DMF STAKEHOLDERS' FORUM 2014

DEBT MANAGEMENT IN DEVELOPING COUNTRIES:

NEW FRONTIERS AND ONGOING CHALLENGES

IDB

New Avenues for Financing Infrastructure
Managing Risks and Contingent Liabilities in LAC

Edgardo Demaestri

Inter-American Development Bank

April 3, 2014

Brussels

Presentation Overview

- Infrastructure Financing (IF): Mechanisms
- IF: Conceptual Issues
- IF and Contingent Liabilities (CLs)
- IF/CLs: Mitigation Mechanisms
- IF: LAC Experience
- New Frontiers and Ongoing Challenges

Infrastructure Financing: Mechanisms*

Financing Mechanisms

Budgetary Public Expenditure (self finance)

Off Budget Public Expenditure

- Turnkey Projects/Deferred Payment Projects: Infrastructure projects in which payments by the public sector are only made when the asset is delivered or in which payments are due in installments during and after the ending of construction of the asset (Panama, Mexico)

Public–Private Financing: Public private partnerships (PPPs)

Private Financing

** CAF, 2010*

Infrastructure Financing and Contingent Liabilities

Private participation in infrastructure financing generates CLs

Although PPPs can generate good incentives, they involve new governmental responsibilities

Government role

Guarantor

Risk sharing

Project risks should be allocated to the party best able to control and manage them (keeping always some risk on the private sector)

Design of guarantees should consider:

- A fee on the guarantee
- Term limits
- Termination clauses
- Requirement of collateral
- Sharing potential gains (not only loses).

Infrastructure Financing and Contingent Liabilities

No matter how good the regulatory framework, the institutional capacity, and the investment environment.

Financing infrastructure not directly included in the budget generates CLs

Most CLs arising from infrastructure financing are explicit.

They are easier to manage than implicit CLs

Although not through simple techniques, CLs derived from infrastructure financing are not difficult to quantify.

- Normally through simulation process
- IDB Toolkit
- Colombia, Chile, and Peru

Infrastructure Financing: Mitigation Mechanisms

Mitigation Mechanisms

- Congress authorization of non public financing (depending on the amounts involved)
- Valuation and monitoring
- Fiscal rules (including PPPs)
- Institutional structure to manage risks
- Reporting and accounting PPPs (reduce moral hazard)
- Contingency Funds

Infrastructure Financing: Mitigation Mechanisms

CLs derived from PPP contracts can be covered through

- Budget assignments (most countries, EU rules; Colombia 0.05% of GDP in 2015, increasing up to 0.4% of GDP in 2020/30 period)
- Contingency Funds (Colombia)
- Insurance
- Ex post financing (CLs)

IF/ Contingent Liabilities: Mitigation Mechanisms

Contingency Funds

- Secure that the risk is considered and diminished
- Limit the excessive accumulation of projects
- Involve SALM

Example

Colombia's Contingency Fund (FCEE)

- Manages resources transferred by state entities facing CLs
- Amounts and terms of contributions are established according with generated CLs
- Different concessions entail different contributions

IF/ Contingent Liabilities. Mitigation Mechanisms

Colombia – Road Projects, CLs and Contributions to the Contingency Fund

Road Infrastructure - Contingent Liabilities and Contributions to de FCEE			
Contributions Approval Date	**Covered Risk**	**Contingent Liability (Remaining)** Millions of Constant Dec. 2012 Pesos	**Cumulated Contributions** Millions of Current Pesos
15-Dec-09	Geologic/Property Aquisition	-	70,485
10-May-07	Income	31,214	24,516
13-Nov-09	Income/Tax	17,007	37,679
17-Nov-09	Tax/Geologic/Income	-	14,514
25-Nov-09	Tariffs/Property Aq./Environmental	44,536	54,302
22-Dec-09	Property/Environmental/Designs/Award/Geologic	124,872	45,711
13-Jul-11	Geologic/Property Aquisition	67,421	76,106
23-Mar-11	Property Aquisition	20,510	19,989
22-Feb-10	Property Aquisition/Expected Income	19,329	23,101
17-Feb-10	Property and no installation of booths	75,083	58,190
28-Dec-10	Minimum Income	137,611	13,234
15-Mar-10	Property Aq./Income	64,016	62,339
20-Dec-11	Property Aquisition	-	45,043
15-Mar-10	Property Aquisition	32,581	42,979
25-Jan-13	Puntos críticos	9,164	-
	TOTAL (Million $)	**643,344**	**588,188**
	TOTAL (% of GDP)	**0.10%**	

Source: Based on Colombian MTFF 2012 (Ministry of Finance and Public Credit, June 2013)

Infrascope Index

- Classification index that assesses countries' readiness and capacity to carry out infrastructure projects using PPPs
- Focuses on laws, regulations, institutions, financial facilities, and practices that affect the environment for PPPs
- Developed by the Economist Intelligence Unit (EIU) and supported by the Multilateral Investment Fund (MIF) – a member of the IDB Group

Infrascope Index – Main Objectives

- Thematic report: based on country-level analysis
- Best practices: complements available assessments and resources
- Classification index: provides an indication of the level of risk and opportunity in a country relative to PPPs
  - Helps to identify regional trends.

Infrastructure Financing: LAC Experience

Infrascope Scoring Criteria		
Categories	**Associated Indicators**	
1. Legal and regulatory framework for PPPs (weighted 25%)	1.1	Consistency and quality of PPP regulations
	1.2	Effective PPP selection and decision-making
	1.3	Fairness/openness of bids, contract changes
	1.4	Dispute-resolution mechanisms
2. Institutional framework (weighted 20%)	2.1	Quality of institutional design
	2.2	PPP contract, hold-up and expropriation risk
3. Operational maturity (weighted 15%)	3.1	Public capacity to plan and oversee PPPs
	3.2	Methods and criteria for awarding projects
	3.3	Regulators' risk-allocation record
	3.4	Experience in transport and water concessions
	3.5	Quality of transport and water concessions

Infrastructure Financing: LAC Experience

Infrascope Scoring Criteria (cont.)		
Categories	**Associated Indicators**	
4. Investment climate (weighted 15%)	4.1	Political distortion
	4.2	Business environment
	4.3	Political will
5. Financial facilities (weighted 15%)	5.1	Government payment risk
	5.2	Capital market: private infrastructure finance
	5.3	Marketable debt
	5.4	Government support for low-income users
6. Sub-national adjustment factor (weighted 10%)	6.1	Sub-national adjustment

Country rankings are determined by the weighted sum of the six category scores

Infrastructure Financing: LAC Experience

Countries can be grouped into 4 categories according to the environment for sustainable, long-term PPPs: Mature, Developed, Emerging, and Nascent.

- According to the "2012 LAC Infrascope" results:
  - No country in LAC* can be classified as "Mature" in terms of PPPs readiness and capacity
  - Nearly half of the countries in the sample are considered "Emerging"
  - Significant changes observed between 2010 - 2012.

** Sample of 19 countries*

Infrastructure Financing: LAC Experience

Overall Results Comparison 2010-2012

Rank		2010	2012	Score change
1	Chile	79.4	76.4	(-3.0)
2	Brazil	71.9	71.3	(-0.6)
3	Peru	68.1	69.6	(+1.5)
4	Mexico	58.1	63.8	(+5.7)
5	Colombia	55.3	59.5	(+4.2)
6	Uruguay	34.8	49.5	(+14.7)
7	Guatemala	40.9	43.2	(+2.3)
8	Costa Rica	32.6	38.8	(+6.2)
9	El Salvador	30.7	38.2	(+7.5)
10	Trinidad & Tobago	32.2	34.3	(+2.1)
11	Panama	36.4	34.0	(-2.4)
12	Honduras	24.2	33.7	(+9.5)
13	Jamaica	26.6	30.2	(+3.6)
14	Paraguay	24.7	28.9	(+4.2)
15	Dominican Republic	24.0	25.7	(+1.7)
16	Nicaragua	17.1	20.4	(+3.3)
17	Ecuador	12.4	19.9	(+7.5)
18	Argentina	30.3	17.5	(-12.8)
19	Venezuela	5.3	5.1	(-0.2)

→ "Developed"

"Emerging"

→ "Nascent"

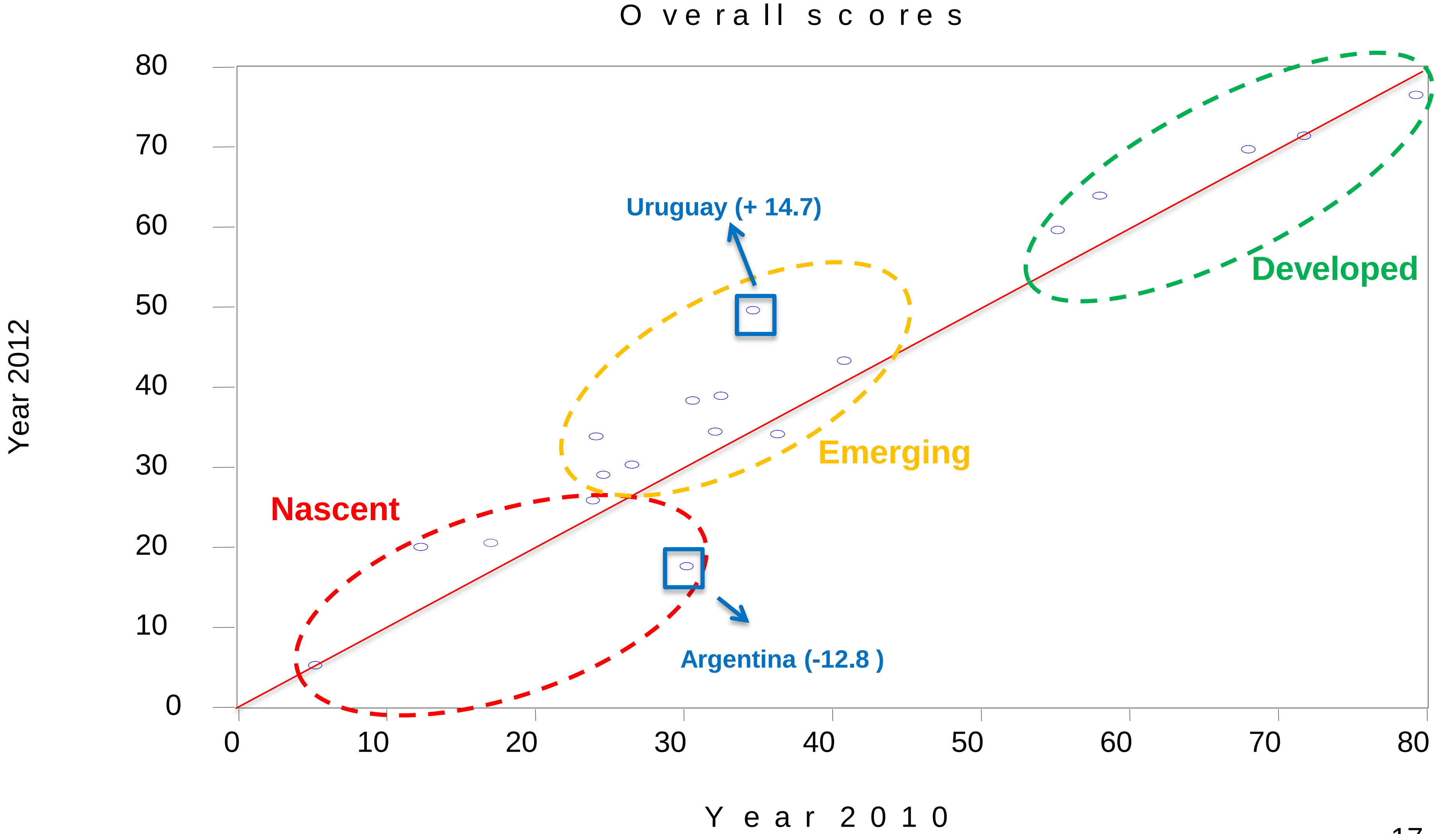
All scores 0 – 100, where 100 represents the ideal environment for PPPs.

Infrastructure Financing: LAC Experience

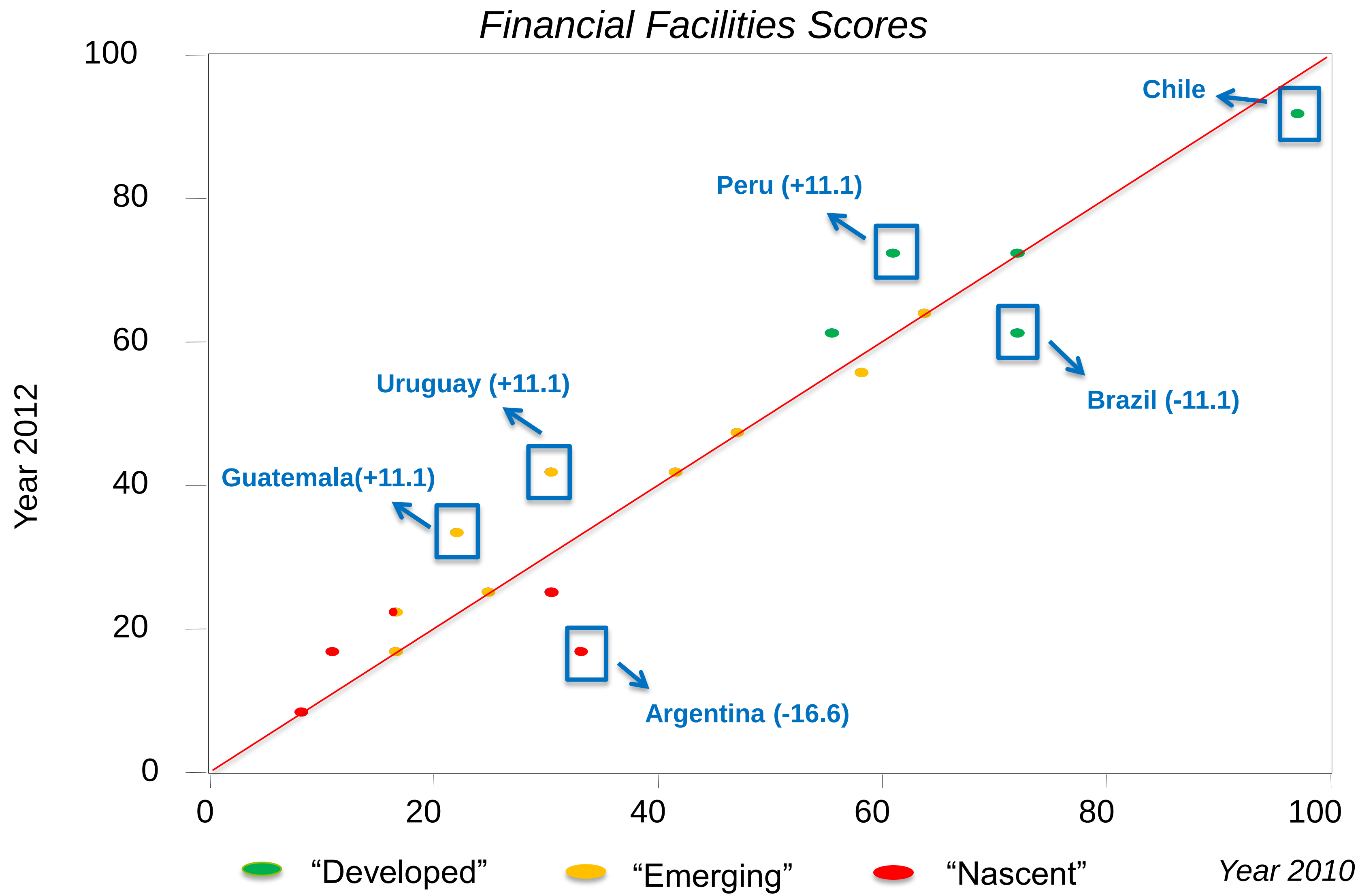
Financial Facilities Results. Comparison 2010 - 2012

Rank 2012	Rank change		Score 2012	Score change
1	–	Chile	91.7	(-5.5)
=2	–	Mexico	72.2	–
=2	(+3)	Peru	72.2	(+11.1)
4	–	Panama	63.9	–
=5	(-3)	Brazil	61.1	(-11.1)
=5	(+2)	Colombia	61.1	(+5.5)
7	(-1)	Trin. & Tobago	55.6	(-2.7)
8	–	El Salvador	47.2	–
=9	–	Costa Rica	41.7	–
=9	(+2)	Uruguay	41.7	(+11.1)
11	(+3)	Guatemala	33.3	(+11.1)
=12	(-1)	Dominican Rep.	25.0	(-5.6)
=12	(+1)	Paraguay	25.0	–
=14	(+1)	Ecuador	22.2	(+5.5)
=14	(+1)	Jamaica	22.2	(+5.5)
=16	(-6)	Argentina	16.7	(-16.6)
=16	(+2)	Honduras	16.7	(+5.6)
=16	(-1)	Venezuela	16.7	–
19	–	Nicaragua	8.3	–

Infrastructure Financing: LAC Experience



Infrastructure Financing: LAC Experience



Infrastructure Financing: LAC Experience

LAC is behind Asia in terms of favorable environment for PPPs (overall score: 40.0 vs. 45.6)

Some LAC countries rank very high in an international comparison: Chile is 3rd, after Australia and UK; Brazil 4th with Korea; Peru 6th, and Mexico 8th, after India and sharing the place with Japan.

Chile, Brazil, Peru, Mexico & Colombia show the best results in the region.

These results do not consider the risks/CLs faced by governments. But many of the countries with good performance also measure CLs generated by PPPs.

Infrastructure Financing: LAC Experience

A new wave on PPPs in LAC

- Many countries have recently introduced/modified their regulatory frameworks for the development/fostering of PPPs
  - El Salvador (2013)
  - Mexico, Colombia, Brazil & Paraguay (2012)
  - Uruguay (2011)
  - Guatemala & Honduras (2010)

New Frontiers and Ongoing Challenges

There is much more to do…

- New frameworks to promote PPPs
- Internationally accepted accounting treatment and disclosure of PPPs
- Better recognition and management of CLs derived from PPPs
- Sovereign Asset and Liability Management

Institutions for People

IDB

Inter-American Development Bank/ www.iadb.org