



VI Meeting of the Executive Steering Committee

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Lima, Republic of Peru

Annex 4

Sectoral Process of Financial Instruments
Proposal of Work Plan 2005

INITIATIVE FOR THE INTEGRATION OF REGIONAL INFRASTRUCTURE IN SOUTH AMERICA



Premises-Diagnosis

- ▶ The investment requirements in infrastructure are very high and may not be executed only with the traditional mechanisms of financing.
- ▶ Investments and regular expenses are economic facts with different fiscal impact, but currently are treated as if they have an identical fiscal impact. The fall of public investments, specially in infrastructure, affects the growth of GNP in the medium term.
- ▶ It does not exist a unique financing source or mechanism able to satisfy the countries' needs. It is necessary to have several alternatives.
- ▶ Different countries and different projects in a country may demand different solutions.

Premises-Diagnosis

- ▶ The methodology of formulation and evaluation of infrastructure projects incorporates insufficiently systemic and integration considerations.
- ▶ Different and new financing mechanisms in infrastructure (guarantees, bonds, funds, etc.) have been developed and used in the region and at an international level, but its use depends on important preconditions in terms of:
 - Regulatory adjustments,
 - Improvements in the design,
 - Contracts and concessions negotiations,
 - Institutional adjustments that ensure independence between the promotion, control and supervision functions of the projects,
 - Legal adjustments that offer legal security to investors,
 - Appropriate cost recovery schemes



Areas of Action

- ▶ **Planning, formulation, preparation and evaluation of infrastructure projects** (impacts on the quality of the projects and impacts on fiscal balance)
- ▶ **Development of financing mechanisms and credit improvement instruments** (capacity of structuring concessions and / or PPP schemes with guarantees, bonds, resources of the local capital markets, trust funds and user charges –tolls, connected taxes, special purpose vehicles, development of local capital markets, etc)



Areas of Action

- ▶ **Modernization and strengthening of the normative, regulatory, legal and institutional framework** (to improve the legal security and dispute solution systems)
- ▶ **Incorporation of fiscal context to IIRSA planning** (infrastructure investments effect on future fiscal incomes; incorporation of fiscal effect on project evaluation; flexible fiscal treatment for continental infrastructure investment)

Work Strategies

- ▶ To promote the exchange of experiences, on concrete cases, between the countries that had presented more progress on specific issues and those that are less advanced, through workshops organized for that purpose and supported subsequently by the Network of Experts.
- ▶ To use real cases of infrastructure projects whose financing is in process of structuring or is being searched, in order to explore and apply specific solutions on the stated areas of action.
- ▶ To support the countries to define an agenda of concrete actions for the improvement of the identified areas of action and to widen the capacity of financing and execution of projects of the IIRSA project portfolio.



Implementation Process

1st Stage

- ▶ To organize workshops to: (a) analyze successful financing experiences of infrastructure projects; (b) analyze the results of the Pilots developed by the IMF (with WB and IDB) in the countries of the region; and (c) examine methodologies of formulation and evaluation of infrastructure projects that include systemic and integration considerations.
- ▶ To select some projects of the Implementation Agenda based on Consensus 2005-2010 (or other projects of the IIRSA Portfolio) in order to start its financing structuring and that could serve as practical cases to identify concrete actions on the stated areas of action. **Projects of high multinational impact should be given preference.**





Implementation Process

- ▶ To carry out **special missions** of the CCT institutions and experts on the stated areas to each country, to support the works defined in this Work Plan.
- ▶ To promote the **establishment of a Network of Experts** for the exchange of experiences through virtual networks and visits. This Network of Experts could serve as an observatory to the practical implementation of projects, through the establishment of monitoring systems in each area of intervention.



Implementation Process

2nd Stage

The CCT institutions:

- ▶ Will support the countries in the implementation of the measures identified in the concrete actions agenda of the stated areas.
- ▶ Will support the **structuring of the selected projects** and its financing, according to its operational policies.
- ▶ Will support the formation of a **Network of Experts**, including the observatory on practical cases, exchange visits and organization of a data base.

Conclusions

- ▶ The implementation of this Work Plan will allow, through the use of practical cases, to **identify with more precision** the needs of each country in order to make progress in the improvement of its systems of structuring and financing of infrastructure projects.
- ▶ The Plan, besides promoting the financing of IIRSA projects, could become a **vector of important changes** in the areas that affect investment on infrastructure and the effective implementation of integration projects.