.

**Shortfall in financing for appropriate scale projects.** Since MDBs increasingly take a "wholesale" rather than a "retail" approach to financing with a bias toward multiple, large-scale projects, there can be a shortfall in financing for more sustainable, decentralized and democratically-managed infrastructure.

**Corruption and Collusion.** The historical record of large-scale infrastructure demonstrates that corruption, political manoeuvres, poor management and planning of projects frequently lead to the creation of "White Elephants" - or what is being labelled by citizen movements in Europe as "Useless and Imposed Mega Projects".

**Lock-in of carbon intensive technology.** Projects may lock-in carbon-intensive infrastructure for many decades, via long-term binding contracts and the adaptation of national laws to offset risks of private firms engaged in PPPs. As fossil fuel subsidies create price distortion, such fuels can be chosen over intrinsically lower-cost renewable energies.

**Race to the Bottom?** Mega-projects in trade facilitation and resource extraction fuel the competitive scramble for natural resources and control of food production, therefore contributing to maintaining unacceptable levels of inequalities and environmental degradation.

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5 See Bent Flyvbjerg, "**What you should know about megaprojects and why**," Oxford Said School of Business, 2014

6 KDI Public and Private Infrastructure Investment Management Center, Public Private Partnerships of the Republic of Korea, (undated chapter) and "How to maintain value for Money: Experience from Korean PPPs" April 2013 PPT.
Alongside this more “positive” agenda, exposing the flaws and dangers associated with the new infrastructure agenda pushed by MDBs will be crucial to sensitise citizens. It is urgent to prevent the lock-in effects described above and secure the right to a sustainable future and development model in line with the ambitions set out in the 2030 agenda. This means working with communities which struggle against damaging infrastructure projects to develop and spread a counter-narrative, while at the same time preserving the political and operational space for a just transition.

**About us**

**Counter Balance**

Counter Balance – Challenging public investment banks is a European coalition of development and environmental non-governmental organisations (NGOs) with extensive experience working on development finance and the international financial institutions (IFIs) as well as campaigning to prevent negative impacts resulting from major infrastructure projects.

[www.counter-balance.org](http://www.counter-balance.org)  Email: info@counter-balance.org

**Both Ends**

Both ENDS is an independent non-governmental organisation (NGO) that works towards a sustainable future for our planet. We do so by identifying and strengthening civil society organisations (CSOs), mostly in developing countries, that come up with sustainable solutions for environmental and poverty-related issues. Building on such effective alternatives, we create and support strategic networks capable of promoting social-environmental interests. At the same time we directly influence policies and promote our vision in fora that matter, both on national and international levels.

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