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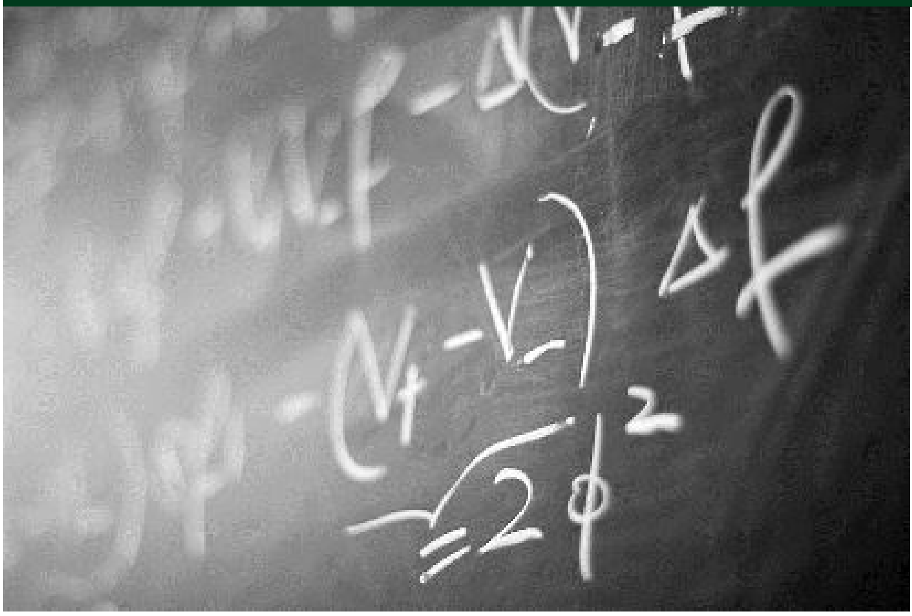

What the numbers really mean

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As pressure builds on private investors to invest more in infrastructure, a study provides a helpful reality check on how much they can really contribute. Matthieu Favas reports.

When the UK government unveiled its revamped National Infrastructure Plan last December, reports were quick to quote the £375 billion (€457 billion; $624 billion) of planned public and private investment in infrastructure in the coming decades. But what really made the headlines back then was another figure – the £25 billion jointly pledged on such spending by the country's largest insurers over the next five years.

It was symptomatic of a shift in political and media discourse since the Financial Crisis. As cash-strapped governments strive to rein in spending, and as regulation-bound banks withdraw from long-term lending, infrastructure finds itself gradually deprived of its traditional financiers. Expectations have thus been mounting that institutional investors, flush with cash but poor in exciting investment opportunities, will pick up the slack.

Yet while this scenario pleases everyone, little has so far been done to check whether the numbers do indeed stack up. "Lots of figures are being thrown around about infrastructure needs and investment but we never seem to be able to link the two," says Georg Inderst, an adviser to institutional investors and international organisations. Crucially, few studies have tried to break totals down into distinct capital flows, so as to assess different platforms and institutions' respective contributions.

A recent working paper by Georg Inderst, commissioned by the European Investment Bank, attempts to do just that. By gathering numbers from existing literature, the report puts together benchmark figures for European and global infrastructure investment needs up to 2030 – and estimates what various sources of private capital can be realistically expected to contribute. Importantly, it adopts a single measurement for these sources of finance by expressing them as a percentage of GDP.

The picture that emerges is a daunting one. Focusing on Europe, the study finds that future economic infrastructure investment, up to 2030, will need to equate to 2.6 percent of GDP annually, topped by social infrastructure spending needs worth 1.0 percent. The share of government spending, meanwhile, is not expected to pick up from its current 1.25 percent of GDP (after suffering a drop since the 2000s).

Yet the report states that project finance (at 0.4 percent of GDP), private infrastructure funds (0.3 percent) and public-private partnerships (0.1 percent) still provide relatively modest contributions to bridging the resulting gap. What's more, institutional allocations to infrastructure – currently estimated at 1.0 percent of total assets under management – only make up 1.0 percent of GDP (as a cumulative, not annual value).

Cold water

But what really pours cold water on the hoped-for scenario are the insights that follow. Should institutions decide to crank up their average allocations to infrastructure to 5.0 percent of total assets over the next 10 years, the study reckons they would still only supply capital worth 0.4 percent of GDP annually – no more than 10 percent of projected investment requirements. The story is broadly similar when looking at the same ratios on a global – rather than solely European – basis.

This is despite such increases representing sizeable sums of money for the asset management industry: boosting institutions' allocations fivefold would require them to collectively earmark €560 billion more for infrastructure than they currently do. Inderst notes that this will be difficult without addressing significant bottlenecks, which include the lack of institutional experience in the asset class, a shortage of investable government projects, weak procurement processes and what he calls the "big intermediation problem" – feeble investor appetite for greenfield assets.

The implications of this are obvious if harsh: if they are to meet future needs, governments – however much they may tout the need for fiscal discipline – may have to stop shrinking infrastructure spending before reprimanding private investors for not getting more involved. Greater institutional investment in infrastructure will certainly help a great deal – but it is unlikely to prove a panacea.