Accelerating deforestation: Financialization as a driver of infrastructure projects

Infrastructure projects, such as the building of highways, railways, ports and airports, installations for the extraction of oil, gas and minerals, or for energy generation, as in the case of hydroelectric mega-dams, are constantly promoted as necessary for “development”. However, far from meeting the needs of local populations, for example, by providing access to electricity, drinking water or sanitation services, these projects are instrumental in facilitating and expanding an economic system aimed at “developing” the continuous extraction of raw materials, primarily for export markets.

As a key piece of the dominant economic model, large-scale infrastructure is one of the underlying causes of the destruction of forests and local livelihoods. The discourses that define development as access to “raw materials” for trade and “regional integration” with global markets silence the thousands of realities of local communities who face the devastating impacts of these projects. Today, governments, multilateral development banks (i.e. the World Bank, the Inter-American, Asian and African Development Banks, etc.) and groups like Mercosur and the G-20 are once again promoting investment in infrastructure. This time, it is also meant to serve as solution for the current crisis of over-accumulation: too much capital pursuing too few investment opportunities.

In 1994, the World Bank published a World Development Report on infrastructure in which it promoted the privatization of public services as a way to “increase efficiency and improve the provision of infrastructure” (1). The role of government changed from that of “owner” to “facilitator” of “development” projects. This privatization agenda was promoted (and imposed) during the 1990s primarily through so-called public-private partnerships, or PPPs. However, today this process goes even further. As exposed in a report published by The Corner House (2), a series of instruments and regulations have been created to turn infrastructure into a new asset class, which generates greater profits on the so-called financial markets.

In other words, a key aspect of this new “boom” in infrastructure is the deepening of the process of financialization (see WRM Bulletin 181). What is driving investment in infrastructure is no longer primarily the actual construction or production of goods, but rather the possibility of seeking profits through financial instruments and vehicles. One example is that of private equity funds, which are a key actor in this process. These are funds that pool investment and buy the majority of shares in companies, take over their management, increase their profitability, and then sell their shares at a profit. For investors, it does not matter what kind of infrastructure is being constructed or who will benefit from it, since the infrastructure sector is merely a platform that enables the continued accumulation of capital.

In the last two decades, the private sector has rapidly become a leading investor in infrastructure. The above-mentioned report from The Corner House notes that between 2002 and 2007, the value of infrastructure projects in developing countries with private sector participation totalled roughly USD 603 billion, according to World Bank figures. This amount far outstrips the development assistance for infrastructure provided during the same period by the 34 countries of the Organisation for

Economic Cooperation and Development (OECD). In 2012, the World Bank reported that private sector participation in infrastructure investment reached an all-time high of USD 160 billion in 2010. India, for example, hopes to raise 40% of its USD 200 million annual expenditure on infrastructure between 2013 and 2017 from the private sector.

In South America, the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) is planning more than 500 construction projects, many of which are already destroying local economies and territories (see WRM Bulletin 161). Road building and river transportation projects are aimed at access to the region's "natural resources" to facilitate their extraction and transportation. In addition to public investment financing, mainly from Brazil, 37% of IIRSA's costs are covered by PPPs and 17% by the private sector. One example is the case of Brookfield Asset Management. The Canadian investment firm, in partnership with the Spanish group Abertis, took over control of 3,200 kilometres of highways in Brazil from the Spanish construction firm OHL (3). Brookfield manages four private equity funds in the transportation and energy sectors in Latin America. Many of the highways pass through national parks and indigenous territories, opening the way for the expansion of agribusiness, logging, mining, and oil and gas operations. Local communities are fiercely resisting these projects throughout the region (4).

Each new transaction generates profits for intermediaries, which are on the lookout for high returns. In addition to private equity funds, "infrastructure funds" are another important source of finance. These funds invest in companies, not projects, which means they enable large-scale infrastructure construction without the risks often associated with directly financing it (5). Infrastructure funds receive investments from institutional actors such as pension funds, which are now managed as if they were private sector funds. This further blurs the dividing line between public and private. In Africa, for example, countries like Namibia, Kenya, Nigeria, Botswana and Tanzania are looking at amending their legislation to allow national pension funds to invest in infrastructure projects, while South Africa and Nigeria have already done so.

In Peru, the Camisea gas project is currently the country's biggest and most controversial energy project. One of its pipelines, stretching 1,085 kilometres and operated by Kuntur Transportadora de Gas, received financing from the private equity investment firm Conduit Capital Partners, LLC (6). Beyond the vast deforestation caused by gas extraction in the middle of the Amazon, thousands more hectares of rainforest have been cleared for the installation of pipelines, fractionation plants, ports, roads and electrical power lines. These pass through communal reserves, indigenous territories and national parks (7). Ironically, most of the gas is consumed by mining projects in the Peruvian Andes region, which in turn overlap with almost half of the region's peasant farmer community territories (8). The mines, for their part, also require the construction of roads, camps, and so on.

In some countries of the global South, private investment in infrastructure now exceeds even the investments financed by multilateral development banks. In India, for example, while the World Bank provided USD 3 billion to the infrastructure sector in 2009-2010, private equity investment in infrastructure grew from USD 1 billion in 2006 to USD 4 billion in 2010 (9). An executive from KMC Constructions, contracted to build more than 4,000 kilometres of roads across India, commented in 2011, "You must go for private equity to capture more and more and stretch your capacity" (10).

However, multilateral "development" banks also use financial intermediaries, such as private equity funds, to reduce risks for the infrastructure investors. They also create the conditions to attract more financial capital. In Angola, for example, the World Bank has offered USD 1 billion to finance infrastructure and agriculture, hoping to also attract more financing from the private sector, including pension funds (11). Moreover, by using financial intermediaries, the multilateral banks could also free themselves from any social or environmental safeguards they have committed to.

Infrastructure mega-projects continue to impose territorial re-organization, now dictated by financial capital, for the creation of “trade corridors”. These corridors are essential for the dominant economic model, as they serve to make the plunder of resources easier and less costly. Millions of tons of “goods” are extracted and distributed, primarily to stimulate the unlimited consumption that already predominates in the countries of the North and is penetrating the countries of the South to an ever greater extent.

However, with increased financialization, companies enter into an endless cycle of being bought and sold by different intermediaries, such as private equity funds or infrastructure funds. The activities in themselves, for example, the extraction of minerals or trade in goods, are no longer sufficient to generate the desired levels of profits. This process has serious consequences for local economies and livelihoods, because it becomes increasingly difficult for the communities affected, and the organizations that support them, to monitor the companies that are “responsible” for the devastation.

Another profound implication of this process is the question of *what* infrastructure is – or is not – being financed, and *who* will – or will not – benefit from it. Although large-scale infrastructure construction, far from being undertaken with local communities in mind, has always followed an agenda shaped by corporate interests, we now see how governments are even more interested in expanding these projects thanks to the greater profits that can be reaped from the sector. This hinders the implementation of policies that place priority on local demands for access to basic services, while exacerbating the injustice suffered by the communities who must live with these projects, as well as the destruction of their territories, primarily forests. Governments and public institutions play a key role in this process by facilitating long-term investments for financial markets.

Mega-projects almost always lead to – violent – repression of communities that resist the grabbing of large areas of land for these projects. This leads to the question, which territories are impacted by these projects? What sectors of the population suffer the consequences of a dam or a gas pipeline? The construction of unnecessary infrastructure to local communities is now being accelerated by the process of financialization, resulting in wide-scale destruction and human rights violations. In the end, the winners and losers in this infrastructure “boom” are determined by the distribution and relations of power in society.

Companies that build roads, dams and pipelines have thus become the basis for the expansion of financial markets. In the process, profits are mainly earned by investing in the companies, instead of in the infrastructure itself – a characteristic of an era in which the goal of investment is “taking” and not “making”. As a result of this “boom”, new financial actors, in partnership with transnational companies, multilateral banks and national governments, are intensifying a major underlying cause of deforestation: an economic model that seeks the constant accumulation of capital. As a result, hidden behind the financialization of the infrastructure sector, under the discourse of “development” and “progress”, is growing inequity, destruction of forests, and social violence.

For more information, see: Nick Hildyard, More than bricks and mortar. Infrastructure-as-asset-class: Financing development or developing finance?, The Corner House, www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Bricks%20and%20Mortar.pdf

Notes:

(1) World Bank, 1994, World Development Report: Infrastructure for development, http://documents.worldbank.org/curated/en/1994/06/12337309/world-development-report-1994-infrastructure-development-informe-sobre-el-desarrolo-mundial-1994-infraestructura-y-desarrollo

(2) Hildyard, N (2013) More than bricks and mortar. Infrastructure-as-asset-class: Financing development or developing finance?, The Corner House, www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Bricks%20and%20Mortar.pdf

(3) ODG and TNI, Impunity INC., Reflections on the "super rights" and "super powers" of corporate capital, http://www.tni.org/sites/www.tni.org/files/download/impunity_inc_0.pdf

(4) See the map of projects and resistance at: www.abyayalacolectivo.com/iirsa/#

(5) Re:Common, Large Infrastructure to Overcome the Crisis? www.recommon.org/eng/?p=2923

(6) The Conduit Capital Partners, LLC fund supporting this project is "LatinPower III": www.conduitcap.com/kuntur.htm

(7) WRM, Masking the Destruction: REDD+ in the Peruvian Amazon, http://wrm.org.uy/books-and-briefings/masking-the-destruction-redd-in-the-peruvian-amazon/

(8) Zevallos, M, May 24, 2013, Retroceso en la implementación de la consulta previa, Noticias Aliadas, www.noticiasaliadas.org/articles.asp?art=6831

(9) India tops World Bank's loan list, http://business.rediff.com/report/2010/jun/23/india-tops-world-banks-loan-list.htm

(10) Private Equity Paves Road for India's Infrastructure, www.preqin.com/item/private-equity-paves-road-for-india-s-infrastructure/102/3798

(11) World Bank offers Angola $1 billion to fund infrastructure, agriculture, www.theafricareport.com/Southern-Africa/world-bank-offers-angola-1-billion-to-fund-infrastructure-agriculture.html