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UPADI – Union Panamericana de Asociaciones de Ingeniería
(Pan-American Federation of Engineering Societies)

Speaker at the Opening Ceremony, September 20, 2006

On behalf of Ciro de Falco and the IADB I thank you for the honor and pleasure of opening this convention.

This conference's theme: "Building a sustainable infrastructure through education, technological innovation and economic development" is very close to the Inter-American Development Bank's development mission.

A. Facts about the Inter-American Development Bank

1.1 The Inter-American Development Bank was established in 1959, and from its inception, the institution has seen itself as "more than a bank". At a time when building infrastructure in developing countries was focused primarily on basic physical infrastructure (e.g., power plants, highways), the IADB quickly incorporated in its objectives the financing of education, potable water, urban and rural development, promoting small- and medium-scale enterprise development and the integration of Latin America.

B. The IADB's financing of economic development – current focus

1.2 The Bank's operational focus has evolved and changed over time in the last 47 years, but the essence of its mission continues to be reflected in its approach to development. Some of the current priorities are:

- a. An approach to economic and social development the Bank refers to as reaching "The base of the pyramid". This initiative focuses on improving conditions for the low-income population of Latin America and the Caribbean by looking at that vast majority through a new lens. People living and working at the base of the region's economic pyramid need to be seen as what they really are —consumers, producers, partners, creators of wealth.
- b. Another important focus is represented by a combination of activities that is aimed at realizing the principles enunciated in "The Monterrey Consensus"¹, such as "the goal of eradicating poverty, achieve sustainable economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system".

¹ Source: "Report of the International Conference on Financing for Development". United Nations. Monterrey, Mexico, 18-22 March 2002.

- c. To seek new ways to accelerate the growth of investment in infrastructure. As the economic development community re-examines the role and benefits of infrastructure investment, the critical importance of promoting a faster growth in the pace of such investment in Latin America and the Caribbean (LAC) has become evident. Infrastructure investment made in accordance with sound environmental and social standards contributes to poverty reduction and social equality.

1.3 The principles of sustainable infrastructure:

- a. Infrastructure contributes to the reduction of poverty and to social equality;
- b. It must be environmentally sound to be sustainable;
- c. Infrastructure investment projects must comply with health and safety, and labor standards; and
- d. Must bring economic and social benefits to the population. Many large infrastructure projects are enclaves for the local communities in the immediate area of influence of the project. While the project may bring benefits for all indirectly, by increasing for example the supply of cost-effective and reliable electric power, it may have no direct benefits to local communities. Lessons learned from past experiences have demonstrated the need to have creative mechanisms so that benefits directly reach those local communities.

C. The evolution of infrastructure investment in LAC in the period 1990-2005

- 1.4 The most recent change to how the Bank approaches its mission was the adoption of a new business model, decided only last month, to promote sustainable infrastructure investment in LAC. I would like to share with you how the Bank arrived at this new approach, which is keyed to the new realities in LAC and the World economy and, I believe, very relevant to the concerns of this Convention.
- 1.5 “LAC governments massively reduced their infrastructure investment in the 1990’s. This was due to a combination of the adoption of fiscal austerity in a number of countries and the emergence of policies aiming to transfer infrastructure investment and public utility services to the private sectors”².
- 1.6 A few major developments in LAC, since the early 1990’s, have materially changed the universe of potential developers and investors in infrastructure investment. They were:
 - a. A substantial decentralization of government and related expenditures.
 - b. The tightening of fiscal policies and a decreasing ability to incur indebtedness by central governments.

² Source: Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges”. The World Bank. Marianne Fay and Mary Morrison. August 2005.

- c. A decrease in central governments' investment in infrastructure.
- d. The collapse, since 1998, of private participation in infrastructure investment. Private investment was insufficient to fully compensate for the sharp decline in public investments, let alone contribute to raising overall investments to adequate levels. (Source: "Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges", Marianne Fay and Mary Morrison, World Bank).
- e. Generally, expectations prevailing in the early 1990s that privatizations of infrastructure and public utility services were going to sweep through the LAC region were not realized.

D. New Realities in LAC: Decentralization and new strategies for infrastructure investment

- 1.7 Most countries are more decentralized today and have shifted responsibility and revenue-generating authority to sub-sovereign governments.
- 1.8 The regional (LAC) average in 2004 for the ratio of sub-national to national expenditures equaled 19.3%, up from single digits some 15 years ago, and moving closer to the OECD average of 29%.
- 1.9 The regional average masks significant differences among countries. Argentina, Brazil and Colombia each have ratios of sub-national to national expenditures close to 50%, comparable to the world's most highly decentralized regimes, such as Canada, the U.S.A. and Nordic countries. (Source: "The State of State Reform in Latin America", to be published in mid-2006, chapter 7, by Bob Daughters and Leslie Harper, IDB).
- 1.10 Mixed public-private strategies and legal arrangements are being developed, including many solutions at the sub-sovereign levels.

E. Implications for Infrastructure Investments and the Inter-American Development Bank (IADB)

- 1.11 As LAC countries pursue a wide range of new visions and associated infrastructure investment solutions to the roles of the state and the private sector in their economies, which contemplates an increasing participation of sub-national governments and entities, the Bank believes it must respond to these new realities to continue to be relevant.
- 1.12 Most countries in LAC are rated below investment grade. While recent trends regarding positive rating upgrades are encouraging, there is a long history of highly volatile access to cross-border market finance.
- 1.13 Domestic access to long-term capital market credit has been improving in recent years in a number of countries, supported by macroeconomic improvements and favorable capital market structural factors. However, local capital markets also have yet to offer regular access to Greenfield infrastructure projects and mainstream corporate entities.

- 1.14 Access to local currency financing is an essential element for the long-term sustainability of infrastructure and public utility services in LAC.

F. IADB Assessment of the new realities: a new business model

- 1.15 In light of the new realities in LAC and the significantly unmet need for infrastructure investment, IADB adopted a new approach to clients and sectors that are not fully private and do not directly involve the central government as a project sponsor in its investment project financing operations.
- 1.16 IADB considered a less constrained way of how best to mitigate each project's risk, for such new universe of clients, adopting a risk-based approach that is more parsimonious with the requirement of a sovereign guarantee, targeting the central government's support more effectively, so that scarce public funds would be used more efficiently.
- 1.17 To that end, IADB adopted a new business model that would enable the institution to provide financing without sovereign guarantees to a broad new spectrum of investment projects, which adds to private sector investors other sponsors, that may not be fully private, provided that such projects can be structured with adequate security without recourse to a full sovereign guarantee.
- 1.18 A recent report issued in January 2006 by the World Economic Forum pointed out that "Institutions that traditionally have been lenders to sovereigns must transform themselves into catalysts, mediators and facilitators at the sovereign, sub-sovereign and regional levels" (Source: The Untapped Potential of Development Finance Institutions to Catalyze Private Investment, World Economic Forum, Financing for Development Initiative, January 2006). The key driver for achieving such important results is a more effective approach by multilateral development banks to risk allocation. The IADB has adopted such an approach.
- 1.19 The IADB aims to maintain its development effectiveness and relevance in the face of the new realities in the LAC region. To that end, the new business model adopted by the Bank this year, and currently being implemented consists of:
- a. Adopting an enhanced client-oriented approach by designing financing solutions tailored to specific project/client profiles, while mitigating IADB's exposure through risk management techniques that build on IADB's private sector operation's experience;
 - b. Extending the reach of its non-sovereign guaranteed operations to a broad new spectrum of investment projects encompassing ownership arrangements that are neither purely sovereign nor fully private sector risks; and
 - c. Making more efficient use of resources available for investments at sub-sovereign levels, helping catalyze them.

G. Implementation and Benefits to the Region

- 1.20 The new operations will combine a gradual approach to institution-building of public sector and public-private partnership based entities undertaking investments, with project-borrower risk management techniques.
- 1.21 A cornerstone of this approach will be to create a framework for progressive development of fiscal discipline, good corporate governance, management effectiveness and financial soundness in order to attract private investments and financing to such projects and, ultimately, to making such entities able to gain independent access to capital markets on a sustainable basis.
- 1.22 Another essential objective of the new approach to public-private partnerships will be to enhance their ability to attract significant levels of private sector participation through risk-sharing and capital investments.
- 1.23 This new approach to financing public, private and public-private partnership investment, without sovereign guarantees is seen as enabling the IADB to improve the extent and quality of its support to two key areas of economic development: infrastructure investments and development of the private sector.
- 1.24 The broader spectrum of investment projects to be financed will allow IADB to extend the benefits of its catalytic role to a much greater range of investments.
- 1.25 The new business model is country-focused and gives high priority to local capital markets development and to institution-building of new project sponsor entities, such as sub-sovereign owned companies, extending a market discipline to this broader spectrum of entities.
- 1.26 The IADB's ability to promote private sector development will be increased by IADB's focus on key sectors of each country's economy, where a private sector presence is most prominent.

H. The engineering community and the IADB – a partnership for economic development

- 1.27 There has been a long history of collaboration between IADB and the engineering community. The engineering profession has had a major role in the engineering design and construction of infrastructure projects of great economic impact in LAC. As I have mentioned, these projects were at first mostly public and, since the 1990s, both public and private.
- 1.28 The development of environmental engineering technologies and of that segment of the engineering community has been greatly enhancing the sustainability of infrastructure investment; that trend must continue for the world to face the challenges to our global environment.

- 1.29 Thus, the interactions between IADB's development activity and the engineering profession have a multiple dimension, which include among others:
- a. Engineering design, procurement and construction of investment projects financed by the Bank;
 - b. Contribution to technical assistance provided to countries to develop the framework of future investment projects;
 - c. Assisting the Bank in its independent assessment of investment projects, in its due diligence work to make financing decisions regarding private infrastructure investments
 - d. Environmental assessment of infrastructure projects seeking Bank financing.
 - e. IADB's institutional capacity building in its developing member countries is a key element of its development work. Part of that work has involved engineering capacity building of project execution agencies/units of public sector project loans, to strengthen project implementation capabilities throughout the bank's 26 borrowing countries.
- 1.30 The contributions made by the engineering community to infrastructure investments cannot be measured purely by contract size, but the numbers below may illustrate its scale.
- a. In just four of the very many large scale infrastructure projects with private sector sponsors, financed by the IADB the total investment cost of US\$1.8 billion included engineering, procurement and construction contracts of US\$1.3 billion (72% of the total).
 - b. Technical advisory work to help IADB assess the engineering and environmental aspects of projects to be financed, or under supervision (portfolio) represent expenditures of US\$18.4 million (actual/projected).

I. Going forward: building a closer partnership for sustainable infrastructure investment

- 1.31 To conclude, I would like to invite the engineering community represented by UPADI to join the IADB in searching for greater effectiveness in the promotion of a greatly accelerated pace of investment in sustainable infrastructure in Latin America and the Caribbean.
- 1.32 I thank you again for the opportunity to share these thoughts with you in your opening ceremony.