The new generation of PPPs in infrastructure – meeting the needs of institutional investors

BY DAVID BOYS, PUBLIC SERVICE INTERNATIONAL

Public-private partnerships (PPPs) in infrastructure are not much different from PPPs in general, in that they suffer from the same problems: contracts are complicated, legalistic and rigid; costs of borrowing for the private sector are almost always higher than for the government; in a quasi-monopoly situation, there are many opportunities to 'game the system' to increase profits; getting the private sector to assume risks always costs extra; private investors hardly ever commit their money to the poorest countries; there are hidden costs in PPPs (estimated to be 10% of the overall value) to pay for consultants, bankers, lawyers, and so on; there is no inherent efficiency in the private sector; contracts with the private sector always bring the potential for corruption; the private sector prefers to protect its commercial advantage through secrecy; overseeing PPPs over the life of the contract is extremely complex – the list goes on.

The next generation of PPPs in infrastructure will add another complication: they are designed to meet the needs of large institutional investors, and will become subject to their needs and machinations (as opposed to meeting the needs of the most vulnerable). Since the financial crisis of 2008, banks have had to increase their liquidity to enable them to survive future shocks. Hence they have been unable to lend to long-term infrastructure projects. When you couple this with the current austerity paradigm, you have blocked the two main actors in infrastructure: banks and governments.

In step the large institutional investors, composed mainly of capitalized pension funds, insurance funds and sovereign wealth funds, who are flush with cash and need safe investment vehicles. These funds typically do not invest in specific PPP projects, as these are either too small, too illiquid or too risky. Hence, they prefer to invest in financial products whose values are based on the underlying assets (i.e., infrastructure). And they will want to be able to conduct financial engineering with the products that they buy: to extract funds from the cash flow, to leverage their investments, to hedge their risks, to restructure the debt and sell on portions, et cetera.

This current approach contains some of the traditional mantra, including the assumption of 'public bad, private good', that an 'enabling environment' can be provided by governments to protect investors, that risks will be appropriately allocated, and so on. But there are new elements, including 'project bankability', blending public and private finance, creating pools of PPP projects, conducting value for money analysis, buying down risk, and other novelties.

As if these are not problematic enough, there is no evidence to indicate that investors will place their money in the countries that need it the most, or target infrastructure services that are designed to meet the needs of the poorest. In fact, according to a recent analysis by Kate Bayliss and Elisa Van Waeyenberge of the School for Oriental and African Studies at the University of London,[1] these investors are likely to invest in countries that have the highest existing public investment.

Further, we are witnessing an amazing group-think at some of the peak international institutions, whether at the UN (in the 2030 Agenda including Financing for Development), the World Bank Group, the OECD, the European Union, in regional development banks, and bilateral donors. To this group we can add the G20 and the World Economic Forum. They all give lip service to the complex-

1 Bayliss/Van Waeyenberge (2017).

ities of PPPs in their rush to tap the funds held by institutional investors. Many of the individuals are fully aware that strong public institutions are needed to avoid distortions by bringing in the private sector, but they all seem to agree on the new mantra.

It appears as if we are about to repeat the 'irrational exuberance' that characterized the first round of privatizations, under World Bank guidance. To avoid this, we must heighten and increase our awareness-raising and mobilizations, to counter the growing strength and power of the finance lobby.

References

Bayliss, Kate/Van Waeyenberge, Elisa (2017): Unpacking the public private partnership revival. Journal of Development Studies, London.
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David Boys is Deputy General Secretary of Public Service International (PSI)

tions for financial crisis like the 1997 Asian financial crisis. In any given period, portfolio flows unceasing netting 'game' especially for countries that do not regulate capital flows. Because portfolio positions are driven by the portfolio motives of non-residents, they can be subject to 'mood swings', the most spectacular recent event of which was the so-called 'taper tantrum' of April-May 2013.[9]

For these reasons, industrial policy must weigh the benefits from foreign investment against the costs to the host economy. The best role of foreign investment is to help fill in gaps in the chosen industrial development path. There could be other purposes. In order to meet these objectives, host countries historically had imposed performance requirements on foreign investors. However, international disciplines in the WTO under trade-related investment measures (TRIMS), in international investment agreements and bilateral investment treaties severely restrict the use of performance measures on foreign investors.[10] For example, these disciplines prevent authorities from requiring foreign investors to balance their use of foreign exchange on imports with their export earnings or to hire local managers or workers. Many of these disciplines actually privilege foreign investors more than domestic investors, running contrary to the view that the emergence of an indigenous enterprise sector is indispensable to development success. Industrial policy must find ways to skirt around these policy restrictions or at least make sure the indigenous investors have a level playing field.

9 'Taper tantrum' is the term used to refer to the 2013 increase in US Treasury yields that resulted from the US Federal Reserve's use of tapering to gradually reduce the amount of money it was feeding into the economy. The tantrum ensued when financial investors panicked in reaction to news of this tapering and drew their money rapidly out of the bond market.

10 Mohamadieh (2015).