

‘Levelling the field: how infrastructure builds shared prosperity’

EBRD, World Bank and GIH Regional PPP seminar, Thursday 9 March, 2017

Chris Heathcote, CEO, Global Infrastructure Hub

Ladies and gentlemen, honourable guests, good morning, and let me also take the opportunity to welcome you and thank you for attending. My name is Christopher Heathcote, and I lead the Global Infrastructure Hub, a G20 initiative based in Sydney.

In a world where perceived inequality of wealth and opportunity are leading to a closing of borders, I want to look at the role infrastructure plays in ensuring the global movement of capital and people can continue in a sustainable way.

The links between economic growth and infrastructure are well established: building new infrastructure creates jobs and supports local businesses, operating it imports new skills and improves productivity which then boosts competitiveness.

If infrastructure is to be instrumental in delivering truly shared prosperity, then I believe it's planning, preparation and procurement must be cognisant of a number of factors.

Firstly, it must feed economic growth

With rare exceptions, private sector investment in infrastructure remains primarily driven by financial returns. Conversely, the public sector is motivated by a need to provide services and stimulate economic growth to benefit an entire population.

Well-designed PPP approaches to infrastructure present an opportunity to bring those sometimes ‘competing’ motivations together and deliver more effective outcomes. Achieving this requires PPPs structured in a way that balances public and private interests, where risks are allocated appropriately between the parties, and where there is a clear plan for the management of an asset post-construction.

If done well, infrastructure builds and releases latent economic activity, and can indeed be targeted at unlocking unfulfilled growth potential. Efficient, judicious investment will generate growth that exceeds the cost of the investment and this in turn can provide opportunities for further investment, creating a positive cycle that can attract the private sector.

Secondly, it must be integrated with the community and the environment

A lack of community consultation is endemic in the infrastructure sector globally but without local engagement and safeguards for people, infrastructure can be stopped in its tracks. Building early community engagement in project preparation, contractor codes of conduct and ensuring that local communities benefit from a project reduces risks, and therefore costs, and ultimately makes projects more attractive to investors and more likely to succeed. PPP projects, where profits are clear and transparent, seem to bear the brunt of community angst. Both government and private sector need to ensure that the benefits of PPP procurement such as efficiency, longevity and innovation are clearly understood, balancing these concerns.

Local support for a project comes when the community understands the rationale behind it, has a clear interest in its success, and can benefit from new opportunities it creates. Community support is critical for project success, and vital to attracting private capital.

Thirdly, infrastructure must be future-proofed

The world is changing rapidly, and infrastructure must be designed and delivered in a way that allows it to respond to change to ensure it does not cost future generations unfairly. Resilience is not just a buzzword – infrastructure investments are long-term, and without the ability to respond flexibly to changes in the economic and physical environment, they risk becoming a burden, not an enabler of growth or prosperity.

And finally, infrastructure must be procured efficiently

Transparency in processes and competitive tendering should be the minimum standard for infrastructure projects. The arguments go beyond just value for money for the public sector, and reducing the risk of investment for the private sector. Transparency creates trust, between parties and with the public. It also creates an environment for continuous learning and improvement to processes, which in turn delivers greater benefit in future projects.

We know competition drives innovation, and often leads to better outcomes. We're seeing disruption in long-established markets around the world, and it won't be long until it dramatically changes this sector.

Ultimately, good infrastructure investment provides benefits for all countries – emerging and advanced. Many countries are struggling to provide economic growth, and the opportunity that it offers, many are experiencing a rise in populism expressing dissatisfaction with the status quo. Whilst in developing countries, addressing inequality and improving inclusion is crucial to reducing poverty and the risk of conflict.

And there has never been a better time for emerging markets to attract inward investment. There is a global shortage of projects for investors and returns in developed markets are at an all time low. A recent Study by Moodys suggests that the risks of operational projects in emerging markets is similar to those in developed markets. A study by the Hub found that nearly half of infrastructure investors want to invest in the emerging markets.

Solving the global infrastructure problem is a shared challenge for the public and private sector. When governments have confidence in private sector partners to seek solutions, as well as build projects, then a true partnership can begin to evolve. The public sector must be more efficient and effective, and the private sector must look beyond efficiency to drive change through innovation. When the public and private sectors work well together with a shared vision and common goals they can deliver fantastic outcomes for communities.

These are exciting times and I firmly believe that infrastructure changes lives and changes economies. Right now, well-planned, well-executed infrastructure is the key to creating greater affluence and fuelling global growth.