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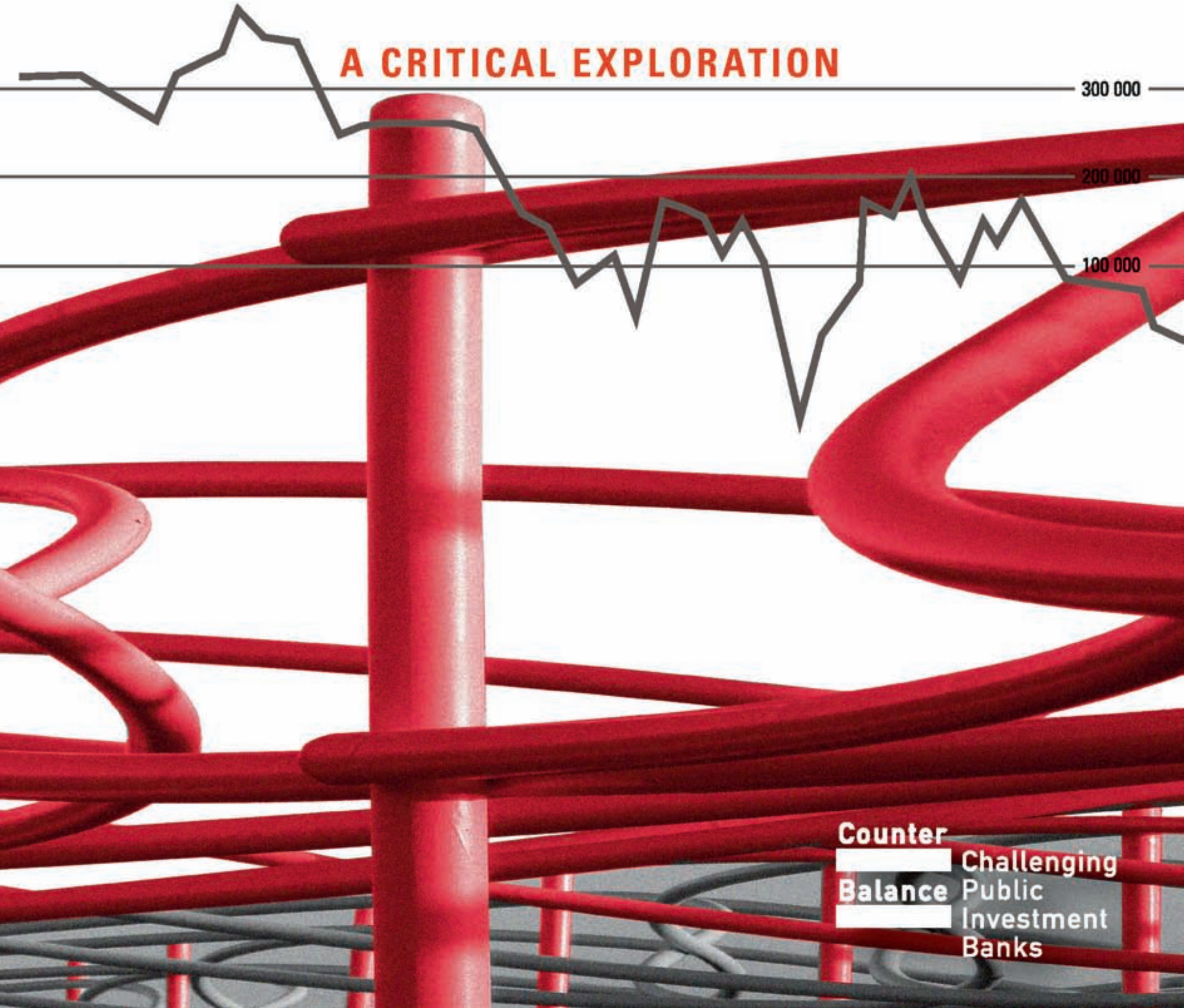
GOING FOR BROKE

WHY FINANCIALIZATION IS THE WRONG FIX FOR INFRASTRUCTURE

A CRITICAL EXPLORATION



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Rosa-Luxemburg-Stiftung, Brussels Office
Counter Balance, April 2015

ABBREVIATIONS

BRICS	Brazil, Russia, India, China and South Africa
BTC	Baku-Tbilisi-Ceyhan pipeline
CEE	Central and Eastern Europe
CEF	Connecting Europe Facility
EBRD	European Bank for Reconstruction and Development
ECA	export credit agency
EIB	European Investment Bank
G20	The Group of Twenty
GIF	World Bank Global Infrastructure Facility
IADB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	international financial institution
MDB	multilateral development bank
MENA	Middle East and North Africa region
OECD	Organisation for Economic Co-operation and Development
PCI	Projects of Common Interest
PFI	private finance initiative
PPP	public-private partnership
PUP	public-public partnership
SME	Small and medium-sized enterprise

CDS – CREDIT DEFAULT SWAP

A swap designed to transfer the credit exposure of fixed income products between parties. A CDS is also referred to as a credit derivative contract, where the purchaser of the swap makes payments up until the maturity date of a contract. Payments are made to the seller of the swap. In return, the seller agrees to pay off a third party debt if this party defaults on the loan. A CDS is considered insurance against non-payment. A buyer of a CDS might be speculating on the possibility that the third party will indeed default.
[http://www.investopedia.com/terms/c/creditdefaultswap.asp]

CREDIT ENHANCEMENT

The improvement of the credit profile of a structured financial transaction or the methods used to improve the credit profiles of such products or transactions. It is a key part of the securitization transaction in structured finance, and is important for credit rating agencies when rating a securitization.
[http://en.wikipedia.org/wiki/Credit_enhancement]

PRIVATE EQUITY FUNDS

Collective investment schemes used for making investments in various equity (and debt, to a lesser extent) securities according to one of the investment strategies associated with private equity. Private equity funds are typically limited partnerships with a fixed term of ten years (often with annual extensions). At inception, institutional investors make an unfunded commitment to the limited partnership, which is then drawn over the term of the fund. From an investor's point of view funds can be traditional (in which all investors invest with equal terms) or asymmetric (in which different investors have different terms)
[http://en.wikipedia.org/wiki/Private_equity_fund].

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INTRODUCTION

Jack Gittes: Why are you doing it?
How much better can you eat?
What can you buy that you can't already afford?

Noah Cross: The future, Mr Gittes, the future

Chinatown

Functioning infrastructure is a pre-requisite for our daily lives within the modern-day economy. As such, our daily use of all different kinds of infrastructure involves its inevitable degradation (or wear and tear). This, taken together with ongoing developments in technology and science, results in a reliably permanent need to fix, replace and upgrade – in short, to constantly develop infrastructure.

Yet this basic requirement has taken on a new character in recent times. Building new infrastructure is no longer just the talk of the town – imagine some residents over a beer in the local pub in a small regional community welcoming, or perhaps moaning about, the presence of bulldozers preparing the construction of a minor road in their back yard – but has rather taken on a new, awe-inspiring, global character.

The Financial Times for one has spoken of 2014 as being the year of infrastructure. Major high-technology projects are the focus of attention, debate and controversy, chiefly due to the twin needs of replacing ageing twentieth-century infrastructure in the developed world and introducing modern infrastructure in the developing world. In tandem, the new champions of infrastructure refer to the equally urgent need to restore 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, the consensus that has now emerged on new infrastructure is striking, as are the investment needs and numbers attached:

- In Europe alone, the European Commission estimates that investment of up to €2 trillion is needed in transport, energy and IT infrastructure across the EU alone by 2020.
- Globally, as announced by G20 finance ministers in spring 2014, it is being proposed annual lending capacity for middle-income countries (including for infrastructure financing) almost doubled, from $15 billion to $28 billion per year.
- The new BRICS bank, with majority shareholding by Brazil, Russia, India, China South Africa, and largely focusing on infrastructure finance, is expected to finally be launched in summer 2014. The bank's start-up capital is estimated at $50 billion, with hopes that this will double to $100 billion within the first five years of operations.
- China has also confirmed its intentions to launch the Asian Infrastructure Investment Bank in the near future.

To reiterate, and to loosely summarise how such vast expenditures – involving a significant share of public money – are being justified: across communities, regions, countries and continents, life will be enhanced by basic exposure to improved infrastructure, plus there will be gains from the accompanying economic stimulus effects. Out of the ashes of the economic crisis, and it has taken several years for the narrative momentum to really build up to where it is now, infrastructure is being promoted as a magic bullet.

Yet if this new burst of global investment hopes and expectations is in part a result of economic depression and is being touted as a solution to the mistakes of the past, is it being based on new, more sustainable, less risky investment and financial foundations?

This report discusses how and why the answer to this question is 'No', and seeks ultimately to outline some of the tentatively emerging alternative options.

If new infrastructure development is being framed by some as a magic bullet, then this bullet is more akin to the one found in a game of Russian roulette. That this should be the case is conditioned by the dominant economic norm that touches and influences all economic and social relations today, including infrastructure – a phenomenon known as 'financialization'.

British Prime Minister David Cameron provoked an outcry in late 2013 by calling for capitalism to be taught in British schools. Speaking at the Lord Mayor's banquet in the City of London, a high profile establishment event in the UK calendar, Cameron let it be known that his party – the rightist Conservatives – would make sure business was "promoted in schools. Taught in colleges. Celebrated in communities."[1]

The surprise element in this commitment, coming at the same time as the British premiere reconfirmed that austerity is here to stay ("We need to do more with less. Permanently."), is that, as with just about every aspect of everyday life, the ongoing retreat of public provision in education means that capitalist business is already very much in classrooms.

In schools and universities alike, neoclassical economics has completely dominated curricula throughout the twentieth century and onwards. The basics – and some of the distortions – of Adam Smith's teachings on economic theory inform students and prepare them for life in the business world; existing critique of this version of economic theory is extremely limited, if it is even permitted within teaching at all.

Moreover, beyond what is taught in curricula, and as witnessed in other sectors such as housing, health and transport, the physical educational arena is now permeated with the business world. Classrooms, lecture halls, academic building facilities and services, even those places where students "traditionally go for a dance and a drink, where they physically come together, socialise"[2] and perhaps plot global revolution (or just how to improve student welfare) are being commodified and injected with, as well as being subjected to, commercial imperatives.

1 http://www.mirror.co.uk/news/uk-news/david-cameron-calls-capitalism-lessons-2760763

2 http://www.theguardian.com/world/2013/dec/06/university-of-strife-john-harris

This is financialization in action, a process that has effectively been underway since the early 1970s with the proliferation and general acceptance in western democracies of such things as credit cards and mounting personal/household debt. Financialization is having clear and acute impacts on our everyday lives. It has become part of the fabric of life.

Of course we have seen growing public awareness of the phenomenon, as witnessed by public outrage and a partial understanding of casino capitalism that is still widely believed to originate from human failing, from banking and financial sector greed that got out of control. This has led to new – and welcome – debates and calls for much more robust financial sector supervision and regulation.

Yet, as this report will describe, in the realm of infrastructure, the fundamental, extended and cross-cutting economic domain that affects us all, increased financialization is happening almost under our noses, albeit masked by complex terminology, obscure legislation and soothing promotional talk that hypes the benefits and the advances, and – when positive persuasion is exhausted – insists that there is no alternative.

Public concern – if not downright outrage – needs to catch up quickly. Because, to return to Mr Cameron and his mantra that "We need to do more with less", perhaps the supreme irony of our financialised economy is this: despite all of its unsustainable, economic and moral riskiness having been laid bare by the 2008 crisis, a global range of initiatives and trends related to the financialization of infrastructure investment, promoted by the world's most powerful states and backed by the international financial institutions, is not just already well under way – it was never removed from the agenda, but just temporarily blown off course. To paraphrase Cameron more precisely, "We have to do more, and this will mean less for you, the public and the taxpayer – because you will be paying for it whether things go right or if they go wrong".

As will be seen, the public purse is being put on the line once again, to potentially – and in individual cases, inevitably – fund and bail out not just ill-conceived major investments but ones with the potential to cause environmental and social havoc. An intertwined irony in all of this is that much of the financial firepower for such schemes is to originate from sources generally regarded as benign and beneficial – development budgets or overseas development assistance. As too few have been asking: "Whose development is being financed here?"

1. INFRASTRUCTURE FINANCING: CHARACTERISTICS, HISTORY AND TRENDS

STORIES OF GREAT GLOBAL INFRASTRUCTURE THAT RIP OFF THE PUBLIC

Considering the vast sums of money involved, all the things that can and do go wrong, the lives that can be uprooted by its construction, and the corrupt, criminal practices that may attend it, it is somewhat surprising that the development of infrastructure, particularly large-scale projects, has not featured more in cinema.

Bricks and mortar are perhaps not very visually appealing in themselves, yet think of the intrigue captured in Polanski's Chinatown over Californian water rights, of the stunning over-ambition and hubris involved in the construction of the Death Star in Star Wars, and the naked criminality portrayed in Scorsese's Casino as the Las Vegas strip mushrooms in scale.

Of course, certain traditional infrastructure developments throughout the second half of the twentieth century did attract cameras. Whether it was large hydropower projects involving mega-dam construction, or ambitious transport projects bored through mountains or under the sea, state film crews would come to document the magnificence and the human endeavour involved in clearing millions of square metres of land. Increasingly over time, other film crews – often from the west, and visiting the developing world – would arrive to document the resulting environmental and social damage.

However, with the changing face of infrastructure finance, with the new complex financing schemes involved (schemes that once you study them closely for some time and then look up from the desk to check that you haven't entered an alternative reality), perhaps the new infrastructure financing landscape, with all of its intricacies and scope for abuse, will start to attract story-telling cineastes determined to communicate the story of the great global infrastructure rip-off to the public.

But for now, as in the recent past, we are playing catch-up.

TAXPAYER MONEY'S ROLE IN THE CONSTRUCTION OF CASINO CAPITALISM

Derivatives, securitisation and credit default swaps are all familiar terms post-credit crunch, though undoubtedly still too little understood. They are just a selection of the products and processes that were instrumental in blowing the lid off global capitalism in 2008.

A little known story, which relates to how publicly-backed financial institutions are beholden to the global financial sector (as we shall see in much more detail below), concerns how the European Bank for Reconstruction and Development (EBRD) played a key role in the first ever credit default swap in the early nineties.

According to Financial Times journalist Gillian Tett, one of the very few financial journalists to have been alive to the bubbling casino economy instruments that the financial sector was industrialising in the decade or so before 2008, in 1994 J.P. Morgan was very reluctant to cover a $5 billion credit line to Exxon, one of its long-standing clients. The oil giant required the credit to cover potential damages resulting from the 1989 Exxon Valdez oil spill. A solution was found: JP Morgan approached the EBRD that agreed to cover the credit risk, thus earning a fee from the investment bank to take on the risk. But if Exxon had defaulted then the EBRD would have had to cover the – substantial – losses.[3]

Very little is still known about this deal (you won't find anything about it on the EBRD's website), other than that the deal was innovative and that a new name for it had to be coined: the credit default swap.

Other journalists that have been catching up on what was happening in the financial sector from the 1990s onwards have cited this EBRD role that Tett describes in her expose book Fool's Gold, but have failed to question both the EBRD's rationale on the deal and its public status – if things had turned out differently, a highly significant portion of the EBRD's publicly-backed capital would have been swallowed, with presumably major implications for the bank's lending activities in central and eastern Europe.

As another journalist, John Lanchester,[4] has commented of the J.P. Morgan-EBRD brokered deal, it was a start, but, "the deal had been laborious and time-consuming, and the bank [J.P. Morgan] wouldn't be able to make real money out of credit-default swaps until the process became streamlined and industrialized. The invention that allowed all this to happen was securitization". The process was duly streamlined and industrialised, to disastrous, ultimate effect 14 years later. How much the EBRD – and other international financial institutions – are involved in streamlining and industrialising other financialization practices that threaten the public purse is discussed below.

3 Gillian Tett, Fool's Gold, referenced in the same New Yorker article (as below): June 1,2009. http://www.newyorker.com/arts/critics/books/2009/06/01/090601crbo_books_lanchester?currentPage=all

4 Ibid

INFRASTRUCTURE FINANCE: TRENDS AND CHARACTERISTICS

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 proven to be effective in delivering good outcomes for people and communities on the ground, nor for society in general. Major dam projects, other energy-related infrastructure such as power grids, transport projects (roads, train lines, airports), water and waste management provision, or energy extraction/generation projects (to name only some), and often promoted and backed by institutions such as the World Bank, have tended to come with significant environmental and social costs.

In its 2012 report Infrastructure for whom?, US NGO International Rivers describes one notorious – though exemplary – project: "In the Democratic Republic of Congo, donors have spent billions of dollars on dams and transmission lines at the Inga site. The projects serve energy-hungry mining companies, while 94% of the population has no access to electricity."

THE OLD INGA I HYDROPOWER DAM, DEMOCRATIC REPUBLIC OF CONGO
Wikipedia, CC BY 2.5, by Inga003 [http://de.wikipedia.org/wiki/Inga-Staudamm]

In the eyes of decision-makers and financiers big is still very much beautiful – both in terms of returns for investors and in order to plug infrastructure gaps primarily in the service of large economic interests. Smaller, community-level initiatives remain highly inconvenient for business and its financial supporters, akin to investment no-go zones.

Project scale remains, then, almost literally an elephant in the room as far as the effectiveness and appropriateness of development-finance backed infrastructure is concerned. But how have the actual mechanics of infrastructure financing evolved in recent decades?

THE DEVELOPMENT OF INFRASTRUCTURE FINANCING: TRADITIONAL PROJECT FINANCE AND 'STRUCTURED FINANCE'

As Nick Hildyard relates in More than Bricks and Mortar (2012): "Since the 1970s, loans for private sector infrastructure projects have generally been raised through what is known as 'project finance', a form of debt finance in which banks lend money against the projected income of a project but have no recourse to the assets of the project developer other than those of the project itself and the income from the sale of its 'off-take' or products. Traditionally, the deal involved two main parties: the banks and the project sponsors."[5]

Traditional project finance, then, is a fairly comprehensible set-up, one that would also often involve a mix of both public- and private-sector lending. This public component, regularly featuring public development finance provision from the World Bank and other similar banks, has played a particularly important role for large projects in developing countries and/or politically sensitive projects.

For a project like the Baku-Tbilisi-Ceyhan pipeline (BTC), running from Azerbaijan to Turkey via Georgia, majority owned by a BP-owned company and the recipient of substantial project finance to support overall project costs of over $4 billion, international public development finance was crucial. It was duly delivered in spite of a global campaign that questioned and actively challenged such use of public money on a wide range of issues.[6]

In 2004 the World Bank's International Finance Corporation and the EBRD provided a total of $500 million in project finance to BTC, thus providing not only raw finance but a major signal of political 'confidence' (both banks are owned by major global states) that in turn contributed to the unlocking of substantial private bank financing and financial guarantees from the export credit agencies (ECAs) of various interested nation states.

The risk for BP in this case, as with any such major environmentally and socially impactful project, was that the lending standards of the public banks would have to be negotiated, not to mention also certain troublesome ethical questions as to why taxpayer-backed finance should be extended to a – then – multi-billion profit-making company such as BP. In the end, all hurdles were cleared by the pipeline company, despite a significant range of legal and other objections from campaigners that were not convincingly answered by the institutions involved. This applied to the public development banks, the ECAs[7], and to a string of private banks from around the world.

5 The Corner House, 'More than bricks and mortar', 2012, http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Bricks%20and%20Mortar.pdf

6 Information about the Baku Ceyhan campaign via the Platform website: http://www.carbonweb.org/showitem.asp?article=32&parent=5&link=Y&gp=5

7 For more information see also http://www.eca-watch.org

BAKU-TBILISI-CEYHAN PIPELINE (BTC) FOR CRUDE OIL

Wikipedia, CC BY-SA 3.0, by Thomas Blomberg

Notably, around the time of BTC financing, and after many years of building up to it, private banks such as HSBC, RBS, BNP Paribas and a wide range of others signed up to environmental and social standards known as the Equator Principles. These non-binding standards are intended to guide private-sector project finance provision in more sustainable directions. The Equator Principles remain in existence and are evolving, but are viewed by many bank campaigners as being still too weak and open to abuse by banks when they come to consider the financing of harmful, controversial projects.

More significantly, the relevance of the Equator Principles to infrastructure financing is being questioned as the ways in which, and the extent to which, private banks engage in the financing of projects is shifting – because traditional project finance is no longer the leading way to do infrastructure financing.

As Hildyard relates, infrastructure financing has moved on, in tune with wider financial trends: “Project finance has now morphed into structured finance. In the process, infrastructure projects have become raw material for constructing multi-layered deals, involving a bewildering cat’s cradle of financial products and markets, with each additional transaction generating arrangement fees and opportunities for speculation by intermediaries. Derivative-based interest rate and currency swaps have been added to the mix, fuelling the expansion of swap markets and creating opportunities for speculative trading. To move older project finance loans off their books, thereby creating headroom for new loans, banks have turned to techniques pioneered in the sub-prime mortgage market. These involve bundling up packages of older loans, hiving them off into special purpose vehicles and then issuing derivatives known as Collaterised Loan Obligations (CLOs) that give investors the right to the income from the loans but not to the underlying assets. Such arrangements in turn spawn additional deals: for example, the special purpose vehicle may issue further derivatives known as credit default swaps, allowing investors to bet on the credit worthiness of the underlying loans that have been bundled together."

A 2011 report from Chatham House – Coal Financing in Europe: The Banker's Dilemma – backs this up, describing the increasing complexity and deeper interplay of financial instruments and stakeholders taking place in the development and financing of major energy infrastructure: "The direct contribution of private banks to the financing of coal-fired power plants is relatively small, with project financing being of increasingly limited importance. Financing is more often achieved through the issue of bonds, shares or direct company finance."[8]

THE BRITISH PRIVATIZATION AGENDA: ACCEPTED STATE SUPPORT FOR PRIVATE SECTOR

These new financing realities have been rolled out and scaled up in the twenty-first century – and we will come back to them in the section below. A parallel process in the financialization process also needs to be grasped at this stage: the capture of more forms of public support for the private sector. The ideological groundswell for achieving this got under way in the 1980s and 1990s, and has become engrained.

Market power – through capital flight – effectively sabotaged the plans of Francois Mitterrand, France's first Socialist president, to expand the welfare state and extend state intervention in the French economy in the early 1980s. In parallel in the UK, the unfettering and the rise of the financial sector lead to the radical, far-reaching privatisation of state assets in the UK during Margaret Thatcher's premiership throughout the same decade.

At the time, the privatisation programme was heavily propagandised as a success story, with the British public enthusiastically buying into it, only for deteriorating service provision and consistently rising prices some years later to call privatisation into question. Nonetheless the sweep of privatisation, unleashed in the UK during this period, was rapid and wide, as revealed by UK government statistics released in 2002: 40% of the total value of all privatisation in the western world between 1980 and 1996 occurred in the UK.[9]

The cumulative effect was that Thatcher's privatisation agenda established the acceptability of private sector involvement in the wider economy and – in an eventual ironic reverse of standard free-market ideology – of the provision of state support for the private sector.

8 http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Energy,%20Environment%20and%20Development/1111pp_froggatt.pdf

9 http://www.wto.org/english/tratop_e/serv_e/symp_mar02_uk_treasury_priv_guide_e.pdf

By the early 1990s, the UK had also become the global leader in introducing a form of privatisation-lite: the private finance initiative (PFI), 'lite' only in as much that it was not geared to the full transfer of state assets to private control, but nevertheless a model with far-reaching (and often hidden) implications for how private sector interests would be embedded and, crucially, supported across the whole investment spectrum in the UK.

PFI was and remains the UK variant on the public-private partnership model, a procurement method for major public works (infrastructure) that sees public services being delivered by the private sector, and involving private sector debt and equity – but, importantly, being underwritten (or guaranteed) by the state. Opportunities opening up as a result of the UK 'success story' were evidently being eyed elsewhere.

The World Bank's 1994 World Development Report on infrastructure, notes Hildyard, "was not in fact about bridges and roads and dams, but about privatising public goods and services and reducing the role of the state in development … By framing policy choices in terms of an either/or opposition between the 'private sector', on the one hand, and the state, on the other, the Report successfully hid its promotion of a new state/private combo. A realigned state became the lynchpin of a particular response to a growing crisis of over-accumulation within capitalism, in this instance creating new highly profitable investment opportunities by selling off state-owned enterprises (the family silver in the words of former British Prime Minister Harold Macmillan) at knock-down prices."

It should be evident that a corner was now being turned. The World Bank, among others, had discerned the potential to export investment models highly favourable to the private sector far beyond the shores of the UK.

2. FINANCIALIZATION AND ITS DISCONTENTS

> "For the owners of capital the dilemma is what to do with the immense surpluses at their disposal in the face of a dearth of investment opportunities. Their main solution from the 1970s on was to expand their demand for financial products as a means of maintaining and expanding their money capital. On the supply side of this process, financial institutions stepped forward with a vast array of new financial instruments: futures, options, derivatives, hedge funds, etc. The result was skyrocketing financial speculation that has persisted now for decades."
>
> John Bellamy Foster, The Financialization of Capitalism – April 2007[10]

HISTORY: GLOBAL CAPITAL IN SEARCH FOR INVESTMENT OPPORTUNITIES

What was a Marxist ghetto interest in the 1970s, limited to the annals of the Monthly Review journal, subsequently becoming more evident within academia in the 1990s (though primarily remaining a Marxist pursuit and interest), has now become a readily identifiable and more widely discussed economic concept as a result of the economic crisis of 2008: the process called financialization is indeed widely viewed as a key contributor to the economic conditions that brought about the 2008 crisis. Moreover, financialization is not going away and, in spite of the crisis, would appear to be taking deeper root.

The specific causes of why financialization took initial root in the 1970s are many and varied. Bellamy Foster defines financialization as: "the shift in gravity of economic activity from production (and even from much of the growing service sector) to finance."[11] Essentially, and in highly condensed form, global economic recession as a result of the oil crisis of 1973 left global capital with too much money on its hands. Capital's assets were over-accumulating and thus emerged the need to create new investment opportunities – but where, and how, to deploy the economic surplus?

NEW EXOTIC FINANCIAL INSTRUMENTS ARE HERE TO STAY

In short, a turn to finance took place, with investment in financial instruments and products replacing real nuts and bolts production, with a considerable amount of financial creativity being involved. The broad effects of what has taken place are summarised by Lapavitsas:

"First, relations between large non-financial corporations and banks have been altered as the former have come to rely heavily on internal finance, while seeking external finance in open markets. Large corporations have acquired financial skills – they have become financialized. Second, banks have consequently transformed themselves. Specifically, banks have turned towards mediating transactions in open markets, thus earning fees, commissions and trading

10 http://monthlyreview.org/2007/04/01/the-financialization-of-capitalism

11 Ibid

profits … Third, workers have become increasingly involved with the financial system both with regard to borrowing and to holding financial assets."[12]

Nothing less, then a major revolution has taken place in global financial practices and arrangements in the last three decades.

As Asian economic specialist Andrew Sheng puts it: "The financiali[s]ation dream was that financial innovation was creative, supported economic development and contributed to global market efficiency."[13] A lot of people and a lot of economies may have been badly burnt by this 'innovation', most strikingly by the localised and – via the Lehman Brothers meltdown – globalised effects of sub-prime mortgage lending.

Yet the same products and instruments that underpinned sub-prime mortgage lending are now being proposed for and applied to the financing of infrastructure.

The provision and extension of credit to vast numbers of the American public, many of them drawn from the poorest sectors of society, was effected and deemed acceptable because of the proliferating use of highly complex financing mechanisms that appeared to be able to reduce risk for lenders. Essentially junk (or sub-prime) loans, with a high probability of not being honoured or repaid, were viewed as not being risky for the companies extending them as they could be packaged off via the elaborate schemes that had become part of the fabric of the financial system. With risk, then, almost eliminated, or thought to be endlessly deferred by the multitude of financial tools sprouting up, creditors were able to forget about any conventional notions of investment quality, and ruthlessly target anyone, including the economically desperate and vulnerable, with very few fears of economic consequences for themselves.

The financialization of infrastructure investing that is becoming so apparent, and that has quickly become as complex and dependent on opaque financing mechanisms that were the hallmark of the sub-prime-derived global crisis, also points towards key questions concerning overall investment quality. Chiefly, how necessary and how socially and environmentally beneficial is so much of the newly proposed infrastructure that is now crying out for funding? Many large projects, for example in the transport and energy sectors, have been lying around gathering dust on planning tables for many years. And, equally, how reliable – even, how desperate – are the companies and spending bodies promoting these projects? Are they, in fact, vulnerable economic entities, more than ready to take the plunge on sub-prime infrastructure projects that are, in any conventional sense, economically, environmentally and socially nonsensical?

12 Lapavistas, Theorising financialisation, December 2010
http://www.countdowninfo.net/uploads/6/7/3/6/6736569/theorizing_financialization.pdf

13 Article first appeared in 'The China Post', September 15, 2013
http://www.fungglobalinstitute.org/en/end-financialization

As far as the financial sector is concerned, it is not only a given that the creativity of financialization can come again. It is also – more fundamentally – that these exotic financial instruments are here to stay: they simply need to be used better, and more appropriately. This can sound, in fact, like an ongoing, highly risky public experiment that is playing out, and it is the subject of intense debate within the financial industry itself right now.

INFRASTRUCTURE FINANCING TO ACHIEVE GREEN AIMS?

More than six years on from the outbreak of the crisis, we are facing a puzzling scenario. The need to replace creaking infrastructure in Europe, for example, has never seemed more urgent; and in Europe and globally, attuning new infrastructure to the demands of climate change is now more than a rhetorical demand. It is accepted that hundreds of billions of euros need to be deployed in the next 50 years for carbon-neutral infrastructure.

Consensus about the investment needs is gradually, belatedly emerging: to improve transportation links, to secure sustainable energy delivery as fossil fuel resources dwindle and their continued use becomes recognised, increasingly, as highly detrimental to the prospect of planetary survival (although debates on the specifics of how to transition to a clean energy world remain as intense as ever).

If there are much needed investment requirements and vast amounts of available – and mounting – surplus capital (as confirmed and reiterated by scores of mainstream economic commentators), why are financial instruments, in all their various shapes and sizes, and dependent on public guarantees, still the order of the day? Why, indeed, are such instruments proliferating and taking up increasing space on the infrastructure delivery menu?

As we now turn to, it comes down in large part to the fact that the economic war against the failure of financialization – 2008's worst global economic crisis since the 1930s – has been waged simply with more financialization in various forms. The potential for creating and storing up financial trouble, and to then set off a string of other damaging economic consequences somewhere down the road, is high.

3. KEY PLAYERS AND DRIVERS OF THE INFRASTRUCTURE AGENDA: REAL BRICKS AND MORTAR MEET UNREAL FINANCING

AFTER THE CRISIS: INFRASTRUCTURE PROJECTS AS ECONOMIC STIMULUS?

In 2009, some nine months after the outbreak of the economic crisis, the Eastern Europe-focused environment NGO Bankwatch, in tandem with the University of London's School for Oriental and African Studies, produced a report – Bubbling under the surface[14] – that took the pragmatic view that economic stimulation, at least in Eastern Europe but also easily applicable to Europe more widely and other parts of the world suffering from the credit-crunch induced downturn, could be spurred by public infrastructure projects.

The clear historical precedent had been provided by Roosevelt's New Deal in America in the 1930s. The standard term for this is Keynesianism. If you want to ensure a generally upward, positive trajectory in the economy, then: "Save money in the good times, spend money in the bad times".

Bubbling under the surface also dwelt on the recorded warnings – by bodies such as the IMF – of the limits to economic stimulus effect that could be achieved by a concentration on private investment within a general crisis scenario. According to the report: "[The ratings agency] Moody's recently estimated, based on the current US situation, that for every dollar spent through fiscal policy in infrastructure, the economy will grow by an additional $1.59. The only other areas of fiscal expansion with higher effects are increases to unemployment benefits, and food aid to the poor."[15]

While focusing on the immediate crisis-management measures that had been enacted in the flurry of post-September 2008 financial fire-fighting (including from the likes of the EBRD), the rapidly deployed financial support for Eastern European banks, many of which were subsidiaries of western parent banks), the report was also prescient about how European Commission-brokered stimulus thinking was being lined up to deal with a crisis of this scale. As predicted, the private sector was integral to the thinking.

14 CEE Bankwatch Network, 2009, 'Bubbling under the surface' http://bankwatch.org/publications/bubbling-under-surface-role-western-public-finance-crisis-hitting-central-and-eastern-e

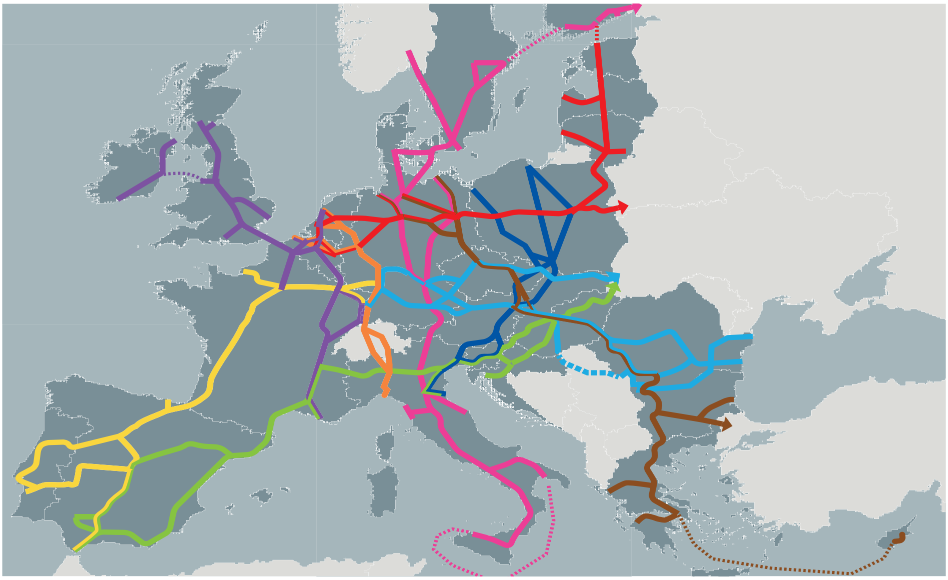
15 Ibid

EUROPEAN COMMISSION ENCOURAGES PRIVATE CO-FINANCING

Analysing the European Recovery Plan being proposed by the European Commission, the report noted that high on the agenda for stimulus action was the use of "private channels with private co-financing"[16].

It is worth spelling out the details of what this apparent private focused Commission approach would entail: "This is to include channelling funds through the private banking system, with the use of public guarantees, loan subsidies, and risk sharing facilities to encourage private co-financing. [Trans-European Transport Network][17] projects with increased use of private sector participation through public-private partnerships (PPPs) are also favoured. The EIB and EBRD are central to these plans. The EIB will also disburse an additional €10 billion earmarked for small and medium enterprises, and another €1 billion to medium corporations. The EBRD is also to beef up its programming."

TRANS-EUROPEAN TRANSPORT NETWORK (TEN-T)



EU Commission
http://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/site/maps_upload/SchematicA0_EUcorridor_map.pdf

16 Ibid

17 The Trans-European Transport Networks, also known as 'TEN-T', are a planned set of road, rail, air and water transport networks in Europe that the European Commission has been overseeing since 1990. The networks comprise many individual transport projects of various sectors and transport modes.

In the European crisis response context, therefore, the private sector was placed in pole position, but noticeably with a strong, extensive public sector support component: the EBRD depending for the bulk of its lending activities on taxpayer-derived capital contributions from its shareholders; the EIB raising its funding for lending on the capital markets, but crucially reliant on the sovereign guarantees provided by its EU member state shareholders and their respective national economies. This, of course, was over and above the publicly-backed bailouts provided by governments to national banks.

INTERNATIONAL INSTITUTIONS AND DEVELOPMENT BANKS CALL FOR LARGE INFRASTRUCTURE INVESTMENTS

Major plans for infrastructure – mostly large infrastructure – have been forming on the political agenda in recent years, and they are now taking definite shape. Nick Hildyard cites Organisation for Economic Co-operation and Development (OECD) predictions of “dozens of trillions of dollars”[18] of infrastructure spend being required over the next 20 years, as well as a dizzying array of statistics from other regional and internationally focused agencies that all attest to an infrastructure gap.

The Inter-American Development Bank (IADB), which operates in Latin America, has for example recently identified a huge shortfall in the region’s infrastructure investment that has built up over the last three years.[19] With an estimate of $250 billion a year for the next few years to address this shortfall, the IADB is prioritising credit enhancement – a means by which it will provide finance to raise the credit rating of specific projects to attract private investors.

In the words of an IADB official: “We are looking very closely at the construction risk because generally bondholders do not like to take construction risk so we can step in and provide some structuring [understood as credit enhancement or other incentivising financial methods] so we eliminate or reduce construction risk so capital markets can invest.”[20]

Such incentivising of investors to get infrastructure financing moving will be looked at in more detail below in the context of Europe, and new initiatives being promoted and bankrolled by the EIB. But, as Hildyard further points out, the gap to be plugged will, according to the promotional hype that accompanies most official versions, necessarily include the world’s poor as one of the principal beneficiaries.

18 Inderst, G., “Pension Fund Investment in Infrastructure”, OECD Working Papers on Insurance and Private Pensions, No. 32, OECD, 2009, http://www.oecd.org/dataoecd/41/9/42052208.pdf.

19 Emerging Markets, 29 March 2014 http://www.emergingmarkets.org/Article/3325036/Development/Mind-the-gap-IADB-sizes-up-infrastructure-financing-hole.html

20 Emerging Markets, Mind the gap: IADB sizes up infrastructure financing hole, 29 March 2014 http://www.emergingmarkets.org/Article/3325036/Mind-the-gap-IADB-sizes-up-infrastructure-financing-hole.html

Indeed, according to the former Chief Economist of the World Bank and another senior World Bank official, in an October 2013 press article that urgently argues for more infrastructure investment: "Nearly one in four people in the developing world do not have electricity in their home."[21]

Duly ticking the 'world poverty' box, these economists, associated with an institution whose motto is famously "Working for a world free of poverty", note that: "Much of the developing world – including two-thirds of African households – has no household water connection and no improved form of sanitation," They also project that the annual infrastructure financing needs of developing countries are estimated at $1.2-1.5 trillion, and "less than half are currently being met."

Writing in 2010 as the raw effects of the economic crisis still raged, former EIB president Philippe Maystadt also described the twin needs of renewing ageing infrastructure in western Europe, while still having to raise infrastructure capital stock in Europe's new member states in the east.[22] The EIB has long been a key public lender – over half of its financing went to infrastructure and infrastructure-related lending across the EU in the 2005-09 period.[23] Yet, as Maystadt was at pains to point out, how to fill the infrastructure gap at a time when the financial and economic crisis is putting "public budgets under tremendous strain"?

KEY PLAYERS AND DRIVERS: WORLD BANK UNDER THE G20 UMBRELLA

What is on the global and regional infrastructure agenda? Who are the key players and drivers? And which role do the world's poor actually play in this agenda?

At the global and most senior level, the G20 countries have been prioritising and pushing major cross-border infrastructure involving the private sector since a 2010 summit in Seoul, an initiative involving close participation from the World Bank that has been tasked to put together an Infrastructure Action Plan under the G20 umbrella.

According to the London-based NGO Bretton Woods Project, by September 2011 the World Bank "in conjunction with other multilateral development banks (MDBs), had produced both a draft and a final version of the action plan, but neither have been publicly released, nor been considered by the World Bank's board."[24] The global coordination that is under way on this infrastructure venture should be kept in mind – MDBs that cross the globe, in tandem with the World Bank, are all on board.

21 http://www.huffingtonpost.com/kevin-lu/world-bank-global-infrastructure-facility_b_4078840.html

22 http://www.eib.org/attachments/efs/eibpapers/eibpapers_2010_v15_n01_en.pdf

23 Cited in: ‚Financing infrastructure', Uppenberg, Strauss and Wagenvoort, EIB, 2011.
http://www.eib.org/attachments/efs/financing_infrastructure_en.pdf

24 Bretton Woods Project, Big infrastructure, small participation,
http://www.brettonwoodsproject.org/2011/09/art-568883/

As the Bretton Woods Project further pointed out in September 2011: "The [G20 development working group] meeting's leaked outcome document spells out the group's expectations for how the draft plan will be finalised, asking the [World] Bank to 'continu[e] the work towards simplification and greater harmonisation of their procurement rules and practices, including mutual recognition of procedures which could reduce the cost of lending, speed up project implementation and give room for more collaboration with other investors, especially for PPPs'."

The emphasis on accelerated project implementation and PPPs is, as we shall see, a common trend. By November 2011, G20 infrastructure plans were advancing further, with a list of major 'exemplary regional' infrastructure projects being recommended explicitly by the MDBs in a High Level Panel on Infrastructure report.[25]

The projects in line for development and funding include the following:

The Grand Inga Hydropower project in the Democratic Republic of Congo, with an estimated $80 billion price tag and potentially the world's largest dam. Concerns have been raised that this mega project, conceived and promoted within the sphere of development, would primarily benefit western multinationals and see African energy serving EU energy consumers via a proposed 6,000 kilometre electrical transmission line spanning the continents.

The scaling up of solar energy in the Middle East and North Africa (MENA) region. This would be achieved principally via the Desertec mega project, being pushed by the EU to build and connect a host of solar and wind energy plants in the deserts of North Africa and the Middle East to supply mainland Europe with up to 15% of its electricity demands, at a cost of at least €400 billion. The Turkmenistan-Afghanistan-Pakistan-India (TAPI) Natural Gas Pipeline, a highly controversial and much delayed US-backed 1,680 kilometre project.

By summer 2013, however, Europe's Desertec ambitions lay in ruins for a variety of reasons, including the huge costs and difficulties of developing the export infrastructure and because of the economic recession affecting EU energy demand. In December 2013, it was announced that the State Grid Corporation of China, the world's largest state-owned utility company, had joined the Desertec Industrial Initiative. How this will affect the project's status as a G20 priority is unclear, but the Chinese entry into the project is emblematic of the global, highly competitive nature of the infrastructure race.

25 http://www.g20-g8.com/g8-g20/root/bank_objects/HLP_-_Full_report.pdf

WORLD BANK, GLOBAL INFRASTRUCTURE FACILITY, AND PUBLIC DEVELOPMENT FINANCE

In parallel with the ongoing G20 infrastructure agenda, some major announcements and regular briefings have been emanating recently from the World Bank.

Soon after an August 2013 declaration by 50 African finance ministers called on the bank to partner with other donors such as the African Development Bank in order to "establish a single infrastructure project preparation facility for Africa to support large-scale transformational infrastructure projects,"[26] World Bank president Jim Yong Kim announced in September 2013 that the Bank is pushing ahead with the development of its own Global Infrastructure Facility.[27]

Amidst talk of win-win marriages for the private sector and governments alike, the plans are dependent on the World Bank raising funds that can incentivise and catalyse private sector involvement. PPPs remain absolutely vital to these plans, and arguably are even more centre stage now.

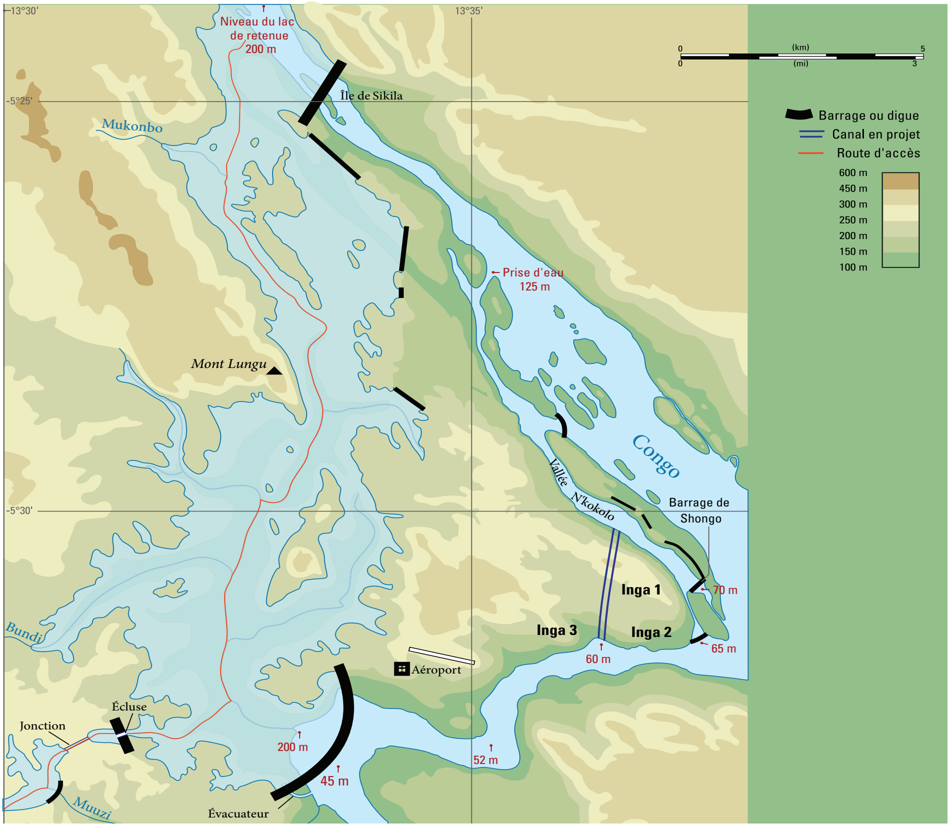
The infrastructure drumbeat and momentum being heard from the World Bank was maintained at its April 2014 meeting. A range of sentiment, primarily from key World Bank shareholders that form the G20 countries, continued to back and encourage the bank's efforts to develop and realise the delivery mechanisms for escalating infrastructure investments. Amidst some signs of concern that action is proving to be slow, there were indications that at least one project – potentially the Grand Inga Dam noted above – is being prioritised for realisation by the end of 2014.[28]

26 Cited in: 'Financing infrastructure', Uppenberg, Strauss and Wagenvoort, EIB, 2011.

27 Bretton Woods Project website, 4 October 2008, http://www.brettonwoodsproject.org/2013/10/world-bank-lead-way-infrastructure-investment/

28 See, for instance: 'Costly dams criticised', Bretton Woods Project, 31 March 2014 http://www.brettonwoodsproject.org/2014/03/costly-dams-criticised/

DEMOCRATIC REPUBLIC OF CONGO: LOCATION OF THE PLANNED GRAND INGA DAM AND WATER RESERVOIR WITH REDIRECTION OF THE RIVER CONGO (LOWER CENTRE, BLACK MARKS)



Wikipedia CC BY-SA 3.0, by Inga 2006-projet http://en.wikipedia.org/wiki/Grand_Inga_Dam

Most notably, financial numbers were attached to these latest World Bank infrastructure communiqués, and indicate the scale of the operations and the importance being given to infrastructure.

A report entitled Optimizing World Bank Group Resources and Supporting Infrastructure Financing[29] describes, for example, measures that will enable the World Bank to nearly double its annual lending capacity for middle-income countries (including for infrastructure financing) from $15 billion to as much as $28 billion per year. The bank's lending capacity (the total loans on its balance sheet) will increase by $100 billion in the next decade, to roughly $300 billion. Such sums, if nothing else, indicate the centrality of international public development finance to the hoped-for global infrastructure boom, and the growing relevance of an institution that less than a decade ago was widely held to be failing in its mission and institutionally exhausted.

INFRASTRUCTURE AS A NEW ASSET CLASS: WHAT IT MEANS, AND WHAT IT COULD ENTAIL

Accompanying World Bank funding planning indicates how these new investments are to be mediated and marketed.

One of the most explicit calls for infrastructure to become a new asset class came in a recent article (cited above) by World Bank connected economists Kevin Lu and Justin Lin.[30] It is worth looking closely at what they have been suggesting, while also keeping in mind that they are not alone in their beliefs.

In 2010 (cited by Hildyard), Goldman Sachs proclaimed that infrastructure is "one of the fastest growing alternative asset classes"[31]. Georg Inderest, in a 2010 EIB discussion paper,[32] traces the origins of this approach to Australia in the mid-1990s, where investment banks set up specialist infrastructure funds. Asset class momentum in this sector – driven by appetite from institutional investors such as insurance and pension funds – took off further, according to Inderest, following "a changed approach to asset allocation after the previous financial crisis of the early 2000s, when the tech shares bubble burst." Financialization as a cure to financialization-induced woes would appear to be a common, enduring theme.

As Inderest further relates: "The financial industry presented infrastructure as one of the new 'alternative' asset classes (alternative to mainstream equities and government bonds), expected to provide new sources of return and better diversification of risk. The main asset classes within alternatives are typically real estate, private equity, hedge funds, commodities and overlay structures."

29 https://www.g20.org/sites/default/files/g20_resources/library/Optimizing%20World%20Bank%20Group%20Resources%20and%20Supporting%20Infrastructure%20Financing.pdf

30 http://www.huffingtonpost.com/kevin-lu/world-bank-global-infrastructure-facility_b_4078840.html

31 Goldman Sachs Asset Management, A Pocket Guide to Infrastructure, 2010, available through: http://wwwqa.goldmansachs.com/gsam/uk/advisors/ideas/product/asset_classes_explained/index.print.html

32 http://www.eib.org/attachments/efs/eibpapers/eibpapers_2010_v15_n01_en.pdf

Inderest acknowledges this relatively new infrastructure investment environment as "an increasing, and sometimes confusing, variety of investment vehicles available for infrastructure assets".

In order to provide some clarity, Inderest explains "infrastructure as a new asset class" as typically referring to private equity type investments, predominantly via unlisted funds (i.e., not listed on any stock exchange); listed infrastructure funds; and direct or co-investments in (unlisted) infrastructure companies. Inderest covers other variants at some length.

Lu and Lin, meanwhile, take a clear position as would-be pioneers of fully defining, classifying and standardising infrastructure as a new asset class.[33] Without such understanding and acceptance of these new investment realities, they insist, "trillions of dollars of capital [that are] sitting with pension funds, insurance companies, sovereign wealth funds and other long-term investors" will not be invested.

What they outline is a six part plan that acknowledges the labyrinthine nature of infrastructure financing – all the complex interplay between public and private sectors, countless stakeholders and market interests alongside social interests. Ultimately they view the proposed World Bank Global Infrastructure Facility (GIF) as the vehicle that can bring order to this highly complex investment world: the GIF has the potential to become a kind of honest broker that can set out ground rules, provide knowledge and oversight and generally steer a sustainable path to – yes – more power, more clean water and sanitation, while also finding "a home for the trillions of dollars of patient capital that is currently hunting for yield".

In so doing, Lu and Lin talk nobly of infrastructure requiring "its own ecosystem of players, including in particular effective and specialized intermediaries", while recognising that currently the "intermediation of infrastructure transactions is highly fragmented".

They list out this fragmented terrain: "Private equity funds, project finance banks, merchant banks, financial advisors, legal advisors, multilaterals, project promoters, government line ministries, planning ministries, finance ministries, PPP centres and investment promotion agencies (just to name a few) are doing a small fraction of this work, resulting in chaotic and highly inefficient and costly intermediation."

This is an ambitious array of interest groups and entities, certain of whom are not especially known to be inclined towards regulation or, indeed, any form of control. Lu and Lin, however, sound confident that the GIF will be able to bring them to heel.

Yet it is surely reasonable to ask, is an equitable compromise between return on investment and real public benefit from eventual infrastructure delivery really possible under the auspices of the GIF?

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33 Huffington Post, 10 October 2010, To Finance the World's Infrastructure, We Need a New Asset Class http://www.huffingtonpost.com/kevin-lu/world-bank-global-infrastructure-facility_b_4078840.html

It is precisely this kind of proposed oversight role for a World Bank-led initiative that should be ringing alarm bells across civil society and the wider public. Noble intentions always accompany new World Bank initiatives and ventures, yet it has an extensive track record of private sector partiality, even outright favouritism, and there are no clear indications that this default setting at the institution has changed.

POST-CRISIS FINANCIALIZATION, AND ALTERNATIVES

One of the central assumptions of Lu and Lin's thesis, that permits them to sketch out a new world featuring a benign investment community that simply requires a small bit of public support to turn the investment tap on for infrastructure, is their downplaying of how risk-averse investors currently are.

A more realist assessment, backed by relevant capital and financial market data, is provided by Andrew Sheng, writing in September 2013.[34]

As Sheng records, one of the key ways of addressing the systemic crisis of 2008 was "to fight financialization by more financialization through quantitative easing". This is one aspect of the still ongoing post-crisis bail-out that has seen central banks in the US, the Eurozone, Japan and the UK print free money – but certainly not for the public, who could have put this kind of free money to productive use.

This has had major impacts on, among other things, interest rates. The banking sector may have been most evidently affected, post-crisis, in its ability to lend due to new regulations such as Basel III – such new regulations are demanding greater maintenance of banks' capital reserves, and thus their ability to lend to sectors such as infrastructure is being impaired. Yet, as Sheng notes, quantitative easing is also affecting other investment potential. It is, he writes, "corroding the long-term income of insurance and pension funds that are able to invest in long-term equity and assets, because their incomes have been reduced by low interest rates."[35]

Feeding the financialised beast with more of the same is keeping it alive, for sure, but it is worth quoting Sheng's data references in full to get a sense of the trouble that is being stored up:

"First, trading in foreign exchange markets averaged $5.3 trillion per day in April 2013, 60.6 per cent higher than $3.3 trillion in April 2007. Most of the trading is between financial institutions. For every $1 FX trade with a non-financial counterparty, there are $10 worth of trades between financial institutions.

Second, concentration in the financial sector is still increasing. The Financial Stability Board (FSB) data on the top 28 G-SIFIs or globally systemically significant financial institutions showed that their assets rose to $45.4 trillion or 63.3% of 2011 world GDP, compared with 47.7% in 2002.

34 Institute for new economic thinking, 19 September 2013, The end of financialisation http://ineteconomics.org/blog/institute/end-financialization

35 http://www.fungglobalinstitute.org/en/end-financialization

Third, FSB 2011 data also showed that half of global financial assets are with the banks, one quarter with shadow banking and 8 per cent with central banks. In other words, roughly 80 per cent of the financial system is financed with short-term liabilities, but the demand in the world for long-term mortgages, sovereign debt and infrastructure funding is rising."

How to get out of this monumental bind?

Sheng's article, entitled The End of 'Financialization' and which appeared in The China Post to mark the fifth anniversary of the collapse of Lehman Brothers, concludes, as many other mainstream and alternative economists now do, with a heartfelt call to rebalance: "moving away from short-termism towards long-term financing of the real economy, promoting the quality (not quantity) of assets that contribute to GDP growth, addressing social inequality by increasing access to financing (financial inclusion), and funding infrastructure development to sustain long-term growth."[36]

Rebalancing sounds almost straightforward and commonsensical. Yet the current weight of evidence suggests that the global investor community is not about to take a giant leap into addressing social inequality and social injustice without, at the very least, substantial public guarantees.

Equally, the well-intended proposal to switch attention to investment quality over quantity gets to the heart of a key debate that has hovered over public development finance for decades. Once again, making such a move is a lot easier said than done.

For instance, the climate crisis, by its very nature, presents opportunities for the tide to turn in favour of investment quality via the major public donors. But, as we shall see in the next chapter, even that open goal is being shot at in a compromised, very unconvincing manner.

36 Ibid

4. EUROPEAN DEVELOPMENT BANKS AND PRIVATE SECTOR PARTICIPATION: THE EXPLOSION OF INFRASTRUCTURE FINANCING

EUROPEAN DEVELOPMENT BANKS, CLOSELY RELATED TO THE PRIVATE BANKING SECTOR AND MULTINATIONALS

This chapter continues the survey of global infrastructure trends by focusing attention on the European infrastructure landscape via discussion of two important public banks, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). Taken together, both institutions now have truly global reach, and their impact outside Europe in terms of general approaches to investment as well as infrastructure financing will also be reflected.

The EBRD and the EIB belong in the global family of multi-lateral development banks (MDBs). If the World Bank is the long-established MDB father figure, the EBRD and the EIB sit alongside the African Development Bank and the Asian Development Bank at the family table, with the EIB – and its annual lending volumes of around €70 billion that now outstrip the World Bank – perhaps having the greatest aspirations of taking over the top seat at the table.

The two European MDBs work often in a fairly co-ordinated way, though differ in important ways. The EIB is, formally, the EU bank, with shareholders made up of the EU member states. It lends (in a variety of ways and not only across Europe but in all corners of the world) to both the public and private sector and raises its capital via its sovereign status that provides a firm guarantee from its member state shareholders to borrow and raise funding on the international capital markets, with almost half of its funding deriving from non-EU investors.[37]

Significantly smaller than the EIB both in lending volumes and country reach, the EBRD was set up to help foster the transition of the post-communist states to the market economy, via lending primarily to the private sector. The EBRD has recently expanded its mandate to support investments in Turkey and, following the various political changes that took place in 2011, the Middle East and North Africa region. Its shareholders, who provide the bank with basic capital via taxpayer-based contributions, extend to the US, Russia, Japan, Australia and EU member states, and it also raises capital through bond issuances on the capital markets.

As has been alluded to already, both banks are – and have been – deeply engaged in infrastructure financing, primarily in the energy, transport and municipal sectors, and have been facilitators – indeed promoters – of the evolving funding vehicles; including, as we shall see, PPPs and private equity. They are also closely connected to the private banking sector, spreading increasing funding support for projects and businesses via private bank intermediaries (see ‘intermediated lending’ below).

37 EIB Statistical report 2013, http://www.eib.org/infocentre/publications/all/statistical-report-2013.htm

Their close relation to the private banking sector has been seen most strikingly in the post-2008 crisis circumstances, where along with the World Bank they joined forces, in a highly coordinated programme known as the Vienna Initiative, to help ensure many private banks' continued presence, especially in Eastern Europe.[38]

The Vienna Initiative response, involving the mobilisation of approximately €33 billion, had to be quick, as the subsidiaries of a range of western European banks were facing the double impact of the western parents being crisis-struck in addition to the central and eastern European (CEE) region suffering the general economic backwash (or retrenchment) emanating from the initial credit crunch and the resultant Eurozone crisis.

The very nature of the EBRD's investment approach since its inception in 1991 has been mainly targeted at the private sector, an orientation that has begged many questions about the presence of the term 'development' in its name. While it does lend to native CEE businesses, the names and reputations of its western European beneficiaries over the years – not just a range of western private banks, but multinationals including the likes of Volkswagen, Arcelor Mittal, BP and Kaufland – have lead observers to question its fundamental development role.[39]

As the NGO Eurodad has noted, however, the EBRD's arrival on the MDB scene in the early 1990s did not in itself bring about what has been a major shift towards MDB private sector lending: "Between 1990 and 2000, 90% of loans disbursed by multilateral development banks (MDBs) went to the public sector – governments in charge of realising the infrastructure – with the rest to the private sector. Between 2000 and 2007, the same institutions began shifting their loans to large multinational corporations, in most cases companies headquartered in OECD countries. MDB loans to private companies went from $4 billion in 1990 to $40 billion by 2007."[40]

DEVELOPMENT BANKS, RELIANT ON INTERMEDIARY INSTITUTIONS TO PASS LOANS: A QUESTION OF TRANSPARENCY AND ACCOUNTABILITY

There has been a generalised shift in international development finance's targeting of projects and clients, and there are no signs as yet of a U-turn. A major element in this private sector turn of the MDBs has been their ramping up in recent years of investments to intermediary institutions, chiefly private banks but also – and bear in mind that these MDB funds bear a development stamp – the likes of private equity funds.

38 http://www.eib.org/projects/regions/vienna-initiative.htm

39 May 2014, CEE Bankwatch Network, "Stuck in the market? 25 years since the fall of the Berlin Wall: What now for the EBRD?" http://bankwatch.org/sites/default/files/EBRD-stuck-in-market.pdf

40 10 Eurodad, November 2010, "Development Diverted: How the International Finance Corporation fails to reach the poor" http://eurodad.org/4304/

Such trends pre-date the crisis. Yet, as noted above, the Vienna Initiative involving the EIB, the EBRD and the World Bank aimed to provide much-needed support to the crisis-hit banking sector. As is the nature of MDB intermediated financing, such lending is hailed as supporting the real economy – in official MDB announcements accompanying these loans to private financial bodies, you do not find the term bail-out.

The EBRD, the EIB (via its global loans model) and the International Finance Corporation (IFC – the World Bank's private lending arm) are increasingly reliant on intermediary institutions to select and pass on (MDB) loans to thousands of final beneficiaries, usually in the small- and medium-sized enterprises (SME) sector.[41]

Such lending taking place across the world is cloaked in commercial confidentiality even in spite of its described development purpose. The MDBs are not compelled to (and very rarely do) reveal publicly who the final beneficiaries are, or what they have been doing with the funding; nor do the intermediary institutions themselves, be they commercial banks, private equity firms or – one of the latest and most surprising entrants to the development finance world – hedge funds.

Doubts about these kinds of approaches to development finance have been growing. As Nick Hildyard points out: "An IFC review of its private equity portfolio has concluded that any correlation between high profits and wider positive development outcomes was relatively weak, and that the most pronounced impact of private equity investments was in improvements in private sector development, such as encouraging changes in the law favourable to the private sector. In effect, what is good for private equity is good for private equity – but not necessarily for the wider public."[42]

Moreover, a May 2011 report of the World Bank Independent Evaluation Group, Assessing IFC's Poverty Focus and Results[43], found that less than half of the projects reviewed (the IFC invests only in the private sector) were designed to deliver development outcomes, and just one third of the projects addressed market failures, such as enhancing access to markets or employment of the poor.

Equally, in November 2010, a report from the EBRD's Evaluation Department noted that the bank's SME credit line support, mobilised quickly in the wake of the September 2008 credit crunch (and not even part of the subsequent, similar Vienna Initiative efforts), "did not prevent the credit crunch, particularly for small businesses."[44]

41 http://www.brettonwoodsproject.org/2014/04/follow-the-money/

42 http://www.brettonwoodsproject.org/2012/07/art-570868/

43 http://ieg.worldbank.org/Data/reports/ifc_poverty_full_eval.pdf

44 The EBRD's response to the 2008-09 crisis', EBRD Special Study, November 2010 http://www.ebrd.com/downloads/about/evaluation/1011.pdf

Similar accusations have been levelled at the billions that the EIB has also committed to this kind of lending in recent years.

Beyond the basic lack of information and knowledge about what this public finance is doing, when it is further factored in that such intermediaries used by the MDBs can be – and often are – registered in offshore centres (i.e., tax havens), it is clear there are huge accountability and public interest concerns. While this branch of MDB lending may not be specifically labelled as infrastructure financing (the ultimate targets are generally said to be SMEs, whose activities of course may be infrastructure-related, though it is almost impossible to know for sure), it is nonetheless an indication of exactly how mired in financialization and the whole web of globalised finance the MDBs now are.

We have come a long way since the bread-and-butter project finance days. However, we now turn to more concrete MDB financialised infrastructure activities.

GAS STORAGE FACILITY
Wikipedia, by Ikar.us (CC-BY-2.0-DE) http://en.wikipedia.org/wiki/Storage_tank

PUBLIC-PRIVATE PARTNERSHIPS: PUBLIC BANKS PROMOTE PRIVATE SECTOR PARTICIPATION – WITH QUESTIONABLE RESULTS

In The Usual Suspects, one of modern cinema's most daring fraudsters and geniuses Verbal Kint chillingly refers of a criminal mastermind that "The greatest trick the devil ever pulled was convincing the world he didn't exist."

If public-private partnerships (PPPs), thanks to their poor record in delivering high quality, good value for money infrastructure, have taken on the mantle of modern-day economic devils, then the most astonishing thing is that their promoters do – very much – want to tell the world that they exist.

In fact, if their promoters have their way, they'll be existing a lot more in coming years – with new tricks being put together to further advance their use in infrastructure financing.

Seemingly oblivious to the warning signs coming from both actual PPP project performance or from critical assessments (including from the World Bank and others), there appears to be no end to conferences – very often with MDB staff present as speakers – discussing and promoting the merits of new PPPs. The beleaguered investment vehicle has likewise featured in the former European Commission president Barroso's Vision of Europe for the next five years.[45] And, as discussed already, PPPs are central to the World Bank's overall new strategy and infrastructure intentions.

The EBRD may have recently decided to pull out of the financing of a controversial $3.7 billion PPP refinery expansion project in Egypt.[46] Yet the IFC has recently described Africa's PPP potential in its quarterly PPP journal Handshake in glowing terms: "Africa is an obvious PPP opportunity-in-waiting – the continent boasts high demand, global goodwill, and strong government support. Money seems freely available."[47]

45 http://ec.europa.eu/commission_2010-2014/president/about/political/

46 http://bankwatch.org/bwmail/56/mounting-violations-cairo-refinery-project-seeking-ebrd-finance

47 http://www.ifc.org/wps/wcm/connect/c02c5f0041a5901c97d9b78d8e2dafd4/Handshake_Issue11_WEB.pdf?MOD=AJPERES

PUBLIC-PRIVATE PARTNERSHIPS – NOT SHY ABOUT 'CREAMING' EUROPE

It must have seemed like a good idea at the time. C.R.E.A.M. Europe, a Europe-wide initiative to promote public-private partnerships (PPPs), was launched in 2009, presumably having been planned already pre-September 2008.[48]

C.R.E.A.M. stands for the rather unwieldy 'Community Realization European Aid Masterplan', but the thinking must have been – "Yes, we can make PPPs the cream of the project world in Europe." However, as the Oxford English Dictionary reminds, one common usage of 'cream' is the following: "To cream somebody – to take something away, usually the best people or things or an amount of money, in order to get an advantage for yourself."

It can be justifiably stated that this is PPPs in a nutshell – an aggressively promoted infrastructure financing model, with strongly touted benefits, which has resulted in a lot of money being taken from the public purse.

The list of failed PPP projects is legion, particularly in their spiritual home of the UK, where most such projects have been carried out since the early 1990s and where, in recent years, parliamentary scrutiny of their use has been strongly critical, if not damning.

Most notorious have been a string of UK hospital PPPs,[49] the London Underground PPP[50] and a project to widen the M25 motorway.[51] Problems identified with these schemes – the London Underground PPP was finally scrapped – include decline in service provision and major additional financial burdens for taxpayers.

A range of other problematic PPP projects have also materialised elsewhere in Europe.[52]

Criticism of PPP is widespread – in the last year the Czech national security service has also weighed in to the debate around them, warning that "the concept of PPP in its current form, though promoted as an advantageous alternative for public service provision, does not provide a reliable basis for advancing public interests."[53]

The EIB meanwhile continues to house in its Luxembourg headquarters and be a sponsor of the European PPP Expertise Centre.[54] Established in 2010, like C.R.E.A.M. Europe this organisation thus came into being during the crisis.

48 http://www.cream-europe.eu/en/index.php

49 http://bankwatch.org/public-private-partnerships/case-studies/uk-hospital-ppps

50 http://bankwatch.org/public-private-partnerships/case-studies/london-underground-ppp

51 http://bankwatch.org/public-private-partnerships/case-studies/m25-widening-uk

52 http://bankwatch.org/public-private-partnerships/case-studies

53 http://www.bis.cz/n/ar2012en.pdf

54 http://www.eib.org/epec/

Although notoriously complex, broadly speaking, PPPs involve a private company raising money for an investment, and then recouping that investment by operating the asset over a long period, and either charging users – a concession-style PPP – or receiving payments from a national or local government.

The key attraction of PPPs for governments has been that the finance can be counted as private borrowing by the companies, thus not appearing as extra government borrowing. The key attraction, meanwhile, for companies is a stream of payments guaranteed by governments for periods of 20 years or more.

The MDBs promote PPPs around the world not only by making direct equity and loan investments into PPP projects, but also by making private sector participation part of otherwise public projects and by using their advisory capacity to promote private sector participation.

As the table of European PPP deals illustrates below, while the UK, Spain and France have been the dominant PPP countries since 1990, there has been a major drop-off in their use in recent years, principally as a result of the 2008 crisis.

Following what Georg Inderest describes as the best years for PPPs[55] (2005 to 2008, closely mirroring the boom time on the capital markets and the ballooning state of the shadow banking system), PriceWaterhouse-Coopers by December 2008 was describing the short-term prospects for PPPs as grim: "Few [PPP] deals will close. Many have already been put on ice … Bank debt is simply insufficient, and inefficient, as a source of long term finance … It is a naïve notion to expect the markets to revert to the low pricing obtained in the first half of 2007. Such conditions are unlikely to be seen again."[56]

Notably, according to Kappeler (2011), the EIB stepped up its involvement in EU PPP deals to 17% and 18% in 2009 and 2010, precisely as the downturn effects of the economic crisis were at their worst, yet there was little impact in the general declining PPP arena.[57]

55 http://www.eib.org/attachments/efs/economics_working_paper_2013_02_en.pdf

56 https://www.pwc.com/cz/en/verejna-sprava-zdravotnictvi/infrastructure-finance-surviving-the-credit-crunch.pdf

57 http://www.eib.org/attachments/efs/econ_note_2012_ppp_and_financing_in_europe_en.pdf

EU PUBLIC-PRIVATE PARTNERSHIP

1990-2012		%	2011		2012	
Total EU	308	100%	17.9	100%	11.7	100%
E bn						
UK	141	46%	3.2	18%	5.7	49%
Spain	34	11%	0.3	2%	0.2	2%
France	32	10%	11.0	61%	3.9	33%
Portugal	21	7%	0	0%	0.1	1%
Greece	14	5%	0	0%	0.1	1%
Germany	11	4%	1.3	7%	0.2	2%
Italy	11	3%	0.9	5%	0.2	2%
Belgium	6	2%	0.7	4%	0.2	2%
Netherlands	7	2%	0	0%	0.9	8%
Other EU	32	10%	0.5	3%	0.3	3%

Source: Kappeler (2011), EPEC (2012, 2013) ('Private Infrastructure Finance and Investment in Europe', EIB Working Paper 2013/02)

The ability of private investors to raise capital was thus seriously impacted. According to Franco Bassanini, the chairman of Italy's public bank, "Before the crisis, the European banking system financed around two thirds of the debt share of the project financing initiatives worldwide. The long term institutional investors (LTIs – pension funds etc) backed around 40% of the long term bank financing. Since the beginning of the crisis this picture has been changing. In the last quarter of 2011, loans for project financing dropped by 39% for the so called weaker EU banks and by 18.3% for other EU lenders, according to recent BIS (Bank for International Settlements) data."[58]

For the PPP sphere, this was compounded by inflicted austerity measures that restricted – or simply wiped out – national treasuries' abilities to provide the necessary public incentives for PPP schemes. Besides, many national governments had to bail out the banks, and public life-support for the private sector had become one of the defining, and dynamite, issues du jour across the developed world.

By spring 2012, and recognising the ongoing "difficult market conditions"[59], the EBRD was still advocating a familiar muddle-through approach to PPPs.

58 http://www.ltic.org/IMG/pdf/SPEECH_F_Bassanini_LTIC_Luxembourg_Conference.pdf

59 http://www.bis.cz/n/ar2012en.pdf

In essence, the bank seemed to be saying: yes, there are problems with PPPs, but we would still like to see them being developed "in all EBRD countries of operations" (see 'EBRD approach to PPPs continues to perplex', May 14, 2012).[60]

Meanwhile, however, at the highest European level, a new variation of PPP had been in the planning and was being prepared for action.

THE LIMITS OF PUBLIC INVESTMENTS IN GREEN INITIATIVES

Despite a welter of pro-stimulus, pro-growth policy announcements in the wake of Lehman Brothers collapse in September 2008 and the initial frenzied taxpayer-led rescue of the financial sector, the European and wider global economy was still in the doldrums. European stimulus efforts were being distracted additionally by the monthly fire-fighting initiatives required to deal with the Eurozone crisis.

A suggested stimulus measure, floated by some from the outset of the crisis, and designed to link with the urgent need to scale up green infrastructure in order to fight climate change and attempt to meet a growing range – especially in Europe – of specific climate targets such as those for energy efficiency and renewable energy use, was increased investments in green energy initiatives.

"State-led green infrastructure investments," suggested Bankwatch's Bubbling under the surface report, "into existing low-emissions mass transit projects, coordinated energy research, shovel-ready renewable energy generation, and building insulation and energy efficiency can be motivated very effectively on the basis of their short- and long-term economic stimulus effects."[61] A clear win-win-win, for the environment, for the wallets of suffering citizens and for the wider economy.

Suffice to say, the opportunity was not taken in any meaningful, ambitious way; other emergency distractions certainly got in the way, overall political will – mirrored by the absurd theatrics of the ongoing, fruitless UN climate negotiations – was lacking, and in the MDB realm there was evidence that the green agenda linked to stimulus requirements was rather being hijacked to disguise the MDBs' unstated bail-out function.

Emergency credit lines to western banks such as UniCredit operating in various Eastern Europe countries would be described as energy efficiency loans, with little or no chance to verify such had been delivered.

The EIB, as part of its immediate crisis response, launched the European Clean Transport Facility[62] that saw €7 billion go to a string of EU carmakers such as BMW, Renault and Daimler for greening activities that campaigners believed should already have been taking place and that thus, too, had the smell of bail-out for the crisis-embattled car industry. To put this into

60 http://bankwatch.org/bwmail/52/ebrd-approach-ppps-continues-perplex

61 http://bankwatch.org/documents/Bubbling_under_the_surface.pdf

62 http://www.counterbalance-eib.org/?p=301

context, and to compare with the scale and direction of the financial innovation being proposed and realised now by the European Commission and the EIB for European energy infrastructure, Green MEP Claude Turmes has identified several green energy programmes backed by the MDBs and others in Europe that "have leveraged since 2010, €518 million from €112 million of EU grant support."[63]

A selection of financial instruments have received public finance to leverage energy efficiency initiatives in Europe's industrial and business sectors, yet this is merely small change given the continent's energy efficiency investment requirements. More promisingly, perhaps, around €23 billion is being earmarked for energy efficiency in the 2014-2020 EU budget.[64] Yet these financial figures pale in comparison to what is being financially engineered, much more intensively, for the delivery of a grand mélange of predominantly carbon-intensive EU energy and transport infrastructure projects.

EU PROJECT BONDS: A MECHANISM DESIGNED NOT TO FAIL THE PRIVATE SECTOR

The following section draws substantially on already published analysis from Gerebizza and Tricarico of Re:Common as to how the European Commission, with the EIB very much by its side, hopes to meet the estimated €2 trillion infrastructure price tag attached to a variety of Europe 2020 objectives. These objectives cover the transport, energy and information and communication technology sectors (for full technical exegesis of the new funding model in question, it is recommended to refer to the Re:Common paper in full).[65]

The Connecting Europe Facility (CEF) aims to finance the continent's infrastructure that will build the backbone of Europe in energy, transport and digital data transmission. This, according to the Commission, will make Europe "more green, reduce energy dependency and complete the construction of the internal market."[66]

The CEF, part of the EU's budget programme for the 2014-2020 period, has been quite drastically shrunk in the course of recent protracted EU budget negotiations, and now must aim just some of its rather limited €5.1 billion war chest at a bewildering array of nearly 250 very large energy projects, recently confirmed and announced by the Commission in its list of 'Projects of Common Interest' (PCI).[67]

63 Cited in 'Connecting Europe Facility Energy (CEF): an instrument to leverage money from long term investors for energy efficiency, renewables and smart electricity networks' - Input prepared by Claude Turmes, available at http://www.astrid-online.it/Clima--ene/Note-e-con/CEF-paper-Claude-Turmes.pdf

64 http://www.euractiv.com/energy/van-rompuy-flags-buildings-effic-news-530945

65 http://www.counter-balance.org/wp-content/uploads/2013/06/Infrastructure-briefingOK.pdf

66 https://ec.europa.eu/digital-agenda/en/news/connecting-europe-facility-programme-brochure

67 http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm

Dominating this list are infrastructure projects aimed at increasing the EU's external reliance on fossil fuel (chiefly gas, but including oil too) and providing the necessary means to distribute the carbon-intensive energy around the bloc. Clean energy projects are few and far between on the PCI list, though reduced CO^2 emissions is one of the criteria cited by the Commission in its project selection.

INTERACTIVE MAP OF PROJECTS OF COMMON INTERESTS (PCI)

European Commission, 2013
http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm

As Gerebizza and Tricarico point out: "This infrastructure will lock the European economy into an old economic model of production and trade for the next fifty to one hundred years, a model that is neither green nor transformative."[68]

Beyond CEF financing for these EU priority projects, but also in tandem with it, in October 2011, the Commission presented its Europe 2020 Project Bond initiative as one of the risk sharing instruments to support the CEF in mobilising private capital for infrastructure investment. Further, in June 2012, the EIB launched the Europe 2020 Project Bond pilot phase,[69] with available funding of €230 million from the EU budget in order to mobilise up to €4.6 billion through the sale of project bonds on capital markets to private and institutional investors.

68 http://www.counter-balance.org/wp-content/uploads/2013/06/Infrastructure-briefingOK.pdf

69 http://ec.europa.eu/economy_finance/financial_operations/investment/europe_2020/index_en.htm

According to Gerebizza and Tricarico: "Projects eligible for the [Project Bond] pilot phase include those that are not attractive for institutional investors because of financial and economic risks that cannot be covered through monoline insurances, [a form of insurance vital for guaranteeing companies or institutions issuing bonds] which have dried up since the 2008 crisis. Between 2005 and 2007 project bonds issued in Europe included a substantial contribution from monoline-wrapped bond issuance for PFI/PPP projects. Since 2007, the issuance of project bonds in Europe has been minimal."[70]

The eight projects unveiled to date by the EIB in line for this new, innovative Project Bond treatment amount to four motorway projects, two gas storage projects, and two projects involving grid connections to offshore wind farms in Germany and the UK[71] (we shall see how the first executed Project Bond project, a Spanish gas storage project, has fared in the next chapter).

Already there is said to be concern within the EIB about the merits and value of the pilot projects, and – notably – related legislation holds out the possibility that the PCI projects could also be funded under the new Project Bonds scheme.

But what do Project Bonds practically involve, and what risks are involved? And for whom, and why?

To summarise the Commission's and EIB rationale for the Project Bond Initiative,[72] and keep in mind its relation to an EU-wide Compact on Jobs and Growth agreed by EU states in 2012, the initiative is the European institution's response to attract institutional investors (such as pension funds and investment funds) into large infrastructure financing through the credit enhancement of involved constructing consortium, and improving the rating of bonds directly linked to the infrastructure financed.

A translation of this, provided by Gerebizza and Tricarico, is: "The objective of the initiative is to widen access to sources of finance and minimise funding costs' for the private actors engaged in large infrastructure construction."

This is precisely the same type of incentivising that, as noted above, the Inter-American Development Bank is now intending to proceed with to boost infrastructure investments in Latin America. Such trends are global in nature.

70 http://www.counter-balance.org/wp-content/uploads/2013/06/Infrastructure-briefingOK.pdf

71 http://ec.europa.eu/economy_finance/financial_operations/investment/europe_2020/index_en.htm

72 http://www.epc.eu/events_rep_details.php?cat_id=6&pub_id=3090

Effectively, the commission and the EIB are guaranteeing project bonds, with public money, to attract hard-to-move, risk averse capital and thus facilitate private investment that cannot otherwise happen due to the market and risk constraints being felt – still – by the majority of private enterprises. According to Gerebizza and Tricarico, "With the Project Bond Initiative, the Commission and the EIB have chosen to incentivise the expansion of financial markets and to use public funds – European taxpayers' money – to transform infrastructure into an asset class."

They further cite an EIB staffer as confirming this approach, with emphasis given to the need for more PPPs in the EU, and the role that project bonds can play: "Tapping into the capital markets, and especially into pension funds, is the key game changer we need to achieve."

Claude Turmes also refers to the potential of pension funds: "Interesting developments such as in Denmark, where pension funds are entering the offshore wind business, show that there is a lot of potential to bring long-term investors into financing renewable energy projects."

As we will now turn toward, if genuinely clean energy is to seek and attain the investment muscle of power institutional investors such as pension funds, there are already lessons to be learned from the neo-PPP model that is the EU's Project Bond Initiative.

5. A CASE STUDY: THE EU PROJECT BOND INITIATIVE AND IT AND ITS RISKS FOR THE PUBLIC PURSE

The Project Bond Initiative was the EIB and Commission's response to attract institutional investors (such as pension and investment funds) into large infrastructure financing through 'credit enhancement' of the constructing consortium and 'improving the rating of bonds' directly linked to the infrastructure financed.

Public funds will be used to improve the solvency of both companies and projects by allowing constructors to improve their access to credit for the financing of planned or proposed projects. Institutional investors like pension and investment funds as well as municipalities, companies and private banks would all channel their funds into such projects. The Project Bond Initiative defines a framework where public intervention allows for the separation of the debt of the project company or consortium into senior and subordinated tranches. The EIB then "provides a subordinated tranche, or facility, to enhance the credit quality of the Senior bonds, and therefore increase their credit rating"[73].

This intervention is instrumental in making infrastructure functional to the expansion of financial markets and is not being done in the interest of citizens even though the latter will pay the bill in case anything goes wrong. Paradoxically this public intervention might likely limit the future economic and social freedom of citizens. Indeed if public-private partnership (PPPs) infrastructure does not repay itself – for instance when the financial plan may have been based on an incorrect calculation of the project's capacity to repay itself or on an inaccurate projection of costs and benefits – a debt is generated that falls back on the public in the future.

We will now turn to the first project which has been supported under the initiative, the Castor Project in Spain. This chapter will provide a short case study of the project – where it stands currently, who has benefited, and who is losing.

THE CASTOR UNDERGROUND GAS STORAGE PLANT (SPAIN)

It was not supposed to be like this. In July of 2013 year, the European Investment Bank and the European Commission hailed the first project to be financed under the Europe 2020 Project Bond Initiative. The honour of being the first such pioneering investment fell to the €1.7 billion Castor underground gas storage plant off Spain's Mediterranean coast.

Welcoming the deal, European Commission vice-president Olli Rehn noted that "The project bond initiative is an innovative way to unlock private investment in infrastructure and a key element in helping to boost growth and jobs."[74]

73 http://www.eib.org/attachments/documents/project_bonds_guide_en.pdf

74 europa.eu/rapid/press-release_BEI-13-117_en.doc

Work at the €1.7 billion Castor underground gas storage plant off the coast of Valencia commenced in summer 2013. But by mid-September the Spanish government was forced to halt work at the plant after 220 mini earthquakes in the area had been detected in less than a month. Local residents reported the tremors following injections of natural gas to prepare Castor for use.

Work at the site has not since restarted and will most likely be halted for good. According to a clause in the project's contract, the Spanish government was forced to take responsibility away from the project's developer for the repayment of the €1.4 billion bonds that were used to finance the Castor project.

The Spanish government appointed gas grid operator Enagas to reach an agreement with a group of banks to repay concession-holder Escal UGS. This is an attempt to avoid that the €1.4 billion would count against the already high public deficit at a time of austerity measures in Spain (the amount may increase to €1.7 billion if financial costs and interests are included). The banks refinancing the debt would be compensated through future revenues from Enagas.

What was supposed to be a driver for growth turned out to be a driver for debt. In the end the cost of this financial fiasco will be borne by the Spanish citizens through their gas bills.

LESSONS LEARNED FROM THE CASTOR PROJECT BONDS

The Castor project, on the planners' table for some years now, had simply not been an affordable investment for Spain to progress with due to the acute economic problems the country has faced as a result of the economic crisis and subsequent Eurozone crisis, Spain being one of the EU member states to be most heavily affected by both.

The Project Bonds Initiative was thus deemed to be an investment solution – a magic bullet – for the Castor project, another form of supposedly beneficial financial engineering. The issue, as the EIB maintains, has not been the financing mechanism as such – the pilot phase of the Project Bond Initiative will continue (see below), the EIB insists.

However, as mini-disaster has struck the project, the negative consequences – and risks to the public purse – of the project bonds mechanism, and the investment it helped to catalyse, appear to be becoming apparent.

Major projects can, and often do, go wrong, for a variety of reasons. The project bonds approach does not appear to be set up to insulate unsuspecting Spanish and European taxpayers from picking up the bill for an ill-conceived and badly executed example of fossil fuel infrastructure development. If anything the reverse is true: the balance of financial risk is firmly weighted towards first of all encouraging and, if necessary, protecting private sector project promoters.

While the EIB has sought to deflect attention, not to mention responsibility, away from the Project Bonds Initiative, in this case it is unarguable that the presence and issuance of project bonds made the Castor project viable, however briefly.

THE EUROPEAN INVESTMENT BANK PRESSES ON WITH THE PROJECT BOND INITIATIVE

In spite of the Castor debacle, the EIB's project bonds pilot phase has continued, playing a key funding role in a UK offshore wind project signed off in late 2013,[75] and in spring 2014 being central to the new 12 kilometre A11 motorway link between the Belgian port of Zeebrugge and the European motorway network – "the first greenfield PPP in Europe to benefit from the EC-EIB Project Bond Initiative," according to the EIB.[76]

The wider finance sector, too, appears to be fully signed up to the EIB's Project Bond Initiative, if an investment note from Deutsche Bank in spring 2014 is anything to go by.[77] Deutsche Bank, like many of its competitors, is participating – and looking to be further involved – in the kinds of multiple investor infrastructure projects that project bonds, in the jargon, are designed to anchor. The German bank does not, though, appear to have been involved in the Castor project, which its note refers to – remarkably – as "a successful refinancing of a gas storage deal in Spain."[78]

However, the Deutsche Bank investment note gets to the heart of what project bonds are all about: "...project bonds have been used to refinance existing bank debt … Another sign of shifting sentiment is that investors, who no longer have the guarantee of monoline insurers, are prepared to take on construction risk."

Such a frank assessment of the golden opportunity now being established for private sector investors and project promoters invites the observation that they would be foolish not to be optimistic – what's not to like about project bonds?

75 http://www.eib.org/infocentre/press/releases/all/2013/2013-204-institutional-investor-support-for-greater-gabbard-offshore-transmission-link-encouraged-by-first-use-of-project-bond-credit-enhancement-scheme-in-uk.htm

76 http://www.eib.org/infocentre/press/releases/all/2014/2014-066-eib-backs-a11-belgian-motorway-link.htm

77 http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000320937/Project+Bond+Initiative%3A+Project+selection+the+key+to+success.pdf

78 Ibid

OFFSHORE WIND FARM IN THE UK (ROBIN RIGG WIND FARM)
Geograph, Creative Commons, by Walter Baxter

Deutsche Bank's conclusion is worth quoting in full:

"While all of these factors suggest renewed interest in infrastructure investment, at present, investor demand is outstripping the supply of projects. Long-term investors are eager to match long term assets and liabilities and have the resources to get involved in project bonds, but the infrastructure pipeline is not flowing fast enough, perhaps because of the period of retrenchment inflicted upon European governments over the past few years.

So far, project bond transactions have been relatively modest in size, but once confidence is fully restored and the European Union becomes more stable, over a longer period, more substantial transactions are likely to become commonplace. How they appeal to investors will depend on the quality of the project, but at the moment, cautious optimism for the future of project bonds is very much the order of the day."[79]

One immediate conclusion to be drawn while we await a rush of these 'quality' projects is that EIB-backed project bonds, given the extent to which they are set up to not only favour but also cushion major investors, may well – in the short-term –provoke enthusiasm for just about any old project that the EIB opts to favour and prioritise.

And there are a lot of such projects – many of them deeply questionable – out there, as the Castor project and others on Europe's Projects of Common Interest list demonstrate.

79 Ibid

6. ALTERNATIVE APPROACHES TO DEVELOPMENT FINANCE AND SOME CONCLUSIONS

"To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society … Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted, military safety jeopardised, the power to produce food and raw materials destroyed...".
The Great Transformation, Karl Polanyi (1944)

"Last but not least, a reminder of an important fact that is often confused in the public debate. Whatever form of (intermediate) financing of infrastructure, it is ultimately not paid by the financiers but by the users or taxpayers."
Private Infrastructure Finance and Investment in Europe, Georg Inderst (EIB Working Papers, 2013)

DEVELOPMENT FINANCE CREATES COMMUNITY UNREST

'Follow the money' was a once voguish term, said to have been popularised by the 1970s conspiracy thriller All the President's men about the journalistic investigation into the Nixon-era Watergate scandal in early seventies America.

If you could locate the money sources driving or directly financing questionable behaviour, then you stood a good chance of identifying the perpetrators and ultimately taking action against egregious activities, schemes or plots.

What should be very apparent, even to the casual observer of news reports these past few years, is that following the money is a next to impossible task in the financial labyrinth that we now live in. And now, moreover, 'We are the money'.

Our small, medium or large scale credit card debts can all be, in their separate ways, transformed by specialised algorithms or computer programmes into assets for other parties. Our pension contributions – should we have the option to choose our pension providers prudently, even ethically – could, very easily, end up advancing the business interests of companies whose products and whose bottom line contribute to reducing life expectancy, possibly our own, or possibly that of people living in faraway places.

Such is the nature and defining characteristic of the elaborate, contemporary, globalised financial system.

Moreover, while you can hope to get a whiff of where certain money trails are at least said to be going, and attempt to build up a picture of certain trends, there is enough complexity now in the system to make close investigations of, for example, potentially unjust or illegal investments little more than educated guesswork, unless of course someone – a whistle-blower – reveals all.

For individuals and communities affected by major investment projects, and for organisations seeking to inform and support them, the follow the money approach is steadily becoming redundant as financial complexity rises. It is becoming more like a well-intentioned, 'do something' gesture in reaction to the latest multi-million/billion headline figures being pumped out by the PR departments of governmental organisations, international aid bodies or infrastructure promoters.

An alternative approach, though, offers the possibility to uncover what is taking place, to attempt to shift the debate on economic matters including infrastructure provision onto terms and aspirations related to quality and social and environmental equity: listen out for who is set to benefit from the latest financial scheme, the latest new economic programme, the most cutting-edge approach to infrastructure delivery.

Take the Project Bonds Initiative discussed above, hailed – naturally – by the likes of former European Commission vice-president Olli Rehn as being a vital tool to enhance social and economic benefits for the European economy and all who live in it.

We have also dwelt on the poverty defence (or you might call it a poverty offensive): billions of people around the world still languish in poverty, with a lack of decent, basic amenities and heavily restricted access to resources. The next big project – or wave of projects – is going to fix that, they and we are told. This can be thought of as the new unique selling point of such schemes that are being propelled forward by development finance, an attribution attached to finance that increasingly seeks to put it beyond scrutiny by dint of the benevolent sounding name itself.

And all of this despite the thousands of large-scale, even mega-projects that have been designed, for decades now, precisely to have delivered the very effect that continues to be touted. Despite the positive impacts proponents of development finance insist that it has had, there appears to be no let-up in the 'development' of development finance. As this report has outlined, the form of development finance is equally taking on new shapes – shapes that undoubtedly resemble and are following wider finance trends.

Clearly, and at the same time, increasing numbers of the development finance 'beneficiaries' have had enough of development in their name. This dissent has been seen most notably in the regular outbreaks of community unrest against MDB-sponsored projects in Latin America, or the 'Arab Spring', in large part inspired by MDB policy programmes which agreed with dictatorships that exacerbated poverty over the last thirty years.

With a new wave of large infrastructure development now being lined up in the developed world (in the context of this report, principally in Europe and surrounding regions) in the name of growth, connectivity and social improvement, how will affected people react, especially when they become aware that these new paths to advancement now on offer will involve them paying for it above and beyond their current taxes and outgoing domestic expenditures? How will they – and can they – respond?

LEARNING FROM THE PAST, LEARNING FROM THOSE IN DEEP POVERTY – AND CHANGING THINGS TOGETHER

Two related infographics from International Rivers' 2012 report Infrastructure for Whom?[80] capture both the potential of, and the challenges to, doing things differently.

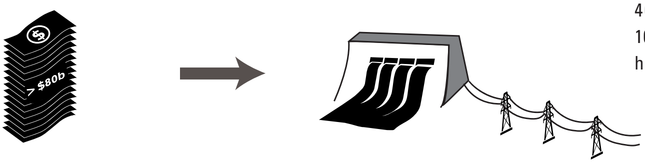
The top sections of both graphics, naturally, refer to what have been and still are the top-down, big solutions being pushed by major public purse-holders such as the MDBs.

The contrast is also testament to another abiding concern related to the DNA of these institutions, one that stands apart from, though is still related to, their corporatised, private sector-geared modus operandi: quite simply, and it is a reflection of their internal cultures, they are set up and encouraged to do big.

Ironically, as we have seen, their institutional investment means for doing small insist on an increasing and barely accountable range of private sector entities via intermediated lending. In MDB-land, small is not beautiful – it is an opportunity to concentrate private investments further.

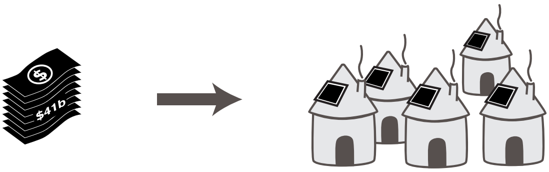
WHAT WOULD $80 BILLION BUY?

Cost of Grand Inga Dam on the Congo River and associated transmission lines: at least $80 billion



40,000 megawatts,
16,000 kilometers of
high-voltage transmission lines

Cost of improving energy access to hundreds of millions of people: $41 billion

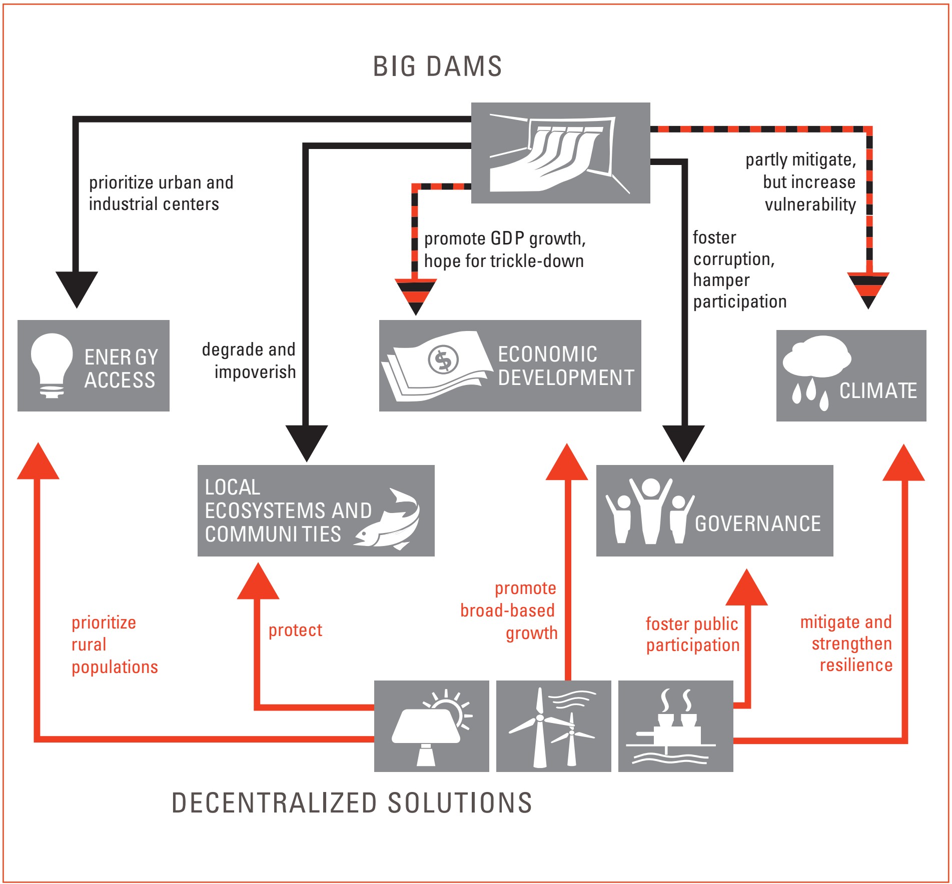


Electricity access for
79 million people,
improved cooking stoves
for 200 million people

Sources: World Energy Council, International Energy Agency
From: 'Infrastructure for whom?', International Rivers, 2012
http://www.internationalrivers.org/files/attached-files/infrastructure_for_whom_report.pdf

80 http://www.internationalrivers.org/resources/infrastructure-for-whom-7454

TWO MODELS OF INFRASTRUCTURE DEVELOPMENT



Source/Rights: International Rivers
From: Ibid

Out in the real world though (in Africa, for instance), roughly 600 million people continue to lack access to electricity. It is unlikely that many will end up being served by the massive dams, coal power plants and even the vast solar farms being proposed by the world powers – in the name of development – as the transmission lines from central power stations to local communities would be impractical, not be cost-effective, or be pointed at industry either inside or outside the country from where power is being generated. The International Energy Agency suggests that 70% of the world's non-electrified areas are best served through mini-grids or off-grid solutions.

As International Rivers relates too:

"Most rural Africans live closer to a river than to the electric grid. Through preliminary research, the Joint Research Centre of the European Commission found that nearly 30% of Africa's population lives in areas where mini-grids based on mini hydropower projects are the cheapest source of electricity. In less water-rich regions such as the Sahel, Botswana and Namibia, solar photovoltaic will be the cheapest source of electricity. In specific locations, wind or geothermal energy may be cheapest. Based on six country case studies, a report by Christian Aid also found that 'geothermal, small-scale hydro, solar, wind, tidal and local biomass fuels, including agriculture wastes, all offer significant potential for delivering both basic needs and for unlocking economic growth."[81]

Yet how do you fund all of this? One proposal offered by International Rivers involves, in the African scenario, "Public guarantee schemes, technical assistance programs and a shift of tax cuts and other incentives from centralized power plants to renewable off-grid solutions [that] could help jumpstart self-sustaining markets for renewable energy technologies."[82]

BEYOND PUBLIC-PRIVATE PARTNERSHIPS

Another broad, alternative approach, related to the PPP model for infrastructure investing and provision that, despite all its failings shows no sign of becoming extinct, is also worthy of scrutiny. Not surprisingly, this approach has emerged in reaction to privatisation trends (including PPPs) in the water sectors of both developed and developing countries that have had tangible, detrimental effects for the public, including higher prices for poorer service.

A different, more equitable form of partnership called 'public-public partnership' (or PUP) is workable and happening in the global North and South – and the advantages are being recognised by the European Commission and the United Nations.

As described by the NGO Food and Water Europe, PUPs "bring together public officials, workers and communities to provide better service for all users more efficiently", and "allow two or more public water utilities or non-governmental organisations to join forces and leverage their shared capacities."[83] The bottom line of PUPs, says Food and Water Europe, is that there is no bottom line in the conventional sense of profit-making and maximisation – no PUP partner can generate a profit through the partnership, and the social profit generated is greater "efficiency, efficacy and equity".[84]

81 Ibid

82 Ibid

83 http://ec.europa.eu/economy_finance/financial_operations/investment/europe_2020/index_en.htm

84 'Public-Public Partnerships – An alternative model to leverage the capacity of municipal water utilities', Food & Water Europe, 2012
http://documents.foodandwaterwatch.org/doc/WaterPUPs.pdf

The background to PUPs, only now in existence for the last ten years and spreading, is the twinning principle of the post-World War 2 period, where cities twinned up to build and encourage business and cultural links. While this within state model is continuing, Food and Water Europe also point to the cross-border potential of PUPs: "Developmental PUPs typically partner water providers in the Global South with water providers, unions or non-governmental organizations in industrialized countries. These partnerships strengthen developing-country water utilities as industrialized partners invest resources and expertise without extracting profits."

Surveys and analyses, conducted by the European Parliament among others, have shown PUPs to outperform PPPs. The European Commission has also seen fit to allocate €40 million in 2010 for the establishment of non-profit water and sanitation sector PUPs in African, Caribbean and Pacific Island countries. Food and Water Europe and other groups are urging the expansion of such grants to other regions.

THE WAYS OUT OF CRISIS AND THE TYPES OF INFRASTRUCTURE THAT WE WANT

What is undoubtedly most alarming when looking back on the actions taken, and surveying the big strategies that have emerged, following the global economic crisis triggered in 2008, is that for many there was hope and optimism that it was a 'Never again' moment.

As this report has described, though, while global capitalism and its financialised artery system was on its knees, the intervening years appear like a stage show, where the costumes have been replaced, the stage hands are back working away and the actors have remembered their old lines. The performance is back on, the beast has been awoken, and it is going for broke.

As neatly summed up by the economist Costas Lapavitsas, this is being underwritten by us, the public: "First, public funds were injected into banks to boost capital. Second, public liquidity was made available to banks to sustain their operations. Third, public interest rates were driven to zero to enable banks to make secure profits by lending to their own customers at higher rates."[85]

At the same time, areas of life that we hadn't fully realised were being monetised and commodified were in fact revealed as such. Yet the push goes on, from the classroom and outwards, for instance, into the natural world, where there are growing initiatives to put a price on every cell living and breathing, even as more voluble, critical debate and attention is being stirred around age-old rights such as the natural commons.

The same is true of infrastructure. The bricks, mortar, steel and fibre optic cabling involved in our everyday infrastructure may not live and breathe, and may already be commodities, but a new, reinvigorated seizure, pricing and control of them is now under way. For most of us living and breathing, control of them seems as remote as ever. Yet we are being told that this is for

85 http://www.theguardian.com/commentisfree/2014/jan/01/finance-hold-everyday-life-broken-capitalism

our benefit, that with a cursory nod to Keynesian stimulus notions, this has to happen, if we are to achieve economic recovery and get back on the trail of progress.

What options do we have if we are to get the things built that need to be built, and not be beholden to the market and its often conflicting imperatives? Back to basics with traditional procurement methods?

National governments, despite what we are being told repeatedly and is being cemented further in Europe-wide agreements such as the Fiscal Compact, which seeks to keep member state budgets under even tighter control, are not households – they can borrow to raise finance, issue construction contracts and then operate infrastructure facilities, for the public, by the public.

However, as Hildyard notes, these arguments are very much contested – and there are deeper obstacles:

"Governments argue that the sheer size of the infrastructure gap, coupled with the lack of government funds due to the huge costs of bailing out or propping up the banks in the wake of the Global Financial Crisis, mean that they have no choice but to make such concessions [i.e., and for example, welcoming private equity firms to build and run state-backed hospitals] in order to entice the private sector into infrastructure development. But this narrative fails to stand up to close scrutiny. Considerable untapped pools of public money exist in many developing countries, notably public pension funds for state employees that could be used for public sector investment in infrastructure. Governments could also restore their depleted coffers by abandoning the low tax regimes imposed through neoliberal structural adjustment programmes, or by clamping down on tax evasion and capital flight. But such policies would mean dismantling the political and economic alliances that underpin the current relationship between the dominant elements of the state and private sectors, a relationship in which state power is brought to bear not to restrain accumulation but to enable it, be it through privatisation, intervention, regulation or, indeed, deregulation."[86]

It is a gloomy prospect that speaks to a deeper societal need for transformation, where the headlong shift away from the acceptance of public, universal service provision that has accelerated over the last forty years has resulted in a growing acceptance of rising inequality, deeper unemployment and the presence of social instruments such as so-called food banks to provide for society's failures.

Other forms of banking are being proposed, however, as a means to reverse these trends. Public utility banks, geared to serve the public first and foremost, could help foster a climate where people are enabled by finance, not penalised or simply caught up in the system's churning bowels, barely surviving through to the end of each month and the next pay check.

86 http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Bricks%20and%20Mortar.pdf

As Lapavitsas also notes, though the scale of the challenge goes without saying, "There is an urgent need for communal and associational ways to provide housing, education, health and other basic goods and services for working people, breaking the hold of finance on everyday life."

In the specific realm of infrastructure as discussed in this report, contesting the mega projects and others on an individual project basis is taking place. There are increasing tools for building effective campaigns and networks (as seen for instance with the emergence in recent years of trans-continental opposition to shale gas and the fracking technology), even if the underlying processes that insist on driving forward this procession of questionable, inequitable investments remain intact.

However, an anecdote from Food and Water Europe on PUPs captures well the contest for control that has become ever more acute in the crisis aftermath, and typifies the extent of the challenge for public-focused progress.

With municipal budgets massively squeezed by the debt crisis, private water companies are prowling to take over public water provision. The group quotes the former CEO of American Water speaking in 2010: "So the idea of monetizing some assets, something that was almost heresy some time ago, is something that we're seeing far more receptivity to today and we are busy with that as well."

Where this receptivity is coming from is not hard to work out. Yet it does not reflect what survey after survey of public opinion reveals about public attitudes concerning public service provision and ownership of what are still viewed as common, natural assets.

If a great deal of our infrastructure is broken and/or in need of adapting to urgent new realities such as climate change, you don't set about fixing that with a broken, still – in spite of everything – vulnerable model that is founded on the requirement to go for broke again.

GREIG AITKEN

Greig Aitken lives with his family in Brno, Czech Republic and works in collaboration with organisations that fight to make international development finance live up to its name.

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.

Our mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies.

ROSA-LUXEMBURG-STIFTUNG

The Rosa-Luxemburg-Stiftung is an internationally operating, left non-profit organisation for civic education affiliated with Germany's 'Die Linke' (Left Party). Active since 1990, the foundation has been committed to the analysis of social and political processes and developments worldwide.

The context in which we work is the growing multiple crisis of our current political and economic system. In cooperation with other progressive organizations around the globe, we work on democratic and social participation, empowerment of disadvantaged groups, alternatives for economic and social development. Our international activities aim to provide civic education by means of academic analyses, public programmes, and projects conducted together with partner institutions.

In order to be able to mentor and coordinate these various projects, the foundation has established 17 regional offices around the world. The Brussels Office opened its door in 2008. Its main task is to connect left and progressive movements, activists and scholars from Europe and world regions.

We work in favour of a more just world system based on international solidarity.

Counter Balance Challenging Public Investment Banks

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Building new infrastructure is no longer simply the talk of towns and communities in which various projects are to be implemented. Instead, it has taken on a new, awe-inspiring, global character. In Europe alone, the European Commission estimates that investment of up to €2 trillion is needed in transport, energy and IT infrastructure by 2020. Out of the ashes of the economic crisis, infrastructure is being promoted as a magic bullet. Yet is this new burst of global investment hopes being based on new, more sustainable, less risky investment and financial foundations? This report discusses how and why the answer to this question is 'No', and seeks ultimately to outline some of the tentatively emerging alternative options.

Underpinning the report is a focus on the phenomenon known as 'financialization': how it has developed over the last four decades, and how it is increasingly shaping and affecting 'new build' infrastructure. Crucially, public money is shown to be heavily implicated in the financialised front line of new infrastructure development. Public money is being lined up to fund and bail out major investments with the potential to create serious environmental and social impacts. There are major questions pertaining as to forms of 'development' on offer, and to the fundamental issue of who and what is being developed via the public purse.