

# OVERVIEW OF INFRASTRUCTURE FINANCING IN LATIN AMERICA

WHAT KIND OF REGIONAL  
CONTEXT IS THE NEW BRICS  
BANK ENTERING?

EXECUTIVE  
SUMMARY

PREPARED BY:



MEMBERS:





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## EXECUTIVE SUMMARY

Over the last several years, infrastructure has regained a prominent position in the public policy and investment agendas of many Latin American countries. Thus, we are currently seeing an obvious appreciation of infrastructure investments (particularly in the transportation and energy sectors) largely sponsored by national governments, multilateral credit banks, Chinese investments, and even certain multilateral groups, such as the **Group of Twenty (G-20)** or the group formed by **Brazil, Russia, India, China, and South Africa**, also known as **BRICS**. The recent creation of the **BRICS' New Development Bank** and of the **China Latin America Fund**, both focused on infrastructure financing, are two additional examples to illustrate this trend. This is happening in a regional context where the growth of national economies (accompanied by an appreciation of raw materials and a general expansion of the international economy) has not been matched by structural solutions to the still

complicated and long standing problems of inequality and poverty in the region; problems that generally provide the main justification for major infrastructure investments.

An initial approach to the current context of infrastructure financing in Latin America shows a highly complex scenario, as can be seen in the multiplicity of actors involved and in the numerous issues and socio-environmental conflicts present in the region's countries, as well as in the states' lack of effective respect and safeguards for human rights while promoting these projects in the name of development. Therefore, there are hundreds of cases where infrastructure megaprojects across the region have led to significant social and environmental impacts and to the violation of the rights of the communities and populations involved. At the same time, there is a multiplication and diversification of financial agents that has resulted in a complex network of actors, both regional and extra-regional, involved in infrastructure financing, such as private institutions, private enterprises, international cooperation forums, and multilateral agencies.

On the one hand, and from a global perspective, it should be noted that the infrastructure agenda is becoming increasingly relevant in the debates within the **G-20** framework, to the extent that it is becoming a high-priority agenda. Regarding the **BRICS** group, the recent creation of its Development Bank is worth mentioning; the bank's main objective centers on infrastructure and development financing in emerging powers and their areas of influence.

The important role played by infrastructure investments through the Union of South American Nations (**UNASUR**) should also be noted, particularly regarding its South American Infrastructure and Planning Council (**COSIPLAN**), which took over the project portfolio of the controversial Initiative for

the *Integration of the Regional Infrastructure of South America (IIRSA)*. To illustrate this, one needs only to mention the substantial increase in the volume of infrastructure projects experienced by the IIRSA/COSIPLAN's portfolio in the course of a decade, which went from 335 projects for an estimated investment of US\$37 billion in 2004 to 583 projects for an estimated investment of nearly US\$158 billion by the end of 2013.

As for multilateral credit institutions, it has become evident that the banks that were traditionally present in the region-- such as the International Bank for Reconstruction and Development (IBRD), better known as the World Bank (WB); the International Financial Corporation (IFC); or the Inter-American Development Bank (IDB), for example-- are losing ground due to the growth of the volume of operations of several national and regional development banks, such as the Development Bank of Latin America (previously known as the Andean Development Corporation [CAF]) or Brazil's National Bank of Economic and Social Development (BNDES). Nevertheless, and despite the relative decrease of their regional financing levels, these traditional institutions have hardly ceased to be relevant for infrastructure project financing in the region.

Thus, regarding the WB, Latin America and the Caribbean (LAC) is the region with the largest volume of loans and the highest number of projects funded by this institution throughout history. The previous trend is still valid: In 2013, LAC was still the region that received the most resources from the Bank, which amounted to 31% of the total resources. Similarly, the IFC has been involved with the region since its foundation, and it is still an important actor in terms of financing the private sector in Latin America. The IFC devotes a significant part of its funds for the region to infrastructure: 24% of the total for the fiscal year 2012. Furthermore, Brazil, Mexico, and Colombia are among the top ten

countries in terms of the volume of projects supported by this institution. As for the IDB, it is still a significant source of funds for the countries in the region, in spite of the competition from other institutions, such as the BNDES and the CAF. According to its Annual Report for 2012, the Bank authorized a schedule of 169 projects that year, for a total investment of approximately US\$11 billion; 49% of those funds went to the infrastructure sector.

On the other hand, we have the national development banks, such as the BNDES, which during the previous decades has gone beyond Brazil's national borders and extended its infrastructure financing operations to a great number of Latin American countries, and even some African states. The Bank's involvement in the region has grown to such an extent that it has become one of its main financing agents for infrastructure, directly competing with institutions that have a strong presence at the regional level, such as the World Bank or the IDB. In Latin America (and also in Africa), the Bank's operations are largely focused on infrastructure projects, particularly in the construction of hydroelectric power stations, aqueducts, gas pipelines, transport operations, subways, highways, railways and wind farms. Precisely, infrastructure projects are the ones that receive most of the funding provided by the BNDES to strengthen and internationalize Brazilian companies, particularly a small number of transnational companies close to the national government. Over the last decade, the volume of loans for infrastructure projects granted by the BNDES in Latin America and Africa has increased steadily, from US\$228 million in 2004 to US\$1.3 billion in 2013.

Similarly, there are certain regional financial institutions, such as the CAF (now called **Development Bank of Latin America**), whose involvement and volume of infrastructure financing operations in the region have also recently increased.

Due to the high and sustained rate of growth of its project portfolio, the CAF has managed to duplicate its size in only six years, from US\$8 billion in 2006 to more than US\$16 billion in 2012. Actually, the institution's financial and operational projections indicate that this sustained growth dynamic will remain strong throughout the next five years, with support to infrastructure construction and social development for the countries in the region as one of the CAF's main strategic lines of action.

Therefore, it is quite clear that the financing infrastructure architecture in the region is a complex matter that requires defining lines of action and advocacy strategies with specific short, medium and long term scopes at different levels (local, national, and regional). The existence of different sources of funding requires a comprehensive understanding of both the context and the financial framework in the region.

It is also necessary to develop constant and comprehensive monitoring strategies in order to influence macro-level dynamics in the field of infrastructure financing, through an understanding of regional and global processes, such as the G-20, the BRICS coalition, the creation of the Development Agenda Beyond 2015 and the COSIPLAN operations in the

UNASUR, to mention just a few examples. This understanding will allow the articulation of strategies at a regional level to influence trends in the countries of the region and in particular local processes.

This scenario, therefore, allows us to anticipate not only a continuation but also an exacerbation of the current tensions between infrastructure projects and: a) human rights; b) the collective rights of indigenous populations; c) environmental protection; and d) sustainable development and climate change commitments. This poses several challenges for civil society in Latin America regarding advocacy in at least three levels: a) in each of the financial institutions; b) at a regional level, particularly in each of the region's countries; and c) at a local level, following the cases of particular projects in the region.

Consequently, it is necessary, at least, to systematize information about the experiences and accumulated knowledge and to create effective mechanisms to coordinate and communicate all the networks, platforms and organizations involved in the region that address these issues at different levels, in order to develop synergies and comprehensive strategies with a greater capacity to make changes at the three levels, while generating concrete development alternatives.

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