Intergovernmental Group of Twenty Four

G -24 Technical Group Meeting

Financing Infrastructure and the Role of Public-Private-Partnerships

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About CAF – Development Bank of Latin America

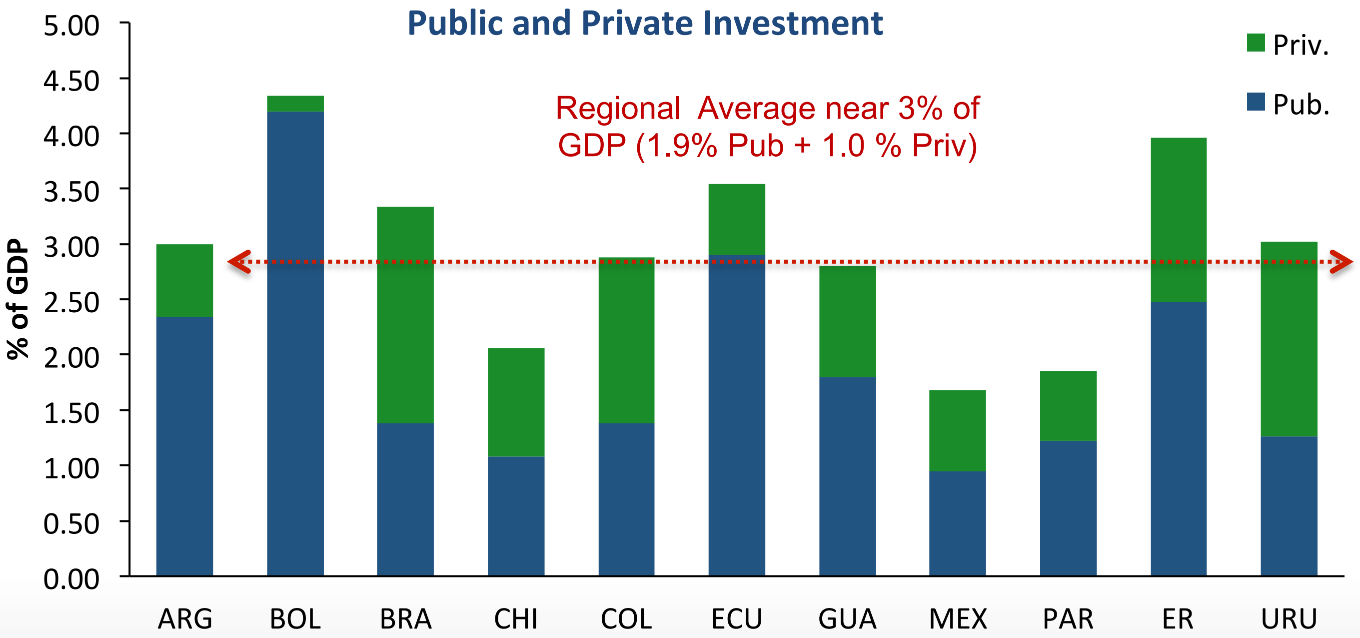
- Latin American multilateral financial institution, essentially owned by developing countries (17 LAC, Spain and Portugal), all borrowers.
- Mission: Sustainable development and Regional integration
- Provides multiple types of financial and non-financial services to clients in the public and private sectors of its member countries.
- It is versatile, agile and competitive at both regional and global levels. Governance and rules and safeguards allows great flexibility.
- Headquartered in Caracas
- Country Offices in Asuncion, Bogota, Buenos Aires, Brasilia, Panama City, Port of Spain, La Paz, Lima, Madrid, Mexico City, Montevideo and Quito

Infrastructure and development

- Latin America faces a unique opportunity to achieve comprehensive development in the coming decades
- The appropriate infrastructure is one of the keys to achieving this goal
- Investment is not accompanying growth in demand, so the infrastructure gap is not reduced
- More moderate GDP growth reflected in lower increases in the demand for services
- In order to leave behind delays and accompany sustained growth, the region needs to invest not less than 5% of the GDP (USD 200 to 250,000 million a year). At present is less than 3%

Infrastructure investment in Latin America

Sectors: transport, telecom, electricity, gas, water

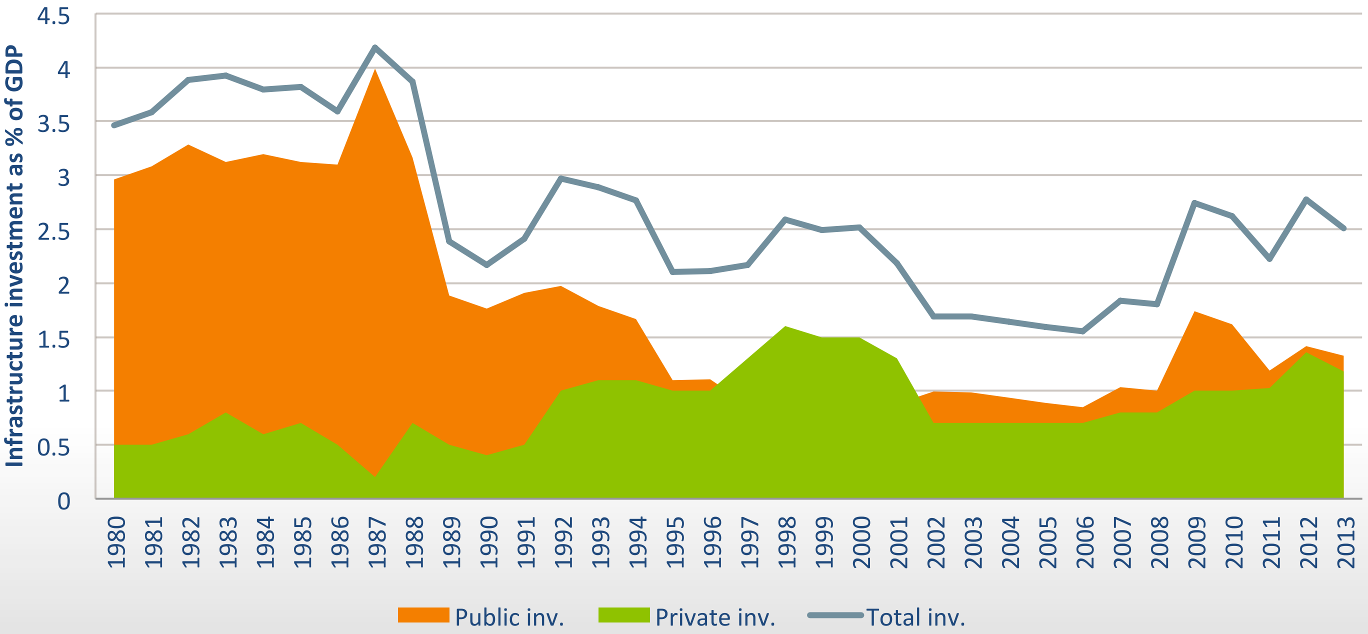


Average investment is near 3% of GDP. Bolivia, Brasil, Ecuador and Peru above the average	***Private sector investment participation grew in countries like Brazil, Colombia, Peru and Uruguay due to PPPs new legal and institutional frameworks***

Source: IDeAL 2013 (CAF, 2013); 11 countries analized with data available

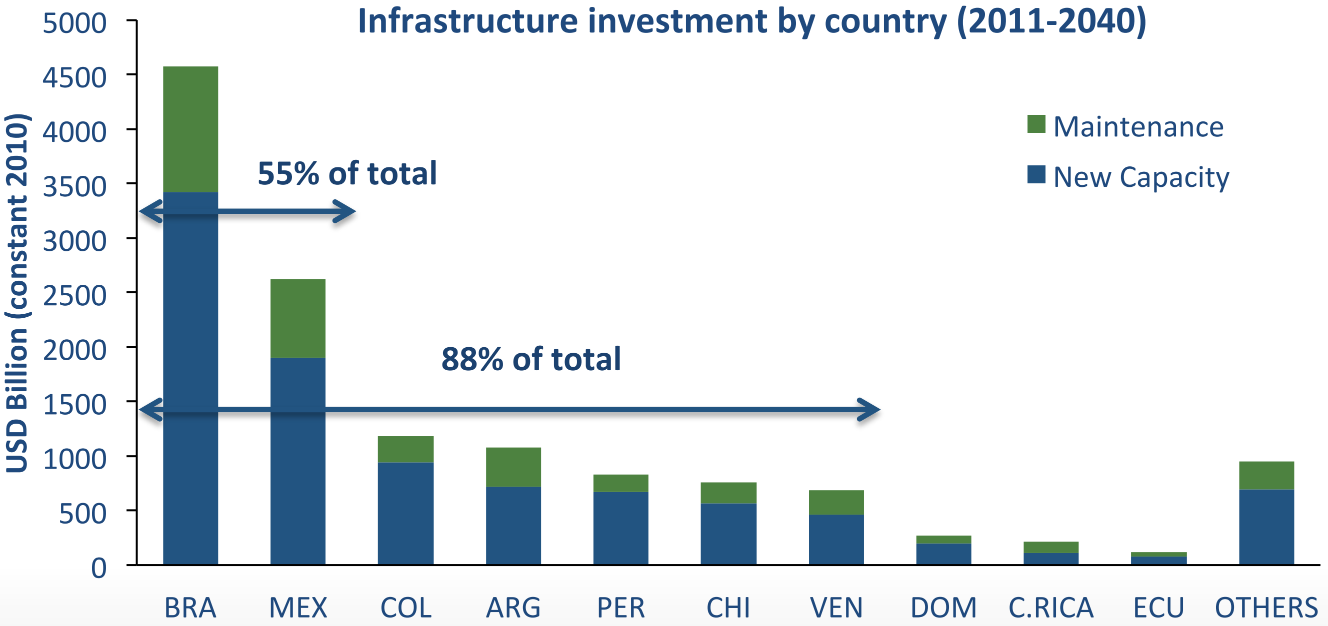
INFRASTRUCTURE:
LAC CURRENTLY INVESTS LESS THAN IN THE 80s

Public and Private investment in infrastructure in LAC
1980-2013



Source: Calderón & Servén (2010); CAF (2011); IADB (2015)

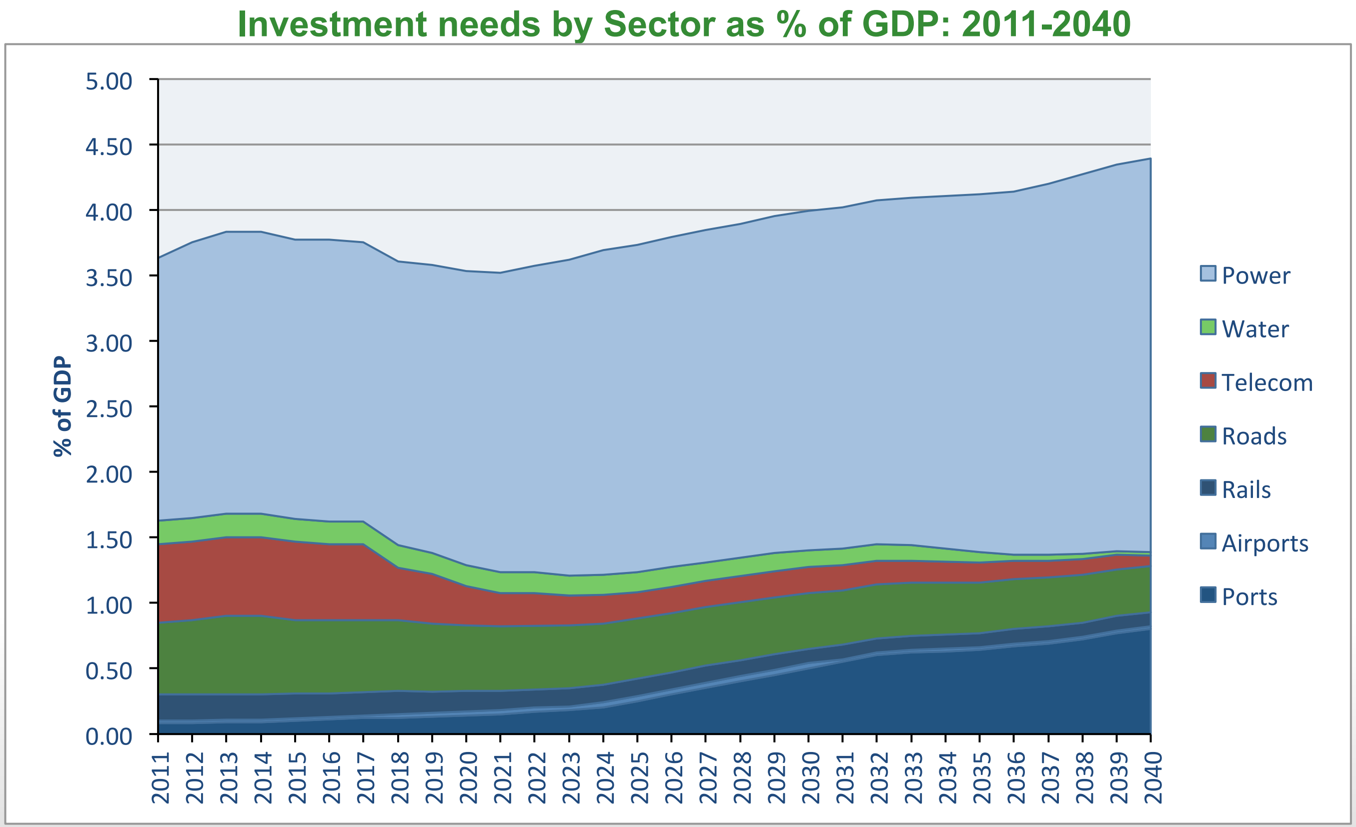
Investment needs in Latin America



55% investment needs in Brazil and México. USD 7.269 Billion	*88% of investment needs within first 7 countries. CAF and IDB + ECLAC carrying regional statistics for LAC.*

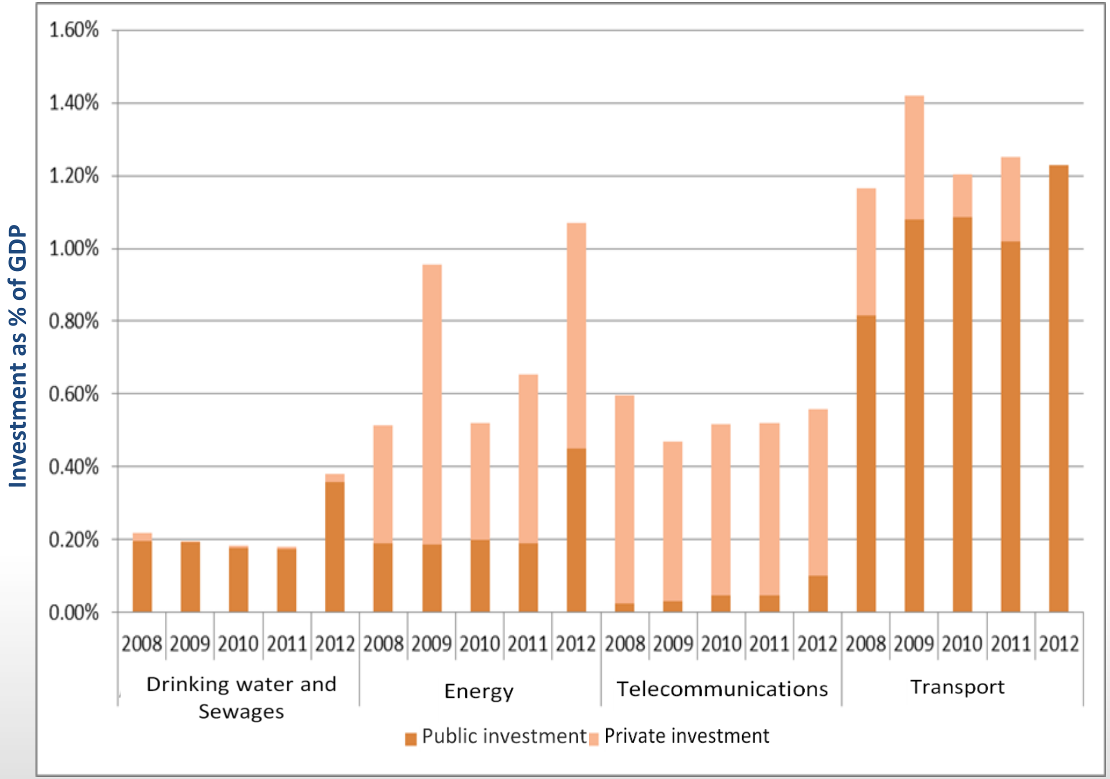
Source: Latin America 2040 (CAF, 2013)

Possible scenario for Latin America



Source: CAF LATIN AMERICA 2040 (2013)

To tackle these challenges important investment are needed



- To overcome the deficit in infrastructure and keep up with growth and development, the region needs to invest annually at least **5-6% of GDP**
- The financing additional requirements are around **$150,000 - 200,000 million**
- Requires big efforts by the public and private sectors with the support of IFIs

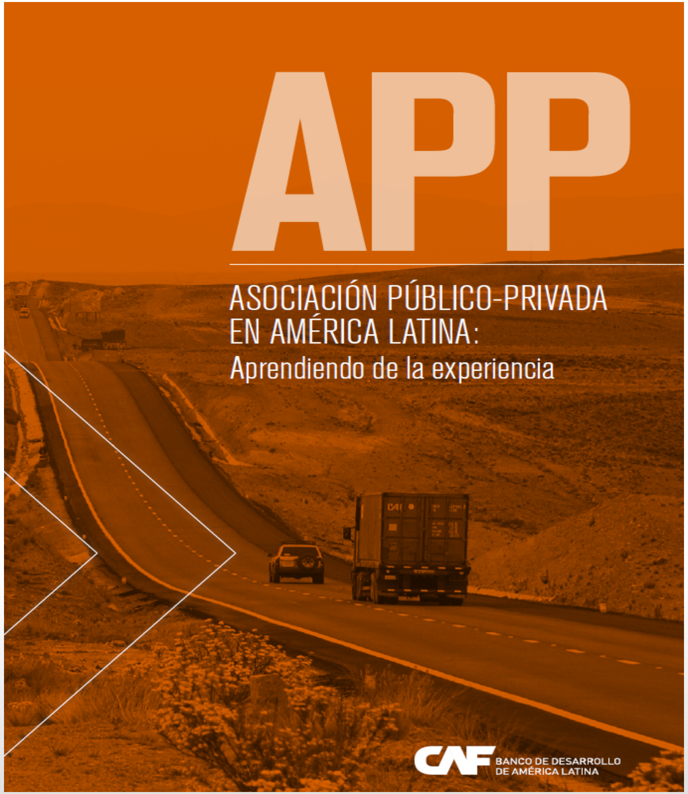
After more than two decades the debate on the merits of PPPs still continues and many questions are asked

- Do PPPs improve the quality of the services for the public?
- Are PPPs more costly?
- What does a government need to do to implement a successful PPP?
- How to deal with uncertainty and projections?
- How to promote more competition in the tendering process?

…questions…

- How to properly balance and allocate risks?
- How to come to the financial closure?
- How to avoid cost overruns and claims during construction?
- What about renegotiations? Are them acceptable or necessary?
- How to overcome social and media distrust and lack of acceptance?

Learning from experience



PPPs in Latin America:
Learning from experience
CAF - Development Bank of Latin America
(2015)

- Review the experience of PPPs in LAC
- Research five PPPs cases in LAC, well documented
- Lessons and challenges

Challenges for PPPs success and more investment in Infrastructure in Latin America

Some challenges are key to PPPs success in Latin America for the coming years. The identification of these challenges are the result of an analysis of the overall evolution of the investment in infrastructure in the Latin America and the experience of private participation

1. **Demonstrate that PPPs create value:**
   - If PPP projects is a better option than conventional public investment
   - Many countries are in the process of implementing *value-for-money* analysis (an assessment mechanism implemented on an ex-ante basis, they do not reflect the impact of contract changes introduced over the life of a project; they do not reflect aspects like quality of service).
   - Developing of a methodology for quantifying PPP advantages ex-post as regards conventional alternative, not only project costs but also benefits, would be of interest.

2. PPPs are a mean to achieve more and better quality projects:

- PPPs are not the end, as such, they should not be used to support projects that are not economically and socially relevant and viable.
- Also, should not yield to the temptation to use PPPs as an accounting instrument and end up representing a burden upon future budgets.

3. Successful PPPs projects require better preparation of portfolio and projects:

- Preparation – strengthening planning and multicriteria, social and environmental evaluation - and institutional support is essential to guarantee a project's success.
- Need to have a robust and predictable portfolio of bankable projects
- Better prepare the professionals for designing and promoting these projects from within the public sector.
- Public sector needs well-trained, dedicated personnel with salaries in line with their level of responsibility and with the authority to drive these projects.
- Public sector lacks of agility or efficiency when it comes to getting things done in a timely manner.

4. Expand the scope of PPPs for management of projects at sub-national levels:

- PPPs model in Latin America has been used only for large projects, mainly transport initiatives, mostly managed by central governments.
- Convert PPPs into a widespread project management format at regional and local levels

5. Encourage more participants and more competition:

- Attract more participants and increase competition for public tenders, disseminating proposals for plans and projects, “road shows”, data rooms.
- Informing stakeholders which projects are available for bidding, showing clear rules and allotting sufficient time for bid preparation.

6. **Adjust revenues to service provision:**

- Lead to the development of mechanisms that link concessionaires' revenues more to the service they provide, and less to the cost and use of infrastructure
- Past experience shows that concessionaires have very limited influence over demand risk management.

7. More effective and balanced distribution of risks:

- Find an effective way to transfer risks to the different players involved as a form of added value.
- For some projects, transferring the expropriation or demand risk to the private sector in full is not efficient due to the private sector’s limited influence on the management of these risks.
- The approval of environmental licenses/permits is a common issue to be considered in major infrastructure projects

8. Financing mechanisms:

- Open the financing of PPP projects to all funding sources available in the market: national and foreign, multilateral banks, and the capital market through infrastructure bonds or asset securitization.
- Regulatory impediments and limited institutional capacity prevent available private financing from reaching infrastructure investment
- This will require countries to improve their legal and institutional framework to ensure maximum competition in financial markets.
- Find new mechanisms for the construction phase
- Encouraging the participation of institutional investors is crucial, raising the profile of non-bank institutions to fill the infrastructure finance gap
- Long-term investors can make an important contribution to growth

9. Contract changes:

- Improve quality of projects, well documented, reduce need for changes
- Introduce only those contract changes that are strictly necessary in order to ensure public benefit once the winning bidder has been selected. Changes should reflect a continuing respect for competition.
- Independent regulatory agencies.
- Renegotiations of contracts limited to improvements of service and social benefits

10. **Conflict resolution:**

- Implement agile conflict-resolution mechanisms with the involvement of non–biased technical experts. The opinion of independent specialists as necessary may be of invaluable assistance.
- PPP contracts can be construed in many ways and these different interpretations need to be addressed promptly and objectively.
- Independent agency for conflict resolution established from the start

11. Social support:

- Ensure that society recognizes the positive aspects of projects developed under a PPP scheme. People not always perceive the value of PPP projects.
- Users feel that the benefits received are too low for the price they have to pay.
- Promote information transparency. There are generally many barriers to data and information access.
- Civil society at large and media should have access to project data, including contract changes, financing conditions, and the quality of services to be provided.

Experience shows that expectations and results show different outcomes

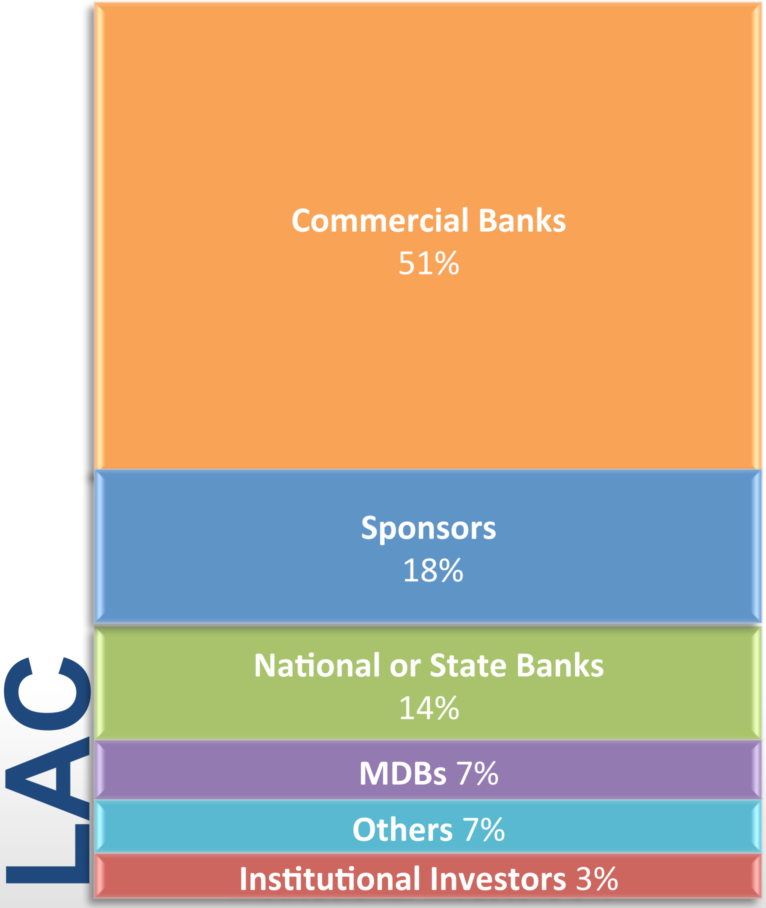
Criterion	Expectations about PPI/PPP	Results	Lessons learned
Fiscal impact	Reduce capital and operational expenses.	Partial impact, reduced by subsidies and renegotiations.	This can be improved with good structuring of process.
Efficiency	Reduce costs, reflecting this reduction as lower prices.	Increased overall productivity and workforce productivity.	Competition or very good regulation is critical.
Governance	Induce institutional changes (e.g., independent regulatory agencies)	The major weakness is poor regulatory effectiveness in developing countries.	It takes time to improve institutions and reforms are often implemented with urgency.
Equality	Contribute to poverty reduction by improving access and affordability.	PPIs have contributed to improved access to infrastructure among low-income individuals, but less so in terms of affordability.	It depends on the quality of regulations.

From Estache, A. (2012) The Impact of Private Participation in Infrastructure in Developing Countries: Tacking Stock of about 20 Years of Experience. ECARES Working Paper 2012-043

Critical Factors

- *Political and social stability*
- *Positive economic prospects*
- *Legal and regulatory frameworks stable and reliable*
- *Professional and independent regulators*
- *Political and social support*
- *Access to long term financing*

COMMERCIAL BANKS: MAJOR SOURCE OF FINANCING…



Source: IADB (2015); Infrastructure Journal Database (2015)

CAF, more than a bank

- **Financing programs and projects**
  - Catalytic role in financial intermediation
  - Counter-cyclical role in development finance
  - Innovation in products and services
  - Working to overcome market failures
- **Support for a pragmatic regional integration model**
- **Support to comprehensive development agenda through special programs**
- **Generation and dissemination of knowledge in favor of public policies for the region**
- **Building bridges between Latin America and the rest of the world**

Latin American countries with advanced plans for PPP programs

¡ THANK YOU !

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