



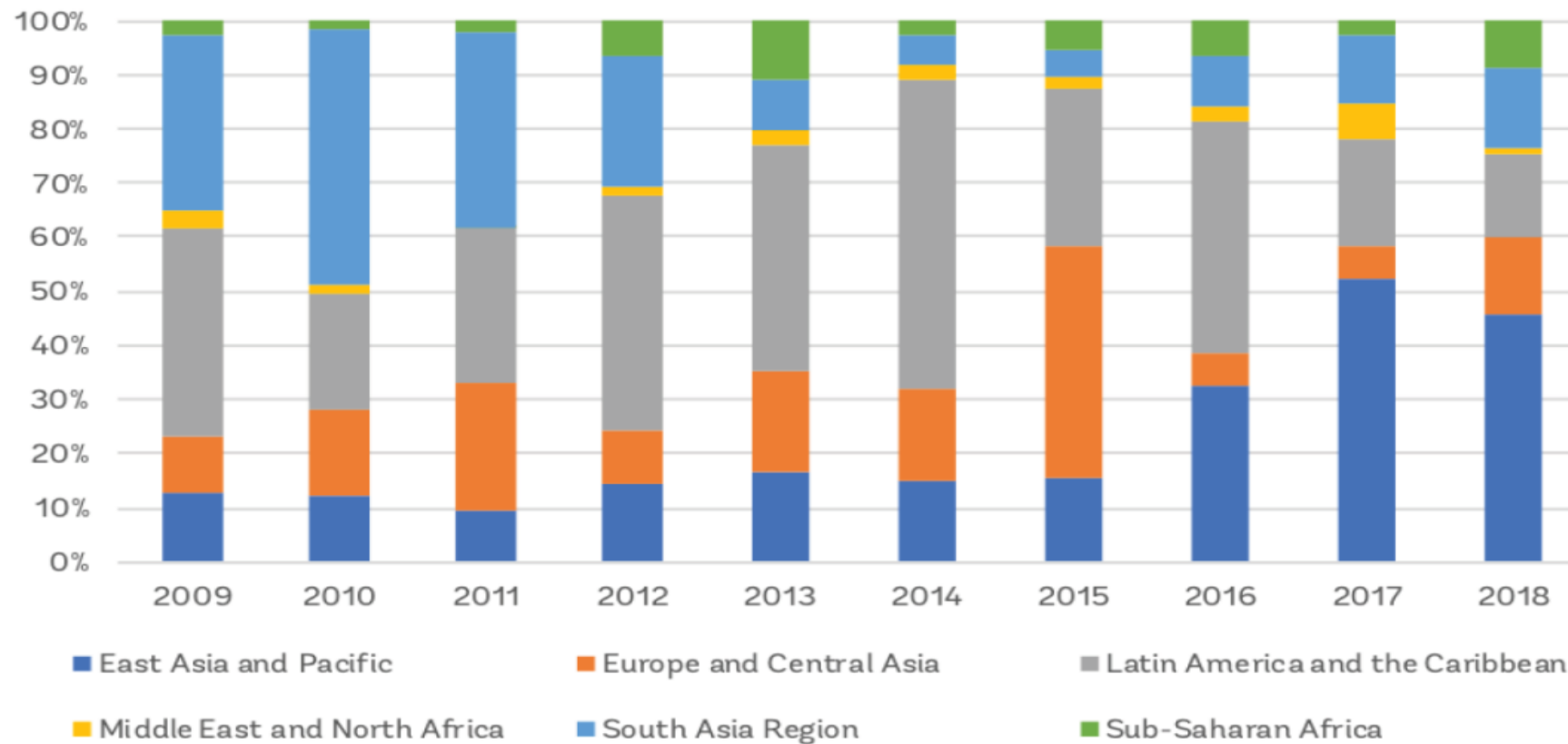
BUSINESS OPPORTUNITIES: PPP PROGRAMS IN LATAM REGION

**CAF – CDP Workshop
March, 2021**



Private Participation in Infrastructure Investment

Infraestructure Projects with Private Participation in EMDEs, 2009-2018



2019 Infrascope Ranking environment for private investment in infrastructure in Latin America and Caribbean

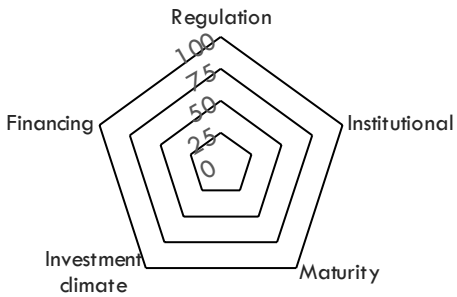
Infrascope 2019 overall score
(neutral weights)

Rank	Score /100
1 Chile	79
=2 Colombia	77
=2 Peru	77
4 Jamaica	76
5 Guatemala	74
6 El Salvador	73
=7 Brazil	72
=7 Costa Rica	72
=7 Uruguay	72
=10 Honduras	66
=10 Mexico	66
=12 Ecuador	63
=12 Nicaragua	63
14 Panama	60
15 Trinidad and Tobago	56
16 Dominican Republic	55
=17 Bahamas	53
=17 Paraguay	53
19 Argentina	52
20 Barbados	37
21 Venezuela	8
Average	62

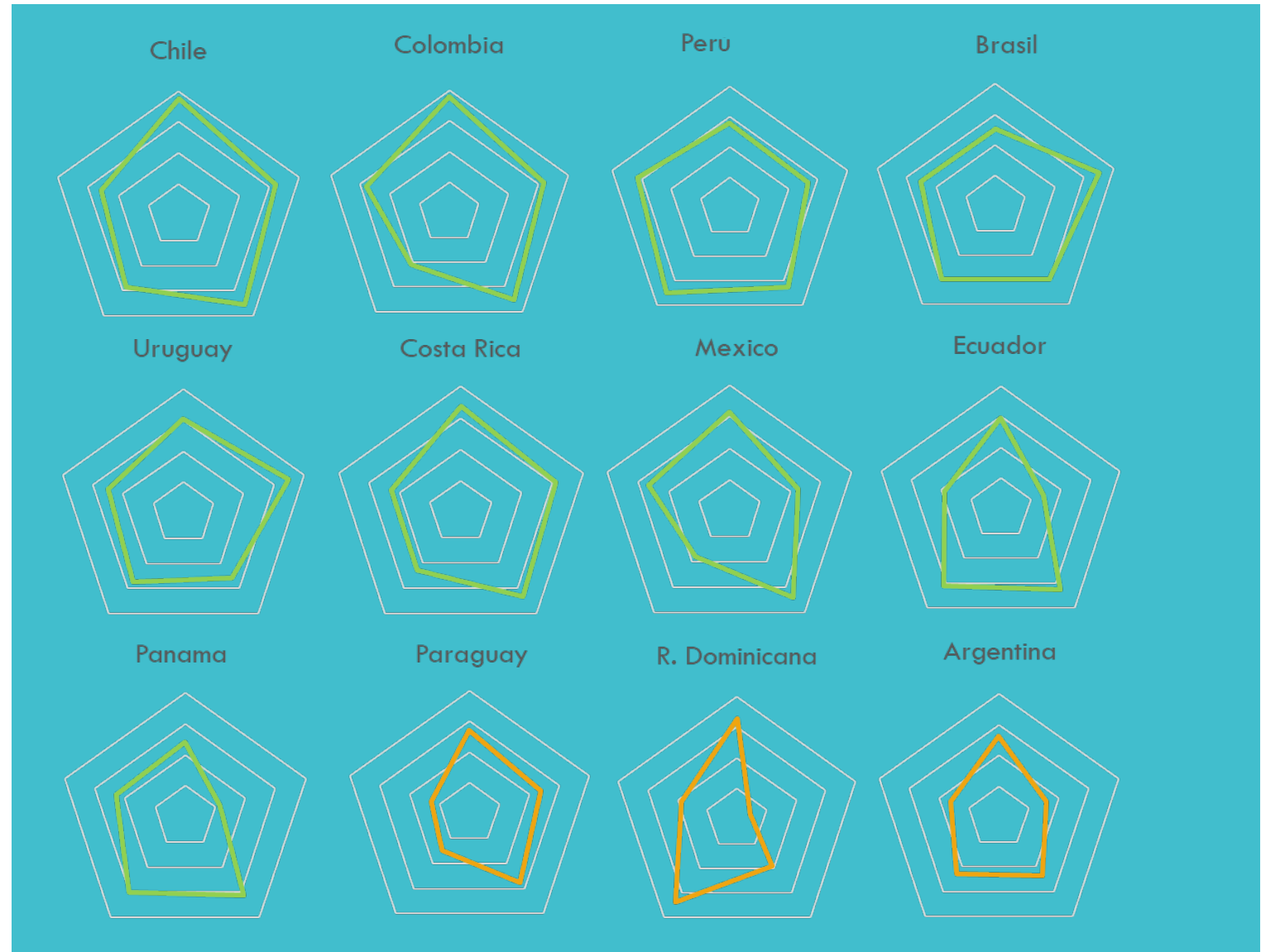
■ MATURE (80-100)
 ■ DEVELOPED (60-79)
 ■ EMERGING (30-59)
 ■ NASCENT (0-29)

Score 0-100 where 100=best. Rank out of 21 countries across LAC, 1= best, = before the rank indicates a tie.

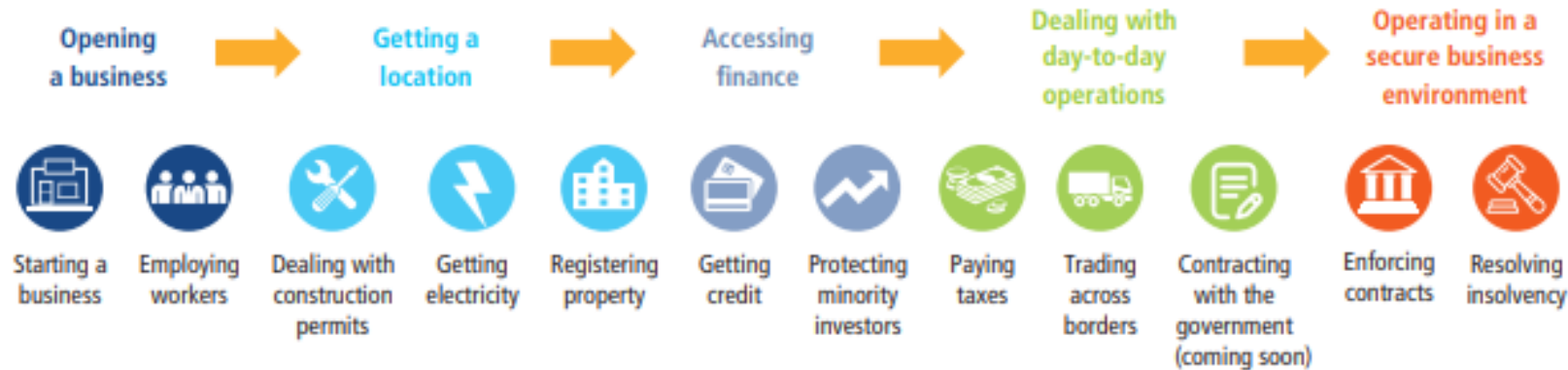
Infrascope 2019



Regulation	Good progress in recent years in improving the legal and regulatory framework of LA countries. New PPP laws in Panama and the Dominican Republic.
Institutional	Great challenge for LA in the design and capacities of the institutions that prepare, adjudicate and supervise.
Maturity	PPP project implementation experience.
Investment climate	Includes political effectiveness, business climate, political will, and competitive climate.
Financing	It includes the risk of government payment, the capital market for financing private infrastructure, institutional investors, the insurance market, and exchange risk.



Business Environment: Doing Business 2020



- Latin American countries traditionally spread from around the 60th to the 150th position in the ranking, with a few below that.
- Positive signs in the recent years:
 - Regional leader: Chile (ranked 59th globally)
 - Colombia (ranked 67th globally) has implemented a total of 37 reforms since 2005 and continues to lead reform initiatives in the region. It has also launched three major reforms during a 12-month period ending in May 2019
 - Caribbean economies: implemented a record number of 19 reforms. 11 of the 16 regional economies implemented reforms to facilitate the operation of companies

Chile

Ranking Infrascope (2019): 1, Ranking Doing Business (2020): 59

Institutional

- In 2017, Chile's Law updated the country's PPP framework
- PPP Unit: General Directorate of Concessions

Characteristics

- Priority sectors: Roads and hospitals
- Most developed capital market in LA
- Recent legislation created an Infrastructure Fund, independent from the government, with its own governance and source of resources, but still pending regulation
- Best country to do business in LA
 - Bilateral agreement with the EU
 - Increased political support for PPPs
 - Commitment to increase spending on infrastructure, particularly through concessions, by 10% per year from 2018 to 2022
- Highly concentrated construction market, only three companies represent almost 80% of the projects

Risks

- Demand risk
 - Normally transferred to the private partner;
 - Problems in airports due to the pandemic
- Political risks
 - Constitutional reform, municipal (Apr) and presidential (Nov) elections
 - Protests in 2019 with strong social demands
 - Upside: political system quickly reacted to understand the demands and channel them into the mainstream political process.
- Conflict resolution mechanism
 - Independent Concessions Council for contract modifications and renegotiations
 - The negotiation of supplementary contracts with concessionaires and the way in which they expand the concessions also present transparency problems

Colombia

Ranking Infrascope (2019): 2, Ranking Doing Business (2020): 67

Institutional

- In 2018, a law was approved to strengthen the general public procurement regime
- The target for PPP has been to provide greater certainty about the repayment of investments and loans in the event of contract cancellation

Characteristics

- Priority sectors: 5G, roads, railways, airports, waterways
- FDN, a bank exclusively dedicated to financing infrastructure projects
- It handles local and international banking, capital markets, debt and multilateral funds
- Free Trade Agreement between Colombia and the EU. Technology and innovation as key areas
- Corruption scandals have affected political support for large investments in infrastructure

Risks

- Demand risk
 - 4G revenue guarantees for less than expected demand
 - No mitigation mechanisms for regional airports and railways
- Currency risk
 - 4G: part of government payments USD denominates to reduce the FX risks
- Political risks
 - Post-conflict political tensions and COVID management
 - Presidential elections 2022
- Conflict resolution mechanism
 - Arbitrage processes enforced
 - Commitment to include civil society groups as observers in transport PPP renegotiations
- Environmental and social risks
 - Issues with indigenous communities in some areas

Peru

Ranking Infrascope (2019): 2, Ranking Doing Business (2020): 76

Institutional

- New PPP framework came into effect in 2015, seeking simplified processes and making them more efficient
- Legislative Decree in 2018, to improve the National System for the Promotion of Private Investment by granting ProInversión the power to hire and appoint project managers in all sectors
- Capacity building to enforce project schedules
- Creation of board of directors

Characteristics

- Priority sectors: Roads, ports, airports, water
- Local and international banking, capital markets and multilaterals. Private pension funds have invested almost 11% of their capital in infrastructure projects, including PPPs
- Trade agreement with the EU
- High-level political support for PPP
- Multiple trade and investment protection agreements
- Stable credit rating for its Global Bonds

Risks

- Political risks
 - Political instability. Presidential elections 2021
 - Highly affected by Lava-a-Jato shockwaves
- Conflict resolution mechanism
 - Lacks specific provisions on compensation in early termination, they describe the reasons but do not discuss compensation for investors
 - Opinions of the regulators and auditors for renegotiations are not binding
- Environmental and social risks
 - Lengthy environmental licencing process
- Expropriations
 - Some concessions have been affected by delays in expropriations, specially in the road sector

Brazil

Ranking Infrascope (2019): 7, Ranking Doing Business (2020): 124

Institutional

- Investment Partnership Program, which centralizes the structuring and execution of priority projects in the Ministry of Economy
- The quality of the PPPs has been improved

Characteristics

- Priority sectors:
 - Roads, ports, airports, power plants, Sao Paulo metro (oct 2020, USD 2300 MM line 6).
 - Recently Brazil approved a new legal framework for basic sanitation, which should favor PPP projects in water at the subnational level
- BNDES has a fund to help companies prepare PPP projects and still is the main of financing for PPP projects,
- Foreign investors have a 30-year track record of sponsoring and financing PPPs in the country.
- Well organized capital markets and an uprising liquidity for infrastructure bonds

Risks

- Currency risk
 - Challenges for international investors due to currency risks
 - Difficulty diversifying sources of financing outside of institutional investors
- Political risks
 - Congested political landscape
 - Presidential elections 2022
- Conflict resolution mechanism
 - It allows all administrative decisions made by the Government to be appealed through the judiciary
 - Multiple stakeholders involved in renegotiation processes, impacting specially the road and airport sectors
- Environmental and social risks
 - Transparency and well-organized consultation processes, but time consuming due to interference of multiple stakeholders

Uruguay

Ranking Infrascope (2019): 7, Ranking Doing Business (2020): 101

Institutional

- PPPs implementation began after the approval of the corresponding Law in 2011 and the regulatory decrees of 2012, 2015, 2017 and 2018

Characteristics

- One of the most stable and consolidated markets in LA and low unemployment rates.
- Private pension funds and insurance companies have participated in the financing of the PPPs. Multilateral
- Not a priority for the new government
- Trade Agreement between the EU and Mercosur still to be ratified

Risks

- Political risks
 - The challenge is identified in whether the right-wing coalition can articulate internally to maintain a power that it achieved by the minimum
- Conflict resolution mechanism
 - It does not allow appeals by investors in cases of early termination of the contract
- Environmental and social risks
 - Conflicts with the Central Railway PPP
- Political support for APP has been reduced in the recent years

Costa Rica

Ranking Infrascope (2019): 7, Ranking Doing Business (2020): 74

Institutional

- The ongoing PPP regulatory framework over-regulates the initiatives, specially in terms of procurement process, and lacks incentives to private participation.
- For specific sectors, social infrastructure, GoCR has edited decrees to provide better conditions.

Characteristics

- Priority sectors: Roads, railways, airports, ports, water
- International banking
- Association Agreement between Central America and the European Union (ADA) for the promotion of political and economic cooperation
- Long history of widespread resistance to concessions, especially in highway projects
- It is essential that the country approve the fiscal adjustment within an agreement with the Monetary Fund, in order to assure creditworthiness.

Risks

- Political risks
 - Great impact of the pandemic due to its strong dependence on tourism
 - The reform of the public employment system stands out.
- Conflict resolution mechanism
 - It does not allow appeals by investors in cases of early termination of the contract
- Environmental and social risks
 - They require that the private have insurance to cover the risks of natural disasters, and the coverage amounts must be specified in the PPP contract
 - Tolls remain sensitive issues and could provoke renewed opposition to PPPs

México

Ranking Infrascope (2019): 10, Ranking Doing Business (2020): 60

Institutional

- PPP legislation applicable at federal, regional and municipal levels
- States and municipalities have developed their own regulatory frameworks
- Lack of a centralized PPP agency

Characteristics

- Priority sectors: highways, railways, airports, power transmission
- BANOBRAS: national bank that supports the infrastructure financing
- Political support of PPP
- Free Trade Agreement (FTA) and Economic Partnership Agreement (EPA) signed with the European Union

Risks

- Political Risk
 - Better prospects under the new US Government
 - Recently government has suspended some initiatives, but informs that is still committed to expand PPPs to provide infrastructure.
- Exchange rate risks: relatively low volatility of the Mexican Peso and well-organized FX hedge market

Ecuador

Ranking Infrascope (2019): 12, Ranking Doing Business (2020): 129

Institutional

- The Productive Development law (2018) enables the local and small PPP projects without the approval of the PPP Interinstitutional Committee
- Institutional barriers: a national PPP agency is needed with resources and legal capacity

Characteristics

- Priority sectors : highways, ports
- Free Trade Agreement (FTA) with the European Union
- Doing business: the less attractive country in LA to start a business
- Local banking system is a bottleneck for channeling resources for infrastructure initiatives.

Risks

- Exchange Risk
 - Dollarized economy
- Political Risk
 - 2020 was a turbulent year.
 - Elections going on in 2021
- Conflict resolution mechanisms
 - Lacks a standard on the PPP contracts: 4 projects with different approaches to this issue

Panamá

Ranking Infrascope (2019): 14, Ranking Doing Business (2020): 86

Institutional

- New PPP law (2019). Law regulation is due this year
- Public procurement law that stipulates the mechanisms for private capital to finance big infrastructure projects is inefficient and non-transparent
- PPP Secretariat recently created: still building up the technical capacity

Characteristics

- Priority sectors : highways, metro cable
- Political support of PPP
- Association Agreement between the European Union and Central America (AACUE): political and economic cooperation
- Financing: international banking system and multilateral development banks
- Public procurement framework poses some barriers to competition.

Risks

- Exchange Risk
 - Dollarized economy
- Political Risk
 - Big swings are unlikely, even on a change of government.
 - Biggest challenges: boost the economy and reduce the high unemployment rates

República Dominicana

Ranking Infrascope (2019): 16, Ranking Doing Business (2020): 60

Institutional

- New PPP law (2020). Pending further regulation
- National Development Strategy 2030 aims to strengthen the tourism and agriculture sectors and prioritize the public infrastructure in terms of social benefit
- PPP Office recently created: lack of technical capacity

Characteristics

- Priority sectors : highways, airports, housing
- Political support of PPP
- PPP recent law introduces new financing mechanisms in 2011 (mortgage and trust funds) and the update of the stock market law
- Financing: international banks
- Pension funds: compulsory social security system and fully financed. Little infrastructure investment due to the legal restrictions

Risks

- Political Risk
 - Serious economic crisis: the economy relies on the tourist sector. High unemployment rates. High external debt
- Conflict resolution mechanisms
 - Two PPP expropriated projects in 10 years: because of fraud (2012) and environmental damage (2017)

Paraguay

Ranking Infrascope (2019): 17, Ranking Doing Business (2020): 125

Institutional

- Incipient efforts to foster PPP projects
- Early stages of PPP: just one contract awarded in 2016 (highway) and a second awarded and cancelled contract to expand and modernize the Silvio Pettirossi international airport (Asunción)
- Enhanced technical capacity needed

Characteristics

- Priority sectors : no PPP Project Pipeline
- Little experience to identify mistakes and learned lessons
- Undeveloped stock market and local banks
- Lack of guidance about private sector participation in financing infrastructure projects.
- Agreement between the EU and Mercosur still to be ratified

Risks

- Political Risk
 - Political support of infrastructure investment. Lack of infrastructure plan: national priorities are not clear for investors
- Conflict resolution mechanisms
 - Appellate procedure is not allowed in case of anticipated termination of contract

Argentina

Ranking Infrascope (2019): 19, Ranking Doing Business (2020): 59

Institutional

- The previous Government approved a PPP law (2016)
- New Government has other priorities in the economic front to handle the present challenges.
- A specific PPP unit was created, but has limited experience

Characteristics

- Priority sectors: renewable energy and transport
- Agreement between the EU and Mercosur still to be ratified
- Complex tax system
- Limited Access to the bond markets. Few private capitals are interested in investing locally

Risks

- Political Risk
 - Two main challenges: to renegotiate the external debt and to boost the economy.
 - Parliamentary elections in October 2021
 - Many cases of unilateral tariff review.
- Highly restricted official FX market
- Social and environmental risks
 - The results of community consultations must be published on-line

**Detrás de todo
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