



RE-350

***EVALUATION OF IDB'S
SUPPORT TO THE PLAN
PUEBLA PANAMA INITIATIVE***

**Office of Evaluation and Oversight
(OVE)**

Inter-American Development Bank
Washington, D.C.
August, 2008

TABLE OF CONTENTS

ANNEXES

ABBREVIATIONS AND ACRONYMS

EXECUTIVE SUMMARY

I.	INTRODUCTION	1
II.	THE PPP AND THE REGIONAL INTEGRATION PROCESS	2
	A. The launch of the PPP	2
	B. The PPP's Objectives and Scope.....	4
	C. The PPP's institutional configuration.....	6
	D. The PPP intervention strategy	8
	E. The PPP's achievements.....	10
III.	THE BANK'S RESPONSE TO THE NEEDS OF PPP.....	15
	A. The Bank's Mandate and its Internal Organization of Support to PPP.....	15
	B. The Bank's Programming.....	16
	C. The Consistency of the Bank's PPP Portfolio with the Needs of PPP	17
	D. The Bank's PPP Projects Risks Assessments.....	19
	E. The Execution of the Bank's PPP Portfolio	20
IV.	THE BANK'S CONTRIBUTION TO THE PPP'S ACHIEVEMENTS	22
	A. The Bank's contribution to the PPP Consensus Building.....	23
	B. The Bank's contribution to the PPP financing	30
	C. The Bank support to the ICP and GAPIE activities	32
V.	FINDINGS AND RECOMENDATIONS	33
	A. Findings	33
	B. Recomendations	36

ANNEXES

Annex I- A Brief History of the PPP's Countries Economic Integration

Annex II- The Background for the PPP Initiatives

Annex III- The Specific Diagnosis and Rationale of the PPP's Initiatives

Annex IV - The Objectives and Projects of the PPP's Initiatives

Annex V – The PPP Countries' Characteristics

Annex VI - The PPP Vision for MAR (2011-2020)

Annex VII - The Definition of Ratings for the Bank's Overall Achievement on
PPP Output's Delivery

Annex VIII – The Bank's Portfolio of PPP's Operations

Annex IX – List of Interviews Conducted

[PPP Evaluation: Annexes I through IX](#)

ABBREVIATIONS AND ACRONYMS

AMI	Autopista Mesoamericana de la Información
CA	Central America
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CAF	Corporación Andina de Fomento
CCAD	Comisión Centroamericana de Ambiente y Desarrollo
CECC	Coordinación Educativa y Cultural Centroamericana
CMC	Consejo Mesoamericano de Competitividad
COMISCA	Consejo de Ministros de Salud de Centroamérica
COMITRAN	Consejo Sectorial de Ministros de Transporte de Centroamérica
COMTELCA	Comisión Técnica Regional de Telecomunicaciones de Centroamérica
CPF	Comisión de Promoción y Financiamiento
CORECA	Consejo Regional de Cooperación Agrícola
CRIE	Comision Regional de Interconexion Electrica
DO	Development Objective
ECLAC	Economic Commission for Central America and the Caribbean
EPR	Empresa Propietaria de la Red
FIRII	Fondo para el Financiamiento de Operaciones de Cooperación Técnica para Iniciativas para la Integración de Infraestructura
FSO	Financial Special Funds
FTA	Free Trade Agreements
GAPIE	Grupo Asesor para la Participación Indígena y Étnica
GAT	Grupo de Apoyo Técnico del BID para el PM
GTI	Grupo TécnicoTécnico Inter-institucional
ICEX	Instituto Español de Comercio Exterior
ICO	Agencia de Fomento de España
ICP	Información, Consulta e Participación
IDB	Inter American Development Bank
IIC	Inter-American Investment Corporation
INCAE	Instituto Centroamericano de Administración de Empresas
LAC	Latin American and Caribbean Region
MAR	Mesoamerican Region
MoU	Memorandum of Understanding
OVE	Office of Evaluation and Oversight
PM	Proyecto Mesoamerica
PIEM	Programa de Integración Energético Mesoamericano
PPP	Plan Puebla Panamá
DR-CAFTA	Dominican Republic- Central America Free Trade Agreement
REDCA	Red Centroamericana de Fibras Ópticas
RICAM	Red Internacional de Carreteras
SCF	Structural and Corporate Finance Department
SICA	Sistema de la Integración Centroamericana
SIECA	Secretaría de Integración Económica Centroamericana
SIEPAC	Sistema de Interconexión Eléctrica para América Central
SISCA	Secretaria De Integración Social Centroamericana
SME	Small and Medium Enterprise
TC	Technical Cooperation
UNDP	United Nations Development Program

EXECUTIVE SUMMARY

The IDB has been supporting the Plan Puebla Panama (PPP) since it was launched in 2001 by the Central American (CA) countries and Mexico as a regional strategy created to pursue economic and human development as well as to preserve the ecological wealth of the Mesoamerican region. This strategy has aimed at promoting PPP countries' coordination in overcoming their common problems by the creation of "regional public goods". Specifically, this coordination intended to: i) promote consensus regarding the design and implementation of regional projects; ii) facilitate financing and technical cooperation for regional projects and; iii) strengthen civil society involvement in the PPP.

The evaluation of the Bank's support to PPP faced several difficulties. The design of methodological framework and instruments targeted to regional operations is still a work in progress. Even the consensus about the identification and provision of regional public goods is a challenge yet. Likewise, the evaluation of these regional programs is also in an early development stage. More specifically, in the case of the PPP, it is not possible to gauge the achievement of its development objectives because the Plan did not establish baselines or indicators for its outcomes.

OVE evaluated the results of the Bank's PPP activities by conducting analysis of the Bank's support of the PPP's planned activities. However, the Bank's contribution to the PPP's results is difficult to determine. First, the Bank did not set up indicators to measure the impact of its regional operations. Second, the Bank did not define specific objectives to guide its involvement in, or the development of, the PPP. Given the Bank's heavy participation in the coordination of both PPP financing and technical activities, the Bank's results are tied to the PPP's results in the region.

OVE learned that the PPP's effectiveness as an instrument to manage regional integration was jeopardized by the fact that, from the outset, the PPP did not set up a decision-making process that incorporates the Financing Ministers, i.e., those responsible for the countries' allocation of resources. Furthermore, the PPP did not define the regional public goods to be pursued cooperatively by the countries, thus the promotion of consensus and related financing for the regional priorities are still a challenge. In turn, the Bank's failings have also reflected those of the PPP in that it did not provide a general diagnosis for regional problems.

Although the Bank had mentioned the PPP in almost all Country Strategies, the Bank lacked operational instruments to handle with the PPP. Indeed, reflecting the lack of methodologies and instruments, the Bank did not seek to identify general risks related to the implementation of PPP or risks specific to each of the regional initiatives. Furthermore, mirroring the PPP, the Bank's portfolio of loans did not prioritize regional public goods or regional operations. Only two of 25 loans support region-wide operations (SIEPAC and the Trifinio Sustainable Development Program) and both had been approved prior to the PPP. Instead, national loans for projects with a regional emphasis dominate the Bank's PPP loan portfolio (60% of the total). Furthermore, the Bank's portfolio targeted CA almost exclusively.

The best PPP results were obtained only for the initiatives that have already experienced previous efforts of implementation prior to the PPP, such as the energy (SIEPAC) and transportation networks (RICAM). Overall, only 50% of the anticipated financing has been obtained and the civil society participation in the initiative is very low.

The evaluation found that the Bank was an important contributor to consensus building and collective problem-solving in the energy, telecommunication and transportation initiatives, in which it had worked around consensus-building since their main projects' conception. However, there is no evidence that the Bank has performed the same relevant role regarding the other initiatives.

Regarding financing, the Bank's contribution to the PPP's needs was jeopardized by the Bank's lack of an appropriate financial instrument, such as CABEL's special funding conditions for regional operations, to stimulate country involvement in regional projects. Although the Bank recently launched TC funding for regional project feasibility studies, such as the Fund for Initiatives for Regional Infrastructure Integration (FIRII), its use has not been enough to push the Bank to take the lead in financing PPP projects.

In order to overcome shortfalls and address new challenges, the PPP countries have redefined PPP priorities and prepared a system for project selection. At the time that this evaluation was concluded, the *X Summit of Tuxla/PPP* introduced several changes to the Plan as follows: i) the name of the Plan changed to Mesoamerica's Project (PM); ii) the Plan's initiatives were eliminated; iii) the Plan's portfolio was revised in order to reflect the priorities agreed in the *X Summit*; iv) the Plan established guidelines for the approval of new projects and; iv) the countries' Financing Ministers were incorporated to the PM's institutionality. Mirroring these changes, the Bank also revised its PPP portfolio and created an Internal Technical Support Group for the Plan, which incorporated the participation of the Unit's staff members related to the Bank's PPP projects. Both changes will be matter of a future OVE's evaluation.

These changes reflect the challenges and opportunities created by the integration processes that are in progress in the region and that could boost "de facto" market integration of PPP countries. Indeed, the PPP's countries have been celebrating Free Trade Agreements, energy cooperation and integration programs as well as the abovementioned physical network infrastructure integration processes. To take advantage of all these opportunities, PPP countries must close the physical and technological infrastructures gaps and both harmonize and strengthen the regulation of regional networks that remain unaddressed in the region. Though identified by the PPP at its launch, these problems continue to afflict the region.

From the Bank's perspective, the *X Tuxla Summit* changes created a positive momentum that could lever the Bank's relevance in the region. In order to address that, OVE makes the following recommendations to the Bank.

The Board should renew Management's mandate to promote the PPP and approve budget allocation to finance the Bank's support to the PPP-related

activities. However, in order to improve the Bank's support, OVE makes the following recommendations:

- i. *The Bank should improve its technical assistance to the PPP.***
 - a. The Bank should continue supporting the strategic discussion involving the high level authorities of PPP's countries regarding their perspectives on the regional integration process and the PPP itself. This discussion should complement the current process of the PPP's redefinition, occurred in the X Tuxla Summit, and be based on a diagnosis of the region's problems that emphasizes the regional public goods, which should be the focus of the Plan.
 - b. The Bank should help the PPP countries to define mid and long term objectives, containing baselines and outcome indicators for each one of the projects defined by this strategic reoriented plan.
 - c. In addition to the financing of investment needs, the Bank should give high priority to the provision of TC in order to either create or strenghten the regional regulatory frameworks of the energy and telecommunication sectors, which networks will be operated by natural monopolies.
 - d. The Bank should support the implementation of the *PPP monitoring system*, as recently approved by the X Tuxla Summit. This system should permit the PPP countries to monitor the execution of the PPP portfolio as well as to evaluate the PPP portfolio's indicators and milestones.
 - e. The Bank, through its role in GTI and CPF, should promote the coordination between the PPP's Execution Commission and the agencies in charge of the execution of regional projects;
 - f. The Bank, through its role in GTI and CPF, should give high priority to the implementation of the X Tuxla Summit decisions. In particular, regarding the involvement of the Countries Finance Ministers in the CPF, the Bank should involve then in the programing of the PPP projects.
- ii. *The Bank should improve its internal capacity to support the PPP.***
 - b. The Bank should develop *financial mechanisms aimed at supporting regional projects* that mitigate the larger transaction costs pursued by these regional projects when compared with the national projects.
 - c. The Bank should develop *evaluation methodologies* which address regional public goods, by taking in account country asymmetries and definition and allocation of regional projects cost and benefits among the beneficiary countries.

- d. The Bank should create a mechanism in its *monitoring system to permit dedicated monitoring of the Bank's PPP projects*;
- e. The Bank should produce annual reports on the *Bank's PPP Portfolio Management, Results and Performance*, starting with the current year. In this first report, the Bank should also present and justify the changes in both its portfolio and its internal organization in order to address the *X Tuxtla Summit* decisions.
- f. The Bank should also *incorporate the PPP in all of the Bank's related strategies*, such as the strategy for the Central American and PPP countries, with a clear definition of responsibilities for the Bank's Public and Private divisions.

I. INTRODUCTION

- 1.1 The Plan Puebla Panama (PPP) is a regional strategy created to pursue the economic and human development as well as to preserve the ecological wealth of the Mesoamerican region (MAR). The PPP was officially launched in an Extraordinary Meeting of Tuxla Dialogue and Consultation Mechanism in El Salvador, in June 2001. Originally belonged to the seven Central American (CA) countries: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama; and Mexico, specifically the nine southeastern states: Guerrero, Puebla, Veracruz, Oaxaca, Tabasco, Campeche, Chiapas, Yucatan and Quintana Roo. In 2006, Colombia was incorporated as an effective PPP's member.
- 1.2 It is important to note that the term 'Mesoamerican' is in fact a "trademark" since its usual definition corresponds to a diverse geographical area when compared with the area related to the PPP's countries. Indeed, while anthropologists and social scientists characterize "Mesoamerica" as a geographic region from central Mexico down through CA, including Guatemala, Belize, Honduras and El Salvador with cultural and ethnic similarities, the PPP's reference to this region is different, by excluding central Mexico and by including Panama, Nicaragua, Costa Rica and recently, Colombia.¹
- 1.3 The IDB, among others international organizations, was invited to participate in the PPP. In 2001, the Bank's Executive Board of Directors approved a directive mandating Management to support the PPP, with a sunset clause for the 31st of December 2006, later extended to 2008,² and has approved the allocation of over US\$ 1 million per year to finance the coordination of PPP-related activities between 2002 to 2006.
- 1.4 The Board also instructed OVE to evaluate the Bank's support of PPP. The Bank's contribution to the PPP's success was very difficult to determine as the Bank did not define specific objectives to guide its involvement in the Plan. Yet, given the Bank's heavy participation in the Plan activities, the Bank's results in PPP are tied to the PPP's results. That is the reason that the next section analyses the launch of PPP, its objectives and scope, its institutional configuration, its intervention strategy and its achievements. Based on that, the third section examines the Bank's support of PPP, by analyzing the Bank's mandate and its internal organization to support the PPP, its programming, the consistency of the Bank's portfolio with the PPP's needs and the risk assessment, execution and monitoring of the Bank's PPP projects. The fourth section gauges the Bank's contribution to the PPP's achievements in terms of promotion of consensus building, financing and social participation in the PPP. The final section presents the findings of recommendations.

¹ Mesoamerica is characterized by the particular cultural homogeneity that the indigenous cultures in this region exhibit. Mesoamerica is also the name of a linguistic area comprising the languages native to roughly the same geographical area. Source: <http://www.famsi.org/>.

² GA- 225-1, paragraph 6.9.

At the time that this evaluation was concluded, the *X Tuxla Summit* introduced several changes to the Plan as follows:³ i) the name of the Plan changed to Mesoamerican Project (PM); ii) the Plan's initiatives were eliminated; iii) the portfolio was revised in order to reflect the priorities agreed in the *X Tuxla Summit*; iv) the Plan established guidelines for the approval of new projects and; v) the countries' Financing Ministers were incorporated to the PM's institutionality through the support of their representatives to the Executive Commission activities. Mirroring these changes, the Bank also revised its PPP portfolio and created an Internal Technical Support Group for the PPP/PM (GAT), which incorporated the participation of the Unit's staff members related to the Bank's PPP projects. Both changes will be matter of a future OVE's evaluation.

II. THE PPP AND THE REGIONAL INTEGRATION PROCESS

A. The launch of the PPP⁴

- 2.1 In 1999, inspired by the need for better coordination in pursuing development goals, the seven CA countries created an agenda for the 21st Century called "Strategy of Modernization and Transformation of Central America". Focusing on competitiveness and productivity issues, the Agenda proposed a regional strategy for cooperation and the convergence of policies for attaining these objectives. The assumption was that a portfolio of regional projects could increase both multilateral donor financing and foreign investments in CA.⁵ Thereafter, in March 2001, the CA presidents met in Madrid and defined a broader portfolio of 32 regional projects related to the following issues: natural disaster mitigation, human development and social equity, entrepreneurial development and competitiveness, regional infrastructure and natural resource sustainability.
- 2.2 Meanwhile, in September 2000, the Mexican presidential candidate Vicente Fox launched an idea to create a regional plan for the integration and development of nine states in southern-eastern (SE) Mexico, the Isthmus countries and Belize. Aimed at reducing the huge development gap between northern and SE Mexico, the Fox's plan targeted southern states which lagged far behind the north in terms of development. Though home to 28.2% of the national population and 72% of the national indigenous population, in 2001 SE Mexico's share of the GDP was only 17.5%. Following his electoral victory, Fox formally proposed the creation of a Regional Plan to the CA presidents based on the execution of a portfolio of 25 projects focused primarily on infrastructure.⁶

³ X Summit of Tuxla/PPP, Villahermosa, Tabasco, México 27-28 June 2008.

⁴ Annex I presents a brief history of the PPP countries' economic integration.

⁵ INCAE, *Centroamérica en el Siglo XXI, Una Agenda para la Competitividad y el Desarrollo Sostenible*, pg.6, 1999.

⁶ Fox invited all Centro American and Belize presidents as well as the presidents of Central-American Bank for Economic Integration (CABEI), IDB and Economic Commission for Latino-American and Caribbean (ECLAC).

- 2.3 It is worth noting that Fox's plan was devised to overcome the development gap of the SE Mexico with the implementation of regional integration projects with CA, which shared many of SE Mexico's economic problems. In order to attain this, Fox proposed extending the existing Tuxla agreement, originally a mechanism to boost the Mexican cooperation with CA, to also provide social and infrastructure needs to within Mexico itself.
- 2.4 Mexico and the CA officially launched the PPP in the Extraordinary Meeting of Tuxla Dialogue and Consultation Mechanism, June 2001; through which originated a pipeline of 27 projects. The original signatories to the PPP were Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Mexico. The emergence of PPP was strongly supported by IDB, CABEI and ECLAC.
- 2.5 The launch of PPP by CA and Mexico in 2001 was a result of the convergence of different backgrounds and motivations from their founders. Mexico perceived the PPP agenda as an opportunity to address its poorer areas through regional initiatives carried out jointly with CA countries and financed by multilateral donors. In the other hand, CA countries perceived in PPP a vehicle to boost their regional agenda with the inclusion of Mexico, by attracting not only the Mexican financing and technical assistance but also by increasing the visibility of this agenda for multilateral donors with the incorporation of Mexico.
- 2.6 The PPP represents a breakpoint in the financial relationship between CA and Mexico. Historically, Mexico has been a "donor" to CA through the San Jose Agreement and technical cooperation. However, with the inclusion of projects of Mexican SE region in the PPP portfolio, Mexico also becomes a "borrower" of funding for its projects. This aspect raises the importance of the definition of a consensual agenda of regional projects for PPP that addressed all PPP countries.
- 2.7 In 2004 Colombia began participating as an observer in PPP sessions and in 2006 it officially joined the PPP. This coincided with the beginning of the Free Trade Agreement (FTA) negotiations between Colombia and the North Triangle,⁷ given evidence of an increased interest of Colombia to open a new channel of integration with Mexico and CA. It is too soon to assess the impact of Colombia's incorporation with PPP but some cooperation on energy issues has created opportunities for energy diversification and supply for the CA countries. The entry of Colombia in 2006 stresses the PPP's focus on the facilitation of the physical integration of regional markets.
- 2.8 Indeed, integration initiatives currently in progress under the umbrella of the Tuxla mechanism, such as the MAR Energy Integration Program (PIEM),⁸ reflect this new priority as do emerging integration opportunities, such as the

⁷ The North Triangle consists of El Salvador, Guatemala and Honduras.

⁸ The PIEM was created in December 2005 by the presidents of CA, Colombia, Dominican Republic and Mexico aimed at promoting energy efficiency in the context of the high crude oil prices. Source: *Declaracion de Cancun*, 13 of December of 2005.

construction of both regional natural gas pipeline and refinery as well as the development of biofuel projects, that were not part of the original PPP program.

B. The PPP's Objectives and Scope

- 2.9 The PPP's general objective is to *enhance the economic, human and ecological wealth of the Mesoamerican Region through a range of initiatives aimed at promoting regional integration and development*. More specifically, the PPP was conceived to facilitate the design, financing and execution of regional projects agreed upon the PPP's member countries. This facilitation is to be achieved by coordinating country efforts and donor-financed initiatives that had been created at the inception of the PPP.⁹
- 2.10 In order to accomplish its objective, the PPP created eight initiatives organized in two axis of integration: Productive Integration and Competitiveness and Social and Environment Development. Productive Integration and Competitiveness includes the initiatives of Energy, Transportation, Telecommunications and Trade and Competitiveness. In turn, at the time that PPP was launched, Social and Environment Development included Human Development, Sustainable Development, Natural Disaster Prevention, and Tourism initiatives. In 2007, the Climate Change initiative was added to the second axis.¹⁰
- 2.11 These initiatives have been implementing projects in different stages of preparation and execution. In December 2007, the PPP portfolio consisted of 39 investment projects and 61 Technical Cooperations (TC), amounting US\$ 8.076 billion (Table 1).¹¹
- 2.12 Although PPP included a broad range of interventions, transportation and energy surpass the other initiatives by a large measure in both terms of the amount of financing (87% of US\$ 8,076 million) and the number of loans (74% of 39 loans). In particular, the transportation initiative comprises the largest share of the expected investments (76%), followed by the energy (11.5%) and human development (7.4%) initiatives. Trade and tourism had no anticipated or scheduled project investment and has used TCs to address its objectives.

⁹ OVE learned the PPP's general objectives from the background paper that was created by the PPP in 2001, the first PPP report (2001) and from the PPP's website. Despite the existence of small differences among the PPP's definitions of general objectives, in general, it is a regional strategy to pursue economic and social development through coordinating country and donor-financed efforts to promote regional projects.

¹⁰ Annex II presents an analysis of the background of each PPP initiative.

¹¹ OVE identified specific diagnosis and rationales that justify each specific initiative from the analysis of the PPP's documents and individual projects. For a detailed analysis see Annex III.

Table 1 – Plan Puebla Panama’s Portfolio of Operations (2007) ¹²

Initiatives	Number of Projects		Expected Investments (US\$ million)	% of the Total
	Loans	Technical Cooperation*		
<i>Productive Integration and Competitiveness Axis</i>				
Energy	10	5	928.34	11%
Transportation	16	4	6,148.80	76%
Telecommunication	3	7	21.72	0%
Trade and Competitiveness		8	27.38	0%
<i>Social and Environment Development Axis</i>				
Human Development	4	7	600.92	7%
Sustainable Development	5	20	322.04	4%
Natural Disaster Prevention	1	3	23.67	0%
Tourism		6	3.20	0%
Information and Consultation		1	.91	0%
Total	39	61	8,076.98	100%

(*) Also including studies and working agendas. Source: PPP website (December 2007)

2.13 OVE reviewed the PPP’s goals and outcomes for each one of its eight initiatives based on PPP’s documents and projects (Table 2).¹³

Table 2 – The PPP’s Goals and Outcomes

	GOAL	OUTCOME
General	To enhance the human and ecological wealth	A framework of sustainable development that respect cultural diversity
Initiatives		
Development Sustainability	To promote the conservation and sustainable management of natural resources Social Equity and Cultural Heritage Improving the Rural Sector Competitiveness	Protection of Biodiversity Sustainable Use of Natural Resources Enhancing the rural business climate
Human Development	To increase Human Capital by achieving the Millennium Goals	Reducing poverty and increasing economic growth Reduction of poverty Access facilitation to public services for the poor A better use of natural resources by indigenous people Enhancing prevention of epidemics and diseases
Prevention and Mitigation of Natural Risks	To raise the public consciousness about the importance of risk management To disseminate the concept of risk mitigation	Reducing economic and human losses from natural disasters
Tourism	To promote ecologic, historical and cultural tourism	Consolidation of a MAR conglomerate of low- impact tourism
Trade and Competitiveness	To enhance intraregional trade To increase competitiveness To promote the participation of SME in regional exports	Reduction of intraregional trade transaction costs Increasing of SME exports
Transportation Integration	To increase the transportation sector efficiency To enhance competitiveness	Reduction of transportation costs Increasing the access of people and goods
Energy Integration	To improve competitiveness To reduce energy costs	Reduction of electricity prices Promotion of investments in the sector
Telecommunication Integration	To improve services coverage To promote the universal access of information technology	To increase the access to information technologies

Source: PPP documents and projects

¹² The methodology adopted by PPP to count its operations is different from the methodology adopted by the Bank. For instance, while the Bank registers 7 TCs for Information, Cooperation and Participation (ICP) activities, for the PPP initiative it consists of only one operation. Even the approved monitoring of operations is divergent, since for the Bank’s systems, but not for the PPP’s control system, there are three loans (two in energy and one in competitiveness) that were completed.

¹³ For an overview of the objectives of the PPP’s projects and initiatives see Annex IV. In June 2008, the Mexico Summit eliminated all initiatives.

C. The PPP's institutional configuration

- 2.14 The PPP countries identified the need for better coordination of their actions in order to overcome the lack of regional integration to manage the initiatives as defined by the Plan. They also aimed at creating a PPP governance structure that empowered the countries with “high-impact decision-making” capacity by directly involving the heads of state’s cabinet representatives in the PPP’s decision making process.
- 2.15 Thus, the 2001 *San Salvador Tuxla Summit* agreed that the Summit of Presidents will be the highest decision-making body of the PPP supported by an Executive Commission, consisting of representatives from the presidential Cabinet of each PPP member country.¹⁴ This Executive Commission would have the responsibility for the PPP’s coordination, execution and monitoring. Otherwise, the presidents assigned the responsibility of supporting the works of the PPP’s Executive Commission to Central American Integration System (SICA) and its sectorial commissions. However, the direct involvement of the heads of state’s cabinet representatives in the Executive Commission did not materialize. Conversely, the PPP’s decision-making framework mirrors the Tuxla Mechanism’s parameters and the Executive Commission members are representatives of each respective country’s foreign affairs ministry, these ministers are in charge of foreign aid coordination.
- 2.16 The Executive Commission has the support of two technical groups - the Promotion and Financing Commission (CPF) and the Inter-Institutional Technical Group (GTI). The CPF was to be coordinated by IDB and obtain the participation of member countries’ representatives and that of other regional development agencies that participated in the development of the PPP, such as CABEI, CAF and Spain Funding Agency (ICO). However, the CPF has never met regularly and its responsibility for promoting the financing of PPP projects has been informally assumed by the GTI.¹⁵ In addition to the above-mentioned functions, the GTI was also intended to support the Executive Commission in the definition and implementation of the eight initiatives.¹⁶
- 2.17 Each of the initiatives was designated to be coordinated by one country-member, such as the following: Sustainable Development (Nicaragua), Human Development (Mexico), Natural Disaster Prevention (Panama), Tourism (Belize), Trade and Competitiveness (Honduras), Transportation (Costa Rica), Energy

¹⁴ Each president of the PPP countries rotates the presidency of the Cumber except for Mexico. Otherwise, Mexico exerted the Vice-Presidency of PPP permanently.

¹⁵ In April 2008, during the Annual Meeting of the IDB Board of Governors held in Miami, the PPP countries re-launched the CPF in an effort to improve the Plan financing capacity. The event was attended by the Financing Ministers of all PPP countries, the IDB, CAF and CABEI.

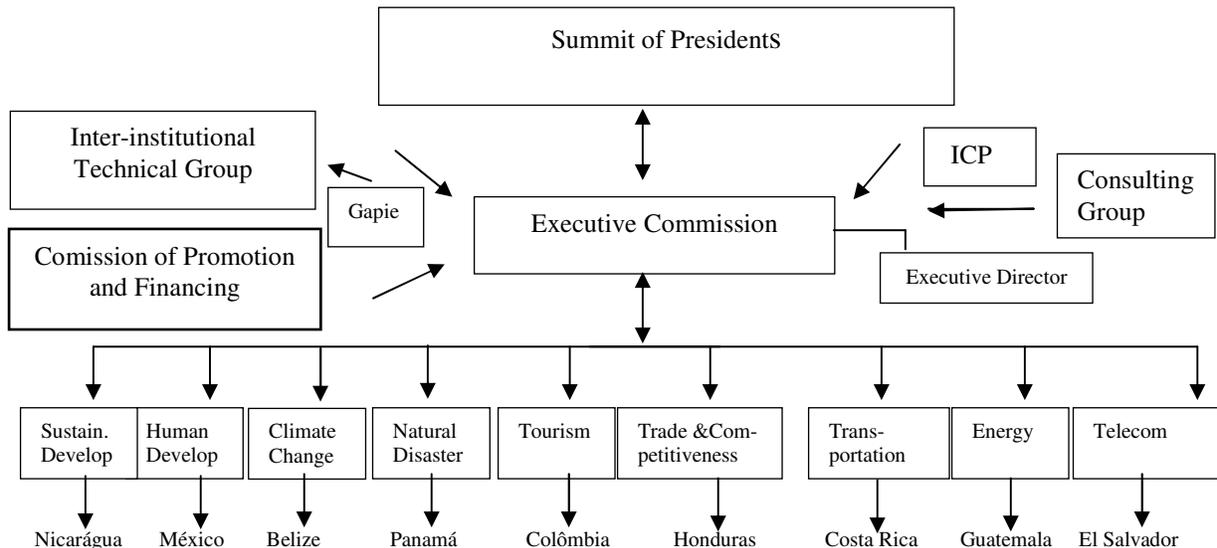
¹⁶ The GTI consists of IDB, CABEI, CAF, ICEX, ICO, ECLAC, INCAE, SICA, SIECA and UNDP.

(Guatemala) and Telecommunication (El Salvador).¹⁷ Each coordinator had the option to constitute a supporting technical group whenever necessary.

2.18 However, although the PPP had been launching projects and promoting regular meetings, it was not until 2004 that the PPP was institutionalized and its governance body fully constituted.¹⁸ The PPP's presidents determined that the Plan has been lacking in both operational capacity and project execution performance. Thus, they hired an Executive Director to support the activities defined by the Executive Commission and, at the same time, the presidents determined that cooperation between SICA and the Executive Commission would become operational through "Operational Agreements". Finally, the presidents also instructed the Execution Commission to establish Memorandum of Understanding (MoU) in each one of the initiatives in order to define agendas and priorities for each initiative.

2.19 In addition, the PPP's presidents envisaged the need for large civil society participation in the design, execution, and monitoring of PPP. Thus they created three groups. The first was the Advisory Group of Civil Society Consultation (ICP) that was intended to support the PPP initiatives by promoting civil society participation. The Advisory Group for Indigenous Community Participation (GAPIE) was created with the same purpose but to focus exclusively on the participation of indigenous communities while taking part in the GTI. Finally, the Consulting Group was also created to gather a broad and ad hoc participation of civil society representatives, such as SE Mexican governors, private sector and SICA representatives, in supporting the Executive Commission.

Figure 1 – PPP's Institutional Configuration



¹⁷ The 2007 Guatemala Tuxla Summit created the Climate Change Initiative, managed by Belize. At the same time, Colombia received the responsibility for the Tourism Initiative.

¹⁸ 2004 Managua Tuxla Summit.

D. The PPP intervention strategy

2.20 Overall, the PPP intervention strategy has been to promote countries' coordination in overcoming their common problems by the creation of "regional public goods". Specifically, this coordination was intended to be pursued by the implementation of three strategies across the eight initiatives delineated at the time the Plan was launching, such as: i) the promotion of consensus regarding the design and implementation of these regional projects; ii) the facilitation of financing and technical cooperation for regional projects and; iii) the strengthening of civil society involvement in the PPP.

Box 1: Regional Public Goods

Pure public goods are characterized by two properties: their benefits are *non rival* and *non excludable*. The public goods benefits are *non rival* because their consumption by an economic agent does not prevent that other agents could have access to the benefits of the same unit of the good. The public goods' benefits are *non excludable* because, once the good is provided, its benefits are received by payers and non payers alike. In other words, the provision of the good produces externalities, in which the gains or costs of such activity is not limited to the individual that undertakes this activity. Examples of pure public goods are global warming mitigation programs or national defense.

These properties generated a free rider or property rights protection problem that leads to a suboptimal provision of public goods since their provider can neither control who consumes the good nor can he appropriate himself of these benefits. To the extent that good or benefits are non excludable, their provision generates spillover benefits.

Pure public goods spillover benefits can be classified by national, regional (or even global) boundaries. Goods which are limited in their degree of non rivalry or non excludability are no longer pure public goods, but may still retain many of the characteristics of a public good. Because of that, the literature created a typology for classifying these impure public goods. For instance, when benefits may be excluded due to membership in a group, the good is known as a club good.

The Bank adopted a flexible definition of regional public good, which includes the orthodox concept discussed above as well as "as any good or activity that generates benefits to more than one country as a result of coordinated action by participating countries".¹⁹

2.21 The literature²⁰ finds mixed signals regarding the justification for the PPP's regional initiatives. Although it reveals the existence of similar economic and social characteristics throughout the region, the literature also displays some disparities among the PPP countries.

¹⁹ *Regional Public Goods: Proposal for an expanded Bank role*. GN-2275-31 17 March 2004.

²⁰ Annex V provides an analysis of the PPP countries' characteristics based on ECLAC, *Statistical Yearbook for Latin America and the Caribbean, 2007*; IADB, *Hagamos de la Integración Mesoamericana una Realidad: los Desafíos de Mesoamérica y el PPP*, 2001; OECD, *The Mesoamerican Region*, Territorial Reviews, 2006; and World Bank, *DR-CAFTA: Challenges and Opportunities for CA* (2006). For an overview of the "regional public goods" literature see Arce, D. and Sandler, T. *Regional Public Goods: Typologies, Provision, Financing and Development Assistance*, EGDI, 2002. Ferroni, M. and Mody, A. Eds. *International Public Goods: Incentives, Measurement and Financing*, Kluwer Academic Publishers and; Beato, P. *Issues and Options on Transnational Projects*, Integration and Trade n 28, January-June 2008.

- 2.22 All PPP share geographic proximity and are vulnerable to external economic shocks, natural disasters, epidemics and migratory flows and constrained by infrastructure deficits and small economies except Mexico. Countries are less homogeneous in relation to competitiveness indexes, educational levels, poverty, social inequality and cultural heritage.
- 2.23 In that vein, based on the literature, the provision of regional public goods by PPP is justified for natural disaster prevention, infrastructure epidemics control and the collection of statistical information about migratory flows. However, this provision is only partially justified for the other initiatives.
- 2.24 In fact, the PPP countries can decrease economic and human losses from natural disasters if they coordinate efforts in order to leverage the regional information capacity about *natural disasters*. This was advocated by PPP, which predicts that more information about the probability of disaster incidence could generate more knowledge, more consciousness and better preparation for disaster mitigation.
- 2.25 In the same way, the logic of the *energy, telecommunication and transportation initiatives* is that the integration of these markets will bring economies of scale and scope, improving sectorial efficiency. As a result, the integration will both enhance access to services and reduce infrastructure costs, thereby increasing the PPP countries' competitiveness and improving the regional economy. In that vein, a regional effort aimed at coordinating investments and harmonizing regulatory frameworks with the aim of building regional networks could be the only feasible way to create these "regional public goods".
- 2.26 However, the literature shows that the rationale is not so clear for some components of some initiatives. For instance, in the *human development initiative*, the PPP states that the PPP countries' inhabitants will only reach adequate social and productive living conditions when they achieve sufficient levels of education, health and nourishment. These factors would create better access to labor markets and consequently lead to gains in income and social welfare. However, such human development programs, although fully justified at national level, lack the rationale to be part of a regional initiative. The exceptions are the programs aimed at both increasing regional protections against epidemics and enhancing statistical information about migratory flows since they are clearly identified as regional public goods.
- 2.27 In the same way, the logic underlying the *sustainable development initiative* is that the PPP countries will only be able to address the negative externalities related to the environmental sustainability of their shared border areas by taking coordinated actions aimed at their sustainable development. Notwithstanding, although all PPP's countries should be involved in the creation of a regional Agreement for Sustainable Environmental Conduct, the same is not true for some sustainability projects that are part of the initiative, which potentially benefit only two or three nations covering to the area of the projects.

- 2.28 The logic of the PPP's *trade and competitiveness initiative* is that regional actions aimed at setting a "custom union" could cut intraregional trading costs, especially those linked to logistic and financial issues. At the same time, regional interventions to increase Small and Medium Enterprises (SME) competitiveness could also improve their participation in both regional and global trade. If the trade initiative could be fully justified by the economic literature as a "regional public good", the same is only partially true for the "competitiveness" component. In this case, regional consensus is not so trivial since SME could be rivals at the regional and even national level. However, it is also possible to identify and articulate regional conglomerates or clusters, which could benefit them from a regional approach in order to improve their competitiveness in the global market.²¹
- 2.29 Finally, the logic behind the PPP's *tourism initiative* is that coordinated regional efforts aimed at promoting low-environmental impact tourism in the region will be an important factor in fostering its sustainable development due to both the high potential and higher contribution of this activity to the GDP of PPP countries. As in the competitiveness initiative, the PPP countries have strong rivalry on tourism and the benefits on harmonization of rules among them hardly could overcome the perception that each country can reach higher gains by competing among themselves for the tourists that come to the region. However, the exception is the creation of standards related to the exploration of tourism for the group of countries that have common historical and cultural heritage sites, such as Mayan archaeological sites.²²

E. The PPP's achievements

- 2.30 Gauging the PPP's achievements is a difficult task. The Plan did not establish baselines or indicators to measure its progress towards achieving its development objectives and goals.²³ Since the PPP did not set priorities nor measurable outcomes to be met, the Plan has been pursuing its objectives without a coherent operational guideline. More worrisome is the fact that the PPP does not have an overall system of monitoring and supervision of its project portfolio.²⁴ Instead, both the Plan administrators and third-party stakeholders have reported little more than sporadic execution information about individual projects on its website and printed reports.

²¹ This regional approach could take advantage of the set up of free trade agreements, such as RD-CAFTA. In that vein, one of the resolutions of the X Tuxla Summit was to promote the convergence of the FTAs subscribed by Mexico with El Salvador, Guatemala and Honduras.

²² This is the case of Belize, El Salvador, Guatemala, Honduras and SE Mexico, which could benefit of standard procedures about flux control of tourism in their archaeological sites.

²³ Likewise, the goals envisaged by PPP for MAR in 2011 and 2015 (see Annex VI) are not measurable since they also have no baseline data, metrics or indicators.

²⁴ To mitigate this problem, the X Tuxla Summit created the Project Monitoring Unit, which will be coordinated by the Executive Director of the PPP.

- 2.31 Moreover, all but 3 of the 39 PPP investment projects are still in the execution phase (those 3 projects were completed but account for only US\$ 136.1 million out of the US\$ 8 billion of the entire PPP portfolio).²⁵ These low execution rates make it difficult to gauge either the PPP's effectiveness or achievements.
- 2.32 Given these constraints, OVE assessed the success of each of the PPP's initiatives in achieving their outputs, by gauging whether the PPP: i) promoted consensus-building regarding its projects; ii) facilitated the financing of projects and technical cooperations; iii) involved the civil society in the project's overall design and execution processes.
- 2.33 OVE measures the success on consensus building by verifying whether each initiative established MoU, defined regional priorities and created regional execution capacity. Regarding financing, OVE understands that the PPP will succeed if it fulfills the financing expected for the regional priorities defined by the consensus building efforts.
- 2.34 The PPP achieved mixed results in both its promotion of consensus building and in financing the various initiatives (Table 3). While energy and telecommunications surpass the other initiatives in consensus and trade excels the others in financing achievements, some initiatives, such as human and sustainable development, achieved low ratings in both categories of outputs. In turn, the civil society participation is below the level originally targeted by the PPP.

Table 3 - Overall Achievement of the PPP outputs – financing and consensus building²⁶

	Human Development	Sustainable Development	Tourism	Natural Disaster	Trade	Energy	Transport	Telecom
Consensus	Low	Low	Low	Low	Low	High	Medium	High
Financing	Low*	Low	Low	Low*	High	Medium	Medium	Low
ICP**	Low							

Notes: (*) The financing achieved refers basically to national projects; (**) ICP - the activities of the Social Participation and Information (ICP) were not specified by initiatives.

Elaboration: OVE

i. Consensus building

- 2.35 Unlike the PPP countries expectations, the creation of MoU was a necessary but not a sufficient condition to build consensus. All of the initiatives established MoU but only by considering other factors is it possible to explain the relative success of some initiatives in the promotion of consensus building, such as the presence of: i) regional priorities; ii) regional execution capacity and; iii) previous consensus building related to regional projects in some stages of implementation.
- 2.36 The PPP achieved mixed results in its promotion of consensus building around the various initiatives. The consensus worked best for the energy and telecommunication initiatives. The energy initiative defined a regional project to

²⁵ The number of completed projects could rise to six if the three Bank loans that were completed were included. The PPP' projects referred to three hospitals built by Mexico. However, none of these defined targets nor did the Bank projects measure their outcomes.

²⁶ For a definition of the ratings see Annex VII.

be carried out by a CA execution agency and which benefited from consensus built prior to PPP. The telecommunication initiative built consensus only around a regional network – Mesoamerican Information Highway (AMI) – after the triggering of the SIEPAC. The transportation initiative, as originally designed by the five countries of the CA Common Market (CACM),²⁷ was redefined to incorporate Belize, Mexico and Panama although its execution was run by national unities. Otherwise, sustainable development and trade initiatives built consensus about punctual projects, some of them created prior to PPP, which did not involve all PPP countries. Finally, the human development, natural disaster prevention and tourism initiatives achieved the worst results in terms of “consensus building”: they neither benefited from previous regional projects nor created regional consensus related to a regional portfolio involving either all or a sub-group of PPP’s countries.

- 2.37 There is evidence of superposition of institutions and jurisdictions among the pre-existent executing units of regional projects and entities created by PPP. For instance, SICA has conflicting mandates in the CACM in the PPP because CACM has a more in-depth integration process than the PPP and because they involve the priorities of different countries. In fact, Panama, which is not part of CACM, it is the most open economy among the PPP countries and has few points of convergence with their partners in the PPP trade agenda. Furthermore, Mexico has its own institutions to manage tourism and natural disasters and the coordination of these institutions with those of CA is still a challenge.

ii. Financing

- 2.38 Overall, the PPP has had some success in terms of addressing the financing needs defined by its portfolio of projects. In December 2007, the PPP had obtained only US\$ 4.5 billion (54% of the total funding deemed necessary for its operations). (Table 4). However, the financing targets of the different initiatives were so diverse that it is difficult to compare the results obtained by each one of them. For instance, although the human development initiative achieved 61% of its financing target, the US\$ 364 million it obtained represented only 10% of the amount allocated to finance the transportation initiative, which acquired only half of its funding requirements.
- 2.39 It is worth noting that the PPP did not reach the financing targets programmed for any of its initiatives, including those with smaller funding needs or even those that had originally envisaged a portfolio consisting of only TCs, such as the natural risk prevention, trade and competitiveness, and tourism initiatives.

²⁷ The CACM consists of North Triangle plus Costa Rica and Nicaragua.

Table 4 – The Implementation of the Plan Puebla Panama Portfolio *

Initiatives	Operations		Project Phases								Obtained Financing (US\$ million)	% (of the expected financing)	
			Completion		Execution		Searching Financing		Designing				
	Loan	TC	Loan	TC	Loan	TC	Loan	TC	Loan	TC			
Human Development Sustainable	4	7	3		1	5			2			364.01	61
Development Natural Disaster Prevention	5	20			5	4			16			112.88	35
Transportation	1	3			1				2		1	12.91	55
Telecom	16	4			14	2			1	2	1	3,323.00	54
Energy	3	7		1		1	2			1	5	.95	4
Trade and Competitiveness	10	5		2	7	1	2		1	2		688.41	74
Tourism		8		1		4			3			24.43	89
GAPIE**		6		2		1			3			1.40	44
Total		1							1			0	0
	39	61	3	6	28	18	4	29	3	8		4,527.99	54

(*) Also including studies and working agendas. Source: PPP website (December: 2007)

(**) They referred exclusively to a TC aimed at promoting indigenous participation in the PPP initiatives

2.40 More broadly, 18% of the investment projects and 60% of the TC envisaged by the PPP have not received the financing necessary for their execution. They are either still searching for funding or still being designed by the GTI. In particular, the telecommunications sector, with only 4% of its projects and TCs funded, and the sustainable development sector, with only 35% of necessary funding available, are the most seriously underfunded of the various priority initiatives outlined in the PPP.

2.41 The analysis of the initiatives reveals better results for trade²⁸ (89%) and energy (74%) followed by natural disaster prevention (55%) and transportation (54%) initiatives. However, the trade funding refers basically to CA logistical and financing integration needs, while the natural disaster prevention funding is related to a national operation only.²⁹ On the other hand, the financing necessary to fund some initiatives' components is practically non-existent, indicating that the PPP has low probability of achieving its outcomes. For example, the education component of the human development initiative did not obtain any funding for its activities. Also, the health sector's most ambitious program – the MAR Program of Epidemiological Vigilance – obtained less than 1% of its total financing requirements during the design phase.³⁰

²⁸ Three out of eight TCs addressed by the trade and competitiveness initiative have yet not obtained financing. While the TC aimed at promoting SME's competitiveness has already executed its components, the other four TCs are in the execution stage with delays related to their original schedule, such as the case, for instance, of the two-year execution delay of the TC aimed at harmonizing and modernizing the MAR's customs and border control. In general terms, the logistic harmonization reached 84.5% of their financial needs while the financial integration TC's reached 92.5%.

²⁹ The funding obtained referred mainly to a Guatemalan investment project to settle a national prevention system of natural disasters. In addition, there is a TC aimed at creating a Mesoamerican Atlas of Natural Disaster Risks, which obtained 7.7% of the funds required and has been executed in its first phase.

³⁰ The Vigilance Program only obtained US\$ 1.27 million of the required US\$ 233 million anticipated during its design phase. The remaining financing came from counterpart resources from Mexico (US\$ 100.2 million) and CA US\$ 132.8 million).

2.42 It is worth noting that at least three regional projects, representing more than 80% of the PPP's portfolio, had already been in some stage of execution in CA when the PPP was launched. That is the case of both energy (SIEPAC) and transportation (RICAM) networks, as well as the Mesoamerican Biological Corridor, all but the latter coordinated by SICA's commissions in charge of these specific areas. The Corridor has been coordinated by CA Sustainable Development Commission (CCAD); an institution funded by six CA countries, with Belize and Mexico as observers. CCAD is responsible for coordinating all regional environmental and sustainable development activities in CA.

iii. Promotion of Social Participation and Information

2.43 Despite the wide range of component objectives,³¹ the analysis of ICP activities shows that it has focused primarily on reversing the PPP's negative image in member countries. The bulk of these activities occurred during the PPP's first three years, when opposition to PPP was most intense. Although the PPP have included a broad scope of interventions, such as sustainable development, human development, risk disaster mitigation, trade and competitiveness and tourism initiatives, its launching generated a strong criticism from civil society sectors, which argued that the main focus of PPP's projects was on the infrastructure sector and had forgotten the serious social and environmental problems of the MAR.³²

2.44 The ICP focused on obtaining punctual results related to the public acceptance of the PPP. However, other than establishing ICP offices in El Salvador and Mexico, the ICP has not strengthened its capacity to more effectively involve PPP's target beneficiaries in a permanent way as envisaged at the PPP creation.

2.45 The PPP has also created the GAPIE with the objective of specifically promoting the participation of the MAR indigenous population in the design, implementation and monitoring of PPP projects. A TC was designed, though it has yet to receive funding, to support an extensive program to train educators to promote indigenous heritage as well as to increase indigenous participation in the PPP. GAPIE has been conducting meetings with the indigenous communities in all PPP countries, reaching 76 communities and 3,589 attendees thus far.

³¹ The ICP designed the following components: i) dissemination of information on the Plan's initiatives; ii) consultation exercises to take into consideration the opinion of the PPP's stakeholders and; iii) involvement of PPP target beneficiaries in the project design.

³² For an overview of the criticism on PPP, see the collection of articles edited by the Network opposed to Plan Puebla Panama (NoPPP) in <http://www.datacenter.org/reports/pppbkexcerpt.pdf>

III. THE BANK'S RESPONSE TO THE NEEDS OF PPP

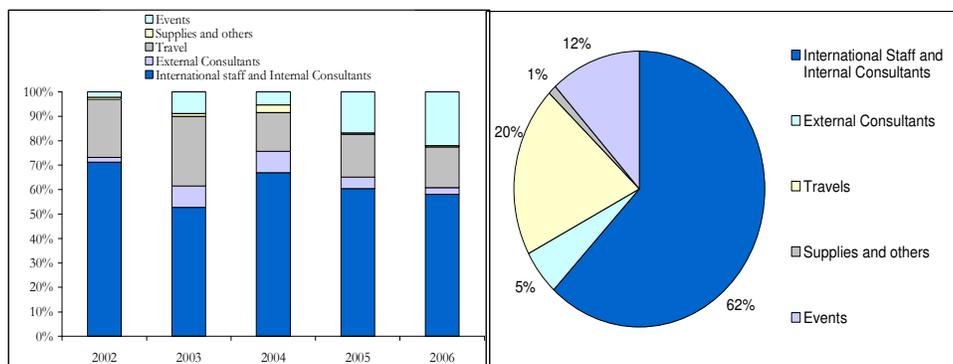
A. The Bank's Mandate and its Internal Organization of Support to PPP

- 3.1 The Bank, by invitation of the member countries, has participated in the PPP since its design phase. The Summit of Presidents that launched PPP formally defined three roles for the Bank in the PPP: a) to promote the financing of projects, technical cooperation and non-financial products, b) to facilitate technical consensus among countries; c) the promotion of social participation in the PPP's initiatives.
- 3.2 In 2001, the Bank's Board of Executive Directors approved a directive mandating Management to support the PPP and approved the allocation of over US\$ 1 million per year to finance the PPP-related activities between 2002 to 2006.³³ This directive has a sunset clause of 31 of December of 2006 that was later extended to 2008.
- 3.3 The Bank did not create any specific division or organizational structure to meet the Board's mandate. Until the realignment, PPP activities were coordinated by the Chief of Finance and Basic Infrastructure Division (RE2/FI2). Currently, its coordination is responsibility of the Manager of Country Department Central America, Mexico, Panama and the Dominican Republic.
- 3.4 OVE found a lack of coordination among the Bank's operational (RE2/FI2) and programming areas (RE2/FI2 and INT) in the implementation of the PPP. OVE also found little involvement of the IDB Group's branches and divisions in the PPP financing and implementation. The RE2/FI2's chief managed about 90% of the PPP's portfolio. The MIF is the only branch of the IDB that has taken part in financing private sector loans related to the PPP (22 TCs). Neither the PRI nor IIC financed any PPP projects.
- 3.5 The bulk of the Bank's administrative budget was spent on international staff and internal consultants including travel expenses (82%) aimed at offering technical and logistic assistance to PPP and providing in-house support (Figures 2a and 2b). It is worth noting the Bank increased its expenditures on PPP events in 2005 and 2006, more specifically to finance PPP's meetings. The other 18% paid for supplies, external consultants and other expenses needed to furnish technical assistance directly to PPP's initiatives.

³³This budget financed the Bank's coordination of PPP initiatives as well as two staff positions.

Figure 2a – Annual Budget Spent to Support PPP

Figure 2b – Cumulative Budget Spent to support PPP



Source: OVE Data warehouse

B. The Bank's Programming

- 3.6 The following sections will show that, although the Bank has mentioned the PPP in almost all Country Strategies (CS), the Bank did not address operational recommendations to the PPP in its programming. Likewise, although the Bank's portfolio is consistent with the PPP's objectives, the Bank failed in creating adequate methodologies to manage regional project risks, financing and monitoring.
- 3.7 OVE found a low level of internalization of the PPP in the Bank's regional programs. The last available CA strategy paper, dating from 2001, described the PPP "as a recent development that has created new opportunities for regional integration." However, the strategy paper did not identify any these opportunities nor make any recommendation with regard to any involvement by the Bank with PPP projects.
- 3.8 Likewise, although almost PPP's Country Strategies (CS) mentioned the Plan, they did not address recommendations for the PPP, with the exception of the Belize CS, which recommended that the Bank support diplomatic efforts between Belize and Guatemala to resolve territorial conflicts identified as an obstacle for deeper Belizean integration in the Mesoamerican region. The Colombia's 2007 CS is the only strategy that does not mention PPP; even the country had been taking part in the PPP as an observer since 2004.

Table 5 – The internalization of the PPP in the Bank's strategies

Strategy	BL 2004	CO 2007	CR 2003	ES 2005	ES 2001	GU 2001	GU 2005	HO 2003	MX 2001	NI 2002	PN 2005	Central America 2001
Regional Integration	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
PPP	Y	N	Y	Y	N	N	Y	Y	Y	Y	Y	Y
Recommendations	Y	N	N	N	N	N	N	N	N	N	N	N

C. The Consistency of the Bank's PPP Portfolio with the Needs of PPP

- 3.9 The Bank has responded to PPP funding needs through loans (25 operations) and technical cooperations (72 operations), which included pre-investment studies (5 operations).³⁴ Table 6 shows that, echoing the PPP project portfolio's priorities, most of the Bank's financial support (portfolio of US\$ 1.4 billion) has been concentrated in energy and transportation initiatives (90% of the total funding and 18 out of 25 loans); although, the Bank has also added some regional projects it had already sponsored prior to the PPP (such as the SIEPAC project and several national highway projects in the context of the RICAM) to its PPP portfolio.
- 3.10 As for TCs, the Bank also concentrated on energy and transportation initiatives (about 90% of the total funding for Bank's PPP TCs) and like the loan's portfolio, the Bank allocated some TC funding for sustainable development (5.3 %) and trade and competitiveness (5 %) initiatives. The TC portfolio differs from the Loan portfolio regarding the fact that the Bank, other than the natural disaster initiative, allocated funding for other initiatives. In addition, unlike the loans, the Bank approved a substantial number of TC to support the sustainable development initiative (18), almost the same number of energy (19). Transportation lag behind (13) and the other initiatives received together 22 out of 72 operations.

Table 6. The Bank's Portfolio to Support the PPP

PPP Initiatives	IDB's Portfolio				Total %	Number of Loans	Number of TCs
	Investment (USDS)	%	TC (USDS)	%			
Energy Integration Initiative	723,130,000.00	54.80	19,092,130.00	28.28	53.51	8	19
Transportation Initiative	490,078,038.47	37.14	8,320,734.00	12.33	35.93	10	13
Telecommunication Initiative	0.00	0.00	495,700.00	0.73	0.04	0	1
Trade and Competitiveness Initiative	56,753,925.00	4.30	12,050,000.00	17.85	4.96	3	7
Human Development Initiative	0.00	0.00	1,993,000.00	2.95	0.14	0	5
Sustainable Development Initiative	49,500,000.00	3.75	23,643,676.00	35.03	5.27	4	18
Natural Disaster Mitigation Initiative	0.00	0.00	0.00	0.00	0.00	0	0
Tourism Initiative	0.00	0.00	1,095,000.00	1.62	0.08	0	2
Participation, Consultation and Information Initiative Program	0.00	0.00	810,000.00	1.20	0.06	0	7
	1,319,461,963.47	100.00	67,500,240.00	100.00	100.00	25	72

Source: OVE Data Warehouse (December 2007)

- 3.11 Finally, only recently has the Bank begun using an innovative instrument to facilitate regional infrastructure projects by financing pre-investment studies and by creating the Fund for Initiatives for Regional Infrastructure Integration (FIRII).³⁵ The Bank has allocated 46 % (US\$ 7 million) of the total of FIRII resources (about US\$ 15 million) to the PPP. These resources financed 7 TCs: 6

³⁴ The list of Bank's PPP Loans and TC are displayed in the Annex VIII. These data do not reflect the Bank's portfolio revision in order to mirror the X Summit Resolutions (27-28 of June 2008).

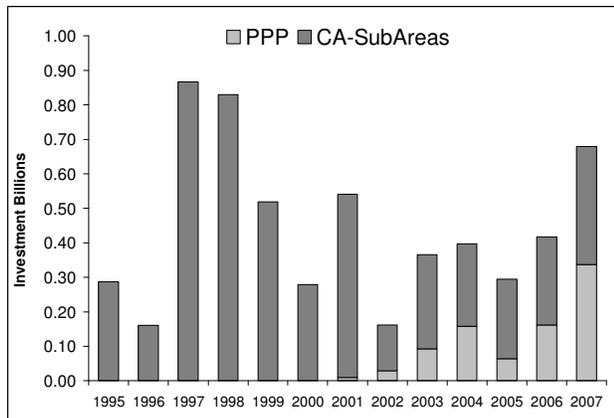
³⁵ The FIRII Fund was approved by the IDB Board in 9 March 2005.

TCs in energy (US\$ 5.5 million) and one TC in the transportation sector (US\$ 1.5 million).

3.12 It is important to note that the Bank targeted only CA through its PPP portfolio, since Mexico has been addressing its PPP's needs by its own resources. As a result, the Bank's portfolio for Mexico does not incorporate the PPP. Indeed, from the 2001 to 2007, the Bank's portfolio in Mexico dealt almost totally with its Northern states, which were not targeted by PPP.

3.13 Not surprisingly, except for infrastructure, the Bank's PPP portfolio reflects the low priority given to the PPP in project programming and approval. This is confirmed by the analysis of projects related to PPP target areas in the CA portfolio (Figure 3). In fact, not until 2007 did the amount of the Bank's PPP operations surpass its non-PPP operations in the PPP target areas in the region.

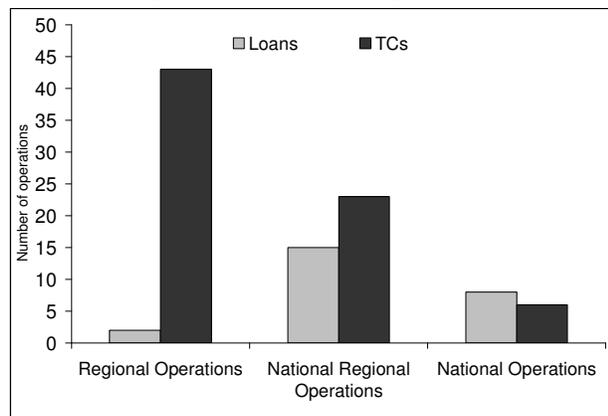
Figure 3 – Portfolio evolution for CA



Source: OVE Data warehouse

3.14 The Bank's portfolio of loans did not prioritize regional projects (Figure 4). Only 2 out of 25 loans given in the region were for regional projects (in fact, only Trifinio Sustainable Development Program was approved after the PPP as SIEPAC has already been approved in 1997). The majority of the Bank's loans in the region were "national with regional emphasis" loans (60% of the total). However, the Bank's TC portfolio was more focused on regional operations (43 out of 72 operations). Furthermore, the Bank portfolio of projects in the region contained some activities with a strictly national emphasis. (8 loans and 6 TCs).

Figure 4 – Bank PPP Operations



Source: OVE Data warehouse

3.15 The analysis of the development objectives (DOs) pursued by the Bank's PPP loans show that in general they are aligned with the general objectives of the PPP. Indeed, the majority of the loans aimed at increasing efficiency, improving access and expanding transportation and energy infrastructure, which are the core of the PPP's objectives (See Table 7). The Bank partially mitigated the problem of non approvals of loans for human

development, tourism, telecommunication or natural disaster prevention by addressing those DOs under other initiatives. However, the Bank failed to do that for both the education component of the human development initiative and the telecommunication’s initiatives, since their DOs were not covered by any Bank’s PPP loans.³⁶

Table 7- The Frequency of Dos Pursued by the Bank’s Loans

DO's	Frequency
To improve the efficiency of the electricity sector	18%
To improve access and regional integration on road transportation	16%
To increase efficiency on transportation	11%
To increase the CA's supply of electricity	9%
To improve competitiveness	7%
To expand the coverage of electricity services	7%
To improve the agriculture competitiveness*	7%
To improve transportation safety	5%
To improve the management and preservation of the natural resources	5%
To improve the supply of basic services	5%
To support improvement and growth in productive sectors	2%
To reduce the poverty	2%
To reduce the vulnerability to natural disasters	2%
To diversify the agricultural production	2%
To improve the growth of tourism sector	2%

Source: Bank Loans

3.16 In terms of TCs, they were also consistent with the PPP objectives since the issues they most frequent supported were the SIEPAC project and energy diversification in the energy initiative, cross-border ecosystem management in the sustainable development initiative and air transport safety and airport security in the transportation initiative. It is worth noting that the Bank also supported activities of the ICP (7 TCs).

D. The Bank’s PPP Projects Risks Assessments

3.17 The Bank failed to conduct an *ex ante* evaluation to identify the general risks of implementation of the PPP or any specific risks associated with particular regional projects, despite the fact that many of the latter deal with specific institutions and challenges. Furthermore, the Bank did not identify the technical and resource asymmetries among the PPP countries and their corresponding implications on the execution of regional projects. Despite its support of regional activities prior to the PPP, such as SIEPAC, OVE did not find evidence in the Bank’s documents that the Bank identified key issues or otherwise drew on its experience to benefit the execution of its PPP projects.

³⁶ The lack of Bank DOs regarding the educational component reflects the complexity of the implementation of a component whose rationale does not justify its inclusion in a regional initiative. Indeed, this component was removed from the PPP in the X Summit. In terms of telecommunications, only after the conclusion of SIEPAC will the Bank be able to support loans to build its network and, as a result, to address DOs related to the sector.

3.18 The Bank’s failure to more fully assess regional risks is evident in OVE’s analysis of risks addressed in Bank loan proposals and other preparation documents. Lack of regional consensus, an evident key risk, was only foreseen in the regional energy and sustainable development projects (See Table 8). Other than these, identified risks in project proposals and preparation consisted of risks traditionally identified in national projects, such as the executing unit’s lack of institutional capacity (31%) and the project’s lack of financial sustainability (24%).

Table 8 – The Anticipation of Risks in the Bank’s PPP Projects

Risks	Competitiveness	Energy	Sust. Development	Transportation	Frequency
Lack of institutional capacity of the executing unit	17%	25%	50%	29%	31%
Financial sustainability		17%	20%	41%	24%
Lack of Government commitment	33%	25%	10%	6%	16%
Compliance of pre-conditions		8%	10%	12%	9%
Political change	17%	8%		6%	7%
Lack of regional consensus		8%	10%		4%
Lack of private stakeholders commitment	33%				4%
Budget constraints		8%		6%	4%
Total	100%	100%	100%	100%	100%

(*) The frequency of risks was calculated based of 45 risk events, as following: 17 in transportation, 12 in energy, 6 in competitiveness and 10 in sustainable development initiative.

Source: Loan Documents and PPMR

3.19 Only two out of the 25 Bank’s loans identified regional risks and assessed mitigation measures: the PPP’s regional projects (SIEPAC, and Trifinio Program) and one national loan with regional emphasis (Guatemala-Mexico interconnection). With one exception, regional risks were not identified for “national with regional emphasis” loans (such as the RICAM loans), and thus the portfolio sustainability may be threatened by lack of maintenance and change in priorities of national governments.

E. The Execution of the Bank’s PPP Portfolio

i. Efficiency

3.20 OVE analyzed the preparation and approval times of its PPP’s projects. It should be expected that national projects with regional focus should have priority over national operations in terms of resources and time allocated for the Bank because, they are part of a regional plan that necessarily requires greater consensus and involves more stakeholders than the projects with national focus. However, OVE’s analysis (Table 9) shows mixed results regarding both preparation and approval times for the Bank’s principal PPP projects (in the energy and transportation initiatives). On one hand, the Bank’s transportation operations took less time to be approved and funding was disbursed more quickly than both for the Bank’s and another regional integration initiative (IIRSA). On the other hand, the PPP’s energy operations took much longer to move through internal approval

process at practically all stages (from pipeline to the first disbursement phases) as compared to Bank’s other energy projects.³⁷

Table 9 - Preparation Times of the PPP operations compared with the Bank’s portfolio

	Sector	Pipeline-Approval	Approval-Signature	Signature-Ratification	Signature-First Eligibility	Approval-First Disbursement
IDB	Transportes	20.87	4.56	5.00	9.42	10.71
	Energia	17.12	4.82	5.57	8.64	8.47
PPP	Transportes	7.78	2.80	3.14	7.00	10.50
	Energia	37.67	7.60	2.75	8.44	17.05
	IIRSA	24.06	5.47	4.67	5.82	13.92

Source: OVE Data warehouse

ii. The Bank’s Monitoring

- 3.21 The Bank does not have a mechanism in its monitoring system to permit dedicated monitoring of the Bank’s PPP projects. Loans and TCs have not been accounted for, monitored or supervised in any coordinated manner. Indeed, to conduct this evaluation, OVE had to spend considerable time and resources to collect and process data from the Bank’s files to classify activities as within the PPP portfolio. Without a dedicated Bank PPP portfolio monitoring’s system in place, the Bank is unable to promptly address and overcome potential execution problems in PPP projects.
- 3.22 Besides a lack of system at the Bank’s preparation level, OVE searched for evidence whether the PPP projects had received priority during execution since they are part of a regional plan. However, from the individual analysis of the projects’ PPMRs, OVE verified that government priorities were not reflected in the projects implementation.³⁸ Indeed, the main issues that contributed for the project execution were lack of government commitment (16%), failure to comply with loan conditions precedent (12%) and lack of coordination among agencies involved in the program (12%) (Table 10)

Table 10 - Execution Problems Identified in the Bank’s PPP Loans

³⁷ The first disbursement of the SIEPAC project, approved in 1997, happened only six years after the project approval caused by delays in the fulfillment of the project preconditions.

³⁸ OVE used “government commitment issues”, such as compliance with loans conditions and coordination among national agencies involved in the project implementation, as proxies of country priorities for PPP.

Execution Delays	Transportation	Energy	Competitiveness	Sustainable Development	%*
Lack of Government commitment	24%	33%		57%	16%
Compliance of pre-conditions	18%				12%
Lack of coordination among agencies involved in the program		25%	50%		12%
Lack of Project design	18%		50%		12%
Legal constraints		25%			12%
Political change	18%			43%	12%
Bidding procedures	12%				8%
Budget constraints of the counterpart	12%				8%
Lack of institutional capacity of the executing unit		17%			8%
Total	100%	100%	100%	100%	100%

Source: PPMR

IV. THE BANK'S CONTRIBUTION TO THE PPP'S ACHIEVEMENTS

- 4.1 The Bank's achievements supporting PPP are deeply related with those achieved by the PPP as a whole, whereas the Bank has played a crucial role in supporting the design and development of the PPP. However, like the PPP, the measuring of the Bank's achievements towards its development goals is very difficult. First, because the Bank's failings in the region mirror those of the PPP: failure to define priorities or to set a logical framework by which to pursue its goals. Second because like many PPP projects, which have medium- to long-term implementation goals, the vast majority of Bank loans in the region are for long-term projects and that are in early stages of execution. Indeed, only 3 of 25 Bank-financed projects that have been funded since 2001 have been completed thus far.³⁹ Similar to the PPP, the Bank has not evaluated the success of any of the completed projects in the region nor has it instituted measures to track the success of current projects. Finally, the Bank did not set up indicators to measure the impact of its regional operations.
- 4.2 Given these constraints, OVE measures the Bank's contribution to PPP's achievement of its outputs through the Bank's success in financing and coordinating PPP's initiatives. Analysis in these areas was supported by the results of OVE's survey of PPP stakeholders.⁴⁰ A new dimension was added by OVE – "to create new instruments to finance PPP's needs" - in order to evaluate the Bank's capacity to respond the specific needs of integration projects.

³⁹ It is worth noting that two projects (PN0061 and PN0117) began execution before the PPP was launched (both were approved in 1998). The Bank had incorporated them in its portfolio of PPP projects because they have some rehabilitation components related to RICAM stretches.

⁴⁰ The survey was conducted to each one of the nine PPP countries' representatives. It consisted of two sections. The first presented evaluative questions about the PPP's program (relevance, progress and ownership) and the PPP's organizational structure). The second section presented evaluative questions about the multilateral agencies' role (CABEI, CAF and IDB) in the conduction of GTI, CPF and GAPIE activities. The representatives rated the questions based on the following ratings: highly satisfactory, satisfactory, unsatisfactory and highly unsatisfactory.

4.3 Table 11a shows that the Bank has taken a lead in the allocation of staff for PPP meetings among the Multilateral Institutions that have been supporting PPP. Meanwhile, the member countries' commitment to the PPP varied from 2004 to 2007. Indeed, both the number of attendance and annual meetings oscillated over that period. The participation of the highest level of government representatives consisted primarily of foreign ministers and ambassadors. Neither Finance Ministers nor members of the Finance Ministry attended the PPP meetings,

Agencies	Participation				Table 11 b –Levels of Gov.				
	2004	2005	2006	2007	First Level Government	2004	2005	2006	2007
CABEI	10	4	3	6	Embassador	10	6	38	28
IDB	13	8	6	9		Advisor Minister	1	1	2
CAF	6	3	4	1	Total		11	7	40
ECLAC	5	4	6	7					
GAPIE	3	2	1	1					
INCAE	6	1	2	0					
UNDP	1	0	1	0					
SG-SICA	2	5	4	5					
SIECA	10	7	4	7					
UTC	3	0	0	0					
Total	59	34	31	38					

though the majority of meetings focused on the search for projects (See tables 11b and 11c).⁴¹

Table 11 c – PPP's Meeting Attendance – Country Representatives*

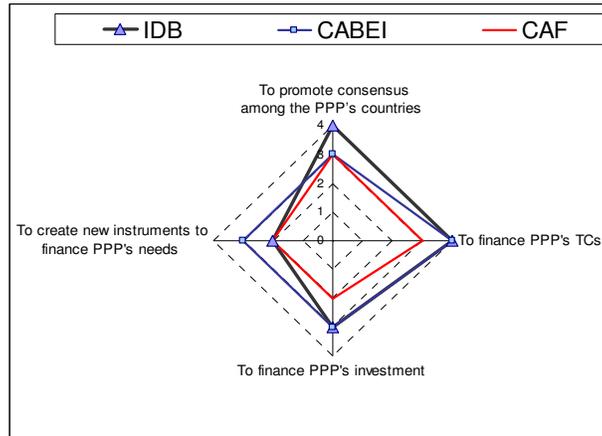
Countries	2004			2005			2006			2007		
	Level of Government											
	First	Others*	Total	First	Others*	Total	First	Others*	Total	First	Others*	Total
Belize	1	7		1	6		6	0		6	6	
Colombia	0	0		1	2		4	7		3	13	
Costa Rica	2	8		1	6		7	8		5	2	
El Salvador	1	11		2	7		4	6		4	5	
Guatemala	0	15		0	8		0	8		5	10	
Honduras	1	13		0	12		4	9		3	8	
Mexico	3	15		1	9		10	6		0	19	
Nicaragua	1	7		1	8		1	13		0	6	
Panama	2	5		0	8		4	7		2	5	
Total	11	81	92	7	66	73	40	64	104	28	74	102
Annual meetings	9			7			6			5		

* Staff members of different government ministers

4.4 Figure 5 shows that in the perception of PPP countries, the Bank performed best in both consensus building and technical cooperation, followed by financing PPP's needs and staying behind in the creation of new financing instruments.

⁴¹ OVE requested information related to all PPP's meetings. Unfortunately, the only available information was related to the PPP's Executing Commission meetings.

Figure 5 – Evaluation of the MDBs' Performance Supporting PPP



Source: OVE's survey of the PPP's representatives (2007)

A. The Banks' Contribution to the PPP Consensus Building

4.5 According to the survey results (Figure 5), the Bank scored high for its role as a consensus builder among PPP countries. The evaluation found that the Bank was an important contributor in consensus building and collective problem-solving in the energy, telecommunication and transportation initiatives, in which it had focused on consensus-building since these projects' conception even before the PPP inception. However, there is no evidence that the Bank has performed the same relevant role regarding the other initiatives.

i. Energy Initiative

4.6 The PPP's **energy initiative** has achieved the best results of all of the initiatives in terms of consensus building. The aspects that explain these better results are the establishment of MoU, the creation of an execution unit for the main project of the initiative (EPR), and, as analyzed in section II, the clear definition of a regional product. In special, the definition of a "regional product" facilitated the commitment of the PPP countries' presidents to the initiative. Given that, their direct involvement has smoothed the way for support of decisions taken by SIEPAC technical groups. This commitment has also helped the initiative to overcome Congressional approval deadlocks around the issue in several CA countries, some dating to 1997, and allowed for fulfillment of the conditions precedent to the Bank's loan disbursement for the SIEPAC project.⁴²

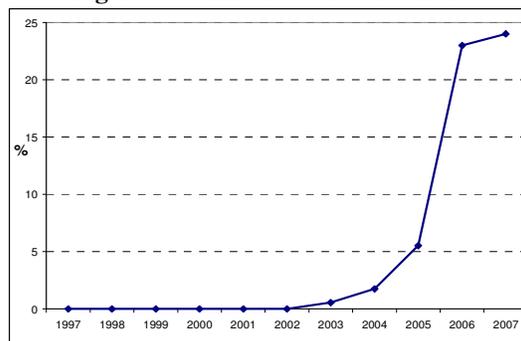
4.7 Furthermore, the PPP's presidential commitment provided critical political support for the reformulation of the Bank's contractual design of the SIEPAC project. In its turn, in 2001, encouraged by the launching of PPP, the Bank

⁴² The cooperation in energy issues is the oldest in CA. Indeed, a study financed by IDB and ECLAC and also had the technical cooperation of CFE (Mexico) and ENDESA (Spain), concluded in 1980, already identified benefits of CA's electricity system coordination. For more details, see ANEX II.

contributed to boost the countries' consensus by reformulating the project in order to overcome some obstacles to project approval raised by the El Salvadoran and Panamanian Congresses as well as to establish special debt conditions for Nicaragua and Honduras. SIEPAC execution has also been boosted by the development of a Mexico-Guatemala electrical system connection.

- 4.8 OVE found that the Bank's role in the restructuring of the loan had a direct impact on SIEPAC's eventual implementation. Figure 6 shows that the PPP countries' commitment of SIEPAC was also critical to the pushing forward project execution. In addition, the appointment of a regional executing unit in charge of SIEPAC execution was an innovative mechanism by which the project overcame negative externalities and risks common to regional projects of this dimension.

Figure 6 – SIEPAC's disbursement



Source: OVE Data warehouse

- 4.9 Indeed, SIEPAC's executing unit has allocated the Bank's funding for project execution according to a regional schedule and financial opportunity costs instead of according to national priorities. The execution unit reduced the fiduciary risk of each of the Bank's six national loans, including the two financial special operations (FSO) for Honduras and Nicaragua, by centralizing coordination efforts and reducing transaction costs.
- 4.10 The forecast of the SIEPAC execution's unit is that the network will be completely built in 2009. This is subject to challenges such as obtaining a "right of way" to complete the physical infrastructure necessary to build the SIEPAC. In addition, over the long-term, both the regulation framework and the CA regulatory authority (CRIE) will need to be strengthened in order to provide an adequate regulation of the natural monopoly (EPR) and, as a result, to guarantee quality and supply, i.e. the appropriation of surplus generated by the final consumers through regional integration.
- 4.11 In addition to SIEPAC, the Bank has been developing an important role supporting PIEM, which was incorporated by PPP in December 2005. The Bank has been sharing with ECLAC the coordination of technical groups related to biofuels, natural gas and refinery preparation projects in the region.

Box 2: The SIEPAC project's Consensus Building

The SIEPAC project was originally reformulated in 2001 due to the growing awareness of the complexity of achieving CA regional electricity integration. The member countries' heterogeneous institutional frameworks and industrial organizations, responsible for this complexity, can be traced to sectorial reforms implemented in the 90's. The concept of a single market regulated by a single regulatory framework to allow for the global competitiveness of the CA stakeholders would only be feasible over the long term.

Currently, El Salvadorian and Guatemalan markets are highly competitive, the Nicaraguan and Panamanian markets are less so, and the Honduran and Costa Rican markets, whose competition is limited to contracting out by the state-owned company along with private generators using a single buyer model, are least competitive.

Consequently, the countries agreed to the creation of a “Seventh Market”, limiting national control to national markets and creating a regional governance of regional transactions. Under the new governance structure, regional interchanges are established based on a regional dispatch only after each country sets up its own national dispatch. However, national dispatch must respect any long-term contracts established between generators and distributors in either the wholesale regional market or in spot market operations. In 2007, in order to consolidate the “Seventh Market”, the Second Protocol of the Energy Treaty was submitted for member country approval. The Second Protocol specifies network connection fees and defines the financial sustainability of the CA Electricity Regulator (CRIE) and the principles of the Seventh Market. The El Salvadoran Congress has already approved the Second Protocol and its approval process is in progress in other countries.

The CA governments have granted a concession for the construction and operation of a regional transmission network by EPR, the network owner and a company created in 1998. The EPR is a public-private Partnership among state-owned companies of the CA countries and Colombia (ISA) plus a private-owner company, the Endesa (Spain), each holding 12.5% of the total shares of the company..

Nowadays, the SIEPAC network only permits the exchange of 40 MW (10% out of SIEPAC’s anticipated 450 MW full interchange availability in 2009). Even now, some countries have begun exchanging their electricity surplus; including Nicaragua and Costa Rica, both of which are importing electricity from Panama, Guatemala and El Salvador.

ii. Telecommunication Initiative

4.12 Regarding the telecommunication initiative, its main achievement is the consensus reached on the CA’s telecommunications network (AMI) project design. Like energy, the building of this network, the most important project of the initiative, is clearly a regional public good. An important milestone in this direction of consensus building was the signing of a MoU for the AMI implementation agenda in March 2003. Based on that, the CA Telecommunication Technical Commission (COMTELCA), which is responsible for AMI’s execution, signed a Memorandum with EPR in order to set AMI up through SIEPAC’s infrastructure. Consensus building was an ongoing process until 2004, because construction of both new infrastructure and the update of the existing networks involved large expenditures. Still, the idea of setting up the AMI through SIEPAC was jeopardized by the SIEPAC’s slow construction process. Moreover, the creation of a common regulatory framework for a regional network had been obliterated by intricate discussions about open-access regulation between incumbents and entrants.

4.13 However, positively influenced by the reactivation of the SIEPAC project, consensus grew regarding using this network to optimize investments. The countries decided to create a public-private company (REDCA), owned by the same shareholder of EPR, to build and operate the AMI. As with other regional initiatives such as electricity and transportation, physical infrastructure is seen as a necessary but insufficient condition for AMI to be ultimately feasible. It also depends on the harmonization of CA’s regulatory framework, which is very

diverse after the sectorial reforms implemented in the 90's. ⁴³Mexico and Colombia have also been contributing technical expertise to AMI as both countries have implemented national telecommunication integration programs.

- 4.14 In the telecommunications initiative, the TC financed by the Bank made an important contribution to the definition of the AMI's design. It was approved by all MAR countries and this consensus was a necessary pre-condition to starting the long process of harmonizing regulatory rules and securing financing to build the network. Like energy, the strengthening of a regional authority is crucial to regulate the natural monopoly (REDCA) that will operate the regional network, in order to permit that the final consumers could appropriate the surplus generated by the regional integration.

iii. Transportation Initiative

- 4.15 The PPP's main achievement with regard to consensus building in the **transportation initiative** has been the agreement on the RICAM design and on the regional highway stretches to be rehabilitated. As analyzed in the section III, a road transportation network, the most important project of this initiative, is clearly a regional public good and it facilitates the commitment of the beneficiary countries in its implementation.
- 4.16 The Bank has been promoting consensual measures related RICAM since its earlier design phases and, just after the PPP were launched, the PPP's countries agreed to be under a MoU signed by the PPP representatives and PPP countries' Ministers of Transportation in 2002. As discussed in section III, as a result of the PPP. Belize, Mexico and Panama were brought into the RICAM network since they had not participated previously in the RICAM's efforts conducted by SIECA. PPP member countries also established a second MoU to harmonize cross-border controls and regulation. This initiative will face institutional constraints since SIECA only represents a subgroup of MAR countries.
- 4.17 Nonetheless, problems persist. The most important problem of RICAM is that, despite regional focus of the projects, the stretches are actually national projects. Ensuing this, the two MoUs have not resulted in the prioritization of RICAM projects over strictly national road projects. Since each country would have to pay the whole cost of investments within its borders even if benefits could be perceived as expanding beyond their borders, this could create some tension in the national budget allocation. Also, as SIECA, the RICAM executing agency, covers only five of the eight countries involved in the network execution, it does not have the capacity to coordinate the full RICAM rehabilitation projects.
- 4.18 The MoUs did not result in agreement on many critical measures, such as periodic maintenance of RICAM roads, necessary to ensure the long-term sustainability of the rehabilitation program. Neither has there been progress regarding the regional

⁴³ The set up of a common regulatory framework is the goal of a TC approved by the Bank's Regional Public Goods Program. Op-81-1, 8 July 2008.

harmonization of road rules and regulation or regarding the port and airport subsectors. PPP countries continue to compete in these subsectors rather than working in coordination. Building the infrastructure is a necessary but ultimately insufficient condition to ensure the efficient movement of goods and inhabitants across member countries' borders. Greater effort must be expended to reach consensus on the issues outlined above in order to ensure the ultimate success of the harmonization projects in the transportation sector.

iv. Other PPP initiatives

- 4.19 In terms of other initiatives, there is no evidence that the Bank has performed a relevant role in consensus-building. For instance, although the Bank participates in the CMC, CABEI coordinates the competitiveness agenda of the initiative. PPP member countries also signed a MoU for the **trade and competitiveness initiative**, which led to the creation of the MAR Competitiveness Council (CMC) specially delayed: four years after the PPP's launch.⁴⁴ As analyzed in section II, unlike the benefits of trade harmonization, it is more difficult to obtain consensus among countries for competitiveness policies, since countries perceive each other as competitors. In fact, the definition of a MAR Competitiveness Agenda it is already undressed, despite the mandate received by CMC from PPP's countries. Otherwise, the TCs aimed at MAR's trade sector harmonizing of logistics have been executing by SIECA, which is the main executing agency of this initiative. However, since the implementing agency was only obligated under its mandate to harmonize the five CA countries participating in a joint Custom Union, the PPP's agenda has been jeopardized by lack of SIECA's support to step forward. It is worth noting that the SE Mexico is not involved in this agenda at all.
- 4.20 While one of the two PPP TCs for financial integration operations are aimed at MAR and executed by the CMC, the other one addresses only the CA and the Dominican Republic and is managed by the CA Monetary Council. The SME competitiveness operation is focused exclusively on the CA and is managed by INCAE.
- 4.21 Likewise, there is no evidence that the Bank contributed to consensus building around the natural disaster risk prevention or tourism initiatives. The creation of a regional institution to manage the **human development initiative** was time consuming and ultimately did not facilitate the necessary prioritization of MAR projects in the regional portfolio. Indeed, in 2004, the countries signed a MoU putting into effect the Mesoamerican Counsel for Human Development, which was to coordinate the initiatives already in execution by institutions linked to

⁴⁴ In 25 of May 2004, during the VI Summit of Presidents in Managua, Nicaragua, the PPP approved the creation of the CMC aimed at formulating the MAR Competitiveness Agenda. Since its creation, the CMC, which is founded in CABEI, was mostly focused on the promotion of activities aimed at promoting dialogue and cooperation among MAR, such as Competitiveness National Programs, Innovation and Science and Technology Forums.

- SICA.⁴⁵ There is no evidence that this new institution has sped up project-execution time since several projects have continued to experience serious delays in their implementation. These delays can be explained by the fact that only 45% of the initiative's operations involve all PPP's countries (5 out of 11). Meanwhile, all four project investments thus far have a national dimension and two TCs are exclusively aimed at CA and executed by CA institutions.
- 4.22 Likewise, the **natural disaster prevention initiative** has shown poor results with regard to consensus building. The signing of a MoU in 2003 did not result either in definition of priorities or in financial mechanisms to expand the initiative's portfolio. Indeed, only two operations contain a MAR-regional dimension and one of those (the TC aimed at creating an insurance market in the region) failed in the design phase.
- 4.23 The **tourism initiative** has also shown lackluster results. Its greatest success thus far, was the establishment of the MoU in March of 2004; which redefined the tourism initiative portfolio – the current 6 TCs - and planned to set up the MAR Tourism Regional Commission. However, there is no evidence that this new institution has had an important role in the development of the three TCs that have been either implemented or executed. In fact, the two completed TCs were each implemented locally with no regional input or coordination: the Tourism Satellite Account was implemented by Guatemala⁴⁶ and only the Nicaraguan portion of the Caribbean Route TC, meant to run through Costa Rica, Nicaragua and Panama, has been completed. The remaining three tourism TCs aimed at MAR have yet to be executed.
- 4.24 The Bank's contribution to consensus building around the PPP's **sustainable development initiative** is not easily evaluable under a region-wide consensus-building framework. While the Bank has led several cross-border projects, such as Trifinio, there is no evidence from the analysis of project documents that they benefited from MAR-wide consensus instead of a bi- or tri-national consensus.⁴⁷ In agricultural initiatives, OVE found no evidence of a Bank contribution to the regional project agenda. Thus far the Agreement for Sustainable Environmental Conduct in the PPP projects, which is the main content of the MoU signed by the PPP's countries, is the only tangible accomplishment achieved with regard to environmental consensus building. However, the utility of that document may be limited as compliance is voluntary under the Agreement and it contains no

⁴⁵ The institutions in charge of the initiative are CA's Health Minister Council (COMISCA) and CA's Education Committee (CECC). COMISCA is responsible for the supervision of the Evaluation and Monitoring Technical Commission of the health component, while CECC is responsible for the supervision of the Education Project Promotion Coordination of both the education and cultural components.

⁴⁶ This satellite account is part of a group of initiatives owned by World Trade Organization countries, led by Spain, to strengthen national accounting systems regarding tourism. Other LAC countries, such as Mexico, Dominican Republic, Ecuador and Peru have already updated their systems and Guatemala asked for IDB and Spanish Funds to support the updating of its system.

⁴⁷ The implementation of the Trifinio has given evidence about the difficulty of achieving consensus building for cross border projects. Indeed, El Salvador cancelled its participation in the project, even being identified as the main beneficiary of the watershed management.

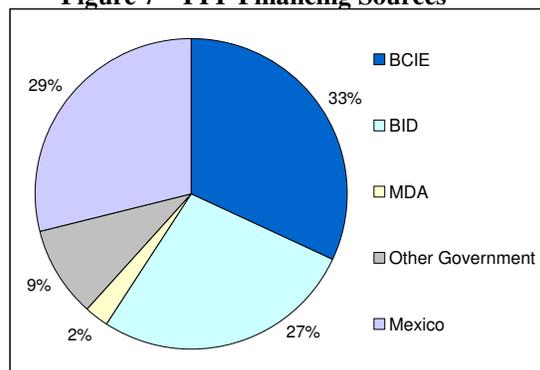
mandatory obligations.⁴⁸ Other than that document, there is no evidence that the PPP has contributed to boosting the regional consensus, since the initiative's project portfolio had been designed and executed by CA's Environmental Commission (CCAD) before the PPP was launched, with the exception of four MAR-related TCs, which have not yet received financing.⁴⁹

4.25 It should be noted that the PPP's contribution to consensus-building in the agricultural sector component of the sustainable development initiative has been limited by the fact that it only began working in this sector in 2005. At that time, the PPP presidents requested that the PPP Executive Commission agrees to an Action Plan defining project priorities and financing mechanisms related to the agriculture sector. Agreed-upon projects were defined based on regional priorities, though six of the eight operations were indicated to have a MAR dimension according to studies prepared by INCAE. These operations have been managed by Regional Council of Agriculture Cooperation (CORECA), which traditionally conducts sectorial initiatives in the region.

B. The Bank's contribution to the PPP financing

4.26 The PPP reached US\$ 4.5 billion of financing in December 2007. The main source of financing has been PPP countries' governments (Mexico 29 % and others 9 %). Among the MDBs, CABEI led the financing (33 %), followed by the Bank (27%) and Other MDBs (2%) (Figure 7).⁵⁰

Figure 7 – PPP Financing Sources



Source: Ove Data warehouse

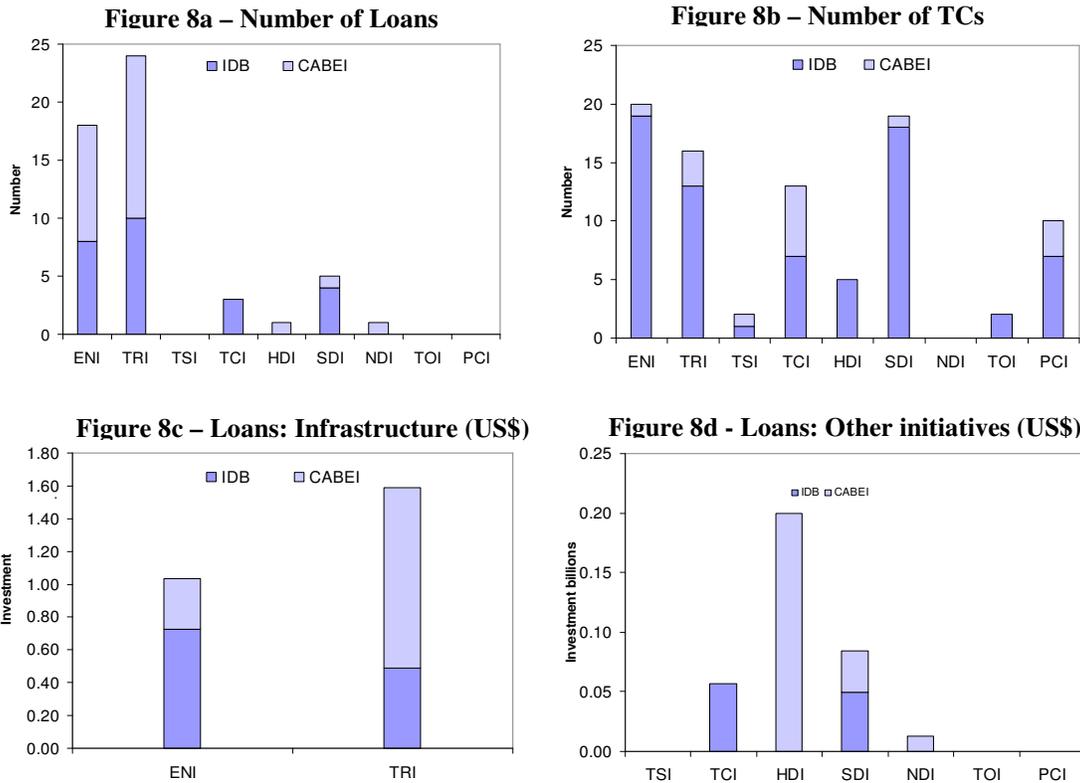
4.27 It is worth noting that the Mexico funding to PPP, amounting to about US\$ 1 billion, was predominantly targeted to its own SE region, except for the financing of five RICAM projects (about US\$ 114 million) through CABEI, in which Mexico used San Jose agreement funds: three for RICAM stretches in Honduras and two for RICAM stretches in Nicaragua.

⁴⁸ See http://www.planpuebla-panama.org/documentos/Acuerdos_voluntarios.pdf

⁴⁹ The initiative is jointly managed by CCAD and Mexican Environmental Agency (SEMARNAT) in accordance with MoU signed by the PPP commissioner and representatives of both institutions in June, 2003.

⁵⁰ The Figure 7 does not match with the PPP report presented in the X Tuxla Summit for the following reasons: i) Because of the cutting line of December 2007, the OVE analysis does not reflect the revision of the PPP portfolio implemented by the financing institutions that support the PPP and; ii) In order to gauge the financial contribution of the IDB and CABEI, OVE attributed to them the total of financing managed and approved by each MDB, even when the origin of the project resources came from specific financial participation of others funds managed by each MDB. For instance, like the CABEI allocated San Jose Agreement resources to RICAM projects, the IDB did the same with the Spanish Funds to SIEPAC or GEF for its environmental projects. Only in the case when the resources were allocated to the countries out of the Banks were these resources classified as "other donors".

4.28 The survey’s high score for the Bank’s role in TC financing is confirmed by the numbers seen in Figure 8, which compares financing efforts of the Bank and CABEI for PPP initiatives. Indeed, the Bank took the lead in TC financing (Figures 8a and 8d), except in the Trade and Competitiveness initiative, in which CABEI has a similar financing, and the Natural Disaster Prevention initiative, in which none of the MDBs financed TCs.



Legend: ENI – Energy Initiative; TRI – Transportation Initiative; TSI – Telecommunication Initiative; TCI – Trade and Competitiveness Initiative; HDI – Human Development Initiative; SDI – Sustainable Development Initiative; NDI – Natural Disaster Prevention Initiative; TOI – Tourism Initiative; PCI – Participation, Consultation and Information.

Source: OVE Data warehouse

4.29 The Bank’s lowest score in the survey is due its lack of specific products to finance regional operations. Conversely, the CABEI, by using the San Jose Agreement funding, has applied differentiated rates to projects that have regional dimensions; which has been particularly critical in RICAM funding.⁵¹

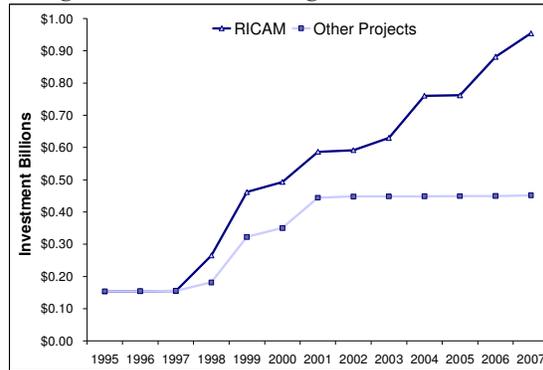
4.30 CABEI has provided the majority of financing for RICAM projects, whereas the Bank has been the primary funder of the SIEPAC projects. The Bank contributed directly to the SIEPAC’s financing. Its financial restructuring in 2001, which was supported by the PPP countries’ commitment to the project as analyzed in the previous section, permitted the initiation of the network building.

⁵¹ As of 2005, Mexico had financed 5 RICAM projects (about US\$ 113, 8 million) through CABEI: three for RICAM stretches in Honduras and two for RICAM stretches in Nicaragua.

4.31 In terms of RICAM, CABEI's participation has been much stronger than the Bank's. However, Figure 9 shows that the Bank has prioritized RICAM's road projects through its financing of CA transportation projects. In fact, after the launch of the PPP, nearly all of the Bank's loan approvals for transportation financed national stretches of the RICAM road projects.

4.32 In addition to the road investment projects, the Bank performed an important role providing all financing required by PPP for the implementation of CA's air transportation safety project, which has been executed by Central American Corporation for Air Navigation Services. However, there are no financing efforts from any MDBs for other transportation subsectors yet.

Figure 9 – Road Lending Evolution for CA



Source: OVE Data warehouse

4.33 The Bank and CABEI have made similar financial contributions for the telecommunications initiative. Although it has obtained only 4.5% of its projected resource needs, both institutions financed the pre-feasibility study of the AMI, including rural connectivity and regional access point designs. This study was delivered in December of 2006 and it will be the baseline for the construction of the regional network.⁵²

4.34 Regarding the other initiatives, the financing of Bank and CABEI institutions is diverse. CABEI has lent to the human development and natural disaster initiatives while the Bank has not. At the same time, the Bank has provided loans related to the trade and competitiveness initiatives while CABEI has not. The Bank surpassed CABEI in the amount of funding allocated to sustainable development initiatives.

C. The Bank support to the ICP and GAPIE activities

4.35 The Bank's involvement in ICP activities was intense during the first three years of the PPP; as a result of the concern for addressing the criticism generated by the PPP's launch. The Bank held a range of meetings with Non-governmental organizations at its headquarters and financed regional opinion surveys on the PPP.⁵³ The Bank was also the only PPP financing institution to fund TCs aimed at

⁵² Besides the need to create a regional regulatory framework, the countries considered three following alternatives to constitute the AMI: i) the construction of a new fiber optic network; ii) the integration of the existent networks and iii) the construction of a backbone in the SIEPAC network. The third option was ultimately selected by the initiative.

⁵³ See, for instance, *Análisis de Clima de Opinión Regional y Recomendaciones*. Fleishman International Communications HILLARD., January 2003.

- creating country institutions to enable civil-society participation in PPP project selection and execution.
- 4.36 However, the countries' budget constraints limited the Bank's capacity to contribute to the strengthening of the countries' institutional capacity through TCs. Indeed, Nicaragua cancelled its operation; El Salvador and Mexico decided to implement their offices with their own resources; and only Guatemala executed the totality of its operation.
- 4.37 Focusing on marketing the PPP, the countries were able to reduce their interest in ICP once civil protests against the PPP's initiatives had reduced. The promised monitoring and social auditing have not gone into effect and there is no effective mechanism to promote civil society participation in and monitoring of PPP projects. In its turn, GAPIE's institutional capacity is poor and there is no evidence that the Bank is addressing GAPIE's weaknesses.

V. FINDINGS AND RECOMENDATIONS

A. Findings

- 5.1 OVE faced several problems in gauging the achievements of the PPP's development objectives because the PPP did not set priorities, benchmarks, baselines or indicator for its outcomes. Another difficulty is the fact that most of the PPP's projects have medium to long-term implementation goals and that these projects are currently in early stages of implementation. Looking at the achievement of the PPP outputs, OVE found that the PPP obtained mixed results in both the promotion of consensus building and in financing related to the various initiatives. The infrastructure initiatives surpasses the others in both consensus building and financing. The PPP's work around regional consensus building has been hindered by the continuous lack of definition and prioritization of "regional projects" as well as by shifting programming. As a result, only 50% of the projected necessary financing has been obtained and the civil society participation in the initiative is very low.
- 5.2 From the outset, the Bank did not seek to identify general risks related to the implementation of PPP or risks specific to each of the regional initiatives. Nor did the Bank create a mechanism in its monitoring system to permit a dedicated monitoring of the Bank's PPP projects. In addition, although the Bank had supported regional activities such as electricity network SIEPAC prior to the PPP, the Bank's PPP documentation shows little evidence that this experience was drawn upon.
- 5.3 The Bank has responded to PPP funding needs through loans (25 operations) and technical cooperations (72 operations), including pre-investment studies (5 operations). Echoing the PPP's portfolio, most of the Bank's financial support (portfolio of US\$ 1.4 billion) has been concentrated in energy and transportation

- initiatives (90% of the total of funding and 72% of 25 loans). Although the Bank added some regional projects, it had sponsored prior to the PPP (such as the SIEPAC project and several national highway projects in the context of the RICAM) to its PPP portfolio.
- 5.4 The Bank also concentrated its TCs in energy and transportation initiatives (about 90% of the total funding for Bank's PPP TCs) and like the loan portfolio, the Bank allocated some TC funding for sustainable development (5.3 %) and trade and competitiveness (5 %) initiatives. Finally, only recently, has the Bank begun using more innovative instruments such as pre-investment studies, such as the Fund for Initiatives for Regional Infrastructure Integration (FIRII).
 - 5.5 The Bank's PPP portfolio reflects the low priority given to the PPP in the Bank's project programming and approval. In fact, taking in consideration only the areas targeted by PPP, it took six years from when the PPP was launched before the number of the Bank's PPP operations surpassed its non-PPP operations in CA. The Bank's portfolio of loans did not prioritize regional public goods or regional operations. Only two of 25 loans support region-wide operations (SIEPAC and the Trifinio Sustainable Development Program) and both had been approved prior to the PPP. Instead, national loans for projects with a regional emphasis dominate the Bank PPP loan's portfolio (60% of the total). Otherwise, the Bank's portfolio targeted CA almost exclusively.
 - 5.6 The Bank's contribution to the PPP's results is difficult to determine. First, the Bank did not set up indicators to measure the impacts of its regional operations. Second, as the Bank did not define specific objectives to guide its involvement in, or the development of, the PPP. In fact, much of its PPP's portfolio has mirrored the development objectives of PPP countries under the PPP. Although the Bank's portfolio is consistent with the PPP's portfolio, the Bank's failings have also mirrored those of the PPP in that it did not identify priorities or provide a general diagnosis for regional problems. Given the Bank's heavy participation in the coordination of both PPP financing and technical activities, the Bank's results are tied to PPP's results in the region.
 - 5.7 The evaluation found that the Bank was an important contributor in consensus building and collective problem-solving in the energy, telecommunication and transportation initiatives, in which it had worked around consensus-building since their main projects' conception. However, there is no evidence that the Bank has performed the same relevant role regarding the other initiatives.
 - 5.8 The analysis of the Bank's support to PPP implementation revealed that the success of consensus-building and financing activities is directly related to adequate definition of "regional projects" as well as "institutional capacity building" to manage agreed upon projects. In particular, the Bank had more success in the consensus building of energy initiative because the Bank's SIEPAC project captured the regional externalities in the design of risk and cost-sharing mechanisms and delegated the project execution to a single regional agency,

which mitigated any financial and technical asymmetries among the countries. It is worth noting that the consensus built through SIEPAC had a catalytic effect on the telecommunication initiative, since the agreed-on network design originated with SIEPAC.

- 5.9 The Bank consensus building for RICAM presented lesser success since although agreement was reached regarding project design, the execution and financing of the portion of the regional network running across its national territory was left up to each country. Consequently, this generated unequal burdens and benefits among participants and accentuated technical and financial asymmetries among them.
- 5.10 On the other hand, the Bank failed to mitigate the lack of regional institutional capacity to focus on some regional goods, such as epidemics and natural disasters. Likewise, the Bank did not help to avoid the regional superposition of institutions among the pre-existent execution units of regional projects and entities created by PPP. For instance, SIECA and SICA have conflicting mandates in the Central American Common Market (CACM) and in the PPP. The CACM has a more in-depth integration process than the PPP. Also, the two agreements involve different countries and priorities.
- 5.11 The slow development of the other PPP initiatives supported by the Bank illustrates the difficulty of building consensus if country members do not perceive a benefit from acting in coordination rather than competing. Tourism and transportation sub-sector work around ports and airports are prime examples of this. For other issues, such as sustainable development, there is no evidence that bi or tri-national consensus related to some cross border projects has prompted regional consensus related to the management of regional natural resources. Indeed, the most prominent example of successful regional consensus building thus far has been limited to a voluntary agreement for the management of PPP projects.
- 5.12 Regarding financing, the main source of financing of PPP (US\$ 4.5 billion of december 2007) has been the PPP countries' government funds (Mexico 29% and others 9%). Until december 2007, among the Multilateral Agencies, CABEI led the financing (33%) followed by the Bank (23%) and others (2%). It is worth noting that the Mexican funds have been supported only SE Mexican projects, except by the financing of five RICAM projects through the utilization of the San Jose Agreement Funds (US\$ 114 million).
- 5.13 The Bank has been lacking an appropriate financial instrument, such as the CABEI's special funding conditions for regional operations, to stimulate country involvement in regional projects. Though the Bank recently launched TC funding for regional project feasibility studies, such as the Fund for Initiatives for Regional Infrastructure Integration (FIRII), the Bank has not taken the lead in financing PPP projects.

- 5.14 Notwithstanding, the Bank has taken the lead in TC financing in all initiatives, except in Trade and Competitiveness, in which CABEI has similar financing, and the Natural Disaster Prevention initiative, in which none of the Agencies financed TCs. The Bank contributed directly to the SIEPAC financing, since the Bank's financial restructuring permitted the initiation of the network building. CABEI took a lead in the RICAM funding and, despite the fact that both institutions switched leading positions in the other initiatives funding, these amounts are very low compared with energy and transportation.
- 5.15 In order to overcome shortfalls and address new challenges, the PPP countries have redefined PPP priorities and prepared a system for project selection. At the same time, the entry of Colombia in 2006 stresses the PPP's focus on physical integration of regional markets. Integration initiatives currently in progress under the umbrella of the Tuxla mechanism, such as the MAR Energy Integration Program (PIEM), reflect this new priority as do emerging integration opportunities, such as the construction of a regional natural gas pipeline and refinery, that were not part of the original PPP program.
- 5.16 These changes reflect the challenges and opportunities created by the integration processes that are in progress in the region and that could boost "de facto" market integration of PPP countries. Indeed, the PPP's countries have been celebrating Free Trade Agreements, energy cooperation and integration programs as well as the abovementioned physical network infrastructure integration processes. To take advantage of all these opportunities, PPP countries must close the physical and technological infrastructures gaps and harmonize the regulation of regional networks that remain unaddressed in the region. Though identified by the PPP at its launch, these problems continue to afflict the region.

B. Recommendations

- 5.17 From the Bank's perspective, the *X Tuxla Summit* changes created a positive momentum that could lever the Bank's relevance in the region. In order to address that, OVE addresses the general recommendation that the Board **should renew Management's mandate to promote the PPP and approve budget allocation to finance the Bank's support to the PPP-related activities. However, in order to improve the Bank's support, OVE makes the following specific recommendations:**
- i. ***The Bank should improve its technical assistance to the PPP.***
 - a. The Bank should continue supporting the strategic discussion involving the high level authorities of PPP's countries regarding their perspectives on the regional integration process and the PPP itself. This discussion should complement the current process of the PPP's redefinition, occurred in the *X Tuxla Summit*, and be based on a diagnosis of the region's problems that emphasizes the regional public goods, which should be the focus of the Plan.

- b. The Bank should help the PPP countries to define mid and long term objectives, containing baselines and outcome indicators for each one of the projects defined by this strategic reoriented plan.
 - c. In addition to the financing of investment needs, the Bank should give high priority to the provision of TC in order to either create or strengthen the regional regulatory frameworks of the energy and telecommunication sectors, which networks will be operated by natural monopolies.
 - d. The Bank should support the implementation of the *PPP monitoring system*, as recently approved by the *X Tuxla Summit*. This system should permit the PPP countries to monitor the execution of the PPP portfolio as well as to evaluate the PPP portfolio's indicators and milestones.
 - e. The Bank, through its role in GTI and CPF, should promote the coordination between the PPP's Execution Commission and the agencies in charge of the execution of regional projects;
 - f. The Bank, through its role in GTI and CPF, should give high priority to the implementation of the *X Tuxla Summit* decisions. In particular, regarding the involvement of the Countries Finance Ministers in the CPF, the Bank should involve them in the programming of the PPP projects.
- ii. ***The Bank should improve its internal capacity to support the PPP.***
- a. The Bank should develop *financial mechanisms aimed at supporting regional projects* that mitigate the larger transaction costs pursued by these regional projects when compared with the national projects.
 - b. The Bank should develop *evaluation methodologies* which address regional public goods, by taking in account country asymmetries and definition and allocation of regional projects cost and benefits among the beneficiary countries.
 - c. The Bank should create a mechanism in its *monitoring system to permit dedicated monitoring of the Bank's PPP projects*;
 - d. The Bank should produce annual reports on the *Bank's PPP Portfolio Management, Results and Performance*, starting with the current year. In this first report, the Bank should also present and justify the changes in both its portfolio and its internal organization in order to address the *X Tuxla Summit* decisions.
 - e. The Bank should also *incorporate the PPP in all of the Bank's related strategies*, such as the strategy for the Central American and PPP countries, with a clear definition of responsibilities for the Bank's Public and Private divisions.