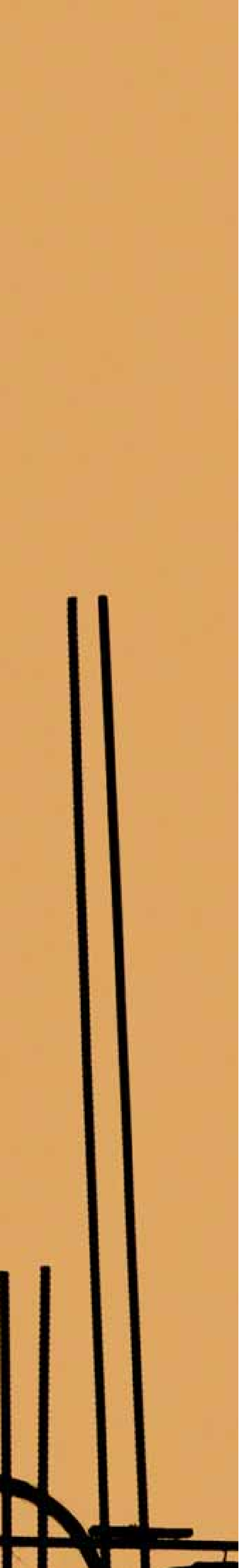
PHOTO: SHUTTERSTOCK



Foundations for development

Building infrastructure in Latin America and the Caribbean

BY AUDREY HAYLINS

In countries of Latin America and the Caribbean (LAC), dwindling investment in strategic infrastructure has created in recent years a yawning gap between that region and the more dynamic Asian economies. Today, as governments wake up to the urgency of becoming more competitive, the private sector is emerging as an important ally. Leading the way in this process is one of OFID's newest partners, the *Corporacion Interamericana para el Financiamiento de Infraestructura* (CIFI), a specialist financial institution with a unique focus on the small- and medium-sized infrastructure sector.

PHOTO: IVAN CHOLAKOV GOSTOCK-DOT-NET/SHUTTERSTOCK:

Adequate economic infrastructure is essential for productivity, growth and competitiveness. By definition, it is also one of the pillars of poverty reduction. According to a World Bank report*, however, spending on infrastructure in the LAC region dipped to less than 2 percent of Gross Domestic Product (GDP) in 2005, compared with the 3.7 percent allocated on average in the 1980s.

While the coverage and quality of infrastructure has undoubtedly improved, says the report, progress has been too modest, especially with regard to transportation and energy. Even the water supply and sanitation sector, which has fared better in relative terms, is hardly a success story, with 58 million Latin Americans still lacking access to potable water and a massive 137 million people without adequate sanitation.

Greater investment crucial

The dismal performance of the LAC region is largely the result of traumatic macro-economic crises over the past decade or so that forced drastic cuts in public spending. It is a performance that stands in stark contrast to the achievements of the so-called East Asian Tiger countries and China, which have all

* *Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges,* August 2005 - the most current and definitive study on the topic.

forged ahead in productive infrastructure to lead LAC by a factor of three to two. The result, according to the report, is an upper middle-income region whose infrastructure coverage has fallen below the middle-income average.

The report concludes that the LAC region must increase investment in infrastructure development to 4 – 6 percent of GDP annually over the next 20 years in order to match the level of coverage of countries like Korea and China and increase LAC's competitiveness in world markets. Significantly, the report stresses the equal importance of the private sector as well as governments in moving forward.

An enabling environment

While desirable, however, the involvement of the private sector is not something that can be taken for granted, warns Juan Jose Juste, Chairman and Chief Executive Officer of CIFI:

"Potential investors need to be convinced that LAC countries offer an environment they can rely on," he says. "One of the biggest challenges facing the region, therefore, is the development of more stable economies, together with stronger legal, regulatory and institutional frameworks."


PHOTO: CIFI

Juan Jose Juste, Chairman and CEO, CIFI

Up until just a few years ago, investors could not get enough of the LAC region. Between 1990 and 2003, it was the beneficiary of half of the US$786 billion in infrastructure projects with private participation in the developing countries. Despite some spectacular results, however, there was also a down side. On the one hand, the private flows were never enough to offset the massive collapse in public investment and, on the other hand, private interest was focused on just a handful of countries. In addition, there were issues of immature governance and controls, together with a growing public disenchantment with privatization. By 2003, the level of private participation had plunged to just US$16 billion from a peak of US$71 billion in 1998.

CIFI: clear-cut goals

For CIFI, which was established in 2001, the objectives have always been obvious: "As an institution with local expertise and an intimate knowledge of the regional macroeconomic, political and regulatory environment, we see our main task as providing a friendly hand to investors both from within the region and from elsewhere like Europe," says Juste. With a shareholder group that includes Caja Madrid, the fourth largest financial institution in Spain, together with a clutch of other top-tier commercial banks and investment funds from Europe and Latin America, as well as four important multilateral institutions, CIFI is ideally positioned to broker deals between the two regions.

CIFI has chosen to focus exclusively on the modest end of the infrastructure spectrum. This, according to CIFI General Manager, Roldan Trujillo, is no coincidence: "With most international banks lending only for large-scale projects, we identified a niche in the region for a specialist financial institution that could arrange funding for smaller and medium-scale infrastructure projects," he explains. "As well as direct lending, CIFI sees itself as playing the role of 'arranger' - evaluating the bankability of potential transactions and making them viable for foreign investors."


PHOTO: CIFI

Roldan Trujillo, General Manager, CIFI

Diversification, perfect track record

Since starting business eight years ago, CIFI has spread its operations to 17 different countries. It has also built up a widely diversified portfolio covering a large range of infrastructure sub-sectors, from energy and transportation to telecommunications, mining, real estate, water and sanitation, to name just a few.

According to Trujillo, this spread is primarily determined by market demand, rather than by CIFI prioritizing certain types of projects. "A lot depends on the needs of any given country at ▶

Case study Peru

Ferrovias Central Andina S.A.
Ferrocarril Central Andino S.A.

In 1999, Ferrovias was awarded the concession to rehabilitate, maintain and manage the Peruvian Central Railway, the second highest railway in the world. It connects the port of Callao, near the capital city of Lima, with Huancayo in the Central Highlands and Cerro de Pasco, an important mining center. The railway, which climbs to a height of over 4,781 meters, is predominantly a freight transporter but also offers limited passenger services. The main business of the Central Railway is the transport of mineral concentrates, metals and other mine products from the highlands to the port of Callao, as well as the transport of supplies and equipment to the mining companies. In 2004, CIFI was hired as financial advisor and arranger by Ferrovias to structure a US$14 million long-term debt financing to expand its rolling stock investment and refinance short-term and medium-term debt. CIFI successfully structured and syndicated the financing package with the participation of DEG (Deutsche Investitions- und Entwicklungs-gesellschaft). The project was one of the first public-private initiatives by the Peruvian Government and has proven to be a successful demonstration of the concession process in Peru.

Source: CIFI

◀ any given time," he says. "For somewhere like the Dominican Republic where tourism is important, for example, the focus might be on hotels or the construction of toll roads. In Guatemala and Honduras, on the other hand, we have seen a lot of demand for power supply schemes."

It is this diversified base that has led, at least in part, Trujillo believes, to CIFI's quite remarkable record of zero defaults, something rarely seen in the world of finance. "We have stringent guidelines in place to give us a good risk balance in our portfolio," he says. "This means we are never over-exposed, either in a particular country or a particular sector."

In addition, the company has put in place a meticulous and highly effective credit approval process, which Trujillo is convinced minimizes the possibility of failure. "We have the benefit of working in a small team," he says. "So the peer review process is very open and critical and brings together the minds of the whole team. Our internal mechanisms for launching the transactions, signing the transactions and then controlling the transactions are therefore completely thorough."

Clients and partners

CIFI's clients are characteristically corporations that have either won a government concession as part of an industry privatization process, or secured a government contract for a joint public/private undertaking. This, according to Trujillo, is typical for the region, where virtually all infrastructure transactions are built on some degree of public/private participation.

Deals come to CIFI in a number of ways: directly from investors that the company has a standing relationship with, through multilateral organizations, or through CIFI's marketing program. Whatever the source of the deal, however, CIFI likes to be involved right from the beginning. "Ideally, we like to see the transaction through from start to finish," says Juste. "This means taking a lead role in the structuring and the financing as well as in the distribution of the transaction to other banks."

In arranging deals, CIFI is highly conscious of the need to partner with, and tap into the expertise of, other organizations. Explains Juste: "Latin America is much more than just a continent. Each country has its own peculiarities, and just because we are there and know how to do the deals, does not mean that we are an institution that can do things on its own. Collaboration and partnership are the keys to our success."

Alongside Caja Madrid, which is the majority partner, multilateral financial institutions feature strongly in CIFI's shareholder group. Among them are the Central American Bank for Economic Integration (CABEI), the Inter-American Investment Corporation, the Caribbean

Development Bank, and the group's most recent member, the International Finance Corporation (IFC).

"We were delighted when IFC came on board last year as our number two shareholder," says Juste. "The Corporation has brought a lot of ideas and expertise to the table and, being a part of the World Bank Group, carries a lot of weight in terms of prestige. Our shareholders now include four of the five multilaterals most active in the LAC region. This is something we are very proud of."

Looking to the future, one of CIFI's main objectives is to expand the structuring and advisory side of its operations so that it is not purely a lender. Juste reveals that CIFI has set a number of strategic objectives to be reached by the end of 2012, the most important being greater diversification, both in terms of assets and liabilities. "We want to expand the type of products we offer customers and, at the same time, widen the nature and source of our own funding," he says. "Our ultimate goal is to have a balance sheet that matches our enormous strategic value and to achieve an official credit rating."

CIFI's collaboration with OFID has commenced with a US$15 million line of credit for on-lending to the private sector in a group of prioritized, lower-income LAC countries. Both Trujillo and Juste are hopeful that this initial investment is the beginning of a more strategic partnership. Says Trujillo: "We would like OFID to consider CIFI as more than simply a borrower. We see both organizations as being quite complementary in the LAC environment and believe that the possibilities for cooperation are very good." ■

Case study Belize

Belcogen

Belcogen (Belize Co-generation Energy Limited) is a greenfield project that involves the development, construction and operation of a 32.5 MW capacity, co-generation power plant located adjacent to the Belize Sugar Industries Limited (BSI) sugar factory in Tower Hill, Belize. The 27.5 MW biomass facility will burn sugar cane fibre (bagasse) as its primary fuel during the in-crop period (December – July), and will be supplemented with two diesel engines (5 MW) during the out-of-crop period (August – November). Belcogen will generate baseload electricity of 13.5 MW to supply the national grid (Belize Electricity Limited, the privately owned electrical utility in Belize) under a signed Power Purchase Agreement (PPA), and also to supply BSI with its electrical power (9MW) and steam requirements. Belcogen's total investment cost is US$46.5 million, of which US$30.25 million is being financed with debt. CIFI acted as financial advisor and lead arranger for the long-term financing of the project, raising the required US$30.25 million from FMO of the Netherlands, the Inter-American Investment Corporation, the Caribbean Development Bank and CIFI. *Source: CIFI*