

Globalization, Mega Transport Projects and Private Finance: Emerging challenges for the 21st century

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Introduction

- **Shifting sands of global infrastructure investment practices:** This paper attempts to examine some of the shifting sands of global infrastructure investment practices at the close of the twentieth century and the opening years of the twenty-first, when mega transport project (MTP) infrastructure investments were seen as a “hot investment area”, particularly in the emerging economies.
- **Financial risk in international infrastructure development:** The author foresees that much financial risk in international infrastructure development will be transferred from the private sector *back to* the public sector as international banks and other global infrastructure investors increasingly encounter major credit liquidity problems.
- **Case for examining lessons learned from past global MTP infrastructure investment practices:** With the public sector world-wide now much less confident on what can be expected of the private sector in financing MTPs, the paper argues the case for examining lessons learned from past global MTP infrastructure investment practices, together with outcomes of emerging broader based appraisal practices that might be better understood through scenario planning.
- **Informing ‘New Deal’ type approaches:** The author suggests that the above approaches are more likely to better inform future MTP planning, including planning initiatives associated with proclaimed intentions to employ ‘New Deal’ type approaches to transport infrastructure investment to re-ignite national economies and global economic growth.

Mega transport projects, globalization & private -finance

- **Past perceptions:** The discussion begins when the private sector was seen by national governments and international development agencies to be better placed to take on the risks and uncertainties that major infrastructure investments posed.
- **Fears of an infrastructure collapse:** These fears were so widespread and the need for investment seen to be so great that the public sector in (too) many cases was prepared to handover the baton of strategic infrastructure decision-making to global players on the grounds that they had the required funding, expertise and overview that the public sector lacked; a greatly misplaced premise as hindsight now reveals.
- **Infrastructure investment bubble:** Although fears of a global credit crunch and infrastructure investment bubble were voiced prior to their materialisation, the momentum of consumer-driven globalization, fuelled by visions of global hyper mobility and diluted regulatory practices, were such that the global infrastructure investment world seemed to have nothing but an extraordinary promising future ahead between 1996 and 2006 until this future collapsed in late 2008.
- **MTPs as symbols of economic virility of national and urban economies:** MTPs have always been at the forefront of public sector investment as the projects they produce have the marketing advantage of representing major landmark projects seen to symbolise the economic virility of national/city economies with the result that they are seen as priority projects by politicians yielding political capital for their supporters.

Problems ahead

- **Notwithstanding the growth in global infrastructure investment** between 1996-2006, investors were confronted with a number of major challenges *even before the* global credit crisis materialised. This was so because some banks became more interested in bonds than long term infrastructure investment. By 'doing nothing' they could earn a minimum of 5% per annum for 20 years *without* exposing themselves to the kind of risks involved in the infrastructure investment field.
- **This obliged annual rates of return for shorter investment periods to be far greater** (at a minimum level of 12-15%) which led to expectations of excessively high returns in infrastructure investments (of 20 even 30%). In some projects, these expectations were achieved, in *most* others however, they were not.
- **Global private equity investors have emerged since 2006** who are more interested in re-cycling finance by buying and selling-off infrastructure assets within the short run, rather than making more socially responsible long-term investments. These developments are contrary to the preferences of most governments and city mayors, and pose major sustainability concerns as ownerships are transferred from one owner to another for financial gain, each time generating reduced incentives to meet maintenance costs and ultimately leading to the run-down of the project.

Problems ahead Cont.

- **Private equity investors represented only 2% of global investors in early 2000, whereas in 2007, they reportedly accounted for up to 50%.** Such parties not only pose transparency challenges but can lead to conflict with political and legislative practices. They also attract charges that such parties escape local tax obligations.
- **Sovereign Wealth Funds (SWFs)** are another relatively “new gang” on the block which have proliferated in recent years in certain countries as a result of high oil prices and dramatically increasing Asian exports. Although they held merely 2% of the asset traded throughout the world in 2007, they are growing fast and were at least as big as the global hedge fund industry.
- **OECD estimates that SWF funds had approximately US\$ 3 trillion in assets in 2007** and invested US\$ 69 billion on recapitalising the world’s biggest investment banks in that year. In 2008, a US\$21 billion lifeline, sourced from SWFs from the governments of Singapore, Kuwait and South Korea, was given to Citigroup and Merrill Lynch *alone*. While it is unclear how much of such funding has been passed onto infrastructure investment, given the current global financial liquidity problems, what can be safely assumed is that such funds are finding themselves directly or indirectly to be significant new investors in infrastructure development world-wide.

Times of crisis as times of opportunity

- **The Chinese saying that times of crisis offer times of opportunity is highly relevant to current circumstances.** This is so as one could argue that the global credit crisis offers the international community - in both the public and private realms - the opportunity to critically re-assess past infrastructure investment practices much more broadly in a manner that takes on *not only* the global challenges of climate-change, emissions, energy consumption, poverty alleviation etc. but *also* the very sustainability of the global infrastructure investment practices themselves.
- **The need for the abandonment of rhetoric.** The author argues that the time has finally arrived for concepts of Corporate Social Responsibility (CRS) and Sustainability to be more sincerely employed by those sections of the international banking and investment communities that have in the past excessively indulged in rhetoric and became pre-occupied with short-term perspectives, employing low valuations of risks in areas that in reality require long term perspectives.
- **Three horizons of growth strategy.** This call to take on longer run views of the future, while simultaneously addressing short term concerns, was flagged up in a CRS study undertaken by McKinsey and Company in 1999 which sought to alert the corporate world of the strategic need to link short-term investment gains *much* more closely with long run benefits (and costs) to survive the challenges of globalization. The authors of this study advocated the use of a 'three horizons of growth strategy' which pays attention to long term goals *simultaneous* to meeting short term ends, relying on *strong* mid-term actions that strategically link the short term with the long run.

Times of crisis as times of opportunity Cont.

- **The demise of the myth of the superior efficiency of the private sector.** The world-wide bail-out of investment houses/banks by national governments and international agencies has now made the public at large acutely aware of the myth of the *inherent* superior efficiency of the private sector over the public as a generic claim; both types of institutions have (and long had) critical limitations and specific advantages in different contexts.
- **Public versus private sector.** The global financial crisis has alerted us to the realisation that we need a strong and solvent public sector to facilitate the development of a more efficient *and* sustainable private sector, and that there is an urgent need for major public sector capacity building programmes if this sector is to provide effective leadership, strategic intervention and regulative frameworks for future transport investments. These conclusions are particularly pertinent for city development and urban transport policy-making and planning.
- **Collaboration/cooperation versus competition.** The global collaborative efforts underway to resolve the world's credit crisis and climate change challenges offer two important lessons:
 - The first is that much greater emphasis needs hereon to be placed on “collaboration” (and co-ordination) rather than competition as the principal driving force of globalization; and
 - The second is that *no longer* can governments and communities alike rely on de-regulated markets outside of well thought out sustainable public policy strategies to forge our future.

Dilemmas confronted by global investors

- **The need for broader appraisal frameworks.** There have *always* been infrastructure investments that made no sense to investors as stand-alone projects but which could be justified *if* wider development investments are taken into account. Given the uncertainties accompanying recent global developments, this broader view will increasingly be required and more frequently employed, especially for future for urban infrastructure development – with the jury still out on what the most appropriate framework(s) for such appraisals and evaluations should be.
- **The case for MTPs.** This urgent and critical need to broaden the appraisal framework resonates with today's MTP planning and appraisal needs - not only because of the financial constraints brought about by the global credit crisis - but also due to the rapid rise in priority among international development and government agencies of policies seeking to tackle the major global challenges and risks of climate change, biodiversity, emissions and energy, simultaneous to addressing the infrastructure needs necessary to meet social development, poverty alleviation and food production priorities locally.
- **The importance of context.** The importance of context on the use and promotion of new technologies; and the nature, scale and impact of the downside scenario(s) of already problematic contexts, become especially important if the treatment of risk and uncertainty in decision-making is to be made more robust.

Conclusions

- **Past appraisal methods not fit for purpose for 21st century.** What emerges from the discussion here is the overarching conclusion that past 20th century practices of MTP appraisal and evaluation are not fit for purpose in the new unfolding contexts of the 21st century. They are seen to be inadequate on several fronts: in terms of the physical boundaries they typically employ, in terms of the development paradigm/vision(s) against which they are ultimately assessed; in terms of the financial premises for project funding they adopt; in terms of the local impacts they are anticipated to have, and in terms of their assumptions as to where the critical risks and uncertainties they confront lay.
- **Global versus local interests.** Further research also needs to be conducted into how governments, private sector interests and community groups better *jointly* understand what it takes for MTPs to be 'successful' in local *as well as* global terms to help arrive at more appropriate criteria by which they are judged. The evidence that rapid globalization brings with it increasing uncertainties and risks, as well as new opportunities, and that these all impact on MTP developments, reinforces the call for placing uncertainty in the *milieu* of planning and policy-making for such projects. How this can be best achieved warrants *extensive* research.

Conclusions Cont.

- **Financial liquidity problems of global markets.** In light of the financial liquidity problems of global markets and banks and with the infrastructure sector transformed from one of the most lucrative targets of private sector global investment, to one targeted by governments relying on 'New Deal' Keynesian principles - premised on more collaborative and regulated efforts to deliver social, economic and environmental benefits - there is now a need more than ever to critically re-examine the role and contribution of the private sector to infrastructure development.
- **A new form of public-private partnership initiative needs to evolve.** Research needs to be undertaken that seeks to arrive at a new reality for MTP investments that build *mutually* reinforcing linkages among policies of competitiveness, collaboration *and* sustainability in infrastructure development in what should be seen as newly defined PPP arrangements that abandon past neo-liberal economic approaches and rhetoric on public sector participation and environmental sustainability.
- **Systematic investigation of motives of private equity investors and SWFs.** An independent, critical and systematic examination is also needed of the motives of private equity parties and SWF global investors in infrastructure development, and the potential consequences of their increased activity in MTPs. Earlier discussions make it clear that national and regional policy makers, planners and community leaders alike can ill afford to be indifferent to these concerns, especially with regard to the lack of transparency typically associated with such investors and the propensity of new MTP investments to lead to an increased reliance on such sources of finance as others dwindle.

Conclusions Cont.

- **The decline of autonomous planning processes.** The decline of autonomous planning processes for MTPs is anticipated to accelerate as public sector led infrastructure development programmes look to a more co-ordinated approach to stimulating national economies that deliver more local employment, social development and hopefully environmental benefits. It remains to be seen whether these efforts will build on the spatial planning approaches introduced in Europe and elsewhere as part of strategic trans-national and regional trade and development agreements or whether these efforts will fall victim to more parochial and nationalistic concerns.
- **Increased uncertainties of our times.** Given the increased uncertainties of our times, and the increased risks and complex choices they generate, an obvious and basic conclusion to the discussion here must be that for planning (and planners) to offer a better insight into the *strategic role* that MTPs can/should play in providing new focal points for future sustainable development, they need to become competent in strategic thinking. They also must become *au fait* with broader context-sensitive project appraisal exercises that places risk, uncertainty and complexity at their *milieu*. These skills and techniques, require much research and development. The failure by planners and MTP promoters to speedily develop and enhance these capacities robs stakeholders of such projects of the strategic guidance and assistance they so urgently need.

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