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PPIAF'S WORK IN LATIN AMERICA AND THE CARIBBEAN

Latin America has the most unequal income distribution in the world as well as high rates of extreme poverty.

Since inception PPIAF and its Sub-National Technical Assistance (SNTA) program have provided \$23,198,479 in funding to 112 projects in the Latin America and Caribbean region, representing 12% of PPIAF's total portfolio. Colombia leads with the highest number of activities (15) and most funding received (\$2.7 million), but is closely followed by Brazil with 14 projects worth \$2.7 million and Peru with 11 activities worth \$2.8 million. Twenty-six region-wide activities worth \$4.8 million have also been approved since inception. Multi-sector activities represent 29% of PPIAF's portfolio in the region, followed by 24% in transport and 22% in water and sanitation.

In recent months, PPIAF has approved one SNTA activity in Colombia to support sub-national governments structure and take to market innovative "land value capture" financial instruments; one activity in Colombia to strengthen the capacities of the National Institute for Concessions (INCO); one SNTA activity in Peru to help the public water utility, SEDAPAL, access the capital markets for long-term borrowing without sovereign guarantees; and one SNTA activity in Honduras to prepare a Financial Management Diagnostic for the Central District.

Latin America and the Caribbean have consistently led the way in terms of private participation in infrastructure. At the beginning of the 1990s, all developing countries in the region suffered from large infrastructure deficits, dismal service standards, tight fiscal constraints, and deep problems with the traditional mode of public infrastructure service delivery. There were weak incentives for efficiency, and infrastructure delivery was often embedded within patronage-driven political systems. In most of these countries, declining public finances was important. The exception was Colombia, where the decline was slight and, on average, public investment levels remained roughly unchanged (albeit with major fluctuations) throughout the period.

In recent years, however, privatization has slowed dramatically in the region. Disparities in Latin America and the Caribbean are also reflected by the different maturity levels of private participation in infrastructure markets across the region. Numerous countries in the region are moving towards a second phase of programs for private participation in infrastructure—mostly through public-private partnership schemes—while other countries are just beginning the process. Private involvement effectively eliminated Chile's infrastructure deficit over 15 years, and roads, ports, and airports have underpinned a highly competitive economy. Chile was also innovative with the design of explicit subsidies to ensure access to services from poorer groups.

PPIAF is expected to spearhead private participation in infrastructure activities in the region by piloting cutting-edge interventions and consolidating know-how that will benefit initiatives worldwide. Latin America is a strong focus for PPIAF's SNTA program, receiving over 30% of its new commitments in FY2010. As municipalities and other sub-national entities in the region's middle-income countries become more financially viable, they are looking to capital markets for investment finance. This has led to a strong demand from governments for support to strengthen their creditworthiness and manage transactions.

SNTA support to the Brazilian water utility DESO has helped secure a BRL 22 million financing by substantially improving the company's ability to interact with financiers. SNTA provided technical assistance to help DESO prepare financial projections and a credit memorandum on the company. By delivering this forward-looking analysis to prospective lenders and discussing the impact of the key turnaround initiatives in future financials, the company has attracted more interest from commercial banks to refinance the company's BRL 40 million short- and medium-term debt. The funds raised will support investments to reduce water losses that were approaching 50% and make customers more accountable for their water use.

Brazil: Sub-National Technical Assistance to DESO Water Utility *SNTA Funding: \$75,000*



Background: Sergipe's state-owned water company ("DESO") had gone through several years of mismanagement when, in early 2007, the state government decided to hire professional managers to run the company. Although the results of the management change were beginning to show, the company still did not have access to commercial financing sources or to local development financing Institutions. In addition, DESO could not adequately demonstrate the impact of the financial and operational turnaround being implemented to potential financiers. Furthermore, it did not have sufficient capacity or experience to prepare a forward-looking view that investors and financiers normally request.

PPIAF's Contribution: SNTA provided technical assistance in 2010 to help DESO prepare financial projections and a credit memorandum. By delivering this forward-looking analysis to prospective lenders and discussing the impact of the key turnaround initiatives in future financials, the company has attracted more interest from commercial banks to refinance the company's BRL 40 million short- and medium-term debt.

Impacts: The funds used—BRL 22 million—will support investment to reduce water losses that were approaching 50% and make customers more accountable for their water use, which are critical in a water scarce state, where water for the metropolitan area is brought from 100 kilometers away. The water is pumped up 130 meters in the first 22 kilometers, with high energy costs and descends with gravity after that. In addition to saving part of these costs by reducing water losses, the volume saved will increase availability of water to the population which has recently faced rationing periods.

Peru: Sub-National Access to Commercial Financing

SNTA Funding (two activities): \$500,000 (on-going)



Background: As of 2004 Peru was among the more centralized countries in Latin America. Because of the limited authority of sub-national governments to raise tax revenues and the absence of a sub-national debt market, local governments in Peru relied heavily on government transfers (financed in large part by mining royalties) for both operating and capital expenditures. Regional governments, in particular, have no authority to levy taxes and hence rely almost fully on central government transfers for both operating expenditures and investments.

PPIAF's Contribution: SNTA is helping sub-national government entities in Peru raise market-based financing for much needed infrastructure investment. Since 2008, SNTA has assisted eight regional and municipal entities by facilitating credit ratings, implementing financial assessments and coaching, supporting transaction preparations, and helping the central government monitor and evaluate the financial health of local authorities.

Outcomes: As a result of SNTA support, the Municipality of Lima signed a \$70 million commercial bank loan with BBVA Banco Continental in April 2010—the largest market-based borrowing ever concluded by a sub-national government entity in Peru. The loan was partially backed by a \$32 million International Finance Corporation (IFC) guarantee. Similarly, in January 2011 the Regional Government of Arequipa signed the first-ever transaction by a sub-national entity outside of the capital. The transaction was for a \$10 million commercial bank loan with a partial guarantee by the IFC.

Impacts: By doubling the tenor of the BBVA loan, the Municipality of Lima's monthly debt service payments were much more affordable and left more city revenues available to cover critical operating expenses. Important milestones were also reached in improving Lima's financial management, such as the consolidation of the accounts of the Municipality of Lima and the 19 public companies and other entities it controls. With respect to the separate loan to the Government of Arequipa, the region will be able to finance its regional road rehabilitation program, which is expected to improve regional connectivity, facilitate access to markets, and promote economic growth.

PPIAF ACTIVITIES APPROVED IN RECENT MONTHS

- **Colombia (SNTA):** Financing Infrastructure for Urban Redevelopment, Sub-National Technical Assistance Program, approved on March 31, 2011, **\$375,000**
- **Colombia:** Support to Concession Agency (INCO), approved on February 16, 2011, **\$249,484**
- **Peru (SNTA):** Technical Assistance to Water Utilities in Peru, approved on February 9, 2011, **\$75,000**
- **Honduras (SNTA):** Central District Financial Management Diagnostic, approved on September 28, 2010, **\$145,950**

PPIAF has activities in: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, and Venezuela