"Differences between infrastructure investment capabilities, in particular financial and digital innovation, could well increase imbalances between and within countries and cities in the post pandemic context."

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Image Source: Development of the tramway infrastructure network in Casablanca, Morocco. Image by Nicolas J.A. Buchoud, all rights reserved ©.

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Beyond the one size fits all financial scheme for infrastructure investment projects

In post-pandemic times, both the demand for infrastructure financing will grow and the supply of financing for recovery will increase. For demand and supply to lead to more sustainable urbanization, a key factor will be the appropriate financing instruments for cities, whereas the COVID-19 pandemic is playing is both disrupting existing plans and pushes for rapid changes in the global infrastructure space.

How important it is to choose financing instruments carefully is shown symptomatically by the financing of hospitals, which are essential for health care. Experience shows that public-private partnership models (PPP) can be suitable for financing hospital buildings, but not for operating health care and the use of infrastructure for healing and care. Experiences show the need to assess the impact of PPPs on uses as well as how citizens and consumers will be impacted on the future. As an example, PPPs on the electricity sector have not worked well in Australia as it led to increased prices even if the market is competitive and users can switch between providers. Successful PPP cases in Australia were in areas where the government didn't deliver revenue return. Whereas the COVID-19 rapid expansion has showed high levels of unpreparedness in countries and cities, the pandemic has also highlighted underinvestment in social infrastructure, especially in the past decade. In a recovery perspective, it is critical that emergency relief spending and vaccine purchase do not overcome the need for more structural reforms in the health and do not overshadow the need to develop a new generation of more sustainable infrastructure systems.

INTERSECTING argues that the way forward should be to privilege investments in 'infrastructure for distribution' starting at city and regional level. This has several consequences, starting by prioritizing recovery from the bottom-up, and not in a top-down manner. How citizens can play a role in defining infrastructure investment priorities is a condition to balance national, centralized choices, with direct impacts in many fields, from intra-urban to inter-state mobility, such as in India to waste and sanitation.

Whereas 'green technologies' are targeted to leverage more investments to reach out to the Sustainable Development Goals, projects find more easily finance where the return on investment is proven, rather certain and not stretched too far out into the future. In this context, the 'green bonds' model is considered to be promising, inspired by the North-American and Anglo-Saxon financial culture where municipal bonds (and notes) are extensively used for capital-raising needs. Yet, green and municipal bonds cannot become a universal tool that easily, in particular in the COV-ID-19 context. For instance, in Berlin, the issuance of green bonds requires a special authorization from the parliament and careful evaluation. In addition, from a debt management perspective, green bonds are only sensible if interest rates are lower than that on straight debt and if the issuance of green bonds does not adversely affect liquidity in the straight bond market.

The era of low interest rates might continue after the peak of the current COVID-19 pandemic, but the lack of institutional capacity and of broad legislative foundation to frame the use and benefit of bonds accordingly remains a challenge in many cities and regions. Pre-pandemic existing differences within the infrastructure finance landscape from region to region might even get deeper and increase the contrasts between infrastructure investment capabilities among countries and cities. In 2020, the G20 has issued a new 'InfraTech' agenda meant to supplement the 2019 Quality Infrastructure Investments (QII) principles and engage private and institutional investors in bridging the global infrastructure finance gaps. Region-specific knowledge should be produced in order to make tailored-made banking and investment possible and avoid that InfraTechs further enlarge pre-crisis digital divides.

As the pandemic highlights the importance of being more flexible with infrastructure finance, INTERSECTING raises the call to move on carefully with the development of new technological and financial models, taking into account the fragile financial situation of many subnational governments, and such side-effects as the decline in public transportation ridership due to fear of contagion. In principle, tailor-made, contextualized financing would offer more flexibility to meet specific local situations. Yet it would request overcoming several barriers, starting with the knowledge gaps within financial institutions on the specificities of cities and urban regions. More flexibility also requires expertise at municipal and national levels to decide on which financial schemes are the most suitable, especially in more uncertain market and financial conditions.

The effectiveness of financing and investments depends heavily on the existing capacities both within the private and public sector to choose, mix and structure the appropriate instruments, along transparent sustainability priorities. In many cities, these capacities are even more constrained by the divergence of financial resources to urgent social and health priorities. Public investment management assessment centres, which exist in some countries, could support subnational governments to select the best financing instruments, assess their effectiveness and ensure the accountability of their impact.