LATIN AMERICA AND CARIBBEAN-OECD INVESTMENT INITIATIVE

Investing in infrastructure for jobs and development

Crowne Plaza Hotel
Bogotá, Colombia, 6-8 July 2011

CONFERENCE PROCEEDINGS

OECD

Libertad y Orden
Ministerio de Comercio, Industria y Turismo
República de Colombia

MINISTERIO DE TRANSPORTE

DNP
DEPARTAMENTO NACIONAL DE PLANEACIÓN

IDB

Overview

The second meeting of the Latin America and Caribbean-OECD Investment Initiative took place in Bogota, Colombia, on 6-8 July 2011. The theme of this meeting was "Investing in Infrastructure for Jobs and Development". The meeting was hosted by the Ministry of Trade, the Ministry of Transport, and the National Planning Department of the Government of Colombia.[1]

The conference brought together 250 participants from government, the private sector, international organisations, civil society and the media. Representation from both the LAC and OECD countries was strong, with the presence of participants from eleven Latin American countries (Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras, Mexico, Paraguay, Peru, Uruguay and Venezuela) and thirteen non-LAC countries (Australia, Belgium, Canada, Denmark, Iceland, India, Italy, Japan, Poland, Russia, Sweden, UK and US). The meeting included participants from thirteen OECD countries.

Colombia was represented at the Ministerial level by H.E. Sergio Díaz-Granados, Minister of Trade, Industry and Tourism; H.E. Germán Cardona, Minister of Transport; H.E. Hernando José Gómez, Director of National Planning Department; Ms. María Constanza García Botero, Deputy Minister of Transport; Mr. Gabriel Duque, Deputy Minister of Foreign Trade; and Ms. Catalina Crane, Presidential Senior Advisor.

Costa Rica, the incoming Chair of the LAC-OECD Investment Initiative following Chile and Colombia, was represented by its Vice President, H.E. Luis Liberman, who announced that the next meeting of the Initiative would take place in Costa Rica in February 2012.

Other high-level representatives also included the Infrastructure Director of the Brazilian Development Bank (BNDES) Mr. Roberto Zurli Machado; the former Minister of Public Works of Chile, Mr. Eduardo Bitrán and numerous senior infrastructure experts from both the public and private sectors.

The event was extensively covered by the press, with over 15 media outlets -- including both television and written press -- in attendance.

The OECD delegation was led by Mario Pezzini, Director of the OECD Development Centre, who opened the meeting alongside Vice President Liberman and Ministers Díaz-Granados and Cardona.

Background

The Latin America and Caribbean-OECD Investment Initiative aims to increase the contribution of private investment to economic and social development in Latin America and the Caribbean. It does so through peer dialogue, both between governments and between governments and investors. The Initiative helps governments create better policies at three levels: through general improvements to the investment climate (e.g. less red tape); through more focused approaches that reflect the particular needs of specific sectors (e.g. investment in agriculture); and through initiatives that enhance the development contribution of private investment (e.g. creating fairer public-private partnerships for essential infrastructure).

Sponsorship

The second meeting of the LAC-OECD Investment Initiative benefited from the generous financial support provided by the Inter-American Development Bank.

[1] The first meeting of the LAC-OECD Investment Initiative took place in Santiago, Chile, on 27-28 September 2010. The theme of this inaugural meeting was “Investment for Jobs and Development in Latin America and the Caribbean”.

Pre-conference technical workshop

6 July 2011

15:00 – 18:00

Technical workshop: Case study on the Ruta del Sol project

Moderator

Michael Gestrin, Senior Economist, OECD Directorate for Financial and Enterprise Affairs

Panelists

María Constanza García Botero, Vice Minister of Transport, Colombia

Silvia Urbina Restrepo, Deputy Director, Contracts, Ministry of Transport, Colombia

Summary

The Vice Minister opened this technical workshop, which was attended by around 30 conference participants, by underscoring the importance of investment in infrastructure in Colombia's overall development strategy and highlighting the many challenges that the government is addressing in this regard. One of the key challenges for the Government has been to balance the sharing of risks and returns between the government and its private sector partners, while at the same time dealing with the technical complexities of projects such as the Ruta del Sol.

The Deputy Director for Contracts for the Ministry of Transport then gave a detailed presentation of the Ruta del Sol road project. This project, involving the construction of a north-south road passage connecting Bogota in the south with the northern port region and Cartagena, was originally conceived as one project but ultimately came to be broken down into three. One of the key lessons learned from the Ruta del Sol project was that large PPPs are about much more than engineering challenges or alternative sources of financing. Success requires that governments invest heavily in high quality pre-construction studies and surveys, that they structure contracts carefully to achieve an appropriate distribution of risks and expected rewards, that the social impact of the project be factored into the analysis, and that the mix of private-public investment and involvement be adapted to specific circumstances.

Key policy messages

- Overly optimistic or otherwise poorly conducted pre-construction studies are likely to result in costly adjustments during the construction phase. The extra time and resources that go into high-quality pre-construction studies and surveys will usually more than pay for themselves during the implementation of the project.
- PPPs cannot be viewed simply as a means for governments to tap the technological capabilities and financial resources of the private sector in order to overcome gaps in government capacity. While this can be a benefit of PPPs, they do require considerable capacity on the part of governments in order to ensure that the broader social and economic benefits are not wholly appropriated by the private sector partner.

Potential follow-up actions

1. Ruta del Sol case study to be made available on LAC-OECD Investment Initiative web site (www.oecd.org/daf/lac)
2. The LAC-OECD website could be used by participating governments as a place to publish their timetables for PPPs in the pipeline for added transparency and competition.

Day 1 – 7 July 2011

09:00 – 10:30

OPENING HIGH-LEVEL PLENARY

Opening remarks

H.E. Sergio Díaz-Granados, Minister of Trade, Industry and Tourism, Colombia

Keynote speaker

H.E. Germán Cardona, Minister of Transport and Infrastructure, Colombia

High-level panel

H.E. Luis Liberman, Vice President, Costa Rica

Roberto Zurli Machado, Infrastructure Director and Board Member, BNDES, Brazil

Moderator

Mario Pezzini, Director, OECD Development Centre

Summary

Infrastructure is fundamental not only to a well-functioning economy but also to the quality of people’s lives. Infrastructure is an area where governments and business often find themselves working side by side. Given the role of infrastructure in supporting jobs and development, it is crucial that governments and businesses work efficiently together. The opening high-level plenary set the stage by introducing the current state of play in Latin America and the Caribbean and highlighting the present and future challenges for meeting the region’s infrastructure needs and the role of the State to improve the institutional and incentives design of infrastructure policies.

The high-level plenary was opened by the Colombian Minister of Trade, Industry and Tourism and the Minister of Transport and Infrastructure. Both underscored the pivotal role ascribed by the current administration under President Santos to building up Colombia’s infrastructure. They explained that a key challenge in the past had been the need to direct considerable resources to security, but improvements in this regard have enabled the Government to shift its focus to infrastructure. This transition has been considerably facilitated by Colombia’s robust earnings from natural resources, including oil. However, a recurrent obstacle to successful project implementation has concerned negative externalities that were not anticipated during the planning phases. Both Ministers also underscored the importance that Colombia attributes to joining the OECD.

Costa Rica’s Vice-President Liberman echoed the importance ascribed to infrastructure by Ministers Díaz-Granados and Cardona. In the case of Costa Rica, a major push to build up infrastructure was initiated in the 1980s, but financing was always an issue holding back its development. A key point underscored by the Vice President was that currently financing is no longer the main impediment. Indeed, financing for infrastructure projects is now plentiful. Rather, the main constraint today concerns how to formulate projects to ensure maximum benefit. Another important point raised by the Vice President -- which could hold relevance for many other economies -- was the need for infrastructure that supports openness and trade and reduces transaction costs. The Vice President highlighted the need for governments to improve transparency and communication with the public to avoid negative perceptions when funding projects with private sector involvement.

Roberto Zurli Machado talked about the importance and challenge for governments of taking into account the social benefits of particular projects when considering the expected costs and benefits and the optimal involvement of the government. A key point was made that, consistent with the experience of BNDES, the objective should not be to maximize private investment in infrastructure but rather to maximize the contribution of private investment to the public interest.

	Key policy messages • More investment in infrastructure will be needed just to maintain the current rates of growth and development across Latin America and the Caribbean. • Until just a few years ago, the main challenge for promoting investment in infrastructure and involving the private sector was related to financing. With financing becoming more abundant, governments should now be able to focus more on developing broader policies and strategies aimed at ensuring that PPPs in infrastructure generate social benefits. • Effective communication by governments plays an important role in supporting successful PPPs in infrastructure, especially with respect to the social benefits that private sector partners can generate through their involvement. **Potential follow-up actions by LAC-OECD Investment Initiative** 3. OECD Secretariat could contribute its experience and best practice in OECD and non-member countries on ensuring that PPPs support social objectives and make this information available to LAC-OECD Initiative members through a web platform. 4. OECD could launch an interactive web platform/blog to facilitate communication between the LAC public and private sectors around PPP projects. 5. A bi-annual ministerial event for the Initiative could create and maintain political momentum
11:00 – 12:30	**SESSION 1: Co-ordinating public policy for infrastructure in Latin America** **Moderator** Natalia Salazar, Deputy Director, FEDESARROLLO **Panelists** Hernando José Gómez, Director, National Planning Department, DNP, Colombia Mario Pezzini, Director, OECD Development Centre **Summary** A crucial dimension in the various phases of infrastructure delivery is the co-ordination of infrastructure policies among various actors and levels of government. How should this co-ordination be analysed? Particular attention should be paid to two aspects: (i) the institutional set-up, ranging from the planning stage to the monitoring and oversight of implementation and service provision, identifying key actors in each stage; and (ii) the incentives facing each player in the system, including the presence of proper checks and balances and control of conflicts of interest (accountability). This session highlighted the role of the State in improving the institutional and incentives design of infrastructure policies. **Key Policy Messages** • Successful PPPs and infrastructure projects in general require coordination not just across different ministries (e.g. transport, finance, trade, etc.) but also across the different levels of government (e.g. federal versus provincial or state), reflecting the important local dimension of infrastructure projects. • In the planning stages of projects, careful consideration needs to be given to the various actors involved and the incentives for them to participate. Governments should carefully evaluate whether they are ‘giving away the shop’ by providing private sector partners with incentives that are too generous.

	• While the specifics of laws and regulations governing PPPs are important, the most important thing is that the 'rules of the game' be clear and transparent. • A theme that emerged during this session, which was repeated throughout the conference, was the need for governments to place more emphasis on the service levels that would be expected from private sector partners involved in PPPs (as opposed to the completion of physical infrastructure) as these service levels ultimately represent a major share of the social benefits that will be generated by a given project. **Potential follow-up actions** 6. OECD Secretariat could contribute experience and best practice in OECD and non-member countries on successful PPP project structuring and support governments in building capacity in this respect. 7. Successful LAC and OECD case studies could be made available on-line.
14:00 – 15:30	**SESSION 2:** **Public-private partnerships: To engage or not to engage?** **Moderator** Victor Traverso, Director for Colombia, Corporación Andina de Fomento (CAF) **Panelists** Jean Philippe Pening Gaviria, Director, Infrastructure and Sustainable Energy Directorate, National Planning Department, Colombia Eduardo Bitrán, Universidad Adolfo Ibañez (former Minister of Public Works, Chile) Ian Hawkesworth, Policy Analyst, OECD Public Governance and Territorial Development Directorate **Summary** When governments first began experimenting with public-private partnerships for boosting investment in infrastructure and the provision of associated services, public-private partnerships (PPPs) were widely viewed as a means of tapping into private capital for infrastructure investment. The difficulties that governments have encountered in establishing successful PPPs in infrastructure suggest that this view of PPPs as primarily a source of financing was overly simplistic. Discussions in earlier panel sessions highlighted the point that successful PPPs do not necessarily imply the need for less government capacity. Indeed, they often require governments to have more capacity. A question raised by prior experience with PPPs is whether too much has been expected of innovations in public policy for infrastructure. The panel explored the factors that determine the reasonable limits of what can be achieved through PPPs for infrastructure and where governments need to "draw the line", particularly once social and development dimensions of infrastructure are factored into the policy-making process. A focus of this session was the evolution of approaches towards PPPs from vehicles to overcoming public financing gaps to more sophisticated approaches, recognising that PPPs are also characterized by important externalities, both positive and negative. **Key Policy Messages** • A main objective of governments when they engage in PPPs should be to increase efficiency. In Latin America, PPPs arose originally as a defensive response to the financial crises beginning in the late 1990s and as a means to overcome severe budget constraints. Governments need to overcome this defensive approach which has led them to not be sufficiently demanding with respect to the quality of services delivered.

	• Governments should avoid PPPs in sectors where technology moves quickly. The reason for this is that changing conditions can quickly render the original terms of contracts obsolete and inappropriate. For example, the UK government has banned PPPs in IT. The best sectors for PPPs are those where maintenance costs are high. • Some sectors are particularly specialised and populated by a limited number of potential private partners with the requisite competencies, e.g. running jails. In these cases, unbundling projects can be a useful option in order to ensure that different private sector partners are able to bring their particular strengths to specific dimensions of a given project. For example, construction of physical infrastructure could be done by locals while the actual management of complex operations could be done by more experienced foreign operators. **Potential follow-up actions** 8. OECD Secretariat could contribute experience and best practice in OECD and non-member countries on sector selection for successful PPPs. 9. Successful LAC and OECD case studies could be made available on-line.
16:00 – 17:30	**SESSION 3: Maximizing the social benefits of public and private investment in infrastructure** **Moderator** Anthony O'Sullivan, Head, OECD Private Sector Development Division **Panelists** Beethoven Herrera Valencia, Economic Advisor, International Trade Union Confederation Julio Ratia, Director for Latin America Latina and Caribbean, Aguas de Barcelona Michael Gestrin, Senior Economist, OECD Directorate for Financial and Enterprise Affairs **Summary** Public-private partnerships can support different social and development objectives. The environment is one area where this has been particularly the case. For example, PPPs have been used to provide communities with clean water and sanitation, and to generate renewable sources of energy. The objective of this session was to identify the types of externalities (both positive and negative) that the government should take into account in evaluating the ultimate development impact of any PPP project being considered. **Key Policy Messages** • The social dimension can no longer be considered as an 'add on' in the conceptualisation and implementation of PPPs. Indeed, not factoring in the social dimension during the planning stages can result in real costs and other negative consequences once projects are underway. • There is no single model to follow to maximise the social benefits of private investment in infrastructure, in large part due to the large differences in social impacts observed across different sectors, e.g. water versus transport. • There are specific steps that governments can follow to ensure that social benefits are maximised, including the clear communication of social objectives, establishing mechanisms for measuring social performance, and boosting the capacity of government to include the social dimension in PPP contracts. • Many instruments exist to help governments in this sphere, including the OECD Guidelines for Multinational Enterprises and the OECD Principles for Private Sector Participation in Infrastructure. Governments should take advantage of these resources, rather than trying to reinvent the wheel.

	Potential follow-up actions 10. OECD Secretariat could contribute its experience and best practice in OECD and non-member countries on ensuring that PPPs support social objectives and make this information available to LAC-OECD Initiative members through a web platform. 11. OECD Instruments could be made available on the web platform as well as respond to frequently asked questions; and LAC countries could contribute successful case studies.
DAY 2 – 8 July 2011	
9:00 – 10:30	**SESSION 4:** **Successful public-private partnerships: the role of public policy and the institutional framework** **Moderator** Juan Martín Caicedo, President, Colombian Chamber of Infrastructure **Panelists** María Constanza García Botero, Vice-Minister of Infrastructure, Colombia Erasmo de Alfonso, Director General, Aquafed James K. Alford, Partner, Curtis, Mallet-Prevost, Colt & Mosle LLP Carlos Gonzalez, Director of Infrastructure, CEMEX Colombia **Summary** Empirical evidence shows that an inadequate regulatory and institutional framework for PPPs can be costly - in terms of higher fiscal deficits, low levels of efficiency in the infrastructure process, and the failure to meet targets. In general, an inadequate policy framework for PPPs affects long term welfare and impedes effective private sector participation. A key example concerns the conditions under which PPP contracts are renegotiated once projects are underway. This session sought to identify critical public-policy issues of relevance to the private and public sectors alike in the pursuit of more effective PPPs. **Key Policy Messages** • Governments should include provisions in contracts that provide for the possibility of orderly renegotiation. Renegotiation per se has not been a problem in the past, but rather the uncertainty caused by the need for renegotiation when conditions change – in the absence of any rules or provisions to guide such negotiations. The reality is that economic conditions can change dramatically during the length of a contract, rendering the original terms untenable. • A key principle in designing contracts is to determine which party is best equipped to absorb risk. For example, major political, social, and force majeure issues are best held by government. On the other hand, issues relating to design, construction, and the running of projects are more appropriate for the private sector. • Different legal vehicles exist for PPPs and some are more appropriate than others, depending on the circumstances. For example, concessions transfer virtually all risk to the private sector. For projects with associated property and environmental considerations (e.g. roads), governments tend to over-use concessions. Using vehicles that shift too much risk or inappropriate forms of risk to the private sector can have a chilling effect where the private sector perceives that it will have to deal with too many ambiguous issues that will be difficult to

	control. Public works are at the other end of the spectrum where again, this approach might have been extended too far by leaving certain risks with government that the private sector might be better equipped to handle. If the contractual vehicle used to govern the PPP is not well-suited to the risks involved, the end result will often be higher costs, delays, poor service delivery, and ultimately the need for dispute settlement. • No matter which model is used, ambiguity is the least desirable factor. • Renegotiation should not be a general policy. However, there is a need to build flexibility into contracts, recognizing that circumstances can change over time. **Potential follow-up actions** 12. OECD could organise capacity-building workshops to develop policy maker skills in effective contract design. 13. A set of PPP guidelines specific to the LAC context could be developed.
11:00 – 12:30	**SESSION 5:** **Capital markets, banks and private equity funds in financing investments in infrastructure** **Moderator** Francisco Lozano, Partner, Colombia Infrastructure Fund Ashmore **Panelists** Luis Carlos Villegas, President, ANDI Colombia Felipe Almeida, Financial Director, Construtora Norberto Odebrecht SA – Colombian Branch Sebastian Barrientos, Director of Investment Bank, Grupo BanColombia Professor Carlos de Faro Passos, Fundação Getúlio Vargas/ PLANEF Consultores **Summary** Financing of infrastructure investment, including that involving PPPs, is a key issue. The objective of this session was to examine the role of capital markets in infrastructure and PPP financing, their principal advantages and disadvantages compared to traditional bank financing, and to analyse financing structures for successful PPP projects. **Key Policy Messages** • Liquidity is currently not a major constraint but financing will only become available if projects are well structured and if the government is communicating a clear strategy and plan. • There is a need to create social consensus over PPPs in infrastructure. Beyond various technical constraints, progress on PPPs has been slow, in part due to the lack of a broader acceptance of their merits for society as a whole. • Effective financing of PPPs requires strong regulatory frameworks, the presence in the market of companies with strong financial capabilities, and a liquid capital market. • Governments should avoid confusing the financing issue with the question about how useful or beneficial a given project would be. For example, in some instances it could be easy to finance a project which will not bring significant social benefits, and vice versa in other cases.

	Potential follow-up actions 14. OECD could organise capacity-building workshops to develop policy maker skills in effective PPP project design and financing 15. A set of LAC-specific guidelines could be developed.
14:00 – 15:30	**CLOSING SESSION:** **Boosting infrastructure in Latin America and the Caribbean: Today's opportunities, tomorrow's challenges** **Chair** Luis Andrade, Director, INCO, Colombia **Panelists** Natalia Salazar, Deputy Director, FEDESARROLLO (Session 1) Victor Traverso, Director for Colombia, Corporación Andina de Fomento (CAF) (Session 2) Michael Gestrin, Senior Economist, OECD Investment Division (Session 3) Juan Martin Caicedo, President, Colombian Chamber of Infrastructure (Session 4) Professor Carlos de Faro Passos, Fundação Getúlio Vargas/ PLANEF Consultores Associados (Session 5) **Summary** Panelists summarised the five conference sessions as described above.

Latin America and Caribbean-OECD Investment Initiative
Organisation for Economic Co-operation and Development
2 rue André-Pascal, Paris 75116, Paris

www.oecd.org/daf/investment/lac