A critical perspective on the financialisation of infrastructure, PPPs and mega-corridor projects

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When it comes to infrastructure, the policy prescriptions from the World Bank and other international financial institutions (IFIs) sound like a badly scratched record:

Public. Private. Partnerships. Public. Private. Partnerships. P. P. P. Over and over and over again.

Attempts to change the disc are met with the same tired riff. The world needs infrastructure! The public coffers are empty! Private investors have oodles of money! PPPs are the best way to entice them to stump up the cash.

What follows is a familiar neoliberal fairy tale. The public, imprisoned by debt and inefficiency, is rescued by the princely private sector. All hail pension fund managers! Three cheers for the financial 7th cavalry of private equity! A big hand for the venture capitalists! Get the quants working on new project bonds!

But, as with most fairy tales, what’s left out is the most telling.

The Bank and other IFIs proudly proclaim they have devised financial products – from project bonds to infrastructure funds – to attract private investment *into* infrastructure.

But they are entirely silent on the private sector profits being made *out* of these investments.

Small wonder: the scale of financial extraction makes complete nonsense of any claim that the public interest is being served.

My own back-of-the-envelope calculations suggest that the private sector is taking out considerably more than the $100 billion it puts into actual projects every year – perhaps more than twice as much.

This is nothing less than organised looting.

Instead of a system in which the rich are obliged to help build infrastructure through general taxation, we now have a system in which the less well-off are obliged to pay rents to the rich.

The main beneficiaries are (surprise, surprise) the 1%, who hold nearly 80% of the world's financial assets. And amongst this group, it is fund managers who probably benefit the most.

But, for poorer people, the cost is roads that they cannot afford to pay to use; electricity and water tariffs that are beyond their reach; and hospitals that are too expensive to run.

This redistribution of wealth from the public to the private is a very different narrative to that spun by the World Bank.

But to understand what is going on, I think we need to look beyond explanations that rely on "individual greed" or slogans that are purely descriptive, such as those that (rightly) cast PPPs as "privatisations by the back door".

It might even be sensible to eschew concepts like “financialisation” if these reduce the debate to a technical list of new-fangled financial instruments.

Two Blockages

Instead, I think we need to analyse what is happening within the context of two inter-related blockages to economic expansion – expansion on which capital depends.

The first is what financiers call “the production-consumption disconnect”.

The second, that of capital overaccumulation – too much money sloshing around the system in search of profitable outlets.

So what I would like to do today is to explore how the reconfiguration of infrastructure finance into a publicly-backed ATM for private investors both arises from these structural pressures and responds to them.

And, if I have time, to raise some questions about the likely ineffectiveness of current strategies for challenging egregious infrastructure projects if these dynamics are not taken into account.

The “production-consumption disconnect”

I want to start with the production-consumption disconnect.

The problem is not new. Almost 150 years ago, Karl Marx revealed how the more that capital expands, the more it needs to improve infrastructure to ‘annihilate space by time’.

Today’s would-be global politburos, such as the World Bank, are well aware of the problem.

Marx may not get a mention in the Bank's flagship 2009 *World Development Report* but "annihilating space by time" is *the* leitmotif that runs through the report's 380 pages.

The problem can be simply stated.

The distances between points of resource extraction, points of production and points of consumption are now huge, involving multiple journeys and multiple forms of transport.

The minerals used in the manufacture of components for a computer, for example, are extracted from all over the globe.

The components – perhaps as many as 4,000 – are themselves manufactured by as many as 250 different suppliers in multiple countries.

But "the global consumers" with the money to buy the computer live far from the areas where resources are extracted and from where they are processed and manufactured into consumer goods.

This poses a major problem for capital, as fully recognised by the World Bank.

The bank is candid: future economic expansion will be critically dependent on truncating what it calls "economic distance": that is distance as a measure of time and money.

Distance matters because time matters. And time matters because the faster commodities can be produced and exchanged, the greater the profits for individual firms and the sharper their competitive edge over rivals.

The solution? Mega infrastructure corridors – on a scale that surpasses anything that has gone before.

To cut the time between manufacturing a product and exchanging it, whole land masses and the seas connecting them are to be reconfigured into “production and distribution hubs”, “transit zones”, “development corridors”, “export zones”, “spatial development initiatives”, “interconnectors” and “intermodal logistics terminals”.

Millions of people will be affected, shifted to make way for roads, ports, trains and airports or transformed into pools of cheap labour for the mines, plantations and factories that the corridors will service.

No (inhabited) continent is excluded. Some of the plans are national in scale, others regional and still others continent-wide or near-global.

Just to run through a few of them.

So for Latin America, you have the IIRSA corridor programme. Under current proposals, some 579 projects, costing an estimated $163 billion, have been identified.

In Africa, over 30 corridors have been initiated, principally to enable the extraction of agricultural produce and minerals

But the Big Daddy of corridor projects is China’s “One Belt, One Road” (OBOR) programme, officially launched in 2013, now renamed (less grandiosely) as the “Belt and Road Initiative”.

Encompassing 60 countries (potentially half the world), OBOR is intended to create a network of free trade areas connected by both terrestrial and marine corridors stretching from the Pacific to the Baltic Sea

Whose Cupboard is bare?

But it is one thing to draw lines on maps, another to build the infrastructure that capital needs.

And here capital faces a problem.

There is more than enough public money available to fund the everyday infrastructure needed to ensure heating, lighting, healthcare, clean water and other amenities for ordinary people

But there is not the money available through conventional infrastructure finance to fund the just-in-time corridors that capital needs.

Individual governments don't have the money. The Multilateral Development Banks don't have the money. China does not have the money. The US does not have the money. The EU does not have the money.

As a result, there is now a massive gap – estimated at $50-70 trillion – between the available funding for new infrastructure and the amounts said to be needed.

To plug that gap, capital has few options but to tap new sources of finance if it is not to implode.

Hence the re-engineering of infrastructure finance to make "infrastructure" more attractive to private investors.

And hence PPPs, project bonds and a range of new subsidised financial products and incentives.

White Cat, Black Cat?

At this point, some might argue: well what's the problem? What does it matter if private investors are involved? Or if the state greases their palms?

As Deng Xiaoping (leader of China who opened up the country in the 1980s to the global economy) famously put it: Who cares if the cat is white or black, so long as it catches mice?

So long as human rights are respected and the environment is protected, who cares if the roads and ports are built with private money.

It is all a matter of appropriate safeguards.

But the private sector is not just another cat. It is a wolf.

And the crisis of accumulation – to recall: too much money sloshing around the system in search of profitable outlets – makes it a very hungry wolf.

It is looking for profits. And those profits have to be comparable to what might be available from investments other than infrastructure.

This has important implications.

Finance's view of Infrastructure

For one thing, finance views infrastructure very differently from the rest of us.

So for you and me, a road is infrastructure.

But to a financier, it isn't.

It might be *transformed* into infrastructure with appropriate financial engineering. But, in and of itself, it is not infrastructure.

And the transformation that finance insists upon has major ramifications for what gets built, who has access to it and who doesn't.

And the reason is this:

For finance, infrastructure is not defined by its public purpose.

Nor by its physical attributes – tarmac, bricks, mortar, steel pipes or whatever.

No. Infrastructure is defined by its income stream.

And more than that by whether or not the income stream is "stable, contracted and for the long term".

So a road or a pipeline that would be infrastructure to most of us is not infrastructure for financiers. Unless it has a guaranteed income stream attached to it.

As Jean Perarnaud of Partners Group puts it:

> "You could have a pipeline that you don't want to touch because there are no contractual rights on it and it is completely market-exposed to price. These are the sort of things we don't consider infrastructure".[1]

So road is only infrastructure if it has an accompanying contract that creates a guaranteed income stream.

Or conversely, a hospital isn't infrastructure unless the patients can be transformed into cash tills.

And believe me this is no exaggeration. To speed up the throughput of patients in privately-run hospitals, for example, sick people have been

[1] Quoted in Kranc, J. (2014) 'Separating the wheat from the chaff'. Infrastructure Investor: Emerging Markets Handbook, June 2014.

subjected to management techniques pioneered in factory production lines.

And a forest can be transformed into “infrastructure” for financiers if it has a carbon offset or ecosystems service contract attached to it.

Infrastructure as Asset Class

I am sure you get the idea.

Certainly finance has – and we are now seeing the emergence of a whole range of investible “infrastructures”, constructed with the active connivance of the state.

These include:

- **Economic infrastructure** (utilities, roads, ports, airports and the like)
- **Resource/commodity infrastructure** (oil and gas facilities, mining, forests and food storage facilities)
- **Social infrastructure**
- **Information infrastructure**
- **Natural infrastructure**
- **And so on**

Infrastructure is now “an asset class” – potentially easing that “crisis of accumulation” by creating new outlets for the excess capital that is sloshing around the system.

But whether or not investors invest depends on ensuring secure, contracted income streams.

And it is here that PPPs come in.

Guarantee Me

For, whatever from they take, the defining feature of PPPs is that they establish contractually binding guarantees on income and/or rate of return.

The contractual nature of the "rights" that PPPs establish is important because, unlike subsidies, such as tax breaks, they cannot be removed at the government's discretion.

Once in place, they are enforceable for the length of the contract.

So they provide what Partners group has characterised as the defining feature of infrastructure for finance: *"stable, contracted cash flow for the long term."*

This morning, I already mentioned some of these guarantees, so I will not go through them again now in detail.

So here are just a few of the guarantees on offer:

- **Guaranteed profits** – typically 15-20%.
- **Guaranteed Debt repayments** – whatever loans have been taken out get repaid by the government if the PPP company can't pay them.
- **Minimum Revenue guarantees** – *so if traffic levels on a toll road are lower than anticipated, the government makes up any loss of revenue.*[2]
- **Availability payments –** the PPP gets paid even if a facility is not used, provided that it is "available for use". So there is a PPP school in Northern Ireland that is empty but being paid for. There

[2] *Examples from Latin America include $27 million-worth of guarantees agreed by Peru for a container port concession; and $225 million agreed for Colombia's El Dorado airport's second runway*

are airports in Spain that are not being used but being paid for. And so on.

- **Financial and economic equilibrium clauses -** these entitle a PPP company to compensation for changes in laws or regulations that adversely affect a project's revenues or its market value.[3] So if the legal minimum wage for hospital workers is increased, undermining the returns on a PPP hospital, then the government would have to make up the difference.

Raking it in

So what you have is a shunting of the risks onto the public – with the private taking all the lion's share of the gains.

And the gains are potentially huge.

The figure that is most generally cited for infrastructure investments in developing countries is 25%.

This works out at quite a return.

For an infrastructure investment of $1 billion, the return over a 10 year period would be 250%

So that $2.5 billion back. Or $1.5 billion in profit.

And for a fund manager working on a 2:20 basis (that's a 2% commission on the amount that the fund raises and 20% of the profits) that would work out at $70 million.

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[3] *In The Philippines, all infrastructure projects built on a PPP basis are now guaranteed against 'regulatory risk'. In Indonesia, the Government has similarly set up a fund to compensate investors who 'lose out' from 'unpredictable government policy changes'*

And that's without taking into account the profits to be made from using derivatives to securities guaranteed income streams and guaranteed debt.

Nice work if you can get it.

Conclusion

The trajectory is not only towards increased inequality as public money is looted for the 1%: it is also profoundly undemocratic, elitist – and unstable.

Undemocratic because a handful of fund managers and rich investors increasingly determine what gets financed and what does not.

Elitist because the facilities that would most benefit the poor do not get built – a report by NEPAD (New Partnership for Africa's Development) candidly admits that it is "futile" to seek private investors for rural electrification projects "due to the low returns on investment".

And unstable because infrastructure-as-asset class has become an inflated bubble – and many in finance are warning that the bubble is about to burst.

But challenging this trajectory will, in my view, mean moving beyond calls for better safeguards, important as safeguards are. Is a PPP that abide by World Bank standards but extracts 30 per cent a year from the global south really acceptable?

Nor will the piratical business model behind PPPs or just-in-time capitalism be shifted simply through supporting resistance against specific projects, necessary and vital as such solidarity is.

No, in my view, the struggle must be broadened and new alliances forged with those whose critique of infrastructure extends beyond bricks and mortar to challenge finance on the ground that matters to finance: accumulation.

For the drivers behind both corridors and PPPs reflect a response to what is a particularly capitalist problem: blockages on economic expansion. Recognising this is surely critical to any effective challenge to the destruction being wrought.

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