

Britain's new infrastructure bank: Can it learn from global experience?

Britain is joining other emerging and developed economies in creating an infrastructure bank, but with little experience of running such an institution, can the government learn from the mistakes of others?

In the latest budget, Rishi Sunak announced the creation of a new development institution in the UK, an infrastructure bank. It will be given £12bn for loans and £10bn for guarantees, with this pot increasing over time. The new bank is argued to be a necessary antidote to the British financial system's preference for short-term, high yield lending. The City of London tends to demand high profits with a quick payback, something ill-suited to public infrastructure that can take a decade to build and much longer to payback. Surprisingly, the Conservative Party have addressed this absence of 'patient capital' under the banner of their mission to 'level-up' the Midlands and north of England in particular.

This departure reflects the wider return of the state to promote national development. Inspired by the rapid economic success of interventionist states in East Asia like South Korea, Vietnam and China, a number of governments from the mid-2000s across South America and Africa adopted statist development programmes. The number of countries with national plans has increased from 62 in 2006 to 134 in 2018ⁱ. Accelerated by the Covid-19 Pandemic, such thinking has spread to Europe and America; in 2020 the European Bank for Reconstruction and Development issued a report headlined the "State Strikes Back". Equally, a growing body of academic scholarship now studies '*state capitalism*' and supposed 'infrastructure-led development'.

This trend involves growing recognition of the value of development banks, even amongst mainstream commentators. A recent World Economic Forum articleⁱⁱ, for example, cites development banks role in financial inclusion, promoting innovation, adapting to climate change and underpinning counter-cyclical investment. These banks increased lending from \$1.16 trillion in 2007 to \$1.58 trillion in 2009 in response to the financial crisis.

However, significant pitfalls lie ahead. Investing in infrastructure has often proved difficult and has been associated with populist, 'white elephant projects', from the little-used Port of Hambantota in Sri Lanka, to Baltimore's 8-lane 'road to [nowhere](#)' or the oversized Rogun Dam in Tajikistan. The World Bank spent the 1960s and early 1970s establishing such banks and then in the 1980s and 1990s often sought to close them down (or shrink them). In more recent years, around 90% of infrastructure mega-projects have exceeded their planned budget, on average by a massive 70%ⁱⁱⁱ. Can the UK Infrastructure Bank^{iv} (UKIB) avoid the cost overruns, delayed completion dates and underperforming loans that were associated with an earlier generation of national development banks?

These dangers were made clear by the government's own [Industrial Strategy Council](#)^v. They criticised the 'levelling-up agenda' as overly infrastructure-heavy and as emphasising new shiny assets rather than the needs of places, infrastructural maintenance and bottom-up development plans.

This caution chimes with the extensive research conducted in developing countries on infrastructure projects. This ranges from James Scott's famous *Seeing Like a State*, a book analysing the failure of top-down attempts at total transformation premised on simplistic notions of modernity, to extensive literatures on the displacement, environmental damage and economic cost of large infrastructures like dams.

The 1990s saw the culmination of these critiques, with protest from civil society matching a growing body of evidence finding that mega-projects all too often entailed far greater costs than benefits. When combined with a neoliberal, small-state and market-led mantra, the result was a decrease in infrastructure financing, including the Western financial institutions shift from a 'build dams' strategy to a 'no large dams ever again' stance. As [Francis Fukuyama](#) and others have commented, the vacuum left by this abandonment was soon filled by alternative Chinese finance^{vi}.

Concurrently, numerous attempts have been made to find alternatives and improve the planning, implementation and impacts of major infrastructure. One trend involved the private sector, with infrastructure construction and ownership handed over to investors with the justification that they would bring efficiency and lower costs. But, this is far from guaranteed with growing evidence of failure including the spiralling costs of public finance initiatives, famously including Carillon, whose collapse plunged the new Royal Liverpool and Midland Metropolitan Hospitals into crisis^{vii}

Another key step forward concerned rigorous, stakeholder-driven planning processes and participatory implementation practices. They are premised on the democratic principle that sharing power with a wider group of citizens, businesses and civil society will support better decision making. It is key to include those who may stand to lose as well as those set to gain as this increases accountability. This can also help avoid bad projects in the first place by exposing potential impacts and by identifying mitigation measures in project design, construction and operation. To the present day, large infrastructure projects are often accused of acting in a top-down way (Heathrow Airport, HS2 etc.) which not only limit their local benefit but can harm people's livelihoods and result in inadequate compensation. Participatory, stakeholder-driven practices are intended to produce different outcomes and experiences for those affected.

The 20th Century also saw the evolution of environmental impact assessments (EIAs), to 'strategic' EIAs that attempted to take a holistic examination of the whole socio-environmental system affected. These have been advanced recently by new methods for conducting rigorous options assessments for different technologies, plans and operations are needed, using sophisticated computer programmes and artificial intelligence.

The major advances here have been in integrating multiple big datasets with supercomputing abilities to compare infrastructure options^{viii}. Such modelling and infrastructure decision making should be undertaken in a holistic way, focused on the end development goal, and including those who stand to gain and lose. Such a 'strategic' systems approach can also facilitate the coordination of major investments so that a suite of synergistic projects can be sequenced: railways linking 'levelling-up' growth poles (Special Economic Zones), supported by port facilities and renewable energy grids.

However, thus far, UK government documents on the new Infrastructure Bank make no specific reference to impact assessment, stakeholder engagement or participatory practices. In the policy design document, sustainability only refers to financial returns.

If the 20th Century teaches us anything about infrastructure finance and we learn from the experience of developing countries, it is that principles of sustainable development should be foregrounded. It is no good building man-made infrastructure that dismantles socio-economically crucial natural infrastructure. Additionally crucial is the need to be highly responsive to the needs and knowledge of local governments and communities, not just centralised national power. Therefore the bank should rigorously and holistically assess projects whilst institutionalising goals of impact mitigation, compensation leaving those affected better off and local benefit-sharing.

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- ⁱ Chimhowu, Hulme and Munro (2019), *World Development* 120, 76-89
- ⁱⁱ [Ocampo and Griffith-Jones, 2019, National Development Banks, World Economic Forum](#)
- ⁱⁱⁱ Economist (2 Jan 2021), 'The infrastructure infatuation', pp52-4.
- ^{iv} [HM Treasury, 2021, UK Infrastructure Bank: Policy Design](#)
- ^v [Industrial Strategy Council, 2019 Annual Report](#)
- ^{vi} [How the West Surrendered Global Infrastructure Development to China | Foreign Affairs](#)
- ^{vii} National Audit Office, *Investigation into the Rescue of Carillion's PFI Hospital Contracts* (London: National Audit Office, 2020).
- ^{viii} An example of complex multiple decision-making criteria modelling is the University of Manchester's FutureDAMS project