The World Bank needs more options than PPPs

The Bank's campaign to rally private money for infra and lopsided risk allocation has failed to mobilise funds for developing countries, and offers little help for building back better, Motoko Aizawa and Howard Mann argue

The 2015 paper of the Development Committee of the World Bank and International Monetary Fund announced 'From Billions to Trillions'. Developing countries rejoice: the World Bank will prioritise collaboration with the private sector and relegate public sector financing to a last resort option. Public-private partnerships are the way of the future.

The impetus for this campaign – toned down later as 'Maximising Finance for Development', or MFD – was to help countries bridge the infrastructure financing gap, and to show alignment with the G20's push for infrastructure as an asset class. The World Bank, traditionally a lender to sovereigns, turned its business model on its head, prioritising off-book private finance as the way for countries to afford infrastructure. In a recent covid-19 crisis response paper, PPPs and MFD (also called the Cascade) remain crucial to the Bank's proposed approach to recovery assistance.

Falling investment

For all the fanfare, the Bank has had very little to show for this. Private investment in client countries hasn't surged. Private investment commitments to infrastructure in 2019 – including energy, transport, ICT, water and municipal solid waste – in low- and middle-income countries fell 3 percent compared with 2018 levels. Data for 2020 is not yet in, but it will undoubtedly paint a stark picture of developing countries starved of funds during the covid-19 crisis.

According to International Finance Corporation estimates, "domestic private investment and foreign direct investment in emerging economies will fall this year by almost $700 billion and $250 billion, respectively, and may not return to pre-crisis levels until 2023".

Infrastructure funds, the primary vehicle for financing infrastructure as an asset class, are targeting $185 billion in funds over 2020, though less than a third had been raised by 10 August, according to *Infrastructure Investor* data. This is far from the trillions promised by the World Bank. The distribution of funds is equally problematic, with the vast majority directed at developed and highest-income developing countries, and the lowest amounts to sub-Saharan Africa and least-developed countries, the ones with the worst infrastructure deficits.

Data indicate the IFC, the private sector arm of the World Bank Group, does most of its investing in larger, richer developing countries, neglecting the poorer ones that need it most. Most of the money raised does not stay in client countries, but more likely goes to large corporations from rich countries. If successful, the project would actually see massive financial outflows to developed countries, which is neither the mission of the Bank nor a reflection of development financing principles.

Equally at issue are the tools and policy interventions used by the Bank to entice the private sector, many fashioned around the PPPs of the 1980s. There is little guidance on how to allocate risks equitably between the public and private partners to prevent the worst environmental, social and economic impacts of PPPs, and to enhance benefits to the public. Some tools and interventions undermine the state's duty and right to regulate, and compromise sustainable development and tackling climate change.

Lopsided risk allocation

The Bank's model PPP contractual provisions show how it approaches risk allocation. It published a report on recommended PPP contractual provisions in 2015, followed by a fuller guidance in 2017 and an update in 2019. This is a companion piece to the PPP risk allocation matrices for several sectors. In each, the lack of balance in the recommended risk allocation has been problematic.

While some changes were made to the 2017 and 2019 versions in response to criticism, client countries continue to be urged to accept the negative consequences that may fall on them as a result of these provisions. In fact, the poorer the country, the greater the sacrifices.

Whether *force majeure*, broad-based stabilisation (change in law) or dispute resolution clauses, the guidance minimises the risks to the private partner while maximising those of the contracting authority. For example, the guidance argues that the government controls the "risk" of implementing new laws, so it is best placed to bear the costs. This insulates the private partner from the costs of complying with new laws, even in such critical areas as labour, social inclusion, environmental protection and climate change – positions no longer accepted by the UN or the OECD.

Countries say they want to build back better, to focus on a green recovery, but the Bank seems allergic to integrating sustainability and climate issues in PPPs, since they are seen internally as 'conditionalities'. Meanwhile, other multilateral development banks, notably the Inter-American Development Bank, are steadily investing in tools to support sustainable infrastructure.

In the post-pandemic world, with foreign investment at decade-long lows, the public sector option is the only realistic one for developing countries' infrastructure needs. If PPPs were already a small drop in the infrastructure financing bucket pre-covid, they are certainly far less relevant today, as evidenced by a renewed effort in African states to rely on public finance – and on African public pension funds – and not on PPPs alone.

> *"The Bank seems allergic to integrating sustainability and climate issues in PPPs"*

Meanwhile, new public-private collaborations are appearing outside the realm of the World Bank and the MFD, especially in the health sector, with governments and foundations as sources of funds. For example, they are working with universities and the private sector to make covid-19 vaccines.

Other PPPs are focused on being 'asset-lite' – investment in intellectual property, Internet of Things, systems, maintenance, etc. This assumes a minimum level of traditional physical infrastructure, which fails in too many developing and least developed countries, where this is precisely the critical infrastructure gap that has to be filled.

Nimbler PPPs

The World Bank recently asserted: "[We] absolutely can create a new type of PPP – and an enhanced framework that strongly supports it – that is informed by what we all will have been through once the covid-19 crisis is over." It also pledged: "We're here to help countries optimise private sector infrastructure solutions that are sustainable and resilient as well as informed by best practices, good governance, transparency and fiscal sustainability." It is not clear what it will offer beyond short-term funding to support governments and infrastructure companies, and more traditional PPPs.

The Bank must make good on its promises. The time to invest in sustainable infrastructure is now. With that in mind, it must flip MFD on its head, offer a menu of financing options beyond traditional PPPs, disseminate vast knowledge and experience in environmental, social and economic sustainability, as well as hold up a credible vision for a sustainable and resilient future for its client countries and their infrastructure. ■

Motoko Aizawa is president of the Observatory for Sustainable Infrastructure and an author and researcher on the challenge of sustainable and inclusive infrastructure. Howard Mann is a senior international law advisor with more than three decades of experience in international law and sustainable development.