



INFRASTRUCTURE: ENGINE FOR GROWTH AND ECONOMIC INTEGRATION OF THE AMERICAS

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KEY STATISTICS

- According to the Infralatam¹ database, from 2008 to 2015 the total infrastructure² investment in water, energy and transportation in Latin America and the Caribbean (LAC)³, was US\$818.8 billion, of which **US\$311.5 billion (38%) was financed through private investment.**
- Private investment is strongly concentrated in five countries and two sub-sectors. Infralatam reveals that **95.3% of total private investment in infrastructure is concentrated in five countries:** Brazil (63.6%), Mexico (9.4%), Colombia (8.7%), Peru (7.7%) and Chile (6.0%).⁴ The database also reveals that **73.5% of these investments were directed towards the electricity and highway sub-sectors.**⁵
- According to the 2017 Infrascopes, **from 1990 to 2017⁶ LAC dedicated 2–3% of its GDP to infrastructure.** This investment is substantially lower than the 5% needed to close the current infrastructure gap in the region.⁷
- Additionally, according to a report by the IDB Office of Evaluation and Oversight (OVE) on PPPs, during 2006–2015 the **IDB Group approved 145 public-private partnership transactions for US\$5.8 billion.**⁸ This accounts for 35% of total financing of PPP projects in the region provided by multilateral development banks.⁹

¹ <http://www.infralatam.info/>.

² Includes the following sub-sectors: water and sanitation, air, highway, flood protection, electricity, railway, waterway and maritime, gas and irrigation.

³ 19 countries: Argentina, Belize, Bolivia, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Trinidad and Tobago and Uruguay.

⁴ <http://www.infralatam.info/>.

⁵ Idem.

⁶ Infrascopes p. 6.

⁷ Infrascopes 2015. p. 6.

⁸ Office of Evaluation and Oversight, IDB. “Evaluación de Asociaciones Público-Privadas”. <https://publications.iadb.org/bitstream/handle/11319/8200/Evaluacion-de-Asociaciones-Publico-Privadas-en-Infraestructura.pdf?sequence=8ijk> p. 9.

⁹ Idem.

- Furthermore, the report indicates that **IDB approved PPP project loans of US\$3.2 billion for 22 operations in the transport sector and US\$1.7 billion for 36 operations in the energy sector.**¹⁰ According to Infrascopes, 70% of this portfolio was concentrated in countries with a more advanced PPP capacity¹¹.
- **LAC should invest approximately US\$150 billion more per year** during the next 20 to 30 years in order to close the infrastructure gap.

¹⁰ Idem. p. 12.

¹¹ Idem. p. 9.

INTRODUCTION

There is a clear global commitment to increase private sector participation in development, especially in infrastructure development and operations. The 2015 Addis Ababa Action Agenda asked Multilateral Development Banks (MDB) to increase funding and improve alignment and coordination in infrastructure initiatives among the many stakeholders.¹² The 2017 Global Infrastructure Forum also recommended: (i) to strengthen investment capacity, governance frameworks and government policies at the national and sub-national levels; and (ii) to promote private sector participation and funding, creating the right conditions for participation, and (iii) to increase the catalytic role of the Multilateral Development Banks.¹³

What are PPPs? PPPs consist of a mechanism that enables private investment in public infrastructure, whether of an economic or social nature, by means of *“a long-term contract [...] for providing a public asset or service [...] in which the private party bears significant risk and management responsibility, and remuneration is linked to performance”*.¹⁴ In Infrastructure PPPs, the private sector funds the construction, operation and/or maintenance of the infrastructure asset and it is remunerated directly via user charges and indirectly through direct public payments to investors, or a combination of both. Attachment 1 illustrates different types of private sector participation in infrastructure development.

¹² Addis Ababa Action Agenda of the Third International Conference on Financing for Development. Article 48, page 18. http://unctad.org/meetings/es/SessionalDocuments/ares69d313_es.pdf.

¹³ Outcome Statement of the Global Infrastructure Forum 2017. <https://library.pppknowledge.org/documents/4707>.

¹⁴ WB PPP Reference Guide.

PPPs in Infrastructure development have increased significantly in LAC. According to the Infralata¹⁵ database, from 2008–2015 total infrastructure¹⁶ investments in water, energy and transportation in LAC¹⁷ amounted to US\$818.8 billion, of which US\$311.5 billion (38%) were private investments. From 2010–2015, private investment increased from US\$24 billion to US\$ 33.9 billion. Furthermore, most countries in the region have specifically adopted and strengthened their regulatory and institutional PPP frameworks. The largest countries, Mexico and Brazil, are already implementing most of their PPPs at a subnational level. Social infrastructure sectors such as education, penitentiary systems and hospitals have also acquired more presence.

However, there is room for improvement. Some PPP entities in the region exhibit lower capacity and maturity levels with regard to selecting, preparing and promoting projects, inter-sectoral linkages, oversight and assessment, and transparency throughout the process. Furthermore, infrastructure investment levels are still below the 5% target required to close the infrastructure gap in the region.

More PPPs are needed in order to increase investment in infrastructure and to improve the quality of services. According to the 2017 Infrascop¹⁸, between 1990 and 2017 LAC dedicated 2–3% of its GDP to infrastructure.¹⁸ This investment is substantially lower than the 5% of GDP required to close the current infrastructure gap in the region. To reach 5% of GDP requires an additional investment of US\$150

¹⁵ <http://www.infralata.info/>.

¹⁶ Includes the following subsectors: water and sanitation, air, highway, flood protection, electricity, railway, waterways and maritime, gas and irrigation.

¹⁷ 19 countries: Argentina, Belize, Bolivia, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Trinidad and Tobago and Uruguay.

¹⁸ 2017 Infrascop.

billion per year over the next 20 to 30 years.¹⁹ Given this scenario of low public investment levels and fiscal challenges in the region, it is imperative for private infrastructure investment to play a more significant role.

¹⁹ Serebriski, Tomas. "Financing Infrastructure in LAC: How, How much and by Whom?" IDB (2015) <https://publications.iadb.org/bitstream/handle/11319/7315/Infrastructure%20Financing.%20Definitivo.pdf?sequence=1&isAllowed=y>.

DIAGNOSTIC AND TRENDS

The increase in infrastructure PPPs in LAC is due to significant improvements in regulatory frameworks and institutional capacities. On the one hand, most countries in the region have strengthened their **regulatory framework**. Argentina, Costa Rica, Guatemala and Nicaragua passed new PPP laws between 2015 and 2017.²⁰ Jamaica, Honduras, El Salvador and Paraguay also strengthened their regulatory frameworks by means of new laws and regulations between 2013 and 2015.²¹ These countries join others with older regulatory frameworks such as Brazil, Mexico, Colombia, Chile and Uruguay.

Seventeen LAC countries have strengthened their **institutional framework** by establishing their own PPP Units.²² Jamaica established its PPP Unit within the Development Bank of Jamaica. Ecuador created the PPP Interinstitutional Committee. In Nicaragua, the PPP Unit is part of the National Public Investment System. In Paraguay, the Unit was created within the Planning Secretariat. In Uruguay, it was established within the sphere of the Ministry of Economy and Finance.

On the other hand, countries with a larger track record of implementing PPPs, such as Chile, Brazil and Mexico have been able to successfully draw on their experience to expand PPP **sector coverage** to other sectors beyond traditional infrastructure, such as parks, education centers, prisons, and convention centers.²³ For example, in Peru, EsSalud (social health insurance) awarded the first PPP hospital in the

²⁰ 2017 Infrascope. p. 10.

²¹ 2015 Infrascope. p. 11.

²² PPPs Vital to Improve Infrastructure Quality in LAC. The World Bank. <http://www.worldbank.org/en/news/press-release/2017/05/04/ppps-vital-to-improve-infrastructure-quality-in-latin-america>.

²³ Infrascope 2017. p. 6.

country in 2009 to a Brazilian consortium called Salog.²⁴ Additionally, the first PPP for the penitentiary system was established in Brazil in 2009. The Company *Gestores Presionales Asociados* (GPA) won a 27 year concession to manage a penitentiary system consisting of five prison units.

In turn, both Brazil and Mexico have developed capacity to implement **PPPs at a sub-national level**²⁵ due to their strong regulatory and institutional frameworks and to their vast experience in private sector participation in infrastructure. Today, the majority of PPP projects are implemented at a sub-national level. With respect to Brazil, sub-national PPPs make up 85% of total investments.²⁶ These sub-national programs have grown substantially. The project cycles are shorter and more dynamic and they have broader sector coverage.²⁷ For example, the State of Minas Gerais has implemented PPPs in the highway, prison, stadium, airport and solid waste sectors, among others.²⁸

The different countries have also enhanced **capacities for selecting projects**. More and more countries are applying cost-benefit and value for money analyses upon establishing project pipelines.²⁹

However, the level and rate of progress made by countries in the region on these fronts has been uneven. This is why the PPP market in the region still shows **high levels of concentration** in few countries, few sectors and few companies. According to the Infralatam database, **95.3% of total private investment in infrastructure was concentrated in five**

²⁴ "In good health: how the PPP model has revolutionized Peru's hospitals". FDI Intelligence. <https://www.fdiintelligence.com/Locations/Americas/Peru/In-good-health-how-the-PPP-model-has-revolutionised-Peru-s-hospitals?ct=true>.

²⁵ 2015 Infrascope p. 19.

²⁶ 2015 Infrascope p. 13.

²⁷ Filling the local PPP capacity gap in Brazil: how the CP3P program can help. World Bank. <https://blogs.worldbank.org/ppps/filling-local-ppp-capacity-gap-brazil-how-cp3p-program-can-help>.

²⁸ <http://www.ppp.mg.gov.br/sobre/projetos-de-ppp-concluidos>.

²⁹ 2015 Infrascope p. 12 and 2017 Infrascope p. 11.

countries: Brazil (63.6%), Mexico (9.4%), Colombia (8.7%), Peru (7.7%) and Chile (6.0%).³⁰

Additionally, **73.5% of total private investment is concentrated in the sub-sectors of electricity and highways.** The chart below depicts investment distribution among sub-sectors considered by Infratam:

Sub-sector	Total Private Investment (US\$ Billion)
Electricity	159,373
Highways	69,692
Railways	33,119
Water and Sanitation	15,592
Waterways and Maritime	15,023
Gas	10,107
Air	8,378
Irrigation	254 Million

Additionally, even countries with more developed PPP markets have **high industry concentration.** In Mexico, for example, five companies received 80% of the projects awarded since 1990 for a total value of US\$82 billion. In Colombia, only three companies were awarded 80% of the projects, according to the World Bank PPI database.³¹

In order to reduce these levels of concentration in few countries, few sectors, and few companies, governments in the region must implement the following measures to **increase competition:**

- **Clear PPP strategy centered** on projects that are feasible from a technical, financial and economic perspective.
- Develop **technical and institutional capacities to manage PPP project cycles.** This ranges from

³⁰ <http://www.infratam.info/>.

³¹ 2017 Infrascope. p. 15.

adequately prioritizing projects to evaluating, structuring, contracting and managing agreements. The lack of suitable selection and project preparation procedures (such as quality engineering projects that define project scope and expected performance) and the short time usually given to bidders results in projects that are not competitive and generate suboptimal value for money levels, since bidders typically include larger margins as protection against non-assessed risks.

- **Develop a coordinated and collaborative approach among the parties involved** in the PPP, with adequate incentives for all.
- **Adequate fiscal impact management. The impact of PPP projects on the budget is strong and contingent.** This impact must be adequately identified, monitored and managed in order to guarantee the sustainability of infrastructure programs.
- **Establish adequate project evaluation mechanisms** to guarantee that executed contracts will be able to offer value for money for both the government and users. PPP projects can generate higher costs than public procurement, for instance, capital costs associated with private funding. This is why it is important to award PPP projects that can generate other efficiencies in order to compensate high capital costs and generate more value for money than the alternative of implementing the project through a traditional public works scheme.
- **Adequate project risk allocation.** In other words, risk must be allocated to the party more capable of controlling the risk.³² This is essential in order to reduce the rate of PPP project renegotiations in LAC. According to a PPP report conducted by the IDB Office of Evaluation and Oversight (OVE), the rate of renegotiations is 70% (92% in water-related projects).³³ The main risks

³² “PPPs Vital to Improve Infrastructure Quality in LAC”. The World Bank. <http://www.worldbank.org/en/news/press-release/2017/05/04/ppps-vital-to-improve-infrastructure-quality-in-latin-america> p2.

³³ Office of Evaluation and Oversight, IDB. “Evaluación de Asociaciones Público-Privadas”. <https://publications.iadb.org/bitstream/handle/11319/8200/Evaluacion-de-Asociaciones-Publico-Privadas-en-Infraestructura.pdf?sequence=8>. p. 8.

involved include construction, operating, financial, regulatory/political, environmental and social risks.

- **Guarantee process transparency.** Corruption scandals in the region remind us that transparency in the infrastructure sector is key. A way to increase transparency in PPP projects is to adopt best practices when disclosing project information. Information to be disclosed includes feasibility studies, tender documents, contracts, financial structure and deals, proposals, contract amendments, performance reports, financial information on the company involved with the project (or special purpose vehicle), tax risks and commitments, among others.³⁴

IDB Best Practices and the Government of Honduras

IDB implemented a communication strategy in Honduras to educate the population, the private sector and the civil society on PPPs. This initiative included creating a website with high-level information on the project, videos with politicians and recordings of meetings related to the different projects. This initiative was recognized by PPIAF³⁵ as an international good practice case.³⁶

- **Adjust the legal framework in order for institutional investors to invest** in Infrastructure PPP projects. This, together with a strong and sophisticated capital market, open to institutional investors (such as Pension Funds), enables free cross-border marketing of local currency bonds, and lower sovereign risk³⁷, and it is essential for becoming less dependent on MDB funding. Chile is

³⁴ Siqueira, Marcos. "What if we disclosed everything" – Infrastructure and Public Private Partnerships Blog. Banco Mundial. <http://blogs.worldbank.org/ppps/what-if-we-disclosed-everything>.

³⁵ <https://ppiaf.org/>.

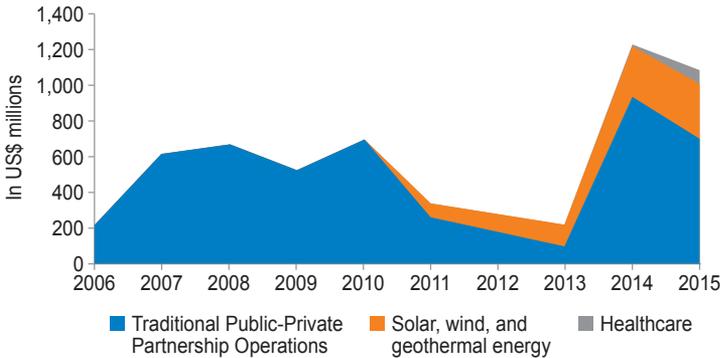
³⁶ Office of Evaluation and Oversight, IDB. "Evaluación de Asociaciones Público-Privadas". <https://publications.iadb.org/bitstream/handle/11319/8200/Evaluacion-de-Asociaciones-Publico-Privadas-en-Infraestructura.pdf?sequence=8>.

³⁷ Private Financing of public Infrastructure through PPPs in LAC. World Bank. <https://openknowledge.worldbank.org/bitstream/handle/10986/26406/1144180v.pdf>.

The IDB Group's Role in PPPs

The multilateral development banks are well-positioned to help consolidate legal and regulatory PPP framework reforms, to provide project preparation support and to help close funding gaps.

The IDB Group's Growing Support to Public-Private Partnerships in Less Traditional Sectors



Fuente: OVEDA.

IDB was the multilateral bank that most invested in PPPs in LAC. During the period 2006–2015, IDB group approved 145 PPP transactions for US\$5.8^a billion. This represents 35% of total funding provided by multilateral banks in the region.^b IDB's role focused on developing suitable environments, and preparing and financing PPP projects.^c 70% of this portfolio was concentrated in countries with the most developed PPP capacity.^d The two most catered PPP sectors by IDB were energy and transport.^e

PPP Focal Point

In 2017, IDB, together with the support of the Japan Special Fund (JSF), created the PPP Focal Point. The Focal Point received funds to support the strengthening of legal, regulatory and institutional frameworks, improve technical and institutional capacities, and structure and implement PPP projects.^f

(continued on next page)

The IDB Group's Role in PPPs (*continued*)

PPP Focal Point consists of a PPP team specializing in legal, regulatory and institutional frameworks, quality-price analysis (Public Sector Procurement) and structuring PPP contracts.^g

Resources available for transactional support will be provided in the form of contingent recovery. That is to say, governments must reimburse IDB resources if the following conditions are met:

- The project successfully reaches financial closure
- The PPP does not reach financial closure for reasons other than: the project is found to be non-viable, a competitive process is organized in good faith and ends without a winning bidder selected, or if a winning bidder cannot secure financing
- If the government fails to comply with the terms of the agreement entered into with IDB or unilaterally terminates the PPP project.^h

^a Office of Evaluation and Oversight, IDB. "Evaluación de Asociaciones Público-Privadas". <https://publications.iadb.org/bitstream/handle/11319/8200/Evaluacion-de-Asociaciones-Publico-Privadas-en-Infraestructura.pdf?sequence=8> p. 3.

^b *Idem.* P. ix.

^c *Idem.* P. 11.

^d *Idem.* P. ix.

^e *Idem.* P. viii.

^f Technical Cooperation Document RG-T3222.

^g *Idem.*

^h *Idem.*

a clear example of a country with a strong local capital market, with high liquidity and free to issue local currency bonds but that could increase private investment in infrastructure if it allows institutional investors to enter the sector.³⁸

³⁸ Infrascopes 2017. P. 16.

THE ROLE OF THE PRIVATE SECTOR

The private sector plays a crucial role in the suitable delivery of PPP projects and the adequate performance of institutional frameworks. The private sector finances the construction, operation and/or maintenance of the infrastructure asset. This requires creating a proposal that maximizes the value that governments obtain through the project. The role of the private sector is key in the following areas:

- **Project identification:** the private sector can help governments identify opportunities for private participation in infrastructure by means of unsolicited proposals, by introducing innovating ideas and by contributing to infrastructure development goals in areas where governments have limited capacity to structure projects. Suitable management of unsolicited proposals by governments and the private sector are essential for securing transparency, competition, and value for money for the countries involved, in addition to an even profit-risk balance for investors.
- **Dialogue with stakeholders:** governments, multi-lateral banks and companies tend to organize events (institutional dialogues, roundtables) and consultation procedures to promote dialogue and understanding among the multiple PPP stakeholders. It is essential for the private sector to participate and generate these instances to help governments design and implement suitable environments for PPP development.
- **Investments that promote innovation and best practices:** in order for the PPP to maximize the value that the private sector offers the government, the private sector's bid proposal must deliver operating advantages and efficiencies derived from its knowledge and experience in similar processes.³⁹

³⁹ National Planning Office, Government of Colombia. <https://colaboracion.dnp.gov.co/CDT/Prensa/Publicaciones/1%20ABC%20APP.pdf>.

- **Innovation in Financing Mechanisms:** the private sector must spearhead the use and development of new financial and advisory products for PPPs, tailored to countries' specific needs. Options to explore include local currency financing, advisory services, specific instruments to support subnational governments and project preparation mechanisms.⁴⁰
- **Support to governments:** the success of the PPPs depends on the governments' capacity to develop a pipeline of well-structured bankable projects that meet development objectives and attract investors. This requires capabilities. Hence, the private sector can play an important role in offering technical advisory services to governments on these issues.
- **Defining parameters for disclosing information:** PPP information disclosure is vital to achieve transparency and to tackle corruption. The private sector must play a proactive role in establishing information disclosure mechanisms when preparing and implementing PPPs. The private sector must help create a common platform for disclosing PPP information by governments, advisors, multilateral banks, international financial institutions and the private sector itself.

The opportunity for LAC is now, and it's huge. The majority of countries in the region are strengthening and consolidating their legal and institutional frameworks, diversifying sectors in which to implement PPPs and are gaining experience in contract management. Additionally, infrastructure investment should almost double in the coming years in order to close the infrastructure gap. Given the current scenario for PPPs in the region, below we indicate some best practices for increasing their presence in LAC:

- Companies must understand that the infrastructure market in the region is moving towards PPPs.

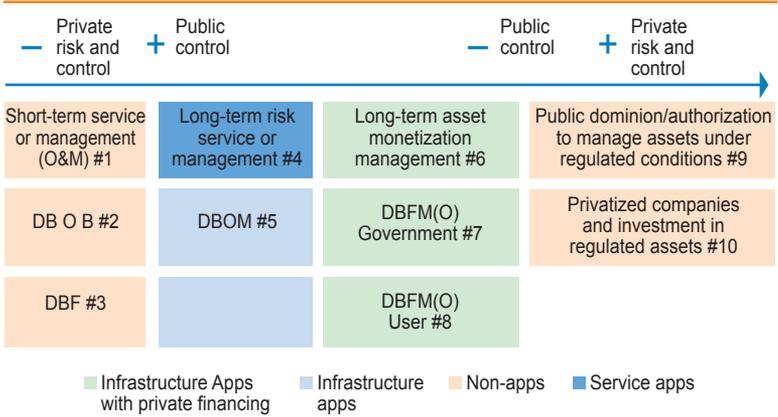
⁴⁰ Office of Evaluation and Oversight, IDB. "Evaluación de Asociaciones Público-Privadas". <https://publications.iadb.org/bitstream/handle/11319/8200/Evaluacion-de-Asociaciones-Publico-Privadas-en-Infraestructura.pdf?sequence=8>.

- PPP environment development levels in the region vary from country to country. This implies that companies must prepare customized strategies for each country
- Partnerships with local and international companies that have experience in the country is vital due to their knowledge of the local market
- Collaboration with Multilateral Development Banks can be key given the significant role that they play in the PPP sector⁴¹.

⁴¹ "PPPs in Latin America Infrastructure Market and Policy Suggestions for Korea", KIEP Research Paper, World Economy Brief (2017). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3003677###.

ATTACHMENT

Types of Private Participation in Infrastructure^a



- #1 Two-year Operation and Maintenance (O&M) highway contract.
- #2 Design and construction, or construction only infrastructure contract (for example, a road, a railroad, or an entire railway system).
- #3 As #2 but with the contractor pre-funding the works against future payments.
- #4 Ten-year contract for the management of a water supply service; 15-year contract to manage bus operations in a city; 15-year contract to manage renovations and ordinary road maintenance, under fixed price with deductions for quality. This is sometimes referred to as lease or concession.
- #5 Contracts for the development of an asset where the contractor will also provide maintenance for several years.
- #6 30-year lease or concession to operate an existing toll road with the payment of an initial fee or to operate a city's water and sewage system.
- #7 25-year DBFM(O) contracts to build, finance and manage a facility, hospital, school, road, or a treatment plant, etc and be compensated according to performance and availability. A power purchase agreement (PPA).
- #8 30-year DBFM(O) highway contract compensated with charges to users collected by a private partner, or a water supply concession with extensive renovations and improvements to the sanitation network.
- #9 Concession to utilize terrain in a port location to develop and operate facilities for 99 years, with the developer bearing all the risk; an authorization to develop a renewable energy IPP that is compensated according to lower regulated/subsidized prices depending on renewable energy regulations.
- #10 A telecommunications operator or electricity distributor that competes for clients/users under regulatory limitations.

^a AMPG-PPP Certification Guide. <https://ppp-certification.com/sites/default/files/documents/guia-certificacion-asociaciones-publico-privadas-APMG-chapter-1.pdf>.