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FEATURED Q&A

What Is the Road Ahead For Infrastructure Planning?

Q The Inter-American Development bank set record levels of loan approvals and disbursements in Latin America and the Caribbean last year, with 165 new operations totaling \$15.9 billion, up from \$11.2 billion in 2008, and disbursements rising to nearly \$12 billion from \$7.6 billion in 2008. Much of this support has been directed to infrastructure. What role do you see the IDB and other multilaterals playing in Latin America's infrastructure development in 2010 and beyond? How does that compare to the private sector and market involvement in the region's infrastructure planning? What innovations and trends in financing Latin America and the Caribbean's infrastructure do you see on the horizon?

A Roger Stark, partner at Curtis, Mallet-Prevost, Colt & Mosle in Washington: "The multilaterals have a central role to play in financing regional infrastructure. However, last year's credit crisis and its aftermath highlight multiple challenges confronting sponsors, governments and lenders alike. In the span of less than two years, the region has moved from an environment of high liquidity to one of a virtual credit embargo. With few notable exceptions, most commercial lenders have been slow to return to crossborder infrastructure lending, and those that have returned are limited to tenors well below the 15-20 years that were available precrisis. In short, the multi-

laterals are back in their traditional role as lender of last resort, but they lack a viable structure for deploying capital. Project finance lending, the traditional format, has been criticized as too expensive and cumbersome, particularly in the context of small- to medium-sized project assets. Moreover, the credit capability of emerging market off-take purchasers is not what it once was. One proposed public-private solution would enhance private credit through a combination of sovereign commitments and limited risk guarantees or

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Rescuers Struggle to Bring Aid to Haiti Quake Victims

The odor of decomposing bodies lying on streets and trapped in rubble filled the air of Port-au-Prince Monday as relief workers struggled to provide aid to survivors of last week's earthquake. See special coverage on page 2.

Photo: Agencia Brasil.

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Political News

Stocks Rise on Pinera's Win in Chile, Victory Ends Concertacion's Reign

Chilean stocks rose Monday, a day after conservative businessman Sebastian Pinera was elected the South American country's president, defeating former President Eduardo Frei in Sunday's runoff vote. Santiago's IPSA gained 1.24 percent on expectations Pinera will support business-friendly practices. Pinera's inauguration March 11 will put an end to

Pinera received 52 percent support Sunday, while Frei garnered 48 percent.

two decades of rule by the center-left Concertacion coalition that has governed Chile since Gen. Augusto Pinochet's dictatorship ended. Pinera garnered 52 percent of the vote Sunday, to Frei's 48 percent, Agence France-Presse reported. In his victory speech Sunday night, Pinera said he would "break down the walls dividing us and build new bridges to bring us together."

Company News

Venezuela Nationalizes Exito Retail Chain, Threatens Cada Supermarkets

Venezuelan President Hugo Chavez on Sunday nationalized the foreign-owned hypermarket chain **Exito**, accusing it of raising prices after Venezuela's devaluation of its currency, the *Latin American Herald Tribune* reported Monday. Chavez said Exito, owned by France's **Casino Guichard Perrachon** and Colombia's **Almacenes Exito** repeatedly hiked prices in defiance of government orders. Venezuela's trade minister, Eduardo Saman, on Monday accused another retailer, locally owned supermarket chain **Cada**, of "behaving worse" than Exito.

Featured Q&A

Continued from page 1

insurance products. Because multilaterals have the institutional capabilities to structure and implement such solutions on a national or regional basis, they are uniquely well positioned to catalyze the next wave of infrastructure construction."

A José Agustín Aguerre, manager of the Infrastructure and Environment Department and chief of the Transport Division at the Inter-American Development Bank:

"During 2010, we see the bank focusing on improving access to high-quality infrastructure in an effort to increase the competitiveness of individual countries and the region as a whole. This support will be provided through loans to public or private entities, with or without sovereign guarantees. The bank will also provide analytical support and intellectual leadership to help countries find innovative solutions to their infrastructure needs. All included, the bank estimates approvals of \$4 billion in 2010 in loans for infrastructure: \$3 billion in sovereign-guaranteed loans plus \$1 billion in non-sovereign-guaranteed loans. We don't yet know the bank estimates for total lending in 2010. That will depend on the process of the bank's replenishment, currently underway. Total lending could therefore vary between \$8 billion and \$12 billion. In the transportation sector, bank lending will mainly focus on improving road networks to foster economic growth, in improving accessibility in urban areas and promoting the use of and the investment in massive transportation systems. In addition to its traditional financing role, the bank will continue to lead in three areas considered critical for future development of the transport sector: road safety, logistics and sustainable transport. In the energy sector, the bank will focus on changing the energy matrix in Latin America and the Caribbean by strengthening the underlying energy delivery infrastructure (transmission and distribution) and by supporting the renewable indigenous

energy generation sources. In the agricultural sector, the bank will support regional dialogue on agricultural policy, and focus on operations that will promote the social inclusion of small producers, more efficient use of public funds for agriculture, and higher economic returns on investments. In the water and sanitation sector, the focus will continue to be expanding urban and rural coverage of services. Special emphasis will be given to rural and peri-urban areas. A distinctive focus of the 2010 program involves financing solid waste projects and improving institutional and managerial conditions of service providers."

A Norman Anderson, president and CEO of CG/LA Infrastructure in Washington:

"The issue is extremely urgent as the system is broken. The premise behind the question—and most thinking about Latin infrastructure—is that the region is almost, but not quite, doing enough. That is wrong. There is too little investment, and it is in the wrong sectors. For the region to improve produc-

“There is too little investment, and it is in the wrong sectors.”

— Norman Anderson

tivity and broaden opportunity, investment must rise from about \$35 billion per year to well over \$100 billion. Infrastructure investment last year declined. The following facts frame the issue: First, during the last two cycles—stretching back to 1995—enormous stress was placed on private sector-led investment (first through privatization, and then through a PPP/concession

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model), and it came up dramatically short in terms of vision, public sector participation and overall investment. In 1980, Latin America had great planning capacity and now has very little. With a weak, and weakening, public sector, it is not possible to sustain and increase infrastructure investment. Boosting public sector capacity is, to be sure, an important role for the multilaterals. Second, Latin America's recent infrastructure investment, focused on commodity exports, has created huge pent-up demand for people-focused infrastructure. The multilaterals need to lead a hard tilt toward water, wastewater and green technology-powered urban mobility. Third, country-focused infrastructure finance institutions need to be created. The near complete withdrawal of private banks from project finance is effectively a 'long shadow of the crisis' that needs to be addressed immediately. Of the 40 or so global banks that had robust teams working on infrastructure 16 months ago, there are now perhaps five to seven serious players. The smaller countries will be the most seriously harmed—their priority projects are simply not financeable in the present environment. The problem of Latin American infrastructure is a little bit like our problem in Detroit. Once dimly perceived, the inclination is to make little adjustments around the edges—that would be catastrophic. This is a big problem, clearly perceived, and it should be addressed with all the resources, conviction and vision that we possess."

A **Roldán Trujillo, general manager and chief operating officer of the Inter-American Investment Corporation in Washington:** "The lingering debt crisis provoked the virtual disappearance of the bank syndication market as an important source of term debt financing for private sector infrastructure projects in the region. Consequently, during the past year, multilateral and bilateral development finance institutions (DFIs) were asked to play a greater role in meeting the

funding needs of these projects. At the same time, the debt crisis together with the dramatic drop in remittances resulted in increased demands by the region's governments for funding from these same agencies. The DFIs simply are not able to make up for the lack of bank lending, thus limiting the availability of funding for private sector infrastructure projects in the region. The competing demand for financing from public and private sectors of the region is expected to continue until the syndication market returns to a more normal situation. In the meantime, both lenders and developers of private sector

“Lenders are more selective, requiring more equity in the deal and generally demanding more security.”

— *Roldán Trujillo*

infrastructure projects have adjusted to the new reality, recognizing that the structuring process requires more time and involves higher costs. Lenders are more selective, requiring more equity in the deal and generally demanding more security. Financing plans are being closed mainly through club deals among groups of lenders with experience working together. Developers are also being more cautious and, given the higher costs, are delaying initiatives. The DFIs are financing projects jointly with other DFIs and also as part of club deals, while at the same time providing their 'umbrella' to the other members of the club as the lender of record. Clearly, the efficiencies gained in structuring project finance deals over the last decade are currently lacking in the region."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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