



RE-338

**Evaluation of IDB Action in the
Initiative for Integration of
Regional Infrastructure in
South America (IRSA)**

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ACRONYMS

CAF	Andean Development Corporation (Corporación Andina de Fomento)
CAN	Andean Community of Nations (Comunidad Andina de Naciones)
ESC	Executive Steering Committee (Spanish acronym, <i>CDE</i>)
ETGs	Executive Technical Groups (Spanish acronym, <i>GTE</i>)
FIRII	Fund for Financing for Integration of Regional Infrastructure
FONPLATA	Fund for Development of the River Plate Basin
GATT	General Agreement on Tariffs and Trade
IDB	Inter-American Development Bank
IDHs	Integration and Development Hubs (Spanish acronym, <i>EID</i>)
IIRSA	Initiative for Integration of Regional Infrastructure in South America
ITP	Indicative Territorial Planning
LAIA	Latin American Integration Association
MAP	Montevideo Action Plan 2000-2010
MERCOSUR	Southern Common Market
MFI	Multilateral financing institutions
OVE	Office of Evaluation and Oversight
PPP	Public-private partnership
SIGE	Strategic Management Information System
TC	Technical cooperation
TCC	Technical Coordination Committee (Spanish acronym, <i>CCT</i>)
TEN	TransEuropean Network
UNASUR	Union of South American Nations
UNCTAD	United Nations Conference on Trade and Development
SASV	South American Strategic Vision
VPC	Vice Presidency for Countries
WEF	World Economic Forum

EXECUTIVE SUMMARY

As political processes and economic strategies converged in South America in the 1990s the region's nations were presented with an opportunity to deepen the integration of their economies. The mounting weight of intraregional trade and expectations of continued growth in cross-region commerce gave further impetus for such a course. But, to see these prospects materialize, it was imperative to remove bottlenecks created by the shortfalls in regional integration infrastructure availability, quality, and interconnectivity that were becoming worse with time.

Out of those concerns emerged the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), spearheaded by the South American governments (Meeting of South American Heads of State, Brasilia, 2000) and strongly supported by the Inter-American Development Bank (IDB) and Andean Development Corporation (CAF). The IIRSA intervention strategy charted in that 2000 forum featured two innovations: (i) integrated treatment of transportation, energy, and telecommunications issues, working to capitalize on existing synergies, improve production and trade logistics, and thereby make the region more competitive; and (ii) active engagement of multilateral financing institutions in shaping the Initiative and in its subsequent management and coordination.

The state of IIRSA and its achievements

IIRSA's premier achievement has been to structure, by consensus, a portfolio of integration infrastructure projects organized around eight Integration and Development Hubs (IDHs). The portfolio makeup is reflective of consensus forged in the region over the past fifty years: first, it is more robust in overland transport infrastructure, an area with a lengthy track record of consensus building in South America, and second, the IDHs with greatest weight in the portfolio are the ones associated with the region's two traditional trade integration movements—the Andean Community of Nations and MERCOSUR.

The IIRSA project portfolio marks a clear step forward for accords on South American regional development. While this advance has brought undeniable gains, some aspects of the portfolio's operationalization are in need of improvement. To begin with, information quality and uniformity limitations in the Indicative Territorial Planning (ITP) process that gave birth to the IDHs mute the benefits of the envisaged methodology advances. Moreover, since no criteria were built into the ITP to rank projects by reference to their integration-impact risks and benefits, the portfolio does not differentiate projects likely to have a strong regional-connectivity impact from those whose benefits would stay largely in the project country. The result has been a high proportion of individual country infrastructure projects in the IIRSA portfolio, which has kept the Initiative from its original mandated regional-integration focus.

Second, IIRSA has not proved to be an effective forum for advancing the sector-specific processes that were to have lowered administrative or regulatory hurdles—a crucial step to boost intraregional trade. Part of the explanation for this ineffectiveness may lie in a too-infrequent convening of enough key stakeholders and the absence of formal relations with

political decision makers and with the integration schemes already operating in the region (Andean Community of Nations—CAN, MERCOSUR, and Latin American Integration Association—LAIA). This has adversely affected the political economy of IIRSA and has held up integration in the sectors in question.

Lastly, the development of innovative ways to deliver physical-infrastructure project finance remains largely on the drawing board. IIRSA objectives on this front were threefold: (i) create greater flexibility in the fiscal space for infrastructure investment, (ii) provide incentives to engage private investors in infrastructure finance, and (iii) develop new financing instruments suited to the particularities of integration projects. On the matter of flexibility, improvements in the IIRSA economies' fiscal accounts made this less of an immediate concern. The participating multilateral financing institutions (MFIs) have addressed the second item at the theory level through the design of public-private partnership (PPP) approaches but, in practice, little use has been made of guarantees or other vehicles. As for the third aim, there is no evidence of progress in developing new financing supports or of a regional consensus about devising financing facilities tailored to integration infrastructure projects.

The IDB's IIRSA activities

The Bank's pledge of support for IIRSA was two-pronged. First, it would coordinate the Initiative and deliver technical and logistic support from its position within the IIRSA institutional structure (specifically, as a member of the Technical Coordination Committee—TCC), and by way of INTAL, the IIRSA secretariat. Second, the Bank undertook to relaunch integration-infrastructure project financing, promoting mechanisms to overcome constraints at the time and address the unique features of such projects. The twin commitments were adopted at the level of the Bank's president and endorsed by its Board of Executive Directors. In 2002 the latter body approved an annual "Initiatives" budget line to fund the Bank's IIRSA commitments. In 2006 the budget line was extended through 2010, the end of IIRSA's originally approved lifespan.

The Bank's IIRSA management and technical coordination work is favorably perceived by the main IIRSA stakeholders. Overall, the consensus is that the MFIs' involvement has assured the continuity of meetings, expediting logistic and administrative tasks via INTAL. The Bank also has received slightly more positive ratings for coordination and technical support. INTAL's performance as IIRSA secretariat earned very satisfactory ratings in areas pertaining to meeting and workshop organization and development of materials.

From IIRSA's inception through 2007 the Bank provided US\$9.7 million in financing for the Initiative's management and technical coordination. Roughly three quarters (73%) of that sum went to administrative expenses for the IIRSA institutional structure at the IDB. With this funding the Bank has since 2003 operated an ad hoc unit to handle IIRSA matters within the IDB, which has enabled more detailed tracking of IIRSA-related operations and issues. However, this arrangement distanced the IDB operational units from IIRSA decision making, limiting the operational departments' ownership of the Initiative and the presence of IIRSA projects in their pipeline.

The lack of incentives for internal ownership of the Initiative has limited the Bank's effectiveness in achieving IIRSA substantive objectives. The following findings back that affirmation:

- a. The Bank has not set its own IIRSA objectives or goals or integration infrastructure priorities, thus narrowing its possibilities to focus, oversee and, if necessary, redirect its action.
- b. The Bank has not taken active steps to mainstream or give prominence to the Initiative in its country and regional programming or within its operations departments.
- c. The Bank has not advanced on the design and adoption of project appraisal methodologies that address issues (risks, asymmetries, benefits) specific to integration infrastructure projects.
- d. The fact that a project was part of the IIRSA consensus portfolio has not meant that its preparation process has been more efficient. Operations processing times do not reflect any value added during the Indicative Territorial Planning exercise for IIRSA portfolio projects, so on average there is no difference in that regard between IIRSA projects and other IDB infrastructure projects.

The Bank's value-added contribution to the Initiative has been modest in terms of development of new analytical tools and studies on regional integration. With the exception of the Fund for Financing for Integration of Regional Infrastructure (FIRII), the Bank has devised no financing products tailored to regional integration projects or special programs to address the multiple identified bottlenecks to regional connectivity and trade. Nor has the Bank created the kind of spaces for analysis of the political economy of integration processes that could add value to its coordination and management function, through an up-to-date vision of the integration process, monitoring of the attendant risks, and adjustment of incentives to achieve the IIRSA goals.

The single exception noted above, the US\$20 million FIRII created in March 2005, is an important, novel financing support designed to meet integration-infrastructure project preinvestment needs. Various progress reports on the use of this regional fund and its prospects confirm it to be an excellent vehicle for the present phase of IIRSA and suggest that it should be enlarged. However, in OVE's assessment it is still early to form a substantiated opinion on FIRII's impact. Only two of the eight approved operations have begun disbursing and only four provide preinvestment support for IDB pipeline projects.

In the 2000-2007 span the Bank approved 14 loans totaling US\$1,294.7 million for IIRSA portfolio projects and one US\$60 million guarantee. Thirteen of the loans—US\$944.7 million in all—were for transportation sector projects (37% of approvals for that sector), and one US\$350 million loan funded an energy project (26% of 2000-2007 energy approvals). The Bank also furnished US\$3.89 million for 12 nonreimbursable technical

cooperation projects, and financed 8 preinvestment operations (US\$8.25 million) through the FIRIL.

The recent date of these operations and the absence of apposite indicators preclude any systematic evaluation of their regional integration impact. Only one of the 13 loans is fully disbursed; 5 are less than 50% disbursed and 7 have yet to begin disbursing. A further constraint for evaluating the integration-furthering effectiveness of the transport and energy infrastructure projects is that, while most of them do state some integration objective, none sets out specific benchmarks against which to measure their regional integration or regional trade impact, so their effective impact on those processes cannot be gauged.

The Bank has contributed a comparatively modest share of IIRSA-portfolio project financing. About 117 of the 351 IIRSA projects identified at the outset are being funded, for a total investment of about US\$19.169 billion. The IIRSA countries' national treasuries are supplying the bulk (64%) of financial support for the Initiative. The private sector is putting in about 21% of the total, mostly to finance concession deals and port and airport upgrades in various cities. According to the available data, the CAF is financing 8% of the IIRSA portfolio (19 projects) for a total of US\$1,535.1 million and the IDB 7%, a total of US\$1,294.7 million. The Fund for Development of the River Plate Basin (FONPLATA) has funded only two projects, for US\$35 million.

A tally of IDB and CAF integration-infrastructure lending approvals (for IIRSA and non-IIRSA projects) shows that the CAF portfolio increased substantially but the IDB's remained largely unchanged, or at least failed to rebound in the same proportion. It is not just that the CAF capitalized more assertively on the emerging finance opportunities to substantially boost its integration infrastructure investment lending; that agency also came up with new strategic programs or initiatives to address key emerging IIRSA issues, as tools to continue scaling up its integration infrastructure work.

Challenges for IIRSA in today's regional integration dynamic

IIRSA's launch was an apt action strategy to address diagnosed infrastructure problems, and the Initiative was underpinned by broad consensuses among the countries and converging visions as to the role of infrastructure and domestic market integration in a globalizing economy. But in recent years the dynamic of South American integration has created serious challenges for IIRSA's future course, most notably: (i) a weakening of regionwide consensuses about the role and contents of the regional integration movement; (ii) the relatively soft growth in intraregional trade and adoption of bilateral trade agreements; and (iii) the emergence of new forums in which to deal with what were IIRSA agenda issues.

Since 2006 there are emerging signs within IIRSA that the Initiative is heading into a new chapter that will see a bolstering of country ownership of this integration enterprise and move the accent from transboundary physical infrastructure connectivity to sustainable local development processes. Moreover, IIRSA is seeking to reposition itself within the shifting regional integration dynamic and associate itself with new initiatives and organizations coming out of the Union of South American Nations (UNASUR). This new

tack puts regional infrastructure concerns front and center but separates the treatment of transport issues and energy issues and gives less weight to considerations of how infrastructure may impact competitiveness and intraregional trade. Prospects for the Initiative's continuation beyond its original ten-year timeframe will depend on whether it can manage these challenges and cement its position as a recognized space for facilitating regional infrastructure integration.

These efforts from within IIRSA have not been enough to improve infrastructure quality and availability indices or to make the region more competitive. In fact the region has slipped in world rankings of infrastructure quality, and the growth gap between external trade and integration infrastructure stock is widening. This means that the space that IIRSA was intended to fill is still open, and South America needs to relaunch integration infrastructure endeavors to bolster cross-border connectivity and the region's global market foothold. The discussions that will necessarily unfold as IIRSA reaches the end of its ten-year lifespan will afford a rich opportunity to reassess challenges, learn from mistakes, and build on accomplishments.

Recommendations

Frame a strategic analysis of IIRSA within the South American integration dynamic.

Through an early analysis of the Initiative's strengths and challenges and its political economy the Bank could position itself within the complex regional integration environment and bring value-added to the decision-making ahead in 2010 on IIRSA's future. This would mean leveraging the Bank's regional integration expertise, in particular the specialized knowledge of the Integration Department (INT), to spur discussion on the following topics:

- a. Opportunities and challenges for IIRSA in the current regional integration dynamic.
- b. Development of proposals on future IIRSA scenarios and roadmaps to recast the Initiative in light of evident strengthened competencies.
- c. Identification of risks and incentives associated with integration infrastructure, and proposals to duly address these and build them into the project analysis exercise.

Capitalize on the opportunities created by the Bank's realignment to bolster internal ownership of the Initiative and deliver a more operational, integrated, efficient IDB response. The three operational years remaining in IIRSA's current configuration can be used to consolidate some of the current processes. The matrix organization now in place could facilitate internal coordination and align IIRSA and Bank incentives. To that end, OVE recommends the following areas for action:

- a. Spell out the Bank's IIRSA objectives and interim targets so resource use effectiveness can be effectively monitored and evaluated.

- b. Clearly establish the responsibilities and commitments of the different Bank departments engaged in integration infrastructure development work and institute effective internal coordination mechanisms.
- c. In the Bank's regional and country programming exercises, promote the repositioning of the integration infrastructure portfolio in the countries.

Tailor new products and programs to the particularities and needs of integration infrastructure projects. Specifically, OVE recommends the launch of discussions, innovation, and development of the following instruments:

- a. Financing vehicles and economic evaluation methodologies with which to address asymmetries among the countries and distribute integration-infrastructure project costs, benefits, and risks accordingly.
- b. Actuate nonlending products and horizontal cooperation modalities to bolster technical consensuses among the IIRSA member countries and the institutional capital of the regional infrastructure integration process.
- c. Develop programs that target funding to key integrating projects such as border crossings, ports, and associated logistic services, to strengthen consensuses around the Integration and Development Hubs.

INTRODUCTION

The Initiative for Integration of Regional Infrastructure in South America (IIRSA) was launched by the twelve South American nations at the First Summit of South American Heads of State held in Brasilia in 2000. The Initiative's aim is to work toward an enlarged South American economic space anchored in principles of sustainable, efficient, equitable development of the region. In pursuit of that goal IIRSA proposed the expansion and modernization of regional transportation, energy, and communications infrastructure. At the Brasilia summit the presidents invited three multilateral financing institutions—the Inter-American Development Bank (IDB), Andean Development Corporation (CAF), and Fund for Development of the River Plate Basin (FONPLATA)—to engage actively in this endeavor.

The Bank's involvement has taken two forms. First, along with the CAF and FONPLATA it has delivered logistic and technical advisory support to help achieve the IIRSA objectives. Second, as a lending agency, it has explored and provided loans and other facilities to help make up regional integration infrastructure shortfalls and address infrastructure finance constraints.

This report presents the findings of OVE's evaluation of the Bank's IIRSA activity as a lever for furthering South American integration by scaling up and modernizing the continent's transportation, energy, and telecommunications infrastructure grids. The document is organized in four chapters, preceded by an Executive Summary. In the first we examine the IIRSA intervention strategy against the backdrop of the South American integration movement. The second chapter looks at progress made in each of the IIRSA agreed action areas and prospects for the final years of the Initiative's lifespan. In the third chapter we evaluate the Bank's actions and support for IIRSA and the main lessons of experience. The last chapter discusses major challenges for IIRSA in the current South American integration dynamic. The evaluation conclusions and recommendations have been included in the Executive Summary for the reader's convenience.

One of the chief difficulties in this evaluation was distinguishing which Bank actions were IIRSA-related. Attribution determination is a near-insurmountable problem since the Bank has worked within a complex institutional arrangement involving multiple actors—national as well as regional—and other multilateral financing institutions. The fact that IDB IIRSA goals and objectives were never differentiated from IIRSA goals and objectives proper makes it all the more difficult to evaluate the Bank's IIRSA action. Consequently, OVE performed a *diagnostic assessment* of IIRSA achievements and, looking at lending and nonlending product approvals, evaluated the Bank's contribution and the challenges it has faced to deliver on its IIRSA commitments.

As a final consideration we would note that, seven years into its planned ten-year lifespan, IIRSA is a work in progress, so the Bank still has a window of time to complete its intervention strategy and modify the conclusions that are drawable from the state of the Initiative itself at this writing. OVE hopes that the recommendations offered in this evaluation report will prove useful to inform the discussion on IIRSA's continuity and sustainability in 2010, when its ten-year span is slated to end.

I. THE SOUTH AMERICAN INTEGRATION MOVEMENT AND THE ADVENT OF IIRSA

- 1.1 The structural reforms brought in across South America in the 1990s gave fresh impetus to moves to integrate the region's economies, abetted by the rapidly globalizing world economy. The need to deepen that integration process prompted the creation of the Southern Common Market (MERCOSUR) in 1991 and a renewed push to integrate the Andean Community (CAN) member economies. Along with the South American countries' participation in the GATT Uruguay Round, which culminated in 1994, deep tariff cuts in selected sectors mandated by subregional accords removed one of the stiffest barriers to regional trade.
- 1.2 Democratic and economic policy convergences and the rise in intraregional trade set the stage for consensus on deeper cross-region integration. The First Summit of South American Heads of State in 2000 is one example. At that gathering the region's leaders called for "*the creation of a specifically South American arrangement for cooperation on democracy, commerce, integration infrastructure, drug trafficking and related crimes, information, knowledge, and technology.*"¹ The goal in the trade integration sphere was to construct an enlarged economic space in South America anchored in progressive trade liberalization, convergence between the CAN and MERCOSUR integration schemes, with the participation of Chile, Guyana, and Suriname, investment facilitation, and needed infrastructure development.²
- 1.3 This was the backdrop for the advent of IIRSA, underpinned by a consensus on three requirements and concerns. First, the broad agreement in the region on the need to preserve and accelerate the intraregional market growth dynamic and equip economies to compete on a stronger footing in the global marketplace. Second, the widening infrastructure gap generally, and integration infrastructure shortfalls in particular,³ the result of decades of shrinking public investment. And, third, the need to provide more financing facilities and develop innovative vehicles to channel more public and private funding toward this type of projects.

A. Regional integration and infrastructure in South America⁴

- 1.4 At the time of IIRSA's inception there was a large body of literature on South America's infrastructure deficit and cross-region policy and regulatory differences and their impact on the continent's integration and its chances of competing in a

¹ Paragraph 7 of the Declaration of the First South American Presidential Summit in Brasilia.

² Paragraph 32 of the Declaration of the First Presidential Summit in Brasilia.

³ "Integration infrastructure" refers to the linking of infrastructure grids along transnational corridors so as to smooth the movement of goods, services, and persons within an expanded economic space, governed by a common body of rules and regulations. (Definition adapted from the LAIA glossary, www.aladi.org.)

⁴ See Annex 1 for a detailed account of the South American infrastructure integration movement and the subsequent creation and operation of IIRSA.

rapidly globalizing world.⁵ In the late 1990s there were ample signs that the region's infrastructure was fraying and the gap between that infrastructure stock and other parts of the globe was widening. In the 1980s Latin America overall could boast better production infrastructure coverage (roads, electricity, communications) than other middle-income countries;⁶ by 2000 the region trailed those economies (Table 1.1 and Annex 1).

Table 1.1. Infrastructure coverage in Latin America, China, and middle-income countries

Year	Access to electricity (%)	Roads (km/km ²)	Telephone subscribers per 1,000 population	
			Land lines	Cellular phones
	2000	2002	2003	2003
Latin America	87	0.008	170	246
China	97	0.189	209	215
Middle-income countries	90	0.06	178	225

Source: World Bank, "Infrastructure in Latin America: recent developments and key challenges," 2005.

- 1.5 One of the prime reasons for the region's deteriorating infrastructure was the steady drop in investment during the 1990s. To offset shrinking investment flows, deliver services more efficiently, and expand and modernize grids, the countries embarked on a broadbased effort to attract private investment. Latin America positioned itself as the top recipient region for private infrastructure investment. Despite that effort, total (public plus private) investment in infrastructure as a percentage of GDP failed to rebound, and the infrastructure gap worsened.⁷
- 1.6 Explanations for South America's loss of competitiveness to the emerging economies and the series of bottlenecks to intraregional trade lie partly in the shortfall and inadequate quality of the region's physical infrastructure endowments, but regulatory hurdles play a part as well.⁸ World Economic Forum surveys at the turn of the decade (WEF, 1999) ranked South America far down on the global competitiveness scale: on average, countries in this region placed 42nd among the 52 nations surveyed. With the exception of Chile, every South American country trailed the Asian and intermediate economies at a considerable distance. Apart from

⁵ Studies presented by the IDB and CAF to the South American presidents for consideration at the First Summit in 2000, as well as World Bank and ECLAC papers, document the critical state at the time of physical infrastructure stocks and quality of associated services, and the impact of those deficits on regional integration, competitiveness, and individual countries' advancement. Specifics on integration infrastructure are harder to come by.

⁶ The Asian Tigers, China and other middle-income countries. Source: Calderón and Servén, *Trends in Infrastructure Development in Latin America 1980-2000*, World Bank (2004).

⁷ Aggregate investment in infrastructure as a percentage of GDP, which had stood at 3.7% between 1980 and 1985, dropped to 2.2% on average between 1996 and 2001. See Calderón and Servén (2004), op. cit.

⁸ The two factors' trade impact became evident in the 1990s as tariff barriers came down. A detailed study of the regional-trade impact of costs of transportation, freight, and administrative barriers can be found in the IDB Integration Department paper *IIRSA Economic Fundamentals* authored by Mauricio Mesquita Moreira. IDB-ITD/INT, June 2005.

the region's relatively low showing on the competitiveness index, the fact that its position had worsened in the space of a few years—dropping from 38th place in 1996 to 42nd in 1999⁹—was particularly troubling

B. Experiences in regional infrastructure integration¹⁰

- 1.7 IIRSA built on a vast body of experience in South American infrastructure networking, acquired in specialized forums or organizations as well as in the formal schemes that have taken shape in the region—notably LAIA, CAN, and MERCOSUR. The most consolidated effort in the region has been in the overland transport domain through the Conference of South American Ministers of Transport, Communications, and Public Works (1991-1999). LAIA served as the Conference's permanent secretariat, with technical support from the Economic Commission for Latin America and the Caribbean (ECLAC) and financial assistance from UNCTAD, the CAF, and the IDB, among others. Substantial progress was made on structuring a consensus pipeline of priority projects for regional multimodal transport integration along integration corridors. A CAF study presented at the 2000 Brasilia summit sets out Conference-approved data regarding interregional land, waterway, and rail transport integration hubs and approved priority projects. Advances toward consensus on cross-border energy and telecommunications grids have been more modest than the transport integration gains.
- 1.8 The core purpose of the three leading regional integration schemes (CAN, LAIA, and MERCOSUR) has been to construct a subregional space for expeditious trade in goods and services. The “bottlenecks” that result from underdeveloped physical infrastructure stocks and institutional constraints for integration-infrastructure use are a recurring topic in those forums.¹¹ What gains have been achieved on this front have been insufficient and erratic. Moreover, regional infrastructure integration moves have been taking the form of partial scope agreements between countries or subregions, particularly associated with the enlarged MERCOSUR, and purchase and sale agreements primarily for electricity and natural gas. Those accords, signed in the LAIA framework, seek to lower border barriers to trade and call for a measure of regulatory harmonization, but preserve the principle of independent controls in each country.
- 1.9 Elsewhere in the world, the European Union experience with grid integration and, particularly, the TransEuropean Network (TEN) program launched in the late 1980s and refined in the 1990s, is an important point of reference for decisions on regional

⁹ CAF, *op. cit.*, 2000.

¹⁰ Annex 1.

¹¹ For example, binding decisions adopted over the past few decades by the Andean Community of Nations (CAN) are unfettering trade in transport, electricity, and communications services and achieving substantive progress toward the harmonization of regulations and administrative procedures for land, air, and maritime transport and border crossings. On the electric power side, the CAN is making an early-stage but steady effort to create true regional power markets. MERCOSUR reports fewer advances on these fronts.

infrastructure integration contents. The European experience in shaping a single market showed that integration infrastructure is fundamental for constructing a common space and must be cemented without delay.

C. IIRSA intervention strategy

- 1.10 IIRSA was launched to tackle a twofold challenge: remedy deficiencies in quality, quantity, and connectivity of the region's physical infrastructure and overcome the institutional and administrative barriers in place at the time. The Initiative's development objective is to scale up and modernize regional transportation, energy, and communications infrastructure across the length and breadth of the continent. To that end, IIRSA espoused a broader overarching strategy to advance South American integration, advocating "*the creation of an expanded economic space anchored in principles of sustainable, efficient, and equitable development of the region.*"¹²
- 1.11 The goal of facilitating integration infrastructure finance was front and center right from the Initiative's inception. At the Brasilia meeting the presidents made express reference to "*... the importance of rules that will give the South American countries readier access to long-term infrastructure project finance from international lending institutions at reasonable interest rates ... and the need to find innovative financial support formulas for infrastructure projects to be able to attract private investors and mobilize all possible resources.*"¹³
- 1.12 With that in mind, IIRSA's architects built two innovative features into the Initiative: (i) integrated treatment of transportation, energy, and telecommunications issues, seeking to capitalize on existing synergies, enhance production and trade logistics, and thereby make the region more competitive; and (ii) the engagement of three multilateral financing institutions (MFIs) to help shape the Initiative and manage and coordinate its activities. Specifically, in addition to supplying funding for reports and baseline studies for IIRSA's creation, the IDB and CAF undertook to provide the IIRSA country presidents with "*all such support as this physical integration initiative may require*" to deliver a "*coherent regional infrastructure agenda.*"¹⁴
- 1.13 The broad action thrusts devised for IIRSA speak to the magnitude of the task at hand (see Box 1). The Initiative was an enormous territorial-organization enterprise intended to move the region into the global arena, spurring comprehensive development of physical and institutional infrastructure for overland transport, energy, and communications services, and simultaneously pursuing sustainable

¹² Decision endorsed by the twelve South American nations. Communiqué of the Meeting of South American Heads of State, Brasilia, 2000.

¹³ Paragraph 38 of the Brasilia Communiqué, 2000.

¹⁴ See paragraph 39 of the Brasilia Communiqué. Meeting of South American Presidents, Brasilia, September 2000, and Annex, Plan of Action for Regional Infrastructure Integration in South America. A Proposal. Inter-American Development Bank.

local economic, social, environmental, and political-institutional development. An endeavor of these proportions called for concerted action by a whole spectrum of national and regional agencies in the respective sectors together with country financing and integration agencies and organizations, multilateral lending agencies, and the private sector. It was decided that IIRSA would be structured without a formal bureaucracy and would look for support to existing organizations in each country, operating in ad hoc forums, and to the organizational and technical expertise of the three participating MFIs. Achieving these ambitious aims in a very flexible, fragile organizational arrangement would prove to be one of the Initiative's stiffest challenges.

Box 1. Central thrusts of the IIRSA intervention strategy

- ✓ **Integration:** Foster open regionalism in South America to shape an integrated regional economy capable of preserving and distributing the bulk of the fruits of trade and making the economies more resilient to global market shifts.
- ✓ **Infrastructure planning:** Organize the integrated geographic space around Integration and Development Hubs or multicountry multimodal corridors to smooth present-day and prospective trade flows, to create an enabling environment for businesses and production chains in the hubs/corridors.
- ✓ **Development:** Beyond purely physical connectivity concerns, work toward the economic, social, environmental, and political-institutional sustainability of the integration process, promoting high-quality development.
- ✓ **Investment:** Press for concerted efforts on the part of governments, MFIs, and the private sector to facilitate project financing and operation.
- ✓ **Organization:** Rely for support on existing organizations, tap the MFIs' institutional expertise, and operate without formal instruments (agreements, treaties, etc.) so as to be more flexible.

D. IIRSA organizational structure

- 1.14 IIRSA's designers structured it to operate nimbly and inexpensively. The Initiative would rely for support on existing organizations, avoid creating new bureaucracy, and facilitate decision making through flexible, expeditious interaction between the governments and the MFIs. It engaged all the South American governments, which were to take decisions by consensus. The IIRSA executive body is the Executive Steering Committee; the Executive Technical Groups and Technical Coordination Committee deal with the technical side of integration matters. The summit of South American heads of state and government is the Initiative's highest decision authority.
- 1.15 The Executive Steering Committee, made up of high-level representatives of the participating governments, is a forum in which to build political consensus and chart mandates. Technical work is done through specific technical groups consisting of officials and experts from various national organizations, selected by virtue of their subject-matter expertise. The Technical Coordination Committee (TCC), whose members are IDB, CAF, and FONPLATA representatives, provides technical advice and management and operational support for IIRSA activities, including logistic support to the Technical Groups. The TCC's activities are framed within priority areas decided by the Executive Committee. The decision originally

was that the TCC would have a collegial secretariat (all the participating MFIs) permanently based at INTAL headquarters in Buenos Aires.

- 1.16 The decision to bring in National Coordinators came later. Though we found no specific description of these country officials' functions, the post appears to have been devised to serve as a permanent conduit between the Initiative's activities and the different national agencies that are working toward IIRSA goals. A further subsequent decision made INTAL itself the TCC secretariat, with a mandate to perform all the logistic tasks necessary for the programming and delivery of activities charted in the IIRSA work plan. The Director of INTAL takes part in TCC working meetings.
- 1.17 The challenge for IIRSA was to create an executive level equipped to manage this multisectoral, multidisciplinary enterprise and which would assemble representatives of the three infrastructure sector ministries¹⁵ as well as senior finance and integration policy officials. The proposed organizational structure was envisaged as a way to address the complex range of issues on the IIRSA agenda. Accordingly, both the Executive Technical Groups (ETGs) and official representatives on the Executive Steering Committee were to be selected on the basis of the expertise needed for the issues in question. An ETG would be appointed for each of the identified Integration and Development Hubs, to deal with sector-specific issues such as regional energy markets, air, maritime, and multimodal transport, and border crossings, and for financing matters.
- 1.18 Conspicuously absent from the approved IIRSA organizational apparatus were participation avenues for agencies and institutions that had been very prominent in integration infrastructure consensus building, notably LAIA, the Latin American Energy Organization (OLADE), and ECLAC. Nor were any formal coordination mechanisms devised for IIRSA dealings with the Andean Community of Nations and MERCOSUR regional integration schemes. And, lastly, when IIRSA was launched there was no provision in its structure for formal avenues for civil society organization or private sector input.

E. IIRSA objectives and action focuses

- 1.19 IIRSA's founding document is the 2000-2010 Montevideo Action Plan (MAP).¹⁶ That blueprint sets out the core components of the IIRSA intervention strategy and organizational arrangements to integrate multiple sectors of the region's economy (Annex 2). Despite a pragmatic approach that framed IIRSA within a ten-year Action Plan (2000-2010) and the extensive groundwork that had already been laid—especially for overland transport links, the MAP did not spell out a set of

¹⁵ Ministries of infrastructure, public works, transportation, energy, or communications, as the case may be.

¹⁶ Developed by the IDB, CAF, and FONPLATA at the request of the South American presidents, the MAP was placed before the transport, energy, and communications ministers in December 2000 for consideration. The Action Plan was ratified at the Second Meeting of Presidents in Guayaquil in 2002. See Annex 2.

specific objectives, targets, or indicators as quantitative benchmarks against which to assess IIRSA advances.

- 1.20 From a reading of the Montevideo Action Plan and the minutes of presidential and ministerial meetings at which IIRSA matters were taken up, OVE constructed a summary of IIRSA objectives and action focuses (Box 2). IIRSA’s specific objectives have been refined as broader consensus has been reached on particular issues, or as options and proposed actions have been explicitly articulated. The IIRSA “action areas” refer to discussions and consensus seeking efforts that have unfolded over the seven years the Initiative has been in place; they include integration infrastructure, sector-specific integration processes intended to harmonize regulations and institutional machinery, and the fostering of innovative financing vehicles. OVE analysts took the frequency with which matters pertaining to each IIRSA action area were reported on, discussed, and resolved in the Executive Steering Committee and at the South American presidential summits as an indicator of the importance ascribed to each issue.¹⁷
- 1.21 IIRSA’s specific objectives and the associated processes have come in for differing degrees of attention over the course of the 13 presidential and Executive Steering Committee meetings. According to a frequency analysis of meeting minutes, the topics that garnered most attention were development by the MFIs of innovative financing products for regional integration projects that would engage the private sector (10 of the 13 meetings) and consensus building on integration infrastructure (9 of 13). The topic of sector-specific integration processes to harmonize regulatory structures came up less frequently (3-5 of 13 meetings), especially from 2004 onward.

Box 2. IIRSA intervention strategy

DEVELOPMENT OBJECTIVE								
Create an expanded South American economic space anchored in principles of environmental and social sustainability								
INTEGRATION OBJECTIVE								
Foster expansion and modernization of transport, energy, and communications integration infrastructure								
SPECIFIC OBJECTIVES								
Build integration consensuses			Pursue sectoral integration processes to harmonize regulations			Develop innovative financing vehicles		
ACTION AREAS								
South American Strategic Vision	Consensus project portfolio	Project evaluation and monitoring methodologies	Dissemination and participation	Energy markets	Border crossings	Information technologies	Private sector participation	Design in MFIs of instruments for integration projects
FREQUENCY OF MANDATE*								
8 of 13 events	9 of 13 events	7 of 13 events	8 of 13 events	4 of 13 events	3 of 13 events	5 of 13 events	9 of 13 events	10 of 13 events

* Number of times a matter was the subject of a specific mandate at meetings of the Executive Steering Committee or the presidents.
Source: Constructed by OVE from a review of IIRSA founding documents and Executive Steering Committee minutes.

¹⁷ Annex 3 provides details of the analysis and its findings. Specifically, 13 sets of meeting minutes were reviewed to ascertain the matters taken up at each meeting: four meetings of the presidents, one of ministers, and eight of the Executive Steering Committee.

II. ADVANCES TOWARD IIRSA SPECIFIC OBJECTIVES

2.1 IIRSA's premier achievement in the years since its inception (2000-2007) has been to structure, by consensus, a portfolio of integration infrastructure projects using the Indicative Territorial Planning methodology. Progress on other IIRSA dimensions has been more modest, particularly the mapping of a South American Strategic Vision, sectoral integration processes to harmonize regulations, and design of innovative integration-project financing mechanisms. In the new phase on which it embarked in 2006 IIRSA is reworking its strategy objectives for the final four years of its charted lifespan. In this chapter we look at IIRSA's main achievements in each of its original action areas and expectations for its work plan in those remaining years (2006-2010).

A. Building integration consensuses

2.2 In the consensus-building sphere IIRSA's plan was to see a South American Strategic Vision shaped, a consensus portfolio of integration infrastructure projects approved, and a toolkit developed to identify, assess, and monitor such projects. A companion feature was a program to disseminate the Initiative and explore participation avenues to help forge consensuses around regional integration.

1. South American Strategic Vision

2.3 IIRSA has made little substantive progress in charting a South American strategic vision (SASV). To help generate the requisite consensus accords IIRSA staged one regional workshop and 12 country workshops with the idea that each country would then organize its own national workshops to confer with opinion shapers, as a way to broaden the space for consensus building about IIRSA's strategy roadmap. To date, however, only Peru and Brazil have organized a second round of workshops.

2.4 From our analysis of Technical Coordination Committee proposals submitted to the Executive Steering Committee for review during the different workshops we can infer that the SASV contents had to do with forging broad consensuses on the countries' growth dynamic and development and their regional positioning. The pursuit of consensus on these issues requires broadbased political, technical, and social agreements at the top leadership level in the region (Box 3)—such concords being heavily dependent on national election cycles and far transcending IIRSA's original goals and the means at its disposal. Accordingly, and in light of the lack of concrete progress, the topic of the SASV has been dropped from the IIRSA agenda and does not figure in the 2006-2010 Work Plan.¹⁸

¹⁸ When this topic was last discussed by the Executive Steering Committee, in 2004, it was decided that a space conducive to deeper analysis and debate on the matter needed to be devised.

Box 3. Contents incorporated by the Technical Coordination Committee into the South American Strategic Vision

At the May 2002 meeting of the Executive Steering Committee (ESC), the TCC put before the ministers a document that took the contents of the South American Strategic Vision (SASV) beyond integration infrastructure issues proper. The document, which received broad endorsement from the Executive Committee, laid out as an objective: “... *find a new approach that can optimize our efforts to create growth and well-being for all and make the region more resilient to external impacts.*” A workshop entitled **South America 2020** was held at the July 2003 ESC meeting to discuss “*A strategic vision of regional physical integration that can position IIRSA within a broader strategy to pursue significant improvements in three other key dimensions: competitiveness, social equity, and caliber of institutions, in addition to the area of environmental sustainability.*” The document, one section of which describes “Tools to Chart a Strategic Vision for South America 2020,” received the ESC’s backing.

The magnitude of the proposed task comes through clearly in the IIRSA dissemination paper, which states that the intention with the design of the SASV is to chart a “... *vision shared by the twelve nations, adopting core principles to ensure sustained growth of the region’s economies, conceiving physical integration as a sine qua non of development but the sustainability of which hinges on making sweeping changes in four other critical domains: competitiveness, social quality, environmental quality, and institutional quality.*”

Source: Executive Steering Committee minutes.

2. The IIRSA project portfolio and Consensus Agenda

a. IIRSA projects

- 2.5 IIRSA’s preeminent achievement has been to structure, by consensus, a project portfolio using the Indicative Territorial Planning (ITP) methodology which organized infrastructures around multimodal logistics corridors called Integration and Development Hubs (IDHs).¹⁹ The IDHs mark a major conceptual advance from the previous notion of interregional corridors. Using ITP, the 12 countries were able to reach broad agreement on the development of logistics corridors which were to concentrate current and prospective regional trade and serve also as “*vehicles for development of the regions and their people.*”²⁰
- 2.6 The IIRSA portfolio, tallying some US\$37.9 billion, contains 351 projects²¹ grouped around eight Integration and Development Hubs and in 41 project groups,²² each of the latter including one designated “anchor” project.²³ The makeup of the IIRSA portfolio is clearly reflective of the consensus that have

¹⁹ See Annex 4 for a detailed description of the ITP methodology and the IIRSA consensus-based portfolio.

²⁰ IIRSA. Indicative Territorial Planning. Project Portfolio 2004, page 17.

²¹ The first portfolio that came out of the ITP exercise (2004) contained 335 projects; 13 projects were added in a 2005 Addendum and a further 3 in the December 2006 Executive Steering Committee meeting.

²² A project group is defined as “a set of interdependent projects having synergistic effects that stand to generate benefits greater than the sum of the individual projects’ effects.”

²³ The anchor project is the operation that “gives meaning to the structuring of the project group and captures the synergies.”

emerged in the region over the last fifty years. First, the identified investment is heavily concentrated in the MERCOSUR-Chile hub (32%) and the Peru-Brazil-Bolivia hub (31%)—these being the IDHs of greatest activity; the hubs with the most projects are the Andean hub (21%) and MERCOSUR-Chile (20%). Second, the portfolio is most robust in overland transport infrastructure, a domain in which the region had a lengthy track record of consensuses. Though energy ventures make up 53% of the investment by volume, they account for just 12% of the identified projects. Fully 86% of the projects are transport-related, comprising 45% of the estimated total investment. Only seven telecommunications projects were identified, corresponding to 2% of investment.

- 2.7 The varying quantity and quality of information underpinning the decisions taken in each Integration and Development Hub limited the benefits that the methodology advances embodied in the ITP might have yielded.²⁴ Moreover, variables that could have been used to rank projects by risks and benefits associated with their integration impact were not factored into the process. Of the 335 projects originally identified, 95 were transnational ventures; the other 240 were strictly national but, given the size of their current or potential traffic, they were judged to have a regional integration impact. Consequently, the IIRSA portfolio contains two kinds of projects: some whose risks and benefits are exclusively integration-related—for example, transnational and border crossing projects, and others whose impacts are distributed in varying degrees between a particular national economy and the integrating regional economy. Despite this duality, there were no differentiating criteria in the portfolio to guide any evaluation of the projects or their subsequent financing.²⁵
- 2.8 The second phase of the ITP was run in 2007 to review and update the IIRSA portfolio. The result was an increase in the portfolio to 506 projects, arranged in 47 groups around nine Integration and Development Hubs. The addition of the new Paraguay-Paraná Waterway hub plus a number of new projects took the investment estimate to US\$68,990.6 million. This exercise provided an opportunity to refresh the regional consensus around the IIRSA portfolio, update information on the implementation status of IIRSA projects, and re-estimate planned investments.²⁶ However, it added no further information on the ITP analysis focuses and brought in no systematic economic, environmental, or logistics evaluation methods to remedy the limitations of the portfolio developed in 2004.

²⁴ The previously available demographic and economic data and information on infrastructure availability was superior to the environmental, social, and logistics information, which was limited or virtually nonexistent. Moreover, when decisions are based on the “expert opinion” of national stakeholders, country-specific criteria end up being applied, complicating cross-country comparisons.

²⁵ Consequently, high-integration-impact projects such as binational ventures or border crossing projects did not stand out from others that featured a strong local and regional component, such as metropolitan beltways.

²⁶ Executive Technical Group Annex 2007, Project Portfolio and Outcomes 2007, presented in Montevideo (December 2007).

b. The IIRSA Consensus Implementation Agenda

- 2.9 A selection of 31 projects from the IIRSA portfolio comprised the so-called “Consensus Agenda” (see Annex 4) with a 2010 completion deadline. This Agenda was approved by the Executive Steering Committee in 2004 and placed before the South American heads of state for consideration. Over the course of this evaluation OVE found no documented criteria or methodology used to configure the Consensus Agenda. In fact, the Agenda structuring exercise added no further information to the portfolio and furnished no explanation as to why a particular project was being added. It is unclear, for example, why only 19 of the 40 anchor projects figure on the Consensus Agenda when all those projects, by design, could be assumed to be the most important ones for the functionality of the project groups and Integration and Development Hubs. Nor is it clear why some projects that were not part of the IIRSA portfolio when the Agenda was approved nevertheless made their way onto the Agenda.
- 2.10 The creation of the Consensus Agenda was headed up by the IDB, backed by FONPLATA, and strongly opposed by the CAF. The Agenda’s ascribed strategic objective was to “*enhance visibility of the project implementation phase*” and thereby address negative perceptions among IIRSA authorities and key stakeholders regarding the Initiative’s slow implementation pace.²⁷ This would suggest that the objectives behind the Consensus Agenda’s construction were fundamentally political-strategic, as reflected in the above-cited communication (VPC/IIRSA, March 2008), according to which the project selection criteria were those that would assure execution of the portfolio—mature projects, all-country participation, and project visibility.

3. Planning, evaluation, and management methodologies

- 2.11 IIRSA envisaged the design of the following methodologies and tools: (i) methodologies for development and economic appraisal of integration infrastructure projects; (ii) methodologies for strategic assessment of environmental and social impacts; (iii) opportunities for production integration and logistic chains associated with IIRSA projects; (iv) the Strategic Project Management Information System (SIGE), and (v) the Geospatial Information Network (GEOSUR) (Annex 5).
- 2.12 The SIGE is the only one of these tools currently in use; the others are still at the design stage and awaiting piloting in the coming months. The SIGE began operating in 2005 for the 31 Consensus Agenda projects but is not being systematically used by the countries or by the Technical Coordination Committee member institutions. When it is used, it operates more as an information system than a project management system. It is noteworthy that discussion of these methodologies has taken place primarily in National Coordinators’ and Executive

²⁷ Comments from the IDB VPC/IIRSA coordination unit during discussions of the present evaluation, March 2008.

Steering Committee meetings. One Technical Group meeting was convened in October 2006 to validate the first draft of the SIGE, and the IDB organized a workshop in August 2006 to encourage the information system's use, but the methodologies and tools were developed without having created a space in which to actively engage IIRSA country specialists in technical discussions of these resources. This shortcoming lessens prospects for internalizing the tools in the individual country processes.

4. Dissemination and outreach

- 2.13 The IIRSA dissemination and outreach strategy has been two-pronged. The first component was to disseminate information outputs by means of documents and brochures, and build and maintain a website providing information on the Initiative. The second component were workshops to help chart the South American Strategic Vision, with which the Executive Steering Committee (2004) proposed to gradually forge a South American consensus around IIRSA's strategy thrusts through discussions with opinion shapers from across the region. Despite the work done, the reiterated mandate, and the resources devoted to information activities, relatively little has been accomplished to position the Initiative.
- 2.14 According to the workshop conclusions and to some civil society organizations that are monitoring the Initiative,²⁸ the information and outreach activities to date are perceived as having a closed agenda and little influence on the IIRSA dynamic. The civil society representatives consider the dialogue spaces created with the SASV and the IIRSA website information to be insufficient. In the view of the NGOs participating in the SASV workshops, the way that the Initiative is structured does not encourage direct participation by civil society, which finds its entry points confined to bilateral contacts with the Technical Coordination Committee institutions or subject to each National Coordinator's discretion.

B. Sector-specific integration advances

- 2.15 IIRSA has not made substantive progress on harmonizing integration infrastructure policies and regulations even though the cardinal importance of that undertaking has been acknowledged at virtually every National Coordinators' and Executive Steering Committee meeting. Nor are any advances evident on more specific topics such as harmonization of border-crossing regulations and procedures, energy markets, and information technologies. The diagnostic studies for each of the sectoral integration processes date back to 2002 and 2003. Since 2004 these issues have come in for virtually no discussion in IIRSA, and the 2006-2010 IIRSA work plan reduces the regulatory harmonization scope generally and circumscribes this effort to a search for solutions to specific integration projects.

²⁸ BICECA, a specialized Bank Information Center project regarding IIRSA.

C. Innovative financing mechanisms

- 2.16 The creation of innovative integration-infrastructure finance vehicles was one of the core IIRSA objectives and, in some measure, drove the decision to bring the multilateral financing institutions (MFIs) into the Initiative's management. The heavy involvement of the three Technical Coordination Committee institutions is a response to the need articulated by the South American presidents at the Brasilia meeting (2000) to have partners who could spearhead a relaunch of infrastructure investment. In particular, IIRSA was designed to pursue three different but closely intertwined aims on the finance side:
- a. Develop mechanisms to overcome government spending constraints for new integration infrastructure works, for instance, "flexible tax treatment for continental infrastructure investment."²⁹
 - b. Develop new public-private vehicles to share funding of cross-border physical integration projects.³⁰
 - c. Pursue innovative solutions to attract private investment, deploying common strategies and creative instruments.³¹
- 2.17 IIRSA has fallen far short in these action areas. On the matter of spending flexibility, though has been little substantive progress, the Bank did provide a useful forum (2004 Annual Meeting of the Board of Governors) for the countries to make known their positions. Subsequent improvements in the countries' fiscal accounts made this a less pressing concern. As for the development of new finance vehicles, two concrete proposals have been put forward in IIRSA's seven-year existence: the first called for creation of a South American Infrastructure Authority that would transcend individual country visions and facilitate supranational treatment of integration infrastructure investments (Technical Group-2004); the second envisaged a Solidarity Guarantee Fund to compensate for externalities of some projects that would heavily impact regional integration (Regional workshop, 2006). However, neither of these proposals has received Executive Steering Committee endorsement or come in for continued attention.
- 2.18 Though an array of mechanisms has been designed and deployed to facilitate private financing (guarantees, bonds, funds, etc.) scant use has been made of these products in IIRSA³² and none of them has addressed the specific features of integration projects, such as the asymmetries issue and risk, cost, and benefit sharing possibilities.

²⁹ Brasilia Communiqué, 2000, and December 2003 Executive Steering Committee minutes.

³⁰ MAP 2 (viii).

³¹ MAP 2 (ix).

³² Two projects in Peru, one funded by the IDB (Amazonas Norte road corridor), the other by the CAF (South Interoceanic road corridor), have successfully adopted the public-private partnership (PPP) model for guarantees.

- 2.19 Lastly, there still is no consensus about the need to design facilities that offer incentives for IIRSA portfolio project financing, or that can address the particular needs of integration projects. In the European case, creation of a supranational decision body and concessional financing facilities for priority projects has been key to the success of the TransEuropean Networks program (see Box 4). By comparison, we could posit that the absence of those two mechanisms in IIRSA has held back the Initiative and limited its effectiveness.

Box 4. The European Union TEN program

The South American integration movement had as its touchstone the European nations' successful integration process. When IIRSA came into being the European Commission's infrastructure integration program was already under way. Toward the end of the 1980s the Commission had launched the idea of creating trans-European infrastructure networks (TEN) and lifting restrictions on services delivery to do away with administrative, technical, tax, customs, and other barriers that were blocking the definitive creation of a single European market. Transportation, telecommunications, and energy grids were selected for integration. The advent of the single market gave the European Union (EU) governments a tool to overcome internal resistance that was maintaining State monopolies and other trade impediments, and to have independent national regulatory agencies coordinate their work at the EU level. The handful of supranational regulators now operating are of very recent origin.

The European experience demonstrates that coordination in this domain is no easy task and that results are slow in coming on the two critical fronts for physical integration: investment to build the infrastructure itself, and creation of regional service markets. The cornerstone of the TEN program's success has been the integration of technical and political decision making and the availability of financing facilities that give priority to investment in integration infrastructure. The following are some of the chief sources of financing for TransEuropean Transport Network projects:

- ✓ **The TEN budget line**, which in 2000-2006 tallied 4.2 billion euros. Under TEN rules, up to 10% of a project's total cost may be funded with these resources, or up to 20% for transborder ventures
- ✓ **The Structural Funds**, and more specifically the European Regional Development Funds (ERDFs). Roughly 30% of these resources went to infrastructure project finance. Between 2002 and 2006 the ERDFs provided close to 4 billion euros in aid of transport projects.
- ✓ **The Cohesion Funds**, which provide funding for transportation and environment-related infrastructure in the member states with per capita GDP below 90% of the EU average. Over half the Cohesion Fund budget for 2000-2006—some 9 billion euros—was allocated to transportation projects.

The bulk of funding for TEN program infrastructure investment comes from the ERDFs and Cohesion Funds. But, even with these supports at its disposal, the TransEuropean Network still faces financing challenges.

Source: R. Cárcamo-Díaz and J. G. Goddard, Coordination of public expenditure in transport infrastructure: analysis and policy perspectives for Latin America. Santiago, Chile: ECLAC, 2007. Communication from the Commission to the Council and the European Parliament on the development of a Euro-Mediterranean transport network. Brussels: Commission of the European Communities, 2003.

III. THE IDB'S IIRSA ACTIVITIES

- 3.1 The Bank's commitment to regional integration under the IIRSA umbrella was twofold. First, it agreed to coordinate and promote the Initiative and furnish technical and logistic support in the action areas charted by the IIRSA Executive Steering Committee and Technical Groups, from its seat on the Technical Coordination Committee and via INTAL, the Initiative's executive secretariat. Second, the Bank pledged to relaunch the financing of integration infrastructure projects by promoting mechanisms to remedy existing constraints and address the particular features of such projects. These two IDB presidency-level commitments carried the endorsement of the Board of Executive Directors. In this chapter we evaluate the Bank's action in the IIRSA context on three core fronts: its work to

coordinate and deliver technical advisory support for the Initiative; its contribution to financing the IIRSA portfolio in the form of preinvestment support and project financing; and the major challenges IIRSA has meant for the Bank and conclusions as to how the institution addressed these.

A. The IDB's IIRSA-coordinating activity and delivery of technical advisory support

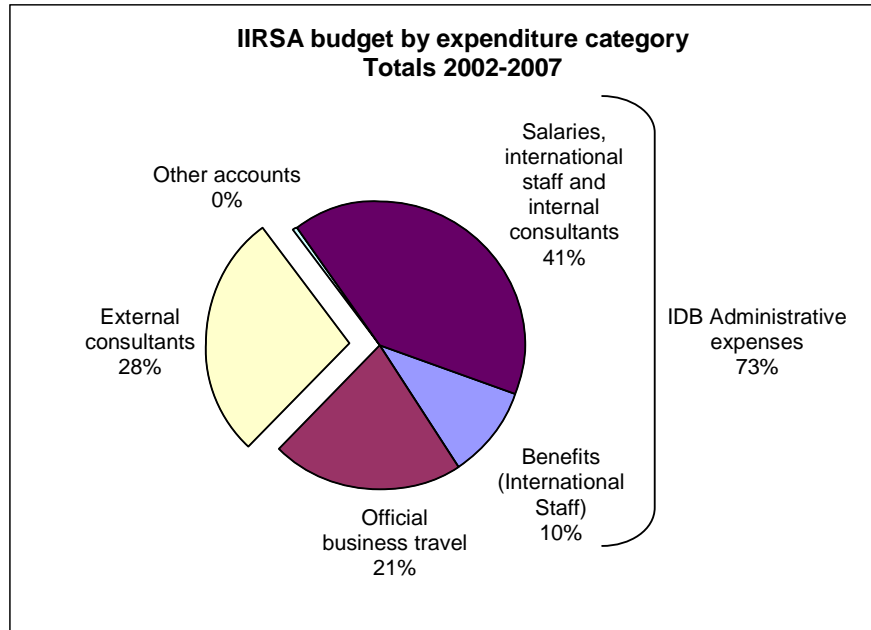
- 3.2 The Bank worked from its position on the IIRSA Technical Coordination Committee (TCC) to deliver on its coordination and technical assistance commitment to the Initiative, allocating personnel and funds to create an IIRSA coordination unit within the Bank. In 2001 the Bank approved US\$750,000 in nonreimbursable technical cooperation funding to finance the TCC's work; the CAF and FONPLATA provided parallel funds for that purpose.³³ The following year the Bank approved an annual budget line "Initiative for the Integration of Regional Infrastructure in South America (IIRSA-IDB)" to secure the Initiative's launch and consolidation (document GA-197).
- 3.3 The executing agency for that 2001 technical cooperation operation (TC0012047-RG) was INTAL, in its capacity as IIRSA's Technical Secretariat. The resources were to be used to fund action areas defined by IIRSA and associated logistic efforts. At end-2007 INTAL had disbursed US\$548,000 of the technical cooperation funds, half of it to defray costs of activities of the Executive Technical Groups, 31% for INTAL administrative expenses, and the balance to help design and maintain the website and the Strategic Project Management Information System (SIGE). The CAF and FONPLATA provided parallel financial support in a similar amount for the same kind of activities.
- 3.4 The Bank's Board of Executive Directors also approved a budget line of US\$1.2 million annually for 2002-2006 specifically to fund the institution's IIRSA coordination and technical assistance activities. Following a 2006 evaluation of the Bank's IIRSA action, that budget line was extended through 2010. When the Bank approved this budget envelope it did not differentiate its own IIRSA objectives and targets from the IIRSA countries' objectives and goals. Consequently, achievements and objectives mentioned in the annual budget execution reports are melded with those of the Initiative itself, making it difficult to evaluate the Bank's IIRSA support.³⁴
- 3.5 In the 2000-2007 span the Bank allocated a total of US\$9.7 million—73% of it for personnel costs of the IIRSA institutional structure within the IDB, to deliver technical and logistic assistance to IIRSA and provide in-house support for the mainstreaming of IIRSA objectives and pursuits in Bank operations. This included the costs of international professional staff (benefits and travel) and of some

³³ The CAF and FONPLATA approved a similar amount for the same type of activities.

³⁴ IDB Program and Budget Execution Reports: documents GA-197, GA-209, GA-213, GA-220, GA-225, and GA-228.

internal consultants.³⁵ The other 27% paid for the services of external consultants to furnish technical assistance in different subject areas. Among the most important activities funded by this budget were work to devise the Strategic Management Information System (SIGE) and tools to develop logistic and production chains.

Figure 3.1



3.6 In OVE's view, the IDB's budget expenditure (and presumably CAF and FONPLATA expenditure) to coordinate and support the Initiative attests to the difficulty of moving forward an agenda as complex as the IIRSA mandate without the requisite human, technical, and financial resources. Given that, there would be a need to revisit the original IIRSA strategy that thought it feasible to advance toward the Initiative's goals without incurring additional costs specifically to create a coordinating body or structure.

1. Effectiveness of the IIRSA organizational structure and the IDB's role in coordinating the Initiative

3.7 The organizational configuration devised for IIRSA was intended to address a coordination failure among multiple actors. With that in mind, OVE evaluated the Technical Coordination Committee's performance against two criteria: how effective that body was in convening and sustaining the interest of key stakeholders for the accomplishment of IIRSA objectives, and how effectively it kept attention on the full spectrum of issues IIRSA was supposed to address. We should note at this point that given the nature and intrinsic complexity of intergovernmental and

³⁵ Consultants who were coordinators in the regional departments and currently work on IIRSA, and the Hub and Sectoral Integration Process managers, were funded with these resources.

interagency cooperation processes that are the IIRSA hallmark, it is not possible to attribute such effectiveness to the Bank or to any other particular actor. What is clear is that the Initiative’s success is associated in large measure with overcoming the existing coordination failure.

- 3.8 The conclusion from an attendance frequency analysis of Executive Steering Committee (ESC) and National Coordinators’ meetings is that the effectiveness in convening key actors to achieve IIRSA objectives has been limited. The original idea was that the ESC would assemble “high level representatives of the governments” with technical remits in transportation, energy, and telecommunications. In practice, attendance at meetings has been declining, which typically has meant that the country hosting a particular meeting has been strongly represented. As for government representation on the ESC and the National Coordinators’ home ministries, there is a marked bias toward the transport and public works sector and virtually no energy or telecommunications sector representatives or officials from other substantive agencies like economic affairs ministries and regional trade or integration departments (Table 3.1).

Table 3.1. Analysis of IIRSA Executive Steering Committee minutes

	April 2001	Dec. 2001	2002	2003	Dec. 2003	Nov. 2004	Dec. 2005	Dec. 2006
Countries	12	12	12	12	11	12	11	10
Attendees	67	75	87 (22 from BR)	79 (35 from VE)	63 (19 from CH)	75 (22 from PE)	37	40 (18 from EC)
Ministers	7	8	5	8	1	7	5	5
Home sectors	P,T, PW, EX	P,T, PW, EX	P,T, PW, EX, Economic Affairs	P,T, PW, EX, Trade	P,T, PW, EX	PW, EX	T, PW, EX	T, EX

Note: P: planning; T: transport; PW: Public works; EX: external relations and embassies.

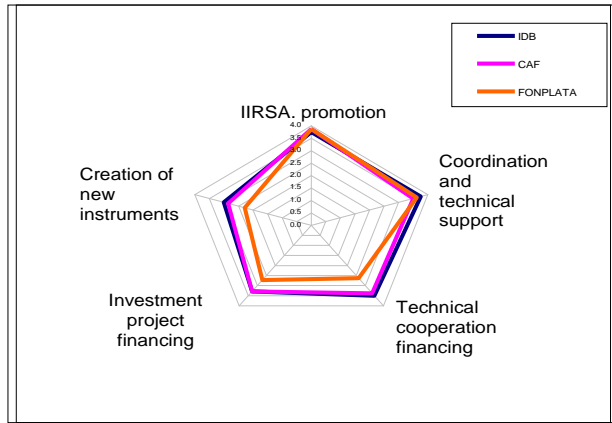
- 3.9 As for meeting contents, an analysis of items discussed in the Executive Technical Groups (ETGs) reveals the near-exclusive IIRSA emphasis on technical matters having to do with configuring the Integration and Development Hubs (IDHs), with a definite accent on overland transport. Energy and telecommunications matters, and regulatory harmonization generally, have come in for less attention. Fully 23 of the 28 ETG meetings were held to review and select projects to constitute the IDHs. Matters taken up at the other five ETGs were regional energy markets (September 2001 and April 2003), information and communications technologies (September 2003), financing instruments (October 2004), and planning methodologies for production and logistic chain integration (October 2006).

a. The IDB’s role within the IIRSA structure

- 3.10 OVE also surveyed IIRSA country representatives about the effectiveness of the Technical Coordination Committee, and of the Bank in particular, in the overall

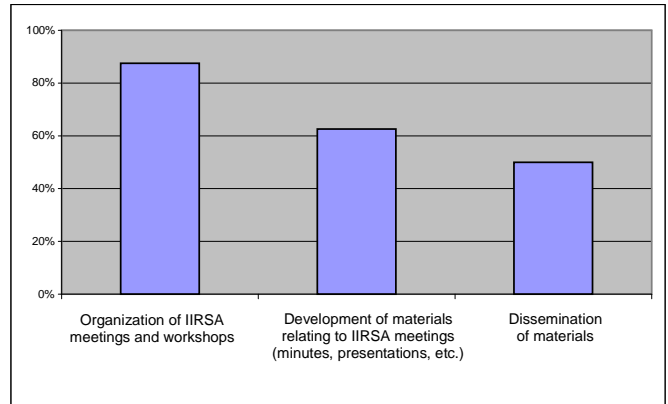
coordination of the Initiative.³⁶ Respondents considered the Bank’s participation in the Committee to be fundamental for IIRSA’s sustainability. The general view was that the presence of the three MFIs on that body has assured continuity of meetings, facilitating logistic and administrative work also via INTAL. In the OVE survey the National Coordinators rated the IDB’s contribution to IIRSA coordination and technical support slightly above the other two MFI members of the Technical Coordination Committee. But favorable perceptions slip for all three TCC institutions when respondents are asked to rate effectiveness in delivering other objectives, such as investment and technical cooperation funding and the design of new financing vehicles (Figure 3.2). INTAL’s performance as IIRSA secretariat was termed highly satisfactory when it came to meeting and workshop organization and development of technical reports and materials. However, efforts to disseminate the Initiative came in for lower ratings: only half of those surveyed judged that component to be very satisfactory (Figure 3.3).³⁷

Figure 3.2. Performance ratings of MFIs on the Technical Coordination Committee



Source: OVE survey.

Figure 3.3. “Very Satisfactory” rating of INTAL performance as IIRSA secretariat



Source: OVE survey.

3.11 These good survey ratings notwithstanding, during the interviews OVE detected a certain tension between the countries and the TCC member institutions regarding the latter agencies’ protagonism. At the most recent presidential summit (Cochabamba, 2006) and Executive Steering Committee meeting (Quito, 2005) participants affirmed the need to “devise integrated institutional solutions” and, in particular, to strengthen the National Coordinator offices and create an independent technical secretariat of the countries, to interface with the TCC.³⁸ That

³⁶ The two core tools used for this section were an analysis of Executive Steering Committee and Technical Group meeting attendance frequency and minutes contents and an opinion survey developed by OVE and administered to all the National Coordinators and to MFI representatives. Key IIRSA stakeholders were interviewed as well (see Contacts list in Annex 6 and survey findings in Annex 7).

³⁷ The recommendation made at the last Executive Steering Committee meeting underscores the need for greater dissemination.

³⁸ Minutes of the Twelfth Meeting of the Executive Steering Committee, 2006, and of the Ninth Meeting of National Coordinators.

acknowledgement attests to the countries' stated wish to seek a space of their own in which to articulate the Initiative more independently of the TCC institutions.

B. The IDB as IIRSA project funder

- 3.12 The IDB has a lengthy track record of financial support for physical integration infrastructure projects, especially in the transport and electric power sectors.³⁹ During the 1990s it lent US\$2.197 billion for 14 transport integration infrastructure projects (40% of its overall transportation sector lending) and US\$1.139 billion for 10 electricity integration infrastructure projects (70% of its power-sector lending).
- 3.13 Between 2000 and 2007 the Bank approved 14 loans totaling US\$1,294.7 million and one US\$60 million guarantee. Of that support, US\$944.7 million (13 operations) went to the transport sector—37% of total transportation project approvals, and US\$350 million (1 loan) funded an energy project—26% of total approvals for that sector. The Bank also provided US\$3.89 million in nonreimbursable technical-cooperation funding for 11 projects and US\$8.25 million for preinvestment financing for 8 operations, via the FIRII Fund. Table 3.2 and Annex 8 provide details of these approvals.

Table 3.2. IDB financing for IIRSA activities (2000-2007)

Product	Amount approved	No. of loans
Investment lending - Transportation	944,748,000	13
Public	926,748,000	12
Private	18,000,000	1
Investment lending - Energy	350,000,000	1
Public	350,000,000	1
Private	0	0
Total investment lending (1)	1,294,748,000	14
Guarantee (2)	60,000,000	1
FIRII funds	8,254,520	8
TC funds	3,890,388	11
Total technical cooperation (3)	12,144,908	19
TOTAL (1+2+3)	1,366,892,908	34

Source: OVE calculations, November 2007.

1. Technical cooperation

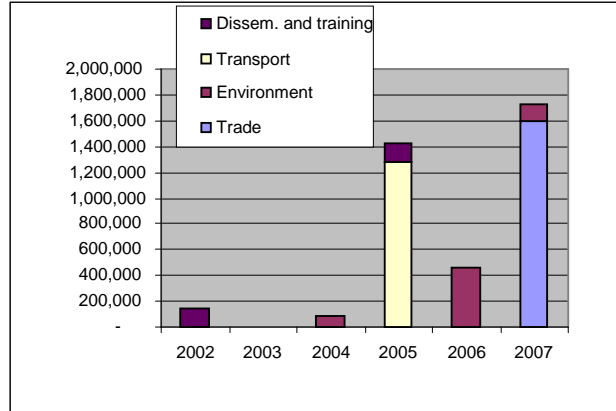
- 3.14 The IDB did not make intensive or strategically targeted use of its technical cooperation resources to support the IIRSA agenda. Technical cooperation (TC) approval figures were relatively low in 2002-2004 and reached sizable levels only in 2005 and 2007 (Figure 3.4). A single MIF-funded trade facilitation TC approved in 2007 to assist micro, small, and medium-sized enterprises, using a Brazilian postal export model, accounted for 41% of TC funding approvals in the period

³⁹ The IDB has limited experience in telecommunications projects. Prior to the 1990s it funded some projects to support national telecommunications plans. Since then, rural telecommunications has become the focus of IDB lending in this sector.

examined. Important as that initiative may be, it does not fit within any of the originally-charted IIRSA action focuses, nor was it part of the original IIRSA portfolio, though today it figures on the Consensus Agenda as a telecommunications sector program. The 2005 approvals (33% of total TC funding) are more diversified and more relevant to such core IIRSA concerns as border crossings and putting together innovative public-private partnerships to fund transport infrastructure and airport security projects.

3.15 In the environmental sphere, the Bank approved four operations totaling US\$700,000 (18% of 2002-2007 TC funding), one to evaluate IIRSA's sustainability, two strategic environmental studies, and one sociocultural analysis and mapping of indigenous peoples. These resources will enable a general approximation to key environmental and social elements of the IIRSA program. (See Annex 9 for a detailed analysis of the TC operations.) The approved technical cooperation funding is 25% disbursed overall; there is scant information available on the operations' status and outcomes.⁴⁰

Figure 3.4. Technical cooperation (amounts in US\$)



Source: OVE calculations (November 2007)

2. Preinvestment

3.16 The creation of the Fund for Financing for Integration of Regional Infrastructure (FIRII) has been the IDB's signal contribution in terms of new financing products to address preinvestment needs of integration infrastructure projects. The object of this US\$20 million facility launched in March 2005⁴¹ is to help countries develop sound investment projects, with priority to regional integration ventures featuring innovative financing arrangements. The Fund's initial allocation was US\$6 million for each of the 2005 and 2006 fiscal years and US\$8 million for fiscal year 2007.⁴² To qualify for FIRII support an operation had to pursue the following objectives: (a) produce/update prefeasibility, feasibility, engineering and environmental impact studies; (b) perform regional environmental and social impact assessments to ensure sustainable development; (c) devise optimal integration solutions for

⁴⁰ Of the 11 approved technical cooperation operations, 1 was cancelled, 3 are fully disbursed, 2 have not begun disbursing, and the rest are between 12% and 50% disbursed. See Annex 9.

⁴¹ Subsequently, the CAF (PROINFRA, US\$50 million) and FONPLATA created similar funds.

⁴² The per-project ceiling was set at US\$1.5 million. Funds were to be equitably shared between the two integration initiatives (IIRSA and Puebla-Panama Plan).

particular geographic settings; or (d) foster protection of environmentally vulnerable areas.

- 3.17 FIRII support was offered initially on a contingent recovery basis, which limited the use made of this facility: until December 2005 it remained undrawn. The February 2006 removal of the contingent recovery clause—perceived as a disincentive to FIRII use—opened the way to funding for eight IIRSA operations in 2006 and 2007, for a total of US\$8.25 million. Only two of them are currently disbursing—one operation is 52% disbursed, the other 9%. The various status reports on this Fund’s use and prospects confirm that it is an excellent facility for the current stage of IIRSA and should be scaled up. Likewise, it is hoped that the Bank can capitalize on the anticipated rise in demand for IIRSA project-preparation financing, employing these funds to generate new Bank project approvals (document AB-2453-1). Thus far, only four of the eight FIRII-approved operations relate directly to projects in the Bank’s pipeline. Going forward, it is hoped that these preinvestment funds will generate new projects for IDB financing.⁴³

3. Lending products (investment loans and guarantees)

- 3.18 From 2000 through 2007 the Bank approved 14 loans for 11 IIRSA projects, five of which had already been in preparation when the Initiative was launched in 2000 (Table 3.3). All 14 operations are country projects, though two of them (AR-0202 and PE-L1003) involve border-crossing works. Only one of the projects had private sector financing (PE-0235). The single guarantee approved (PE-L1010) facilitated private sector engagement in the “Ramal Norte” road project in the Amazon Hub in Peru.

⁴³ UR-T1016, with the Port of Montevideo modernization project; BO-T1054, with the La Paz-Guayaramerín road; CO-T1038, with Rehabilitation of the Pasto–Mocoa road; and SU-T1030, with the Meerzog–Albina road. Four other operations (RG-T1264, GY-T1026, BR-T1056, and BR-T1053) would be associated with projects in the pipeline.

Table 3.3. IDB IIRSA project approvals

Project number	Project name	Lending product	Approval year	Original amount approved	Percent completion
Transportation					
GY-0056 *	Mahaica-Rosignol highway	Public	2001	33,000,000	100%
PE-0235	Road System 5 toll road	Private	2003	18,000,000	52%
PR-0113	West integration corridors	Public	2000	100,000,000	50%
UR-L1001	Road infrastructure program	Public	2004	77,000,000	42%
GY-0076 *	Moleson Creek-New Amsterdam road	Public	2004	37,300,000	30%
BO-0036	Santa Cruz-Pto. Suárez integration corridor	Public	2002	75,000,000	28%
AR-0202 **	Border crossings and integration corridors	Public	2000	200,000,000	20%
BO-0200	Corredor Norte road program, La Paz-Caranavi section, IIRSA Hub	Public	2004	33,148,000	1%
BO-L1011	Upgrade of Santa Bárbara–Rurrenabaque section, Corredor Norte	Public	2006	120,000,000	1%
GY-L1008 *	Rehabilitation of transportation infrastructure	Public	2006	24,300,000	1%
PE-L1003	Border crossings	Public	2006	5,000,000	0%
PR-L1007	Integration corridors – Road rehabilitation and maintenance, phase I	Public	2006	80,000,000	N/A
AR-L1014 **	Norte Grande road infrastructure program	Public	2007	142,000,000	N/A
Total transportation investment				944,748,000	30%
PE-L1010	Guarantee program, Ramal Norte del Amazonas IIRSA	Guarantee	2006	60,000,000	0%
Total guarantees				60,000,000	0%
Energy					
AR-L1021	Norte Grande electric power transmission program	Public	2006	350,000,000	1%
Total energy investment				350,000,000	1%
Total IDB investment (not including guarantee)				1,294,748,000	

Notes:

* These three loans correspond to sections of a single IIRSA project (Mahaica-Rosignol highway).

** These two loans correspond to the IIRSA project Route 14 – Integration Corridor.

Source: OVE compilation from the IDB Warehouse database, November 2007.

3.19 One interesting finding is that the sectoral and geographic distribution of the Bank’s portfolio echoes the IIRSA portfolio makeup. Only one of the IDB approvals, accounting for 27% of lending, is for the energy sector; the overland transport sector takes up the other 73%. And 73% of approved funding went to the most consolidated Integration and Development Hubs—Capricorn (41%) and MERCOSUR-Chile (32%).

3.20 The recent date of these operations and the absence of apposite indicators built into them precludes any systematic evaluation of their regional-integration impact. Only 1 of the 13 approved loans is fully disbursed⁴⁴ and 7 have yet to start disbursing; the others are at most 52% disbursed. A further constraint for assessing the transport and energy infrastructure projects’ integration effectiveness is that, though the majority of them do have some stated integration objective—for instance, *facilitate integration and trade between the Andean countries* (PE-L1010), *facilitate regional integration and trade with Brazil and Argentina* (UR-L1001), *foster ties with and openness to Brazilian and Argentine markets* (BO-0200)—none of them includes

⁴⁴ OVE was unable to evaluate the effectiveness of this operation (GY-0056) because the Project Completion Report was not available in December 2007.

specific benchmarks against which to gauge the regional-integration or regional-trade impact of the planned works.⁴⁵

C. Financing of the IIRSA portfolio and the IDB's contribution

- 3.21 When OVE began this evaluation (April 2007) neither the Bank nor IIRSA had a consolidated database on the status of financing of the IIRSA portfolio, so OVE analysts devoted considerable effort to constructing such a database. In the process, the IDB's IIRSA coordination office reviewed its own data and supplemented existing information. In parallel with OVE's research, and as a product of the Indicative Territorial Planning exercise, the Technical Coordination Committee (TCC) consolidated data on funded projects and presented them to the Executive Technical Group (ETG) at its December 2007 meeting. Accordingly, there now exists a database consolidated by the TCC of the IIRSA portfolio's financing status. For purposes of the present evaluation the analysts used the ETG-approved data, which do not in every case match OVE's data findings. There being no single set of project-inclusion criteria, there are differences between IIRSA and OVE project numbers and amounts, which are explained in Annex 8 to this report.
- 3.22 According to information approved at the December 2007 ETG meeting, 117 of the initially-identified 351 projects that comprise the IIRSA portfolio (2005) are or have been funded (active and completed projects), for a total investment of roughly US\$19.169 billion. The governments' investment commitments cover about US\$12.259 billion of the total. Though information on actual public investment is limited, the national treasuries appear to be the chief source of IIRSA financing, at 64% of the reported total. The private sector is putting in an estimated 21%, mostly for concession deals and port and airport upgrades in several cities and high-traffic highways like the São Paulo beltway in Brazil or Road System 5 in Lima. The remaining 15% of investment funding is being furnished by the multilateral financing institutions (MFIs). According to the available data, the CAF is financing 8% of the IIRSA portfolio (active or completed projects) with US\$1,535.1 million⁴⁶ and the IDB 7%, at US\$1,294.7 million.⁴⁷ FONPLATA has funded only two projects for US\$35 million, both in the Capricorn hub.

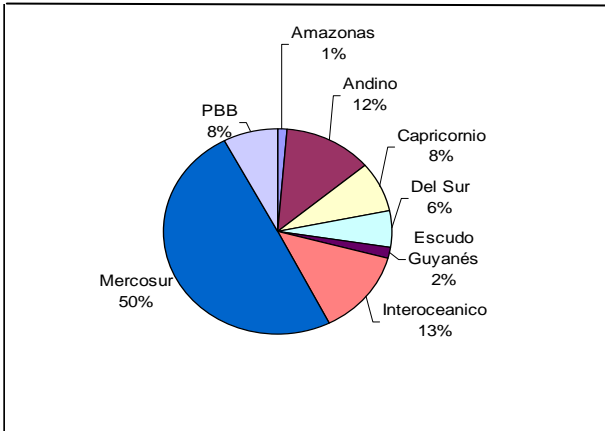
⁴⁵ All the approved operations include among their specific objectives the shortening of transit times and road quality and safety improvements. However, according to a review of Project Performance Monitoring Reports (PPMRs) for the last six-month period (July 2007) these indicators are not being tracked. Annex 10 outlines the integration, development, and specific objectives of all the operations and their status.

⁴⁶ According to the OVE-compiled database, the CAF provided US\$2,074.1 million in IIRSA project funding, but since that figure could not be confirmed with the CAF, OVE elected to use the December 2007 Executive Technical Group (ETG) agreed numbers.

⁴⁷ The US\$1,652.1 million aggregate IDB investment reported in the December 2007 ETG differs from figures presented in this report for the following reasons: the numbers presented in that ETG meeting include projects in preparation or in the pipeline, projects approved prior to 2000 and thus falling outside the IIRSA timeframe, and guarantees that are not actual financing and which OVE did not count. For details of these projects see Annex 8 to this report.

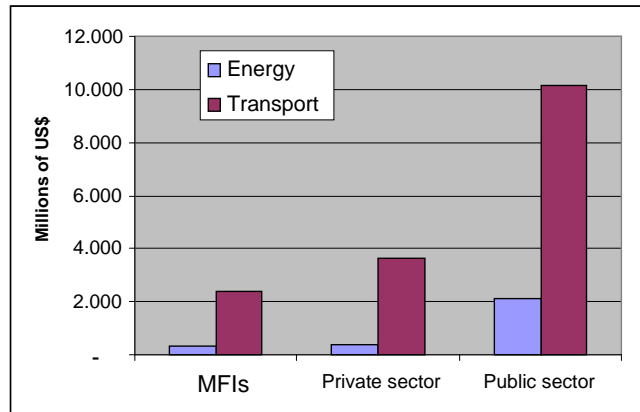
3.23 Breaking the funding totals down by Integration and Development Hub, three quarters went to the MERCOSUR-Chile (50%), Central Interoceanic (13%), and Andean (12%) hubs; the balance is distributed as graphed in Figure 3.5. By sector, 85% of IIRSA portfolio funding is concentrated in transport and the other 15% is supporting energy projects. The Initiative has not secured financing for any telecommunications projects.⁴⁸ The transport-sector concentration of funding is evident in the MFI lending figures and also on the government and private sector funding sides (Figure 3.6).

Figure 3.5. Total financing by Integration and Development Hub



Source: The authors, from Executive Technical Group database, 2007.

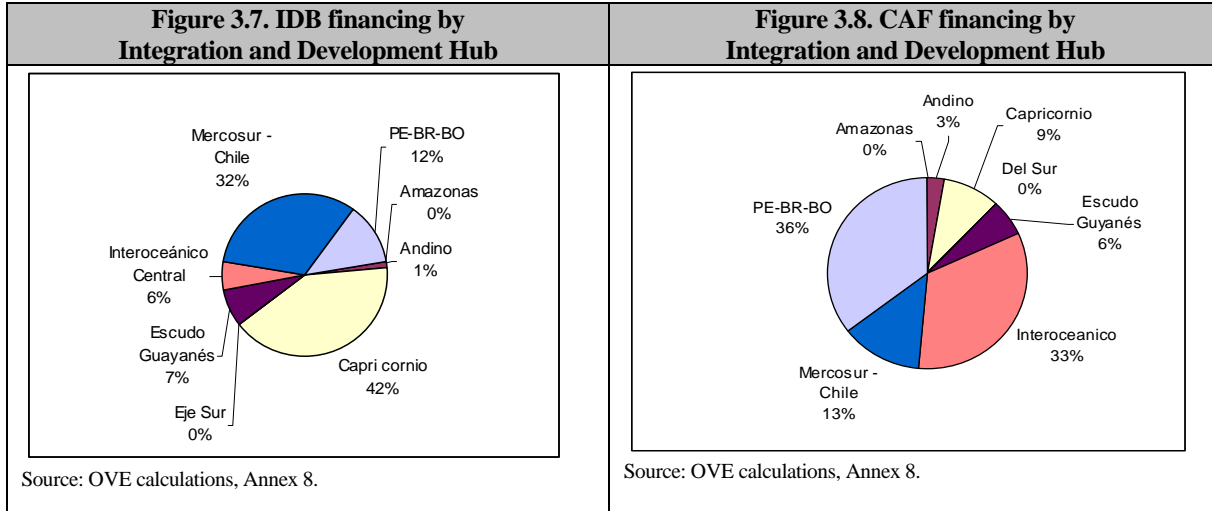
Figure 3.6. Funding sources by sector



Source: The authors, from Executive Technical Group database, 2007.

3.24 As for MFI shares in financial support for the different Integration and Development Hubs, the IDB's was heaviest in the Capricorn hub (42% of the total) and MERCOSUR-Chile hub (32%). The hubs that came in for the bulk of CAF support were Peru-Brazil-Bolivia (36% of total funding) and Interoceanic with 33%. The balance of the two agencies' funding is distributed as graphed in Figures 3.7 and 3.8.

⁴⁸ The only telecommunications projects are technical cooperation operations for the sectoral integration process.



3.25 One final important point is that projects that were top priorities—either because they appear on the Consensus Agenda or are designated “anchor projects”—are no further along than the other projects in the portfolio. Overall, scant progress has been made on financing for these projects: only one of the 31 Consensus Agenda projects slated for priority implementation between 2005 and 2010 is finished and 12 are under way;⁴⁹ and only 14 of the 40 anchor projects identified during the first Indicative Territorial Planning round (2004) are being funded.⁵⁰

D. Internal organizational challenges for the IDB’s IIRSA engagement

3.26 The Bank was faced with two internal organizational challenges to be able to deliver on its IIRSA commitments. The first was to instill ownership of the Initiative’s objectives across all the Bank’s operational areas. The second was to design or adapt IDB processes and products to mainstream the IIRSA mandates and address the particularities of regional integration projects. In the following section we assess the Bank’s effort to manage those challenges, and draw some lessons in that regard.

1. Ownership of IIRSA objectives

3.27 Issues around IIRSA ownership within the Bank created problems for the management of IIRSA-related activities. These stemmed from the fragmentation of IIRSA matters among various units⁵¹ and the lack of some internal leadership to

⁴⁹ The December 2007 Indicative Territorial Planning report raises the number of projects slated for 2010 completion to 24, including projects in preparation, which OVE did not include in its list.

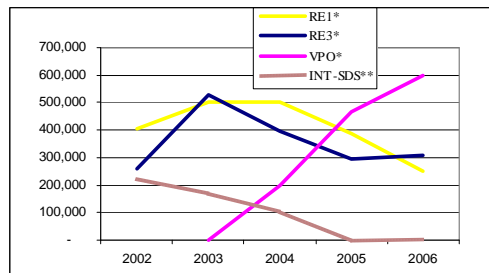
⁵⁰ Criteria: approved after 2000 and completed or ongoing according to staff of the financing institutions. Excludes projects in preparation or in the pipeline and guarantees.

⁵¹ It is not just that integration policy and strategy matters (INT and INTAL) and sector matters (SDS) were detached from the operational sides of the Bank; the operational aspects themselves were dealt with in two separate departments (RE1 and RE3), each with its own technical officers and infrastructure and finance specialists. RE1 took in Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay; RE3 worked with Colombia, Ecuador, Guyana, Peru, Suriname, and Venezuela.

align and coordinate their work. An analysis of the Bank’s organization over the seven years IIRSA has been operating points up the efforts—still unfinished—that have been made to remedy this disconnection. A look at IIRSA budget-line execution gives a clear picture of shifts in IIRSA’s management within the Bank’s structure. The original promotion effort was headed up by the Integration Department (INT) and the President’s Office. After the Initiative’s formal launch its leadership passed de facto to the former Regional Operations Departments (RE1 and RE3) on a rotating basis; the Sustainable Development Department (SDS) and INT continued as technical advisors.⁵²

3.28 In 2003 the Bank created an ad hoc figure that changed the functional dynamic for IIRSA activity management and technical assistance. An IIRSA coordinator, reporting to the Vice President for Operations (VPO), took leadership of the Initiative and gradually displaced, for budget purposes, the Bank’s operational and technical units (Figure 3.9). The professional staff who had been serving as liaison in the Regional Departments were kept but, from 2005 onward, in keeping with the new structure, a resource reallocation in the budget planning process reduced the budget of the regional and technical departments and increased budget funding for IIRSA coordination in VPO. Though this new dynamic did heighten the profile of IIRSA activity it distanced the regional departments and operational units from IIRSA decision making.

Figure 3.9. IIRSA budget expenditure by origin



Source: Developed by OVE from budget data. *Actual **Estimate

3.29 As part of the Bank’s realignment, IIRSA coordination functions were transferred to the Vice Presidency for Countries (VPC), along with INTAL and regional programming responsibilities. The technical Integration Department (INT) was put under the Vice Presidency for Sectors (VPS). It is too soon to assess the operational implications of this new organizational structure but, whichever organization model the Bank ultimately adopts to deliver on its IIRSA commitments, ownership of the Initiative needs to be bolstered within the institution. That will call for a stronger

⁵² One particular SDS responsibility was to address “regulatory harmonization issues, with a view to enhancing and fostering private sector engagement and advancing regional integration.” INT had a secondary role in the integration initiatives but headed the companion program to prepare the Latin American and Caribbean countries to deepen subregional integration and to negotiate and implement trade liberalization agreements within the FTAA framework.

coordination effort to actively mainstream IIRSA into the Bank’s programming and operations work.

- 3.30 This missing internal ownership of IIRSA may account for the Bank’s difficulties in developing and adapting its programming and operations processes and reactivating its integration infrastructure portfolio, discussed in the next two sections.

2. Mainstreaming IIRSA in IDB programming and operations work

- 3.31 IIRSA action areas and portfolio projects have been incorporated into the Bank’s programming exercises only in a formal sense. A review of regional strategies approved by the Bank between 2000 and 2007 indicates that, while most regional programming and strategy papers do mention IIRSA as an important building block for regional integration, that acknowledgement has not translated into specific actions or put IIRSA projects higher up in the Bank’s pipeline. As for the Bank’s strategies with its South American members, most mentions of IIRSA in the individual country strategy blueprints the Bank has approved since 2000 view the Initiative as the space for boosting regional integration but—again—that understanding of IIRSA’s importance does not translate into any higher status for IIRSA objectives or priority for IIRSA projects in Bank country pipelines.

- 3.32 Furthermore, approval of funding for an IIRSA portfolio project does not translate into more efficient project preparation. One might have expected to see such improved efficiency in the preparation of IIRSA portfolio projects, which had been identified as integration priorities by consensus with the country authorities—such a gain attesting to the value-added this process brings. But, to judge from the portfolio data (Table 3.4), the IIRSA connection has not accelerated such operations’ approval within the IDB or given them any comparative advantage over other projects in the portfolio.

Table 3.4
Comparison of IIRSA and energy and transportation project preparation times (months)

Sector	Pipeline-Approval	Approval-Signature	Signature-Ratification	Signature-Eligibility	Approval-First disbursement
Energy	16.95	5.10	3.00	2.17	10.04
Transportation	20.53	6.53	4.67	5.74	14.59
IIRSA	24.06	5.47	4.67	5.82	13.92

Source: OVE calculations using Datawarehouse information.

- 3.33 Lastly, a review of loan documents for IDB-funded IIRSA projects reveals that the economic and/or environmental assessment tools used for IIRSA integration infrastructure projects are no different from those employed in other transportation and energy infrastructure projects. In reality, the IDB has processed IIRSA operations as traditional country infrastructure projects, not considering in their analysis any distribution of risks and benefits associated with their regional-integration nature or of the dimension of “... *development of the regions and their people*” which was the Integration and Development Hubs’ stated aim (see paragraph 2.5 of this report). Even when a loan document does state that a project is

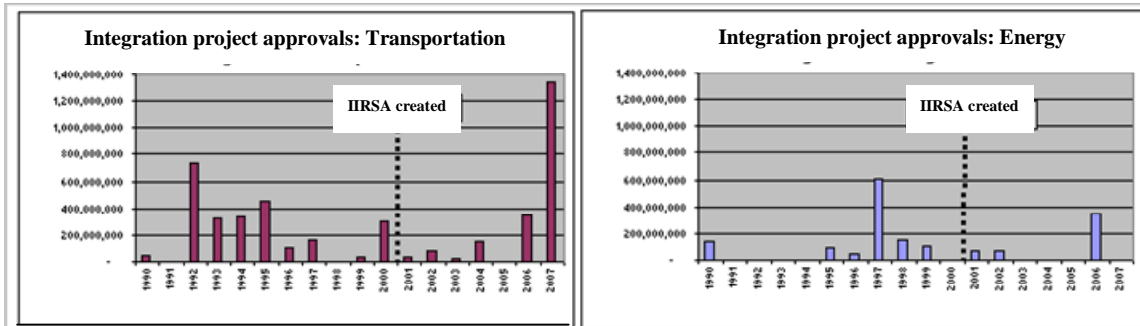
part of the IIRSA portfolio, the operation’s regional implications are not addressed in its economic analysis.

E. Reactivation of the integration infrastructure portfolio

3.34 The third IIRSA challenge for the Bank was to relaunch the approved integration-infrastructure project portfolio. To evaluate accomplishments on that front OVE compared the Bank’s pre-IIRSA integration-infrastructure project approvals with its 2000-2007 activity. It also compared that effort with the record of the CAF, the Bank’s leading comparator lending agency.⁵³

3.35 From its comparison of the IDB’s pre-2000 and 2000-2007 integration infrastructure lending, OVE concluded that since IIRSA’s launch the Bank has not reactivated or scaled up its integration infrastructure portfolio. Its transport integration infrastructure lending, which had been very modest between 1997 and 2006 (Figure 3.10), swelled in 2007 with the approval of a US\$1.2 billion loan for a non-IIRSA integration project in Argentina, which altered the trend. Energy lending picked up somewhat in 2006, when the Bank approved one energy loan following several years of no approvals, but fell back anew in 2007.

Figure 3.10. Transportation and energy integration project lending (1990-2007)

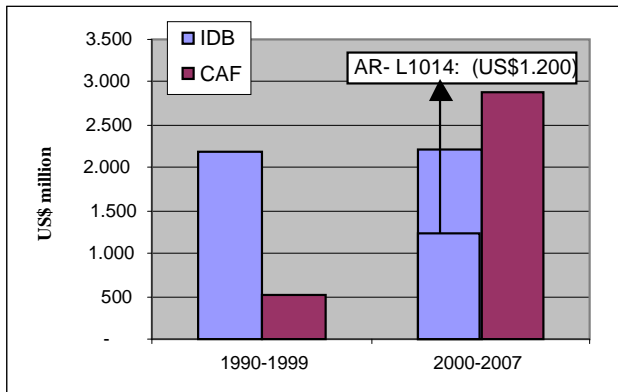


Source: OVE calculations from Datawarehouse

⁵³ For these calculations OVE looked at all transport and energy integration infrastructure projects, IIRSA-associated or not. To ascertain non-IIRSA integration projects the analysts checked an initial list obtained from the CAF and IDB IIRSA coordinators against the two organizations’ annual reports. In the IDB’s case, 48% (US\$1,289 million) of the US\$2,709.2 million in integration-project lending was associated with the IIRSA portfolio. Of the CAF’s US\$3,679.2 million in integration-project approvals, US\$2,074.2 million went to IIRSA portfolio projects, the rest to integration projects that were not formally part of the IIRSA portfolio (see Annex 8).

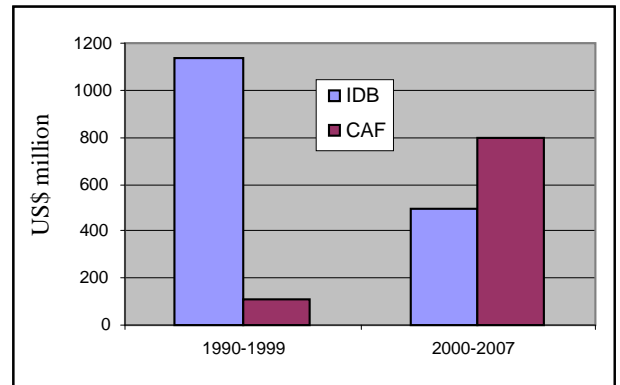
3.36 A tally of IDB and CAF integration-infrastructure project funding reveals that the CAF portfolio increased substantially while the IDB's remained unchanged or rebounded more weakly.⁵⁴ As Figure 3.11 shows, the Bank's flow of financing to the transportation sector held steady, owing mainly to the 2007 approval of a US\$1.2 billion Argentina project (AR-L1014), whereas its energy lending declined substantially (Figure 3.12). Figures 3.11 and 3.12 compare the evolution of IDB and CAF transportation and energy integration lending in the 1990s and in 2000-2007.

Figure 3.11. Transport integration IDB-CAF



Source: OVE calculations, Annex 8

Figure 3.12. Energy integration IDB-CAF



Source: OVE calculations, Annex 8

3.37 Roughly half of IDB and CAF integration-project funding went to projects under the IIRSA umbrella,⁵⁵ though the sectoral breakdown of their lending differs. Road projects make up 99% of the IDB transport portfolio; the CAF's transportation lending likewise is road-heavy (about 75%) but that agency has funded railway projects (13%) and some waterways as well. The two institutions approved relatively fewer energy projects (three each) with larger loans. The difference in average loan size (total lending divided by number of projects)—US\$200 million for the IDB,⁵⁶ US\$100 million for the CAF—would indicate that the CAF extended more but relatively smaller loans.

3.38 The CAF did more than capitalize more assertively on the financing opportunities created by IIRSA to considerably scale up its integration-infrastructure investment

⁵⁴ Though there are some important differences in country context and fiscal situation in the two decades being compared, this conclusion is drawn from a comparison of funding furnished by the IDB and the CAF which were competing in an identical macroeconomic environment for the same market.

⁵⁵ Just under half (48%) of the IDB's US\$2,709.2 million in integration project approvals—US\$1,289.0 million—are part of the IIRSA portfolio. Of the US\$3,679.2 million in CAF integration approvals, US\$2,074.2 million are part of the IIRSA portfolio; the rest are integration projects that are not formally part of that portfolio.

⁵⁶ Not counting the Argentina project (AR-L1014).

lending: it also came up with new strategic programs or initiatives intrinsically linked to the Initiative. Two examples are the First-Class Ports Program, to upgrade the quality of port services in major South American ports, and the Border Development and Integration Program (PADIF) which is advancing subregional and binational border area development and integration programs to extend physical linkages and improve border crossings, as well as sustainable production, social, and environmental development of border areas.

IV. IIRSA CHALLENGES IN THE PRESENT REGIONAL INTEGRATION DYNAMIC

- 4.1 The launch of IIRSA was an action strategy designed to directly tackle diagnosed infrastructure bottlenecks. It was underpinned by broad consensuses among the participating countries and converging visions as to the role of infrastructure and domestic market integration in a globalizing economy. But the regional integration pattern in recent years raises questions about what this initiative really can do to address the challenges ahead. The most challenging issues IIRSA would have to manage are: (i) a weakening of regional consensuses about the role and contents of the regional integration movement; (ii) the relative loss of momentum of intraregional trade, and (iii) the emergence of new forums in which to deal with issues that have figured on the IIRSA agenda.
- 4.2 Changes over the past several years in the political economy that helped usher in IIRSA have limited the Initiative's real prospects of successfully leading the regional infrastructure integration process and achieving its objectives, notably those of its goals that require broad agreement on the political and strategy sides. Short-term consensuses about integration and development contents and direction have been waning throughout the present decade, and regional integration is now in a stationary, review phase that has weakened some of the consensus accords in which the Initiative was anchored. The South American presidents' affirmation in the Cochabamba Declaration of the need for a "*new integration model that respects diversity*"⁵⁷ attests to this shift.
- 4.3 Specifically, the consensus around open regionalism principles has been faltering as countries have separately pursued bilateral trade pacts. The premise of open regionalism was that South American nations needed to construct an integrated space and negotiate collectively to manage the challenges of competitiveness in a globalizing world. But countries have worked on their own to position themselves globally, turning to bilateral accords and trade commitments. Global markets thus are taking priority over intraregional ones.⁵⁸ (See Annex 1.)

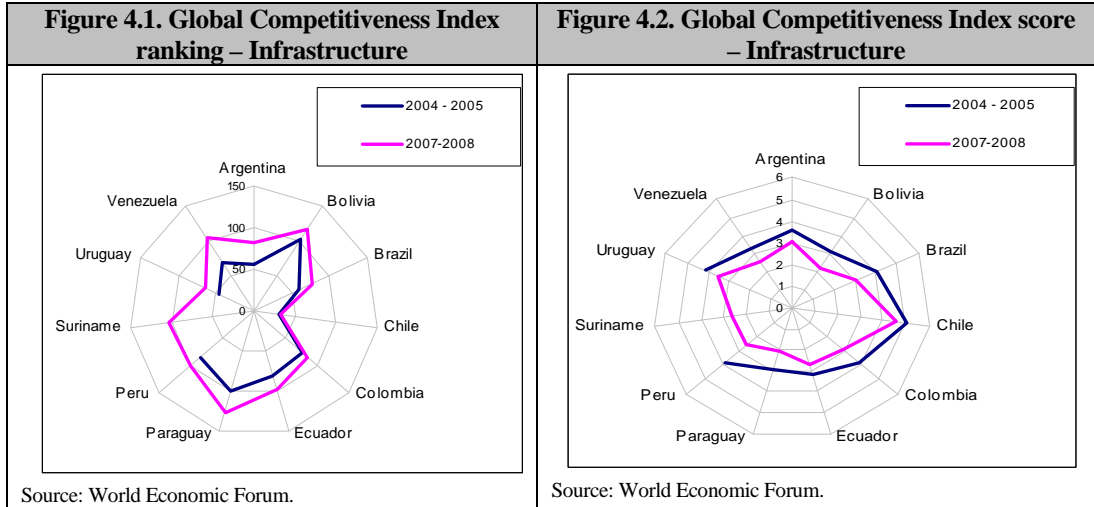
⁵⁷ Cochabamba Declaration, Placing the Cornerstone of South American Union. http://www.comunidadandina.org/documentos/dec_int/declaracion_cochabamba.htm

⁵⁸ See ECLAC, *Latin America and the Caribbean in the World Economy*, Chapter IV. Years 2005-2006.

- 4.4 At the 2004 summit⁵⁹ the presidents resolved to create the South American Community of Nations, which in 2007 became the Union of South American Nations (UNASUR). With the advent of UNASUR the region has new spaces in which to tackle what had been IIRSA-dedicated issues and has reworked their strategic content. UNASUR prizes sustainable social development concerns over competitiveness gains of individual countries and of the integrated region, and energy agreements over other infrastructure issues. The UNASUR technical group for transportation matters has captured IIRSA advances in that sector; not so on the energy side.
- 4.5 Physical-integration contents also appear to be shifting away from open regionalism and the privatizing and liberalizing policies of the 1990s. Documents of the 2006 Second Summit of Heads of State and Government of the South American Community of Nations that deal with infrastructure issues do not mention competitiveness gains or helping countries solidify their global foothold as important objectives. Infrastructure is viewed as an instrument for ...*“linking our peoples and linking the region: building cross-region transportation networks and telecommunications grids to connect our countries, heeding sustainable social and economic development criteria to accelerate the integration process, protecting the environment and keeping ecosystems in balance.”*
- 4.6 South America has seen a slowing of growth in intraregional exports’ share of total export sales, which at mid-decade had dropped to 24%.⁶⁰ This loss of momentum and the unilateral signing of extraregional trade accords has important implications for IIRSA’s future. For one thing, at a time of slackening growth in intraregional trade and a diminishing consensus about its importance to the region’s global competitiveness, there are fewer economic incentives to scale up and modernize integration infrastructure. Likewise, the emergence of distinct national strategies on regional integration has softened political support for the Initiative.
- 4.7 World Economic Forum rankings put South America well behind other parts of the globe for infrastructure quality. On average, in 2004-2005, the South American economies stood in 70th place on the infrastructure pillar, among 103 countries surveyed; for 2007-2008 the regional average has dropped to 90th on the list of 125 nations. With the exception of Chile, every country in the region has been trailing the Asian and intermediate economies at a distance.

⁵⁹ Cuzco Declaration on the South American Community of Nations. Third Summit of South American Heads of State. Cuzco, Peru, 8 December 2004 http://www.comunidadandina.org/documentos/dec_int/cusco_sudamerica.htm

⁶⁰ The region’s overall exports climbed 171% in 2000-2006, from US\$160 billion to US\$434 billion, whereas intraregional exports rose from US\$45.5 billion to US\$105.8 billion—a 135% increase. Regional export patterns varied greatly from one country to another. Only Bolivia posted sustained increases. The intraregional trade proportion for Brazil, Colombia, and Peru edged up between 1% and 2% and fell sharply for the other countries (see Annex 1).



- 4.8 The increasing ratio between the physical index of trade and the infrastructure index in the past dozen years⁶¹ would indicate that foreign-trade-related infrastructure services have to handle greater cargo volumes. This presumably would translate into higher transport and logistics costs stemming, for instance, from more storage time, equipment availability for the required operations, and so on. Between 2003 and 2006 the physical volume of South American trade increased 12.5% a year, on average; that same interval saw just a 3.3% expansion in infrastructure. Assuming a ratio of unity in 1990, the ratio between the two indicators was 1.6 at the end of the aforementioned interval, considerably above the 1991-1994 level of 1.2.
- 4.9 This volume of trade/infrastructure ratio pattern reveals that despite the increase in infrastructure finance, the regional indicators have yet to recover and a more ambitious effort probably is needed for the region to reverse this situation. The space that IIRSA was intended to fill is still open, and South America needs a reinvigorated integration infrastructure effort if it hopes to improve its transborder connectivity and global economic positioning. The discussions that will necessarily unfold as IIRSA reaches the end of its ten-year lifespan will afford a rich opportunity to reassess challenges, learn from mistakes, and build on accomplishments.

⁶¹ Ricardo Carciofi and Romina Gayá, *Notes on trade expansion and South American infrastructure needs*. INTAL Monthly Newsletter N° 135 – October 2007. Institute for the Integration of Latin America and the Caribbean. IDB-INTAL.