



IADB

Inter-American Development Bank

*Infrastructure Development & Sustainable
Economic and Social Development*

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About the IADB

- Established in 1959
- Mission: “To contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively”
- 47 member countries, 26 of which are developing countries
- Total Ordinary Capital: \$101 billion, of which \$96.6 billion in callable capital (plus \$9.8 billion of Fund for Special Operations) [as August 2006]
- Outstanding portfolio: \$58 billion
- Credit Ratings: • S&P: AAA/Stable/A-1+ • Fitch: AAA/Stable/FI+
- Oldest regional development bank and largest multilateral development institution in LAC



The Bank's mission:

Challenges of economic development in the last 4 decades

1960s		Direct financing of investment projects, almost exclusively through governments
1970s		
Late 1980s - 1990s		Reform of the state, policy-based, sector reforms and emergency lending
1990s - 2005		Financing for private sector investment without sovereign guarantees
2006 New Realities		Non-sovereign guaranteed operations for public, private and PPP investment. Base of the pyramid initiative; InfraFund; Trade finance facilitation, and Regional Integration

Throughout its history, the Bank has adapted its financial and non-financial products to the evolving needs of Latin America and the Caribbean.

The IADB and infrastructure investment

- The first 25 years: Large public sector projects: hydroelectric plants, highways, state-owned public utility companies in water and sanitation, power distribution network expansion.
- Late 1980s-1990s: Reforms of infrastructure sectors to create regulatory framework for private sector provision of infrastructure and public utility services.
- 1995 - 2005: Growth and decline in private sector investment.
- 2006: New directions. Public, private and PPP investments. Growth in the role of sub-national entities.

Sustainable Infrastructure Investment for Economic Development

The IADB focuses on sustainable economic and social development, poverty reduction and social equality.

- When financing infrastructure investment, the IADB works hand-in-hand with borrowers, project sponsors and stakeholders to ensure that the environmental, social, health and safety, and labor aspects of the projects to be financed contribute to the long-term sustainability of the investment.
- Since the mid-nineties, a growing share of the infrastructure investment financed by the Bank has been undertaken by private sector investors:
 - In the last 10 years \$33 billion of total investments in infrastructure have been made by private companies with IADB financing.
 - Such investments covered the fields of communications, energy, transportation and water.

Standards for the environmental and social sustainability of investments financed by the IADB

- Comply with: 1) all applicable in-country legislation and regulations; and 2) IADB's environmental, social, health and safety, and labor standards.
- Promote the greatest possible level of positive project-associated benefits, while mitigating potential negative impacts and risks.
- Promote information disclosure, consultation with stakeholders and transparency.
- Promote local, national and regional economic and social development by utilizing the human, financial and material resources of the project's host country.
- The Bank's commitment to work with project sponsors and stakeholders to achieve the above objectives contributes to solving problems that arise in larger infrastructure projects; projects are made more sustainable in the long-run and their benefits are better shared with society.

Stakeholder involvement

- A dramatic shift toward decentralization has taken place in LAC integrating the voices of individuals and communities in investment decision processes. Therefore, the IADB views stakeholder participation in investment decisions as essential.
- Benefits of this expanded participation include:
 - Better design;
 - Less conflict;
 - Social learning and invention;
 - Strengthening of local civil society and institutional capacities.
- Investment in time and resources required for participatory approaches results in social and financial benefits that justify the additional effort.

New Realities in the Region

Critical need for infrastructure investment:

- There is a critical need for sustainable infrastructure investment in Latin America and the Caribbean
- LAC needs to invest 4% to 6% of GDP annually for 20 years to reach Korea's level of productive investment (Infrastructure in LAC. World Bank. 2005)

Major developments in infrastructure over the past decade:

- Central governments constrained by budget tightening, limits on indebtedness
- Public sector no longer able to fund national infrastructure development
- Broad-based decentralization of government and related expenditures
- Collapse in private sector infrastructure investment since 1998
- Lofty expectations of private investment have not been realized

New Realities in the Region

Broad-based decentralization of government and related expenditures:

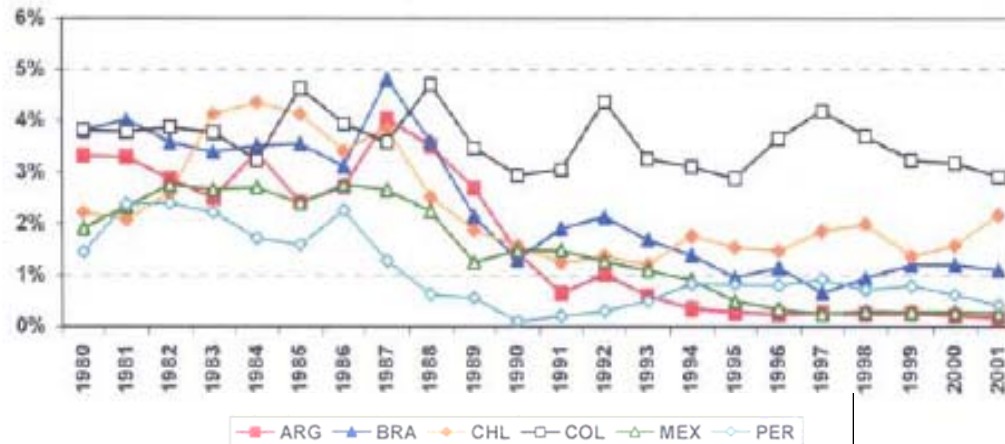
- Fiscal responsibility and revenue-generation shifting to sub-sovereign entities
- Average of sub-national/national expenditures rising towards OECD levels
 - Ratio for OECD countries at 29%
 - LAC average up to 19% from single digits in the early 1990's
 - Large differences within the region: Argentina, Brazil, Colombia
as high as 50%
- Growth of public/private investment programs, many at sub-sovereign levels

New Realities in the Region

Budget tightening constrains public infrastructure investment:

- Central governments have been constrained by budget tightening, which set up limits in their indebtedness level. As a consequence, public investment levels have declined considerably.

Decline in public investment from 1980 - 2001



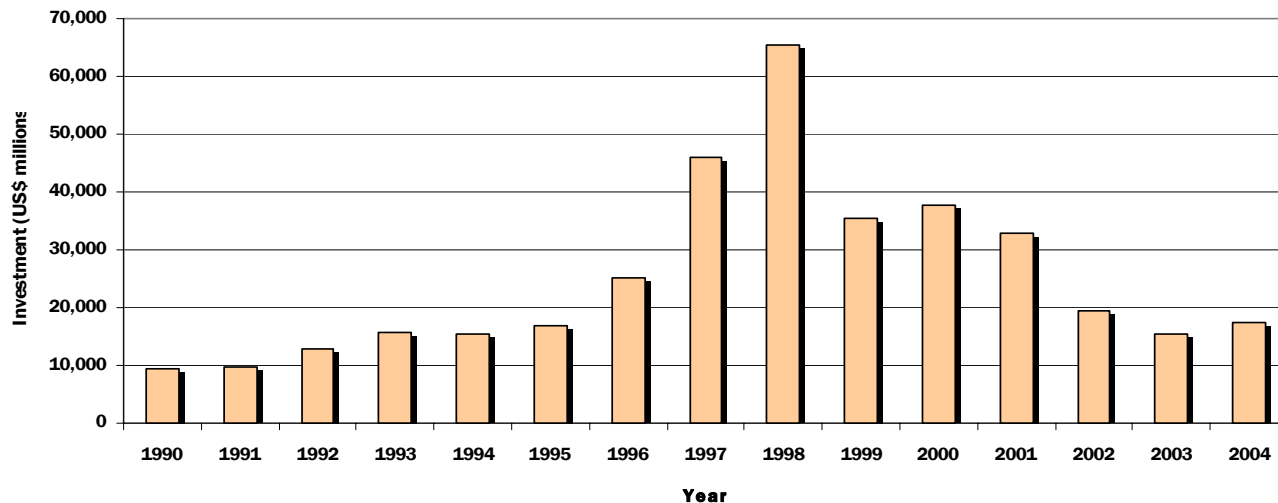
Source: "Infrastructure in Latin America & the Caribbean: Recent Developments and Key Challenges". The World Bank. Marianne Fay and Mary Morrison. August, 2005

New Realities in the Region

Collapse in private investment:

- During 1990-1998, private sector investment in infrastructure grew consistently. After 1998, this investment collapsed.

Latin America: Private Participation in Infrastructure: 1990-2005



Implications to IADB's approach to infrastructure investment

IADB faces a series of challenges:

- Central government guarantees often not available for important investments
- Demand for tailored solutions for a new class of sub-sovereign clients
- PPP models are not easily classified as “public” or “private” operations
- Need for solutions that integrate expertise in public and private risk allocation
- Sub-Investment Grade environments make cross border financings difficult
- Domestic capital markets developing, but yet unable to fund Greenfield projects
- Demand for “project finance” solutions in local currency

A New Business Model at the IADB

The IADB aims to maintain its development effectiveness and relevance in the face of these new realities in the region. To that end, the new business model being implemented will:

- Extend the reach of its non-sovereign guaranteed operations to a broad new spectrum of investment projects encompassing ownership arrangements that may be public, private or mixed public-private, including sub-sovereign enterprises and projects;
- Make more efficient use of resources available for investments to be made by this broader spectrum of sponsors and investors, helping catalyze increasing levels of investment; and
- Adopt an enhanced client-oriented approach by designing financing solutions tailored to specific project/client profiles.

IADB's Non-Sovereign Guaranteed Operations

(From August 2006)



Comprehensive Sector Coverage

Subject only to Exclusion List

Full Spectrum of Public-Private Structures



Financing Products:

- *A/B Loans*
- *Political Risk Guarantees*
- *Financial Guarantees*
- *Local Currency Options*

Investment Promotion:

- *Advisory Services*
- *Infra Fund*
- *Technical Cooperations*

The engineering community and the IADB: a partnership for economic development (I)

- Long history of collaboration between the IADB and the engineering community.
- Environmental engineering technologies as a means to enhance sustainability of infrastructure development.
- Multi-dimension interaction between IADB and engineering profession:
 - Design, procurement and construction;
 - Technical assistance to provide countries with solid infrastructure framework;
 - Support for the IADB's independent assessment of projects; and
 - Environmental assessment of infrastructure projects seeking IADB financing.

The engineering community and the IADB: a partnership for economic development (II)

Design, procurement and construction of large infrastructure projects:

- Just 4 projects financed by the IADB in the last 6 years illustrate the importance of the engineering community's contribution to infrastructure investment. Investments amounting to \$1,760 million (US\$1.8 billion) included \$1,268 million (\$1.3 billion) of EPC costs (72% of total).



Chile. Major Toll Road.

Total Investment Cost

US\$ 416 million

EPC component

US\$ 282 million (68%)

The engineering community and the IADB: a partnership for economic development (II)



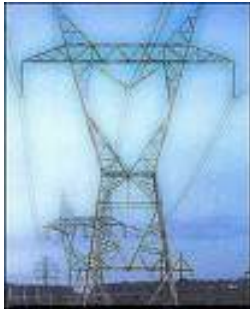
Peru. Gas and liquids pipelines.

Total Investment Cost

US\$ 811 million

EPC component

US\$ 569 million (70.1%)



Brazil. Transmission Line

Total Investment Cost

US\$ 338.1 million

EPC component

US\$ 272.4 million (81%)



Mexico. Power generation plant

Total Investment Cost

US\$ 195.1 million

EPC component

US\$ 144.9 million (74.3%)

The engineering community and the IADB: a partnership for economic development

Technical assistance to develop infrastructure investment:

- IADB launched, on September 11, 2006, a US\$20 million fund to support infrastructure project preparation.
- The InfraFund targets urgent infrastructure needs in Latin America and the Caribbean by financing the design of viable projects.

Technical advice to IADB for the assessment of engineering, procurement, construction and environmental aspects of investments to be financed by the bank:

- There are 147 infrastructure projects under active supervision or being considered for financing by IADB, just in the private sector infrastructure area alone.
- An estimated US\$18,4 million have been and/or are expected to be spent on engineering procurement for technical advice to assist the bank in this task.

Inter-American Development Bank

IADB and the engineering community should continue to work together to search for greater effectiveness in promoting sustainable economic and social development in LAC.



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