



**BOND MARKETS AS A SOURCE OF
FINANCING FOR INFRASTRUCTURE
IN LATIN AMERICA AND THE CARIBBEAN**

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FINANCING INFRASTRUCTURE IN LATIN AMERICA AND THE CARIBBEAN

The challenge: closing the infrastructure
gap

Financing infrastructure: traditional
sources

New sources: a closer look at bond
markets (local and international)

Wrapping-up





1. THE CHALLENGE:

Closing the infrastructure gap

THE CHALLENGE: CLOSING THE INFRASTRUCTURE GAP

A substantial gap

LAC investment in infrastructure averaged 2.4%
in 1992 -2013, lower than other regions

Both public and private investment in
infrastructure are at low levels.

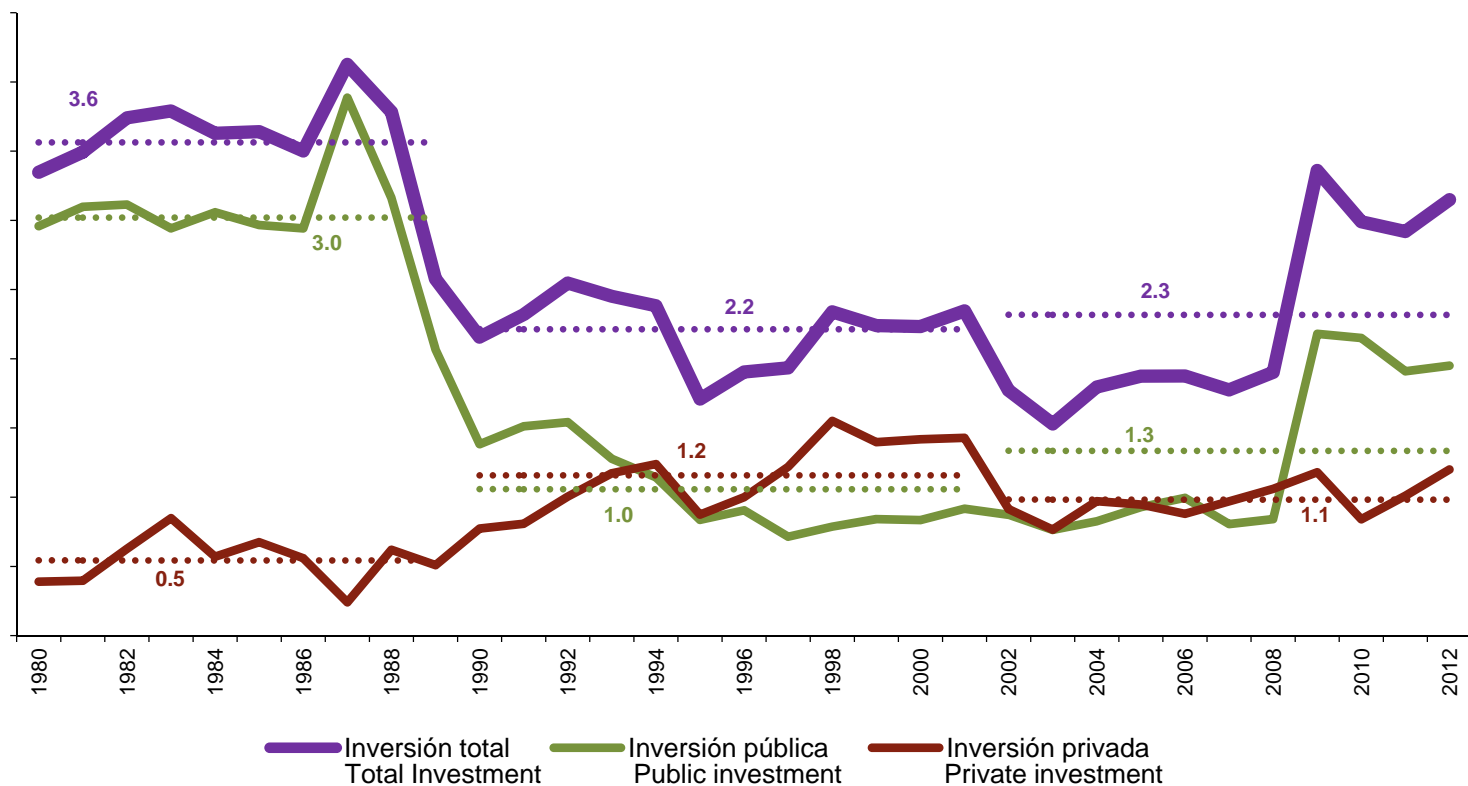
Overall deficiencies affect all sectors

Low quality of infrastructure



AC (LARGEST ECONOMIES): INVESTMENT IN INFRASTRUCTURE

○ 1980-2012 (% of GDP)

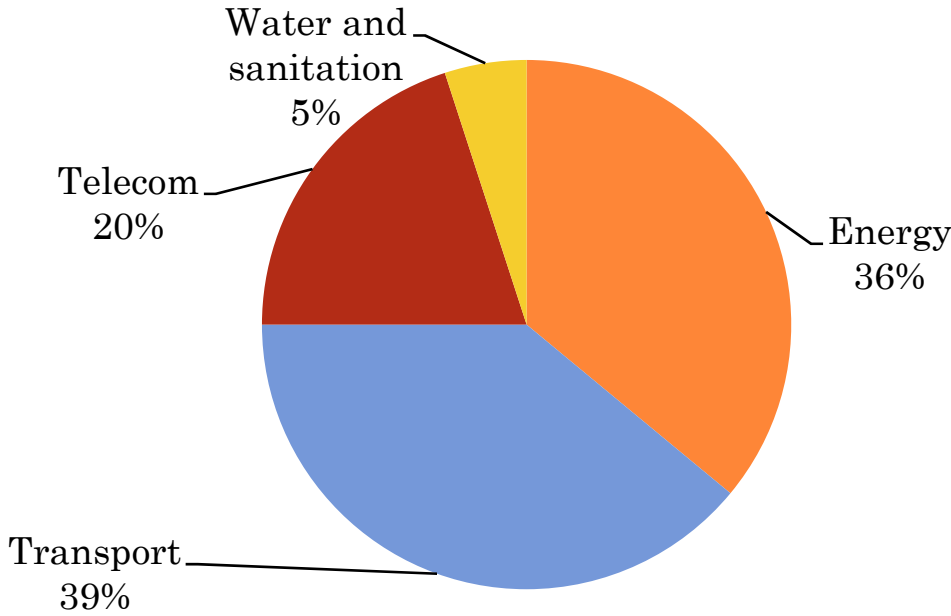


○ Source: ECLAC, on the basis of data from CEPALSTAT and Calderón and Servén (2010).



LAC (LARGEST ECONOMIES): ANNUAL INFRASTRUCTURE INVESTMENT NEEDS, DISTRIBUTION BY SECTOR

- **2012** (% of the average annual expenditure of 6.2% of GDP in infrastructure)



○ Source: ECLAC, Natural Resources Division





2. FINANCING INFRASTRUCTURE:

Traditional sources

TRADITIONAL FINANCING SOURCES

Public sector

National development banks

Public-private partnerships (PPPs)

Commercial banks

Regional and multilateral development banks

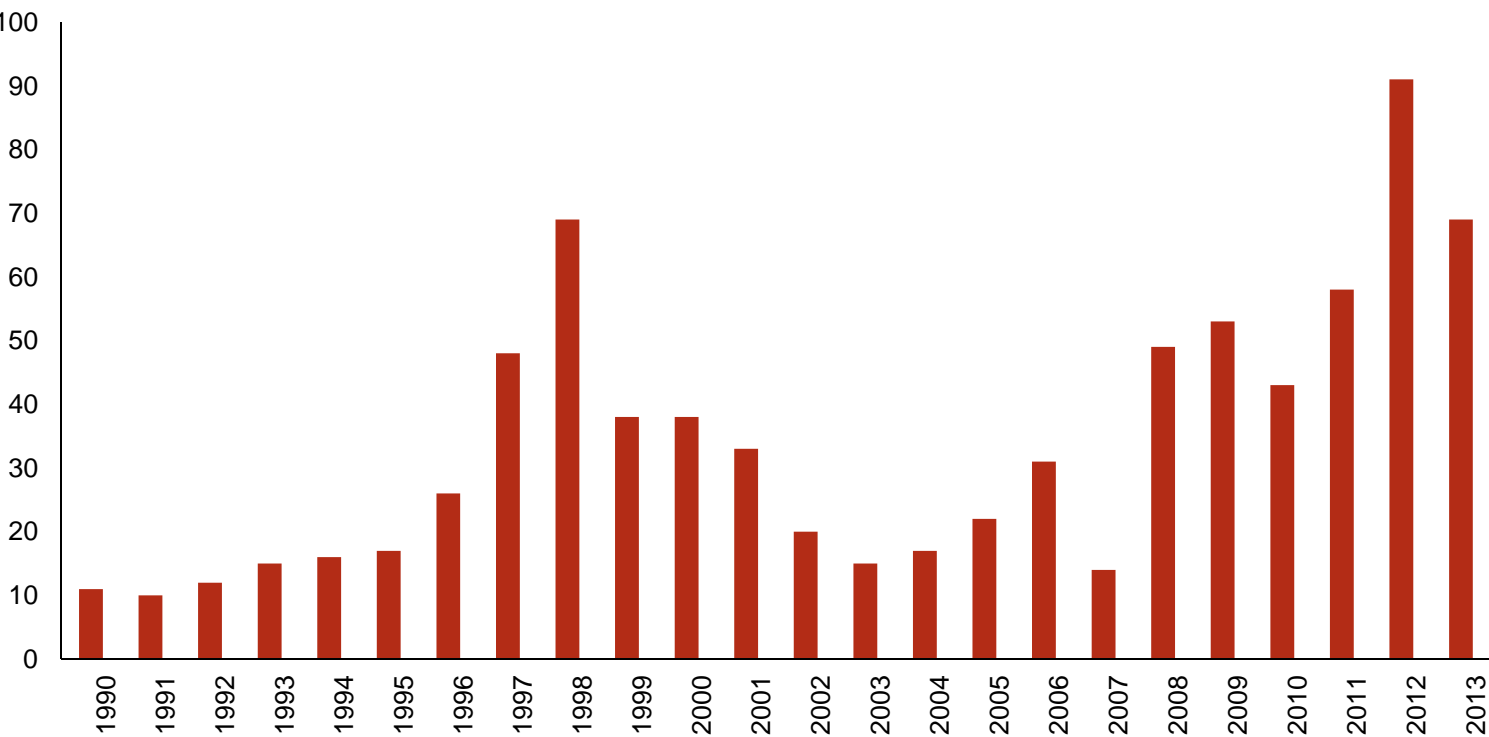
Bilateral sources

Foreign direct investment



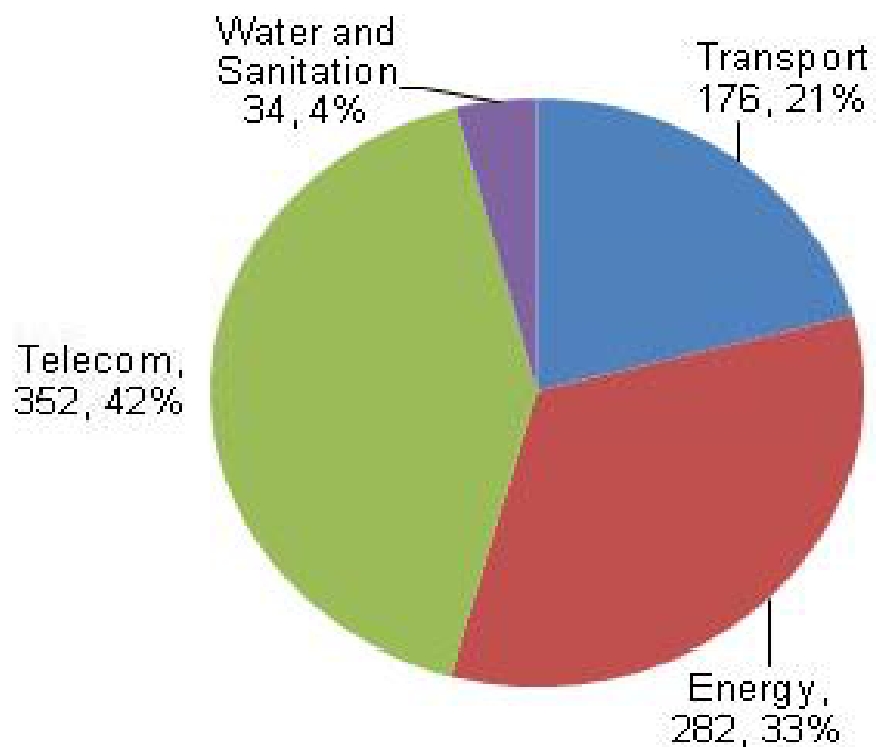
LATIN AMERICA AND THE CARIBBEAN: FINANCIAL FLOWS MOBILIZED BY PPPs, 1990-2013

(US\$ billions)



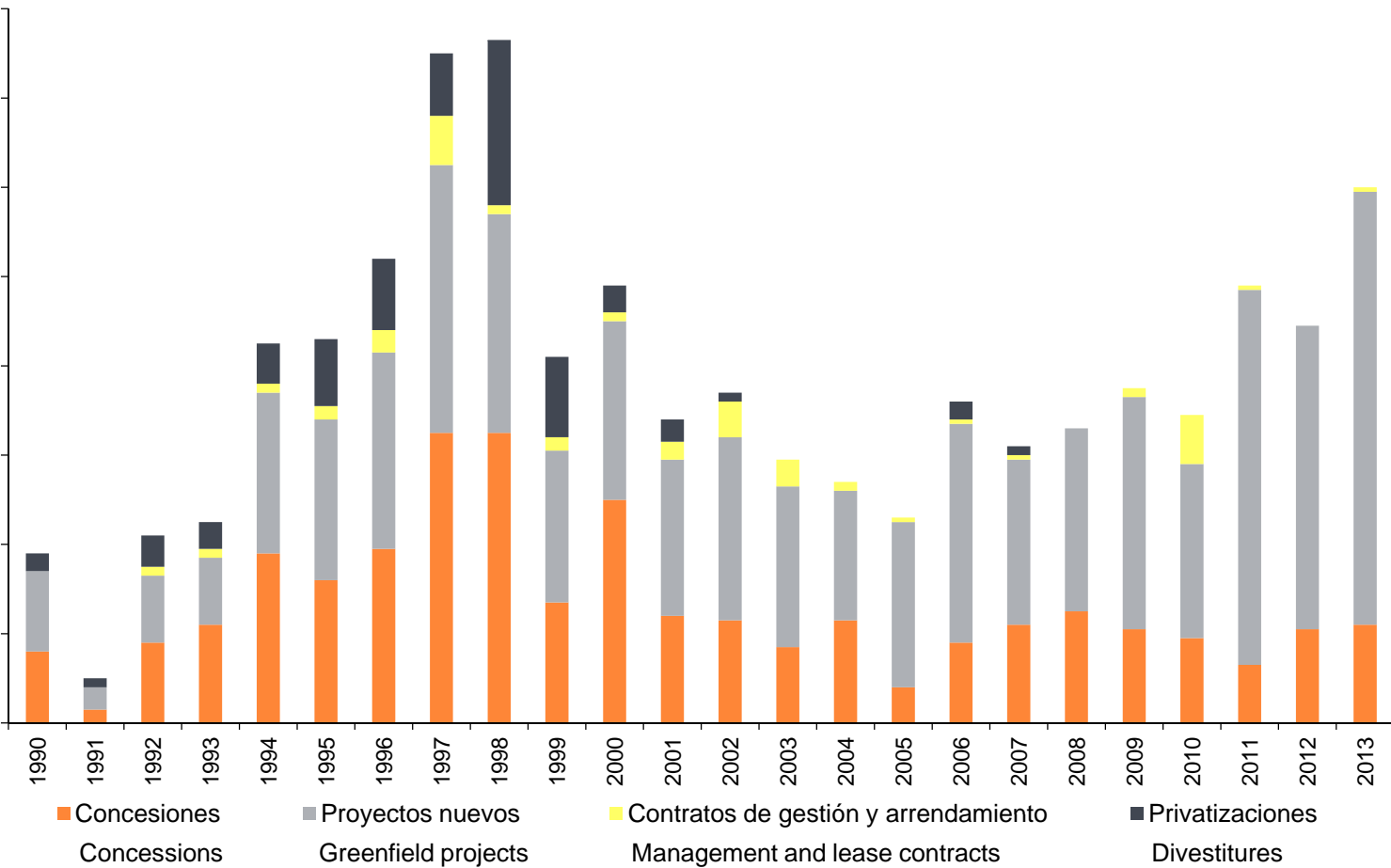
LATIN AMERICA AND THE CARIBBEAN: PPP'S PARTICIPATION, 1990-2013

(In US\$ billions and percentage of the total)



NUMBER OF INFRASTRUCTURE PROJECTS BY TYPE OF PRIVATE PARTICIPATION, 1990-2013

(US\$ billions)

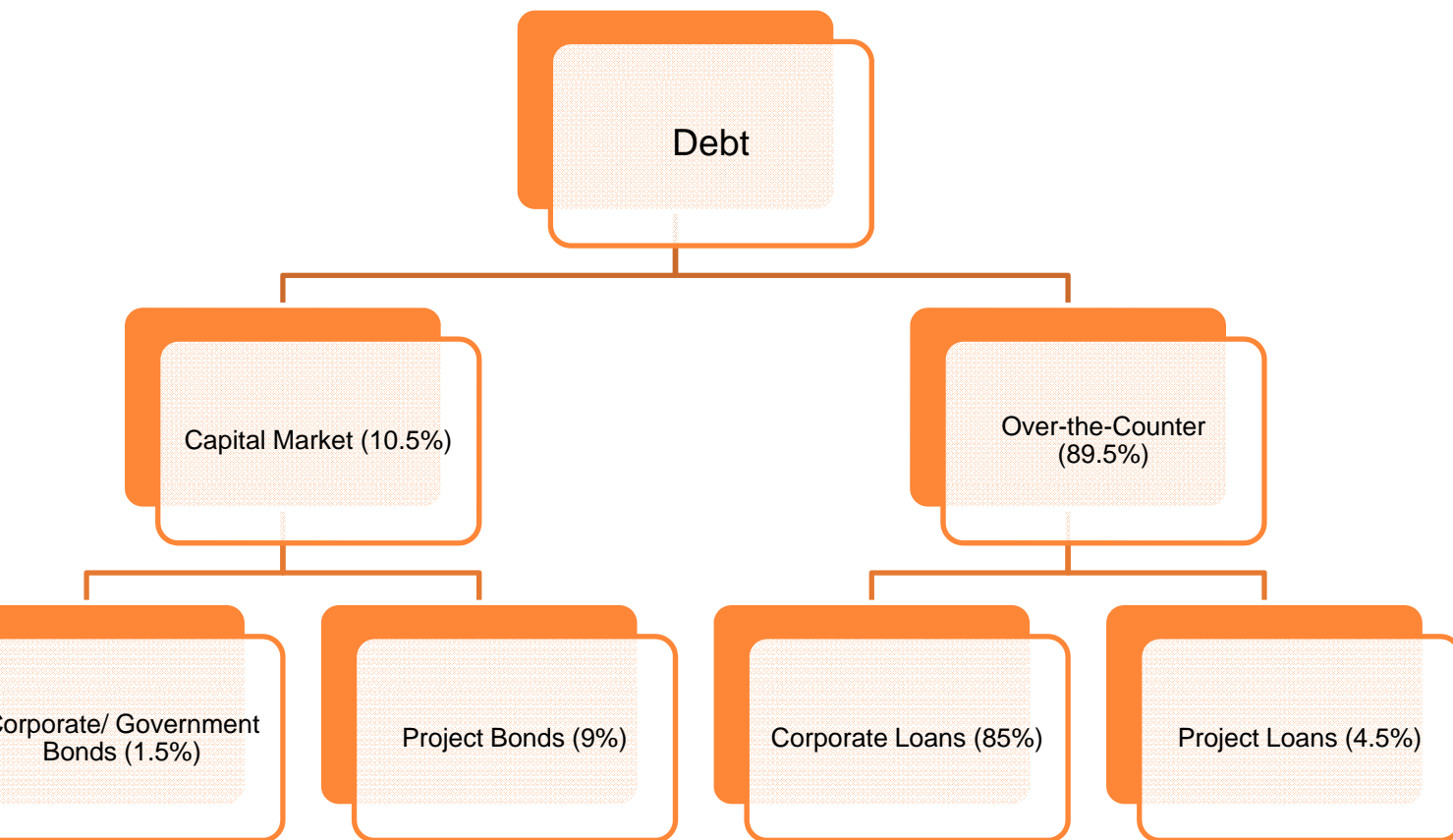




3. NEW SOURCES:

A closer look at bond markets (local and international)

COMPOSITION OF PRIVATE DEBT FINANCING FOR INFRASTRUCTURE IN LAC, 2004-14



LAC PROJECT FINANCING: PROJECT BONDS GROW, BUT LOANS STILL DOMINATE

○ 2000-2013 (US\$ billions)



Loans Bonds



BOND FINANCING EXPANDS HIGHLIGHTS

Brazil: In 2011, fixed-income instruments designed exclusively to finance infrastructure projects. In 2015, a new project bond model launched with World Bank support. In 2016, a fiscal package includes plans to issue R\$ 22 billion in infrastructure bonds.

Chile: early and extensive participation of pension funds in financing infrastructure through bond issuance. In 2015, initiative to create a Fund for Infrastructure.

Colombia: Large size and scope of infrastructure program attracting diverse investors. Project bonds recently designed to attract pension funds' ample assets. The National Infrastructure Agency (ANI) created to coordinate the framework for infrastructure development and investment.



CONTINUED)

El Salvador: in 2013 launched the first securitized project bond issue for improving the international airport.

Mexico: Via Atlixcáyotl, a state-owned toll road, one of the earliest examples of securitization. Securitization has efficiently channeled funds to infrastructure.

Peru: securitization and bond financing in early stages of concessions (Example, Camisea). Creation of a private investment promotion agency, Proinversión

Uruguay: several current initiatives to facilitate bond financing using savings from private pension funds.



LOCAL MARKETS: RECENT SUCCESSFUL ISSUANCES OF PROJECT BONDS

A toll road deal by *Concessionária Auto Raposo Tavares (CART)* advanced Brazilian project funding, selling the first large, widely-marketed infrastructure debenture to international accounts (December 2012)

Brazil's local bond markets' landmark toll road financing by *Concessionária Rodovias do Tietê*. With a 15-year tenor, it was the longest maturity ever achieved in the local market. First time that a toll road in Brazil was financed entirely through the capital markets (June 2013)

Peruvian toll-road operator *Norvial* raised PEN 365 million (US\$ 114 million) through a dual-tranche bond the country's first through a market book building process. The deal is guaranteed by toll revenues, a mortgage over the concession and shares (July 2015)



INTERNATIONAL MARKETS: THE REGION ISSUED MORE THAN US\$ 12 BILLION IN PROJECT BONDS BETWEEN 2012 AND 2015

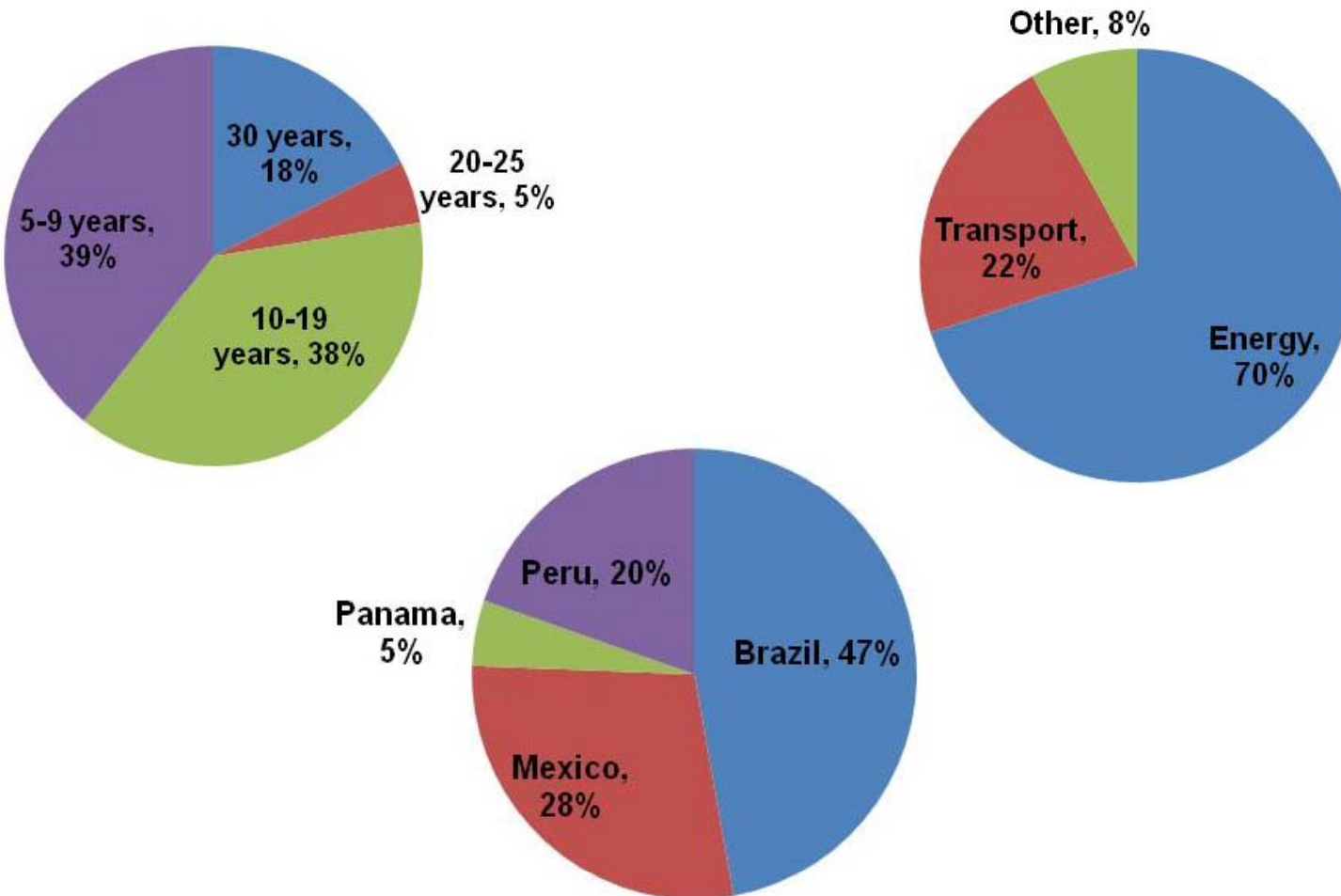
Project bonds accounted for 3% on average of the total LAC bond issuance in international markets in this period.

There were at least 20 deals in total, with 87% of the issuances in the size of US\$ 500 million or higher and maturities of 5 years or more. Almost a quarter of the total had maturities of 20 years or more.



LAC PROJECT BONDS' ISSUANCE IN INTERNATIONAL MARKETS, 2012-2015:

MATURITY, SECTOR, AND COUNTRY DISTRIBUTION



INTERNATIONAL MARKETS: EXAMPLES OF SUCCESSFUL ISSUANCES OF PROJECT BONDS

The 25-year bond issued by Peru's *Terminales Portuarios Euroandinos (TPE)* to fund the upgrade of Puerto de Paita was the first cross-border bond with brownfield construction risk in Latin America and also the first ever project bond for a port in the region. (April 2012)

Red de Carreteras de Occidente (RCO)'s sale of an Euro peso bond marked the first time a Mexican peso-denominated project bond – a MXP 7.5 billion (US\$ 603 million) 9.000% 2028 bond – had been sold to international investors under the 144a/RegS format (May 2013)

Odebrecht Oil & Gas placed a groundbreaking US\$ 1.69 billion 6.75% project bond. The deal refinanced existing drillships backed by charter contracts and a large portfolio of drilling vessels (August 2013)

Peru's *Eten Power Project* issued a US\$ 133 million 7.650% 2034, a novel structure with a partial credit guarantee by CAF. It was the first international greenfield project bond from LAC (November 2013)



GREEN BONDS: NEW TREND?

Peru's *Energía Eólica* became the first Latin American issuer to sell a green bond when it issued a US\$204 million 2034 bond in international markets in December 2014. First transaction from the region certified by auditors as complying with green bond conditions.

Two more green bonds have been issued in the region since then: *BRF Brazil Foods* issued a EUR 500 million 2022 bond in May 2015 and Mexico's *NAFIN* issued a US\$ 500 million 2020 bond in October 2015





4. WRAPPING-UP

MAIN TAKEAWAYS FROM LOCAL AND INTERNATIONAL BOND ISSUANCE

The strength and willingness of local pension funds matters.

Access to international capital markets is critical

Almost all of the local and international issuances of project bonds have been placed by the largest economies and by established corporations.

When project bonds attracted significant capital market participation, they generally benefitted from guarantees or partial guarantees from the government and/or regional/multilateral banks. Risk mitigation is crucial.



MAIN TAKEAWAYS (CONT.)

Local issuance has shown size and maturity limitations.

The most active countries have launched targeted initiatives, such as the creation of funds, investment promotion agencies and project bond models to finance infrastructure.

A stronger regulatory framework will enhance infrastructure as an asset class.



FINALLY

Bonds placed in capital markets can be an important part of the funding mixture for infrastructure.

National, regional, and global multilateral development banks play an important role in providing partial or full guarantees, as well as in helping mobilize other relevant parties.

Bond financing is a tool available to only a set of countries. Regional and multilateral banks are vital in providing direct financing for economies with less developed domestic capital markets and limited access to international capital markets.

Given the magnitude of the infrastructure effort required, a mix of public-private and national-international sources of financing is needed.