
OVERVIEW OF INFRASTRUCTURE FINANCING IN LATIN AMERICA

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the New BRICS Bank entering



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LIST OF ACRONYMS AND ABBREVIATIONS

AIP	Access to Information Policy
API	Integration Priority Project Agenda (Agenda de Proyectos Prioritarios de Integración)
BANDES	Venezuelan Economic and Social Development Bank (Banco de Desarrollo Económico y Social de Venezuela)
BIC	Bank Information Center (USA)
BNDES	Brazilian National Bank for Economic and Social Development (Banco Nacional de Desarrollo Económico y Social)
BRICS	Acronym for emerging economies (Brazil, Russia, India, China, South Africa)
CAF	Andean Development Corporation (Corporación Andina de Fomento), Development Bank of Latin America
CAO	Compliance Advisor Ombudsman
CDB	China Development Bank
ConSOCs	Civil Society Advisory Councils (IDB)
COSIPLAN	Infrastructure and Planning Council (Consejo de Infraestructura y Planeamiento) (UNASUR)
CSO	Civil society organization
DPLs	Development Policy Loans
EIA	Environmental impact assessment
FDI	Foreign direct investment
FONPLATA	Financial Fund for the Development of the River Plate Basin (Fondo Financiero para el Desarrollo de los Países de la Cuenca del Plata)
FPC	Forum for Citizen Participation (Foro de Participación Ciudadana) (UNASUR)
G-8	Group of Eight
G-20	Group of Twenty
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development (World Bank Group)
ICBC	Industrial and Commercial Bank of China
ICC	International Chamber of Commerce
ICIM	Independent Consultation and Investigation Mechanism (BID)

ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association (World Bank Group)
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group (World Bank)
IFC	International Finance Corporation (World Bank Group)
IFIs	International financial institutions
IIC	Inter-American Investment Corporation (IDB Group)
IIRSA	Initiative for the Integration of the Regional Infrastructure in South America
ILO	International Labour Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MERCOSUR	Common Market of the South (Mercado Común del Sur)
MIF	Multilateral Investment Fund (IDB Group)
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
NDB	New Development Bank (BRICS)
NGO	Non-governmental organization
OAS	Organization of American States
OECD	Organization for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight (IDB)
P4R	Program-for-Results
PAC	Growth Acceleration Program (Programa de Aceleração do Crescimento) (Brazil)
PPA/PPP	Public-private alliances/partnerships
RFIs	Regional financial institutions
UNASUR	Union of South American Nations (Unión de Naciones Suramericanas)

FOREWORD

This document was drafted by the Regional Working Group on Financing and Infrastructure, formed by Asociación Ambiente y Sociedad (AAS) from Colombia, Derecho, Ambiente y Recursos Naturales (DAR) from Peru, Fundar, Centro de Análisis e Investigación from Mexico, and the Fundación para el Desarrollo de Políticas Sustentables (FUNDEPS) from Argentina. The paper describes the current infrastructure financing landscape in Latin America and the Caribbean, introducing the diverse actors present in this context, as well as the current trends towards weakening normative frameworks for national, regional and multilateral banks and the national frameworks of the countries that benefit from such loans and financing.

Furthermore, this publication shows the relationships among interest groups, political forums and financial institutions. Thus, this paper notes the absence of Latin America in the G-20's plans; the pressure exerted by Brazil to prevent any weakening of its role as financier of the region's projects, in order to position Brazilian companies according to its well-known policy of strengthening national "champions"; and the emergence of new actors, such as Chinese banks and the new BRICS' (Brazil, Russia, India, China, and South Africa) Bank.

We approach the role of the Union of South American Nations (Unión de Naciones Sudamericanas, UNASUR) as an essential political decision-making forum. Regarding integration projects, the Infrastructure and Planning Council (Consejo de Planeamiento e Infraestructura, COSIPLAN), which recognizes and follows up on the achievements of the Initiative for the Integration of the

Regional Infrastructure of South America (Iniciativa para la Integración Regional Sudamericana, IIRSA), is vitally important, since it encompasses a portfolio of more than 500 projects for South America.

Accordingly, Brazil's role is readily inferred as that of an IIRSA promoter and, currently, through the National Bank for Economic and Social Development (Banco Nacional de Desarrollo Económico y Social, BNDES), which exceeds the investments of traditional banks such as the World Bank (WB) and the Inter-American Development Bank (IDB). Indeed, the ground rules set by Brazil, which include more flexible investment norms, the Andean Development Corporation (Corporación Andina de Fomento, CAF) and the Chinese investments have resulted in the current tendency towards the relaxation of social and environmental safeguard policies, as well as of all the policies that regulate financing. In turn, this goes hand in hand with a tendency from the States to adapt national environmental and right securing regulations, in particular those referred to populations, in order to overcome economic crises and facilitate investment.

The creation of the new BRICS' bank will take place amidst this complex landscape, and it poses a great challenge to be met by the year 2016, since it implies important changes to national, regional and multilateral financial institutions. Additionally, it will also be a challenge for civil society, in terms of human rights monitoring and analysis of the potential negative impacts of investment, as well as efforts to enhance positive effects and set forth clear guidelines regarding the flow of funds toward infrastructure.

The authors



EXECUTIVE SUMMARY

Over the last several years, infrastructure has regained a prominent position in the public policy and investment agendas of many Latin American countries. Thus, we are currently seeing an obvious appreciation of infrastructure investments (particularly in the transportation and energy sectors) largely sponsored by national governments, multilateral credit banks, Chinese investments, and even certain multilateral groups, such as the **Group of Twenty (G-20)** or the group formed by **Brazil, Russia, India, China, and South Africa**, also known as **BRICS**. The recent creation of the BRICS' New Development Bank and of the China Latin America Fund, both focused on infrastructure financing, are two additional examples to illustrate this trend. And this is happening in a regional context where the growth of national economies (accompanied by an appreciation of raw materials and a general expansion of the international economy) has not been matched by structural solutions to the still complicated and long standing problems of inequality and poverty in the region; problems that generally provide the main justification for major infrastructure investments.

An initial approach to the current context of infrastructure financing in Latin America shows a highly complex scenario, as can be seen in the multiplicity of actors involved and in the numerous issues and socio-environmental conflicts present in the region's countries, as well as in the States' lack of effective respect and safeguards for human rights while promoting these projects in the name of development. Therefore, there are hundreds of cases where infrastructure megaprojects across the region have led to significant social and environmental impacts and to the violation of the rights of the communities and populations involved. At the same time, there is a multiplication and

diversification of financial agents that has resulted in a complex network of actors, both regional and extra-regional, involved in infrastructure financing, such as private institutions, private enterprises, international cooperation forums, and multilateral agencies.

On the one hand, and from a global perspective, it should be noted that the infrastructure agenda is becoming increasingly relevant in the debates within the **G-20** framework, to the extent that it is becoming a high-priority agenda. Regarding the **BRICS** group, the recent creation of its Development Bank is worth mentioning; the bank's main objective centers on infrastructure and development financing in emerging powers and their areas of influence.

The important role played by infrastructure investments through the Union of South American Nations (**UNASUR**) should also be noted, particularly regarding its South American Infrastructure and Planning Council (**COSIPLAN**), which took over the project portfolio of the controversial Initiative for the Integration of the Regional Infrastructure of South America (**IIRSA**). To illustrate this, one needs only to mention the substantial increase in the volume of infrastructure projects experienced by the IIRSA/COSIPLAN's portfolio in the course of a decade, which went from 335 projects for an estimated investment of US\$37 billion in 2004 to 583 projects for an estimated investment of nearly US\$158 billion by the end of 2013.

As for multilateral credit institutions, it has become evident that the banks that were traditionally present in the region—such as the International Bank for Reconstruction and Development (IBRD), better known as the World Bank (WB); the International Financial Corporation (IFC); or the Inter-American Development

Bank (IDB), for example-are losing ground due to the growth of the volume of operations of several national and regional development banks, such as the Development Bank of Latin America (previously known as the Andean Development Corporation [CAF]) or Brazil's National Bank of Economic and Social Development (BNDES). Nevertheless, and despite the relative decrease of their regional financing levels, these traditional institutions have hardly ceased to be relevant for infrastructure project financing in the region.

Thus, regarding the **WB**, Latin America and the Caribbean (LAC) is the region with the largest volume of loans and the highest number of projects funded by this institution throughout history. The previous trend is still valid: In 2013, LAC was still the region that received the most resources from the Bank, which amounted to 31% of the total resources. Similarly, the **IFC** has been involved with the region since its foundation, and it is still an important actor in terms of financing the private sector in Latin America. The IFC devotes a significant part of its funds for the region to infrastructure: 24% of the total for the fiscal year 2012. Furthermore, Brazil, Mexico, and Colombia are among the top ten countries in terms of the volume of projects supported by this institution. As for the **IDB**, it is still a significant source of funds for the countries in the region, in spite of the competition from other institutions, such as the BNDES and the CAF. According to its Annual Report for 2012, the Bank authorized a schedule of 169 projects that year, for a total investment of approximately US\$11 billion; 49% of those funds went to the infrastructure sector.

On the other hand, we have the national development banks, such as the **BNDES**, which during the previous decades has gone beyond Brazil's national borders and extended its infrastructure financing operations to a great number of Latin American countries, and even some African states. The Bank's involvement in the region has grown to such an extent that it has become one of its main financing agents for infrastructure, directly competing with institutions that have a strong presence at the regional level, such as the World Bank or the IDB. In Latin America (and also in Africa), the Bank's operations are largely focused on infrastructure projects, particularly in the construction of hydroelectric power stations, aqueducts, gas pipelines, transport operations, subways, highways, railways and wind farms. Precisely, infrastructure projects are the ones that receive most of the funding provided by the BNDES to strengthen and internationalize Brazilian companies, particularly a small number of transnational companies close to the national government. Over the last decade, the volume of loans for infrastructure projects granted by the BNDES in Latin America and Africa has increased steadily, from US\$228 million in 2004 to US\$1.3 billion in 2013.

Similarly, there are certain regional financial institutions, such as the **CAF** (now called **Development Bank of Latin America**), whose involvement and volume of infrastructure financing operations in the region have also recently increased. Due to the high and sustained rate of growth of its project portfolio, the CAF has managed to duplicate its size in only six years, from US\$8 billion in 2006 to more than US\$16

billion in 2012. Actually, the institution's financial and operational projections indicate that this sustained growth dynamic will remain strong throughout the next five years, with support to infrastructure construction and social development for the countries in the region as one of the CAF's main strategic lines of action.

Therefore, it is quite clear that the financing infrastructure architecture in the region is a complex matter that requires defining lines of action and advocacy strategies with specific short, medium and long term scopes at different levels (local, national, and regional). The existence of different sources of funding requires a comprehensive understanding of both the context and the financial framework in the region.

It is also necessary to develop constant and comprehensive monitoring strategies in order to influence macro-level dynamics in the field of infrastructure financing, through an understanding of regional and global processes, such as the G-20, the BRICS coalition, the creation of the Development Agenda Beyond 2015 and the COSIPLAN operations in the UNASUR, to mention just a few examples. This understanding will allow the articulation of strategies

at a regional level to influence trends in the countries of the region and in particular local processes.

This scenario, therefore, allows us to anticipate not only a continuation but also an exacerbation of the current tensions between infrastructure projects and: a) human rights; b) the collective rights of indigenous populations; c) environmental protection; and d) sustainable development and climate change commitments. This poses several challenges for the civil society in Latin America regarding advocacy in at least three levels: a) in each of the financial institutions; b) at a regional level, particularly in each of the region's countries; and c) at a local level, following the cases of particular projects in the region.

Consequently, it is necessary, at least, to systematize information about the experiences and accumulated knowledge and to create effective mechanisms to coordinate and communicate all the networks, platforms and organizations involved in the region that address these issues at different levels, in order to develop synergies and comprehensive strategies with a greater capacity to make changes at the three levels, while generating concrete development alternatives.



INTRODUCTION

The regional context of infrastructure financing in Latin America

A first comprehensive reading of the investment alignment at a global, regional and national level suggests that conditions are being created to enhance infrastructure financing in Latin America and the Caribbean (LAC). This phenomenon is not unique to the region; it is also present in other regions and matches the discourse regarding sustainable development expressed by actors such as the Group of Twenty (G-20), multilateral banks, developed countries and emerging powers, as well as that of national development banks and, more recently, the foundational agreement that created the Bank of Brazil, Russia, India, China, and South Africa (BRICS). The common element among all of them is the need to improve market connectivity and to ensure the optimal operation of the raw materials export market.

In the case of Latin America, one can identify a series of contradictions regarding the regional integration proposal; these contradictions are evident, above all, in the lack of a development proposal originated within the region itself and addressing the necessities of the local and national contexts. This is reflected, for example, in the G-20's general plans for infrastructure, that fail to include Latin America largely because of four factors. Firstly, the presence of strong regional blocks and emerging powers in the region, such as Brazil, Mexico or the Southern Common Market (MERCOSUR). Secondly, the influence and leadership of Brazil along the region's physical integration process. Thirdly, the planned integration

model that is largely based in establishing connections for the extraction and export of raw materials and which is reflected in, for example, the priorities and project portfolio of the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA).¹ And fourthly, the alignment of the multilateral banks' strategies for the promotion of infrastructure investments and their potential flaws and limitations, such as funding projects that violate human rights and involve huge social and environmental impacts without taking into consideration the rights of the affected communities and populations.

The current context of infrastructure financing in Latin America presents a highly complex scenario, as can be seen in the multiplicity of actors involved and in the numerous and challenging socio-environmental issues present in the diverse countries within the region, as well as in the States' lack of effective compliance with and safeguarding of human rights while promoting projects for the sake of development. All of this happens within a global framework where regional economic growth has been fueled by a strong appreciation of raw materials and the general expansion of international economy (notwithstanding the financial crisis that begun in 2008), during the course of the previous decades. However, despite this growth, the complex and long standing problems of inequality and poverty in the region are yet to be remedied. Therefore, in 2012, a simple average shows that the wealthiest 10% of the population in LAC

¹ The Initiative for the Integration of Regional Infrastructure in South America (IIRSA) is an institutional mechanism aimed at coordinating intergovernmental actions adopted by the twelve South American countries with a view to building a common agenda to foster projects for the integration of transport, energy, and communications infrastructure. The creation of IIRSA was decided at the Summit of South American Presidents held in August 2000 in the city of Brasilia. Throughout its ten years of existence, IIRSA has become an essential forum for infrastructure planning by the twelve South American countries from a shared and regional vision of the opportunities and challenges posed by the subcontinent. As from 2011, IIRSA is included in the UNASUR South American Infrastructure and Planning Council as its technical forum for South American physical integration planning issues. Source: IIRSA Website. Available at: <http://www.iirsa.org/Page/Detail?menuItemId=28> [retrieved on 03/31/2014]

receives 32% of the total income, while the poorest 40% only receives 15% of the total.²

Once again, infrastructure is back in the international public policy agenda, thanks to the support of national governments, multilateral banks and international groups, such as the G-20 and BRICS, with infrastructure development initiatives.³ This has recently manifested within the region as a significant increase in infrastructure financing, especially in the transportation and energy sectors. In turn, this has led to the multiplication of infrastructure megaprojects across the region that, in most cases, involve significant social and environmental impacts and human rights violations. Furthermore, this time around, infrastructure projects not only signify the presence of a privatization agenda, but also the creation of subsidies, tax incentives, capital markets and regulatory regimes to transform infrastructure into an asset class.⁴ This is happening in a context where most of the progressive and leftist governments in the region are committed to an economic model based on what Eduardo Gudynas⁵ calls neo-extractivism⁶, which:

“maintains a style of development based on the appropriation of Nature, that fuels a scarcely diversified productive framework that is very dependent on its insertion in the global economy as a supplier of raw materials, and while the State does play a more active role and gains greater legitimacy through the redistribution of some of the surplus generated by this extractivism, it still repeats the negative social and environmental impacts of the old extractivism.”⁷

At the same time, there is a multiplication and diversification of financial agents that has resulted in a complex network of actors, both regional and extra-regional, involved in infrastructure financing, such as private institutions, private enterprises, international cooperation forums, and multinational agencies.

In mid-July 2014, within the context of their 6th Summit in Fortaleza, Brazil, the BRICS countries announced the creation of a new Bank that, as indicated on Article 11 of the Fortaleza Declaration,⁸ for the purpose of *mobilizing resources for infrastructure and sustainable development projects* in those countries and in other emerging and developing economies. These countries see the creation of this Bank, named the New Development Bank (NDB), and its Reserve Fund, as an alternative to the engagement and leadership limitations of the World Bank (WB) and the International Monetary Fund (IMF). The BRICS countries are effectively demanding greater participation on what appears to be a realignment of the global economy. A couple of relevant figures: the combined gross domestic product (GDP) from these countries accounts for 20% of the world's GDP, while their population represents 40% of the world's population. Consequently, one can anticipate the significant magnitude and scope of the investments of this new Bank. As noted in the foundational agreement for the NDB signed in Fortaleza, it will have an initial authorized capital of US\$100 billion and an initial subscribed capital of US\$50 billion equally distributed among all the BRICS countries. Additionally, the BRICS countries decided to create a Reserve Fund, called the Contingent Reserve Arrangement, with an initial size of US\$100 billion.

However, this Treaty does not mention the policies regarding transparency, participation and accountability, nor those related to the implementation of social and environmental protections for the supported projects; furthermore, there is a gap regarding risk liability for its future projects. If, in addition to the positive figures, we take into consideration that the BRICS' population represents half of the planet's poor (1,700 million), that some critiques state that these countries do not have a solid democratic tradition and that some of them are constantly censured for systematic human rights violations, this flippancy regarding the determination of clear transparency, participation and accountability policies and the establishment of socio-environmental

2 CEPAL. *Panorama Social de América Latina*. 2012. [online] Available at: <http://www.eclac.org/publicaciones/xml/5/48455/PanoramaSocial2012Docl-Rev.pdf>, pp. 20

3 HILDYARD, Nicholas. *Infrastructure as asset class: Financing development or developing finance? A Critical Look at Private Equity Infrastructure Funds*. The Corner House. 2013. Available at [http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Bricks and Mortar.pdf](http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Bricks%20and%20Mortar.pdf)

4 HILDYARD, Nicholas. Op. cit. pp. 3

5 GUDYNAS, Eduardo. *Diez Tesis Urgentes sobre el Nuevo Extractivismo. Contextos y demandas bajo el progresismo sudamericano actual*. In "Extractivismo, Política y Sociedad", several authors. CAAP (Centro Andino de Acción Popular) and CLAES (Centro Latino Americano de Ecología Social). Quito, Ecuador. November 2009. ISBN 78 9978 51 024 7. p. 187-225. Available at <http://www.extractivismo.com/documentos/capitulos/GudynasExtractivismoSociedadDesarrollo09.pdf>

6 The label of extractivism is used broadly to include activities that remove large volumes of natural resources, which are not processed (or are processed in a limited manner), and are then exported. – GUDYNAS, Eduardo. Op. cit. pp. 188

7 GUDYNAS, Eduardo. Op. cit. pp. 188

8 Fortaleza Declaration. 6th BRICS Summit. July 15, 2014. Available at: <http://www.latindadd.org/wp-content/uploads/2014/07/BRICS-declaracion-fortaleza.pdf> [retrieved on 08/02/2014].

safeguards seriously endangers their populations, and those of the countries where the projects would take place, right from the start. The drafting of the Bank's Internal Procedures, which will fill the gaps present in the Foundational Treaty, is still pending. However, the Bank's headquarters will be located in Shanghai (China), a fact that by itself poses a first obstacle for direct surveillance from the LAC region.

The aforementioned facts imply a reconfiguration of the policies of international, national, and regional financial institutions, which have already experienced structural changes that will allow them to remain active in the economic power structure and avoid losing their share in the project financing market in Latin America. Additionally, we need to factor in the new role of the BRICS countries' national banks, some of which already have a strong presence in Latin America.

Within the context of the shifting world economy, there are national development banks such as Brazilian National Bank for Economic and Social Development (BNDES), which during the previous decades has exceeded Brazil's national borders and extended its infrastructure financing operations to a great number of Latin American countries, and even some African States. This Bank's involvement on the region has grown to such an extent that it has become one of the main financing agents for infrastructure, directly competing with institutions that have a significant presence at the regional level, such as the WB or the Inter-American Development Bank (IDB). In the last ten years, there has been an 1185% increase in BNDES financing.⁹ The Brazilian newspaper Valor states that during the course of the last decade, the volume of loans for infrastructure projects granted by the BNDES in Latin America and Africa has increased steadily, from US\$228 million in 2004 to US\$1.3 billion in 2013.¹⁰

Similarly, there are certain regional financial institutions (RFIs), such as the Andean Development Corporation (CAF), whose involvement and volume of infrastructure financing operations in the region have also recently increased. This can be partially attributed to the requirements and demands that determine the provision of funds, which are relatively flexible when compared to those of institutions such as the WB and the IDB. The latter institutions have social and environmental

safeguards and standards that usually increase the costs and, in most cases, slow down the client's approval for the projects.

On the one hand, the significant growth experienced during the last several decades by institutions such as the CAF or the BNDES in the volume of their operations and in the funds they channel to the region has not been matched by a corresponding change to their operational policies and working procedures in order to adapt with current high-level international standards met by similar institutions. In terms of social and environmental safeguards, participation and transparency, at least, these institutions have yet to establish policies and internalize standards.

On the other hand, the operations of international financial institutions (IFIs) that were historically present in the region, such as the WB, the International Finance Corporation (IFC) and the IDB, have lost ground to other institutions, such as the CAF or the BNDES. Nevertheless, they are still important actors in the field of development financing in Latin America and they have a strong presence in the countries within the region, particularly from a political perspective. In response to the reduction in their funding in the region and to competition from the new regional financing actors, these institutions are promoting actions so that their social and environmental safeguards and performance standards will be less demanding and rigorous in terms of credit approval; this constitutes a significant risk that may lead to similar initiatives in the other institutions involved in the region.

Another factor that should be taken into consideration in this analysis of financing trends in Latin America is the private sector's increasing participation in the region. This can be seen, for example, in the increased volume of operations by a number of private banks and financial intermediaries, many of them funded by multilateral banks that provide funds for both the public and private sectors. The civil society's main concern regarding these actors is that it is difficult to track the received funds, access information about them, and monitor the proper implementation of the policies and standards that regulate them. The situation becomes even more complex when dealing with actors that are not regulated entities; that is, actors without the mandate to inform and account for their actions, since they belong to the private sector. For

9 Pública, Agência de Reportagem e Jornalismo Investigativo. "BNDES, para exportação" 11/28/2013. Available at: <http://www.apublica.org/2013/11/bndes-para-exportacao/> [retrieved on 01/29/2014].

10 Valor Internacional. "Increased BNDES lending for projects abroad draws criticism" 04/11/2014. Available at: <http://www.valor.com.br/international/news/3513110/increased-bndes-lending-projects-abroad-draws-criticism> [retrieved on 06/20/2014].

that reason, they usually invoke bank secrecy in order to avoid providing information about the projects they carry out, hindering the supervision of their operations. This is an issue because they are performing public interest activities and, in many cases, they are even using public resources to support their activities.

At the same time, we can see that large multinational companies are gradually increasing their participation in infrastructure projects carried out in different Latin American countries through private capital investment funds and private-public partnerships (PPP). A great number of infrastructure projects implemented in the region are led by Brazilian companies and funded by the BNDES, benefitting from the Brazilian government's policy of "creating national champions", which aims to foster the growth and participation of national companies throughout the region. Some of these companies¹¹ include Andrade Gutiérrez, Camargo Correa, the OAS Group and the Odebrecht construction company, whose turnover rose tangentially over the course of the last 10 years under the Brazilian government's wing, and whose activities in the region have been punctuated by allegations of corruption, breaches of contract and even technical failures during construction.¹² For example, in 2008, the government of Ecuador decided to expel the firm from the country due to its failure to fulfill its obligations regarding the construction of a hydroelectric plant.¹³

In addition to these institutions, banks and private companies, attention should be drawn to the role played by certain global processes and cooperation forum, such as the G-20, the BRICS and the Union of South American Nations (UNASUR) in terms of regional infrastructure financing.¹⁴ The G-20, which consists of 20 industrialized and emerging economies, three of

them from Latin America (Brazil, Mexico, and Argentina), constitutes a forum for cooperation and consultation where the issue of investment in infrastructure plays an important role; and, even if Latin America is somewhat absent from the forum's plans regarding this issue, it could become more relevant in the future. On the subject of the BRICS countries, it is worth mentioning the presence of Brazil and of other economies with a growing involvement in terms of regional infrastructure investment, such as India and especially China, which recently created the China-Latin America Fund;¹⁵ as well as the creation of the BRICS' New Development Bank (NDB)¹⁶ with an aim to offer an "alternative" to traditional IFIs, such as the WB and the IMF.¹⁷ Also, the UNASUR, through its Infrastructure and Planning Council (COSIPLAN)¹⁸ has inherited the management of IIRSA's project portfolio, a process that has been strongly criticized by Latin American civil society since its inception due to the integration model that it proposes, the kind of development that it promotes and the social and environmental impacts of the projects it sponsors.

Finally, an analysis of the general landscape of infrastructure financing in Latin America cannot fail to mention the growing presence of China and its foreign direct investment (FDI) in the region, largely through the Chinese Development Bank (CDB), China Exim Bank, and the Industrial and Commercial Bank of China (ICBC). On this subject, the findings of a report drafted in March 2012 by Kevin Gallagher, Amos Irwin, and Katherine Koleski are worth mentioning. In this report, titled "*The New Banks in Town: Chinese Finance in Latin America*"¹⁹, the authors estimate that since 2005 (and until 2012, when the paper was published), China has committed more than US\$75 billion in loans to Latin American countries. It also states that China granted

11 For more information, see the Fundação Dom Cabral's report "*Ranking FDC das Multinacionais Brasileiras 2013. Os impactos da política externa na internacionalização de empresas brasileiras*". 08/2013. Available at: http://www.fdc.org.br/imprensa/Documents/2013/ranking_multinacionais_brasileiras2013.pdf [retrieved on 06/20/2014].

12 VIGNA, Anne. *Odebrecht, la favorita del Estado brasileño*. Le Monde Diplomatique. Issue 172. October 2013. pp. 18-20

13 Reuters América Latina. "*Ecuador expulsa a brasileña Odebrecht tras puja con Gobierno*". 09/23/2008. Available at: <http://lta.reuters.com/article/idLTASIE48M21920080923> [retrieved on 03/31/2014].

14 The South American presidents created UNASUR in 2008 as a forum for high-level political dialogue and coordination among the governments of the twelve South American countries. One of its priorities is the development of regional interconnection infrastructure. The COSIPLAN is the body within UNASUR responsible for implementing the integration of regional infrastructure. Source: IIRSA website. Available at: <http://www.iirsa.org/Page/Detail?menuItemId=27> [retrieved on 03/31/2014].

15 Portafolio.co "*China ofrece fondo de US\$ 20.000 millones para América Latina*". 07/18/2014. Available at: <http://www.portafolio.co/internacional/china-inversion-america-latina-2014> [retrieved on 07/22/2014].

16 RT Actualidad. "*El BRICS firma el acuerdo de creación de un Nuevo Banco de Desarrollo*". 07/15/2014. Available at: <http://actualidad.rt.com/actualidad/view/134074-brics-acuerdo-crear-banco-desarrollo> [retrieved on 07/22/2014].

17 RT. "*G-20: Los BRICS acuerdan crear 'las alternativas' al FMI y el Banco Mundial*". 09/05/2013 Available at: <http://actualidad.rt.com/economia/view/104854-brics-banco-desarrollo-divisas-rusia> [retrieved on 03/31/2014].

18 The COSIPLAN is a forum for political and strategic discussion through consultation, evaluation, cooperation, planning and coordination of efforts, and articulation of programs and projects aimed at implementing the integration of regional infrastructure in the UNASUR member states. It was created at the Third Meeting of the Council of Heads of State of UNASUR held in the city of Quito on January 28, 2009. Source: IIRSA website. Available at: <http://www.iirsa.org/Page/Detail?menuItemId=45> [retrieved on 03/31/2014].

19 GALLAGHER, Kevin; IRWIN, Amos y KOLESKI, Katherine. *The New Banks in Town: Chinese Finance in Latin America*. Inter-American Dialogue. March 2012. Available at: <http://www.thedialogue.org/PublicationFiles/TheNewBanksinTown-FullTextnewversion.pdf>

US\$37 billion in loans to the region's countries in 2010, a sum that exceeds the total combined amount loaned by the WB, the IDB, and the United States Export-Import Bank.²⁰ The report also mentions several facts, including:

- China has become a new and growing source of funding for Latin America, especially for countries that have difficulties in accessing global capital markets, such as Argentina, Venezuela, or Ecuador.
- Financing from Chinese banks, IFIs and Western banks have no significant overlaps in Latin America: they grant different amounts to finance different sectors in different countries. Chinese banks have largely focused on lending to the infrastructure and energy sectors.
- Chinese loans do not have the same political conditions associated with Western IFI loans, although they usually demand equipment purchases and, in some cases, oil sale agreements.
- The composition and volume of Chinese loans in Latin America are potentially more harmful for the environment than the loan portfolio of Western banks. Even though the environmental standards followed by the Western IFIs and banks are far from perfect, Chinese banks demand lower environmental standards to grant their loans, and while Chinese funding operates under certain environmental guidelines, those lag behind their Western counterparts.

Finally, to round up this analysis, we need to mention the existence of other institutions, private banks and RFLs that, despite their low level of influence and turnover when compared to the previously mentioned actors, are still relevant within this general framework. They include, for example, the Financial Fund for the Development of the River Plate Basin (Fondo Financiero para el Desarrollo de los Países de la Cuenca del Plata, FONPLATA), the Venezuelan Economic and Social Development Bank (Banco de Desarrollo Económico y Social de Venezuela, BANDES), and the still in working progress the Bank of the South, which, after the recent creation of the BRICS' Bank, is trying to capitalize and begin its operations.²¹

In this regional scenario, characterized by the multiplicity of actors and issues of rights violations and socio-environmental impacts involved, the work and advocacy

outlook faced by Latin American civil society is complex and challenging. It is clear that any action strategy based solely in individual work with these actors in an isolated manner, will be fragmentary and incomplete, due to the necessity of lobbying at different levels: locally, nationally, regionally and, in the case of many of the institutions involved, internationally. The complexity of the situation shows that the strategy required to influence and engage effectively in the context of regional infrastructure financing described above, involves a comprehensive approach, from multiple perspectives and in relation to the majority of actors involved, both regional and extra regional; and also implementing comprehensive strategies in the short, medium, and long term. At the same time, it is necessary to adopt a global perspective, focused on the dynamics and processes taking place on the region and not only on the actions of governments, institutions or private companies.

This document aims to contribute to a better understanding of the dynamics and trends of financing for the development of infrastructure in the region, through an analysis designed to provide an introduction to this regional context and, in particular, to the main actors involved in it; in order to generate comprehensive medium and long term advocacy strategies. Therefore, what follows is a general analysis of actors, such as the G-20, the UNASUR and the COSIPLAN, the WB, the IDB, the CAF and the BANDES, as well as the role played by each of these institutions within the region; with a focus on their approach to the infrastructure financing agenda. This analysis is framed within a context of competition among these institutions that has led to a relaxation of policies in order to facilitate investment that will be more evident with the creation of the BRICS' New Development Bank. To round up the analysis, a brief description of each of these financial institutions and their more relevant policy instruments is included, as well as the main criticisms and concerns raised by Latin American civil society regarding their operations.

It is important to keep in mind that this paper does not constitute an exhaustive analysis. Rather, it is an initial analysis of the regional context and trends related to infrastructure financing in Latin America, which undoubtedly requires further analysis and reflection, in order to design articulated, concrete and effective lines and strategies of action and advocacy. Finally, it is a continuous and dynamic analysis, as required by a regional context embedded in global dynamics.

20 Ibid. pp. 1

21 TeleSUR. "Ministros avanzan en puesta en marcha de Banco del Sur". 07/25/2014. Available at: <http://www.telesurtv.net/news/Ministros-avanzan-en-puesta-en-marcha-de-Banco-del-Sur-20140725-0102.html> [retrieved on 07/28/2014].

THE G-20 AND THE INFRASTRUCTURE AGENDA IN LATIN AMERICA

The G-20 is an informal forum for cooperation and consultation that brings together 20 economies, both industrialized and emergent,²² to foster global economic cooperation. It was created in the late 90's to address the economic crises that were plaguing several emerging economies; originally, it was a meeting of Finance Ministers and Central Bank Governors from the member states, which were later joined by their respective Heads of State. Containing the Group of Eight (G-8) and the largest emerging economies, the G-20 accounts for approximately 85% of the world's total GDP and trade, while the combined populations of its member countries constitute two-thirds of the world's population. It describes itself as "the premier forum for international economic cooperation"²³, despite the fact that most of the countries of the world, parliaments and social organizations, are not invited to participate nor considered legitimate interlocutors, in contrast with large companies, which do attend the forum.

The G-20 develops a broad agenda that sometimes seems to overlap with other agencies, such as the World Bank, since some of the issues it addresses include those

pertaining to macroeconomics and finance, corruption, infrastructure, food security, and green growth. These issues are addressed by the Development Working Group, which has an Action Plan on Development (APD). Thus, the G-20 claims to "promote the coordination and implementation of development policies to close the gap at the global level; optimize the coordination of development financing for infrastructure projects; fight against poverty and ensure global food security; optimize the mobilization of domestic resources –an objective that involves reducing tax evasion stimulated by so-called tax shelters–; promote employment and the implementation of inclusive social policies; and fight against corruption".²⁴

The G-20 also states that it is working to review the international financial architecture and to design and implement several regulatory initiatives, most notably some initiatives that aim to ensure more transparency and more efficient and responsible operations in financial markets, including systemic financial institutions.²⁵ Indeed, while the climate change agenda had been gaining increasing importance in the forum's debates,

22 At the moment, the G-20 includes the G-8 countries (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States), eleven emergent or recently industrialized countries (Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey), and the European Union, as a whole. At the same time, the forum is attended by representatives from the International Monetary Fund, the World Bank, the United Nations, the World Trade Organization, the Financial Stability Board, the Organization for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO).

23 G20. *About G20*. [online] Available at: https://www.g20.org/about_G20 [retrieved on 03/31/2014].

24 Ministerio de Relaciones Exteriores y Culto. República Argentina. *Grupo de los Veinte (G20)* [online] Available at: <http://www.mrecic.gov.ar/es/grupo-de-los-veinte-g20> [retrieved on 03/31/2014].

25 Ibid

the financial crisis that started in 2008 led the G-20 to almost exclusively focus on issues of economic and financial reforms and regulations at the global level in the last years.

A. THE ROLE OF INFRASTRUCTURE IN THE G-20

For the G-20, “fostering global growth and creating a favorable climate for investment” is a fundamental priority.²⁶ Therefore, during the last G-20 meetings, infrastructure investment has become a recurring and high-priority issue, to the extent that it is considered one of the top agendas for 2014.²⁷

In addition to providing more legal security for infrastructure investments, the G-20 Summit held in Russia in 2012 considered several alternatives, such as the necessity of promoting private-public partnerships (PPA)²⁸ and the securitization of infrastructure loans so that they can be sold as government-backed bundles. They also worked on finding an answer to the conundrum of how to attract current global savings held by the private sector towards long-term investment, focusing the debate on infrastructure needs since, according to the WB, the current investment total of approximately US\$1 trillion needs to be doubled.²⁹

During their July 2011 meeting in the city of El Cabo, Mexico, the Development Working Group defined a portfolio of priority projects³⁰ for regional integration. The

only Latin American project included was the *Corredor del Pacífico* (Pacific Corridor), a road and transportation network through Mexico and Panama, which has been the source of much controversy due to its emphasis on merchandise transportation. During their 2013 meeting in Saint Petersburg, the International Chamber of Commerce (ICC)³¹ claimed that the main obstacle is the lack of financeable infrastructure projects and of collaboration expertise between local governments and multilateral development banks regarding the implementation of private-public alliances; and also added that if this can be solved, more investments will flow into the region.

Point seven of the Communiqué of the Meeting of Finance Ministers and Central Bank Governors held in Sydney, Australia, on February 22-23, 2014, states that the countries that compose it are committed “to creating a climate that facilitates higher investment, particularly in infrastructure and small and medium enterprises”, as they consider that these activities are essential to the growth of the global economy in the short and medium term. Emphasis is made on improving regulations to guarantee that investment, by favoring market incentives.³² The major objectives for the G-20 countries in 2014 consist precisely in offering measures to promote private sector investment, which involves implementing specific actions in each country to increase the appeal of participation for potential investors, i.e., to relax regulatory frameworks. At the same time, the Group’s members establish that they will try to attract private sector investment by improving the efficiency and efficacy of public resources and multilateral development banks, such as the WB.³³

26 G20. *G20 2014 Agenda. Investment and Infrastructure*. [online] Available at: https://www.g20.org/g20_priorities/g20_2014_agenda/investment_and_infrastructure [retrieved on 03/31/2014].

27 The G-20’s efforts in this matter are carried out by the Investment and Infrastructure Working Group, which is co-chaired by the governments of Germany, Indonesia, and Mexico.

28 Broadly, a public-private partnership refers to arrangements between the public and private sectors whereby part of the services or works that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure or public services. Typically, they do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects, or the privatization of utilities where there is a limited ongoing role for the public sector. Source: World Bank. Public-Private Partnerships. Available at: <http://ppp.worldbank.org/public-private-partnership/>

29 BRERETON-FUKUI, Natasha. “World Bank to Set Up Global Infrastructure Facility”. *The Wall Street Journal*. New York, 09/06/2013. Available at: <http://online.wsj.com/news/articles/SB10001424127887324577304579058660663794356> [retrieved on 03/31/2014].

30 The project portfolio includes: West Africa Power Pool (WAPP), ASEAN Infrastructure Fund, Ethiopia and Kenya Power System Interconnection, Inga Hydropower (Democratic Republic of the Congo), North-South Corridor that integrates infrastructure for commercial facilitation in Eastern and South Africa, Isaka (Tanzania)-Kigali (Rwanda) railways, Jordan Railway project (which includes links to neighboring Syria, Saudi Arabia, and Iraq), Desertec solar project, Europe-Middle-East/North Africa (MENA), Turkmenistan-Afghanistan-Pakistan and India (TAPI) Natural Gas Pipeline, Regional Program for Scaling-up Clean Biomass energy in the Greater Mekong Sub region.

31 “CEO’s se reúnen con líderes del G20 para impulsar avances en el comercio y la inversión”. International Chamber of Commerce (ICC), the world business organization. St. Petersburg, 09/06/2013. Available at: <http://www.iccmex.mx/noticias/2013/septiembre/06sep13.pdf> [retrieved on 03/31/2014].

32 G20. Communiqué. Meeting of Finance Ministers and Central Bank Governors. Sydney, 02/22-23/2014. Available at: https://www.g20.org/sites/default/files/g20_resources/library/Communique%20Meeting%20of%20G20%20Finance%20Ministers%20and%20Central%20Bank%20Governors%20Sydney%2022-23%20February%202014_0.pdf [retrieved on 03/31/2014].

33 G20. *G20 2014 Agenda. Investment and Infrastructure*. Op.cit.

In sum, the G-20's most recent summits have shown that the issue of infrastructure is key to their approach, even if they have yet to implement what they call *structured projects*, that also offer enough guarantees to attract private funds. They draw on old arguments regarding the creation of investment-friendly regulations, furthering the achievements already attained during free trade negotiations and encouraging multilateral banks to take on a leading role.

B. THE G-20 PLAN AND THE ABSENCE OF LATIN AMERICA

Changes to economic regulations in the United States have resulted in a different balance of power between traditional and emerging economies. After years of multilateralism with the BRICS' economies gradually playing a larger role in global economic growth, initiatives for the creation of new regional blocks, such as The Pacific Alliance,³⁴ are a response to global changes for traditional economies to regain relevance when facing these regional actors. Consequently, Latin America is likely to become fighting grounds for market control and a place to emphasize the raw materials exportation model.

In that sense, the G-20's proposal to strengthen global economy poses several developmental assumptions that have garnered the civil society's criticism. On the one hand, there is the already challenged PPP-led investment model that has failed to promote private engagement in high-risk low-yield projects, such as infrastructure; actually, the public sector is the main driver of infrastructure investment in the region. On the other hand, there is the promotion of investments that do not take into account lessons learned about the

sustainability of these kinds of projects in the region. The fierce criticism against the integration model proposed by IIRSA and its project portfolio is a clear example of this.

Another important factor in the G-20's proposal is precisely the lack of infrastructure investment for the region, which is at odds with their discourse on development promotion; that is, there is no common



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position on investment for Latin America as there is for other regions. This could be because Brazil is reluctant to include larger and different investors in initiatives such as IIRSA, since Brazil's BNDES funds a large part of the Initiative's project portfolio. The regional architecture (UNASUR and IIRSA) has created a situation that allows Brazil to have a certain degree of influence at the regional level; however, it is very likely that the promotion of these kinds of investments is another form of involvement by new actors (such as China) and by developed economies. Therefore, the G-20's proposal could affect the UNASUR/IIRSA dynamic and Brazil's prominence in the region.³⁵

34 The Pacific Alliance is an initiative for regional integration conformed by Chile, Colombia, Mexico, and Peru. It was created on April 28th, 2011. Its objectives are: 1) Build, in a participatory and consensual manner, an area of deep economic integration and to move gradually toward the free circulation of goods, services, capital and persons; 2) Promote the larger growth, development and competitiveness of the Parties' economies, aiming at achieving greater welfare, overcoming socio-economic inequality and achieving greater social inclusion of their inhabitants; and 3) Become a platform of political articulation, of economic and trade integration, and thereafter project these strengths to the rest of the world, with a special emphasis on the Asia-Pacific region. For more information, see The Pacific Alliance's webpage, available at: <http://alianzapacifico.net/>

35 GAMBOA, César and RIVASPLATA, Francisco. *La Construcción de la Gobernanza Regional en Infraestructura*. DAR






II. MAIN ACTORS INVOLVED IN INFRASTRUCTURE FINANCING IN LATIN AMERICA

A. UNION OF SOUTH AMERICAN NATIONS (UNASUR)

UNASUR is an international organization created in 2008; its members are 12 South American countries: Brazil, Argentina, Chile, Uruguay, Paraguay, Bolivia, Peru, Colombia, Venezuela, Ecuador, Suriname and Guyana. It is a process that aims to build a regional identity and to promote political, social, cultural, and economic integration among South American nations. It prioritizes certain factors, most notably: social policies, energy and infrastructure, financing, the environment, social inclusion, and citizen participation.³⁶



1. INVESTMENT IN INFRASTRUCTURE ACCORDING TO UNASUR

As can be seen on its Constitutive Treaty, UNASUR includes several issues in its objectives, such as defense, education, the environment, democracy and financial integration, among others. One of the organization's most important objectives, and the recipient of the majority of its efforts, is physical and energy integration. This is based on the idea that infrastructure is a key element in the vision of

integration shared by South American countries, since it allows the creation of a more cohesive region, economically, socially, and physically.

In this regard, the member countries of UNASUR have decided to transfer the work done so far by IIRSA³⁷ to the COSIPLAN. The Council took over IIRSA's project portfolio and workload formally in

36 According to the Constitutive Treaty, its main objective is: "to set up, in a participatory agreed manner, a space for integration and union among its peoples in the cultural, social, economic and political fields, prioritising political dialogue, social policies, education, energy, infrastructure, financing and the environment, among others, with a view to eliminating socioeconomic inequality, in order to achieve social inclusion and citizen participation, strengthen democracy and reduce asymmetries within the framework of bolstering the sovereignty and independence of the States." UNASUR Constitutive Treaty – 05/23/2008. Available at: <http://www.unasursg.org/uploads/0c/c7/0cc721468628d65c3c510a577e54519d/Tratado-constitutivo-english-version.pdf>

37 For more information see IIRSA's webpage, available at: <http://www.iirsa.org/>

2011, dealing specifically with the integration of its member countries' regional infrastructure.³⁸

It is possible to identify COSIPLAN's perception of regional infrastructure integration in Latin America through its stated objectives, which include: building infrastructure for regional integration, recognizing and ensuring the continuity of the achievements and progress made by the IIRSA, by incorporating them into its framework. Also, to promote regional connectivity by building infrastructure networks for physical integration purposes, considering sustainable social and economic development criteria, and preserving the environment and the balance of ecosystems.³⁹

2. IIRSA AND COSIPLAN IN THE REGION

COSIPLAN's project portfolio is a direct inheritance of IIRSA's work since its inception in 2000, even though the Initiative's original portfolio was set up as recently as 2004. Since then, and until the present time, it went through successive updates, not without strong criticisms by the civil society due to its objectives and results.

Therefore, in 2004, IIRSA defined a project portfolio comprised of 335 infrastructure projects in the communications, energy and transportation sectors and organized into 40 project groups, for an estimated total investment of US\$37,424.8 million. In 2010, date of completion of the first working stage of IIRSA, the portfolio had reached 524 projects, organized into 47 groups, for a total estimated investment of US\$96,119.2 million. That is, in only six years and despite several criticisms faced by the Initiative, the number of projects grew more than 35% and the estimated investment increased more than 60%. In June 2011, the project portfolio was updated again, now within the COSIPLAN framework; there were now 531 projects for an estimated investment total of US\$116,120.6 million. During this process, the UNASUR members made a preliminary identification of priority projects for national integration within their territory in order to develop the Integration Priority Project Agenda (Agenda de Proyectos Prioritarios de Integración, API).⁴⁰ In August 2012, the project portfolio reached 544 projects, for an estimated investment total of US\$130,139.1 million; and by the end of 2013, the number of projects had increased to 583, for an estimated investment total of approximately

TABLE 1: IIRSA/COSIPLAN. Number of projects and estimated investment 2004-2013

YEAR	NUMBER OF PROJECTS	ESTIMATED INVESTMENT (US\$ million)
2004	335	37,424,8
2007	329	60,522,6
2008	514	69,000,0
2009	510	74,542,3
2010	524	96,119,2
2011	531	116,120,6
2012	544	130,139,1
2013	583	157,730,5

Source: Report of the Project Portfolio COSIPLAN 2013

38 According to its Statute, COSIPLAN: "Is a forum for political and strategic discussion through consultation, evaluation, cooperation, planning and coordination of efforts, and articulation of programs and projects aimed at implementing the integration of regional infrastructure in the UNASUR member states". Statutes of the South American Infrastructure and Planning Council. 01/28/2009. Available at: <http://www.unasur.org/uploads/c0/7f/c07f8a4a4569eaa8b6d4ffa38c0c00f1/Estatutos-del-Consejo-de-Infraestructura-y-Planeamiento.pdf>

39 Ibid. pp. 2

40 IIRSA. *Project Portfolio*. [online] Available at: <http://www.iirsa.org/Page/Detail?menuItemId=32> [retrieved on 02/20/2014].

US\$157,730.5 million.⁴¹ The substantial increase in both the number of projects and the total estimated investment are shown in Table 1.⁴²

As of November 2013, COSIPLAN's project portfolio was comprised of 583 infrastructure projects, organized into 48 groups and nine integration and development hubs, in three main sectors: transportation, energy and communication. The estimated investment amount was US\$157,730.5 million. Thus, between 2012 and 2013, the total number of projects increased from 544 to 583, i.e. 39 additional projects in a single year. Most of these additional projects belong to the Amazon Hub (61.5%), because more Brazilian territories were incorporated into the hub.⁴³ As for estimated investment, the increase amounted to US\$27,591.4 million.⁴⁴

3. REGULATORY INSTRUMENTS

Both UNASUR and the COSIPLAN have a series of regulatory instruments that determine, in general terms, their respective structures and operating standards. They include, most notably, UNASUR's Constitutive Treaty⁴⁵ and General Regulations⁴⁶ and COSIPLAN's Statutes⁴⁷ and Regulations.⁴⁸ At the moment, however, UNASUR has no relevant operational instruments, such as an access to information policy or a social and environmental safeguards policies for the institution. Rather, projects are implemented according to national regulations from each member country.



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It should be noted that in recent years the creation of a Civic Participation Forum (CPF) was promoted; the forum was created in November 2012⁴⁹ and its Operating Guidelines were approved in August 2013.⁵⁰ UNASUR's CPF is destined to become one of the most relevant and transcendental instruments for the regional integration process of South American nations and for the civil society's ability to influence and participate in that process, provided its fundamental spirit and objectives are not diluted in practice, once it begins its effective operations.

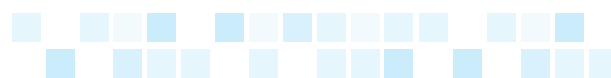
During the process towards the creation of the CPF, the civil society pushed for the elaboration of specific policies regarding issues such as public participation and access to information for certain decision making bodies devoted to particular thematic issues within the UNASUR, such as the COSIPLAN. Without a doubt, the creation of these regulatory frameworks constitutes a working agenda that the civil society needs to keep pushing as the CPF consolidates and begins its effective operations.

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- 41 According to some sections of IIRSA's webpage, the total estimated investment actually amounts to USD 159,351.4 million. See: <http://www.iirsa.org/proyectos/>
- 42 Report of the Project Portfolio COSIPLAN 2013 – November 2013. Available at: http://www.iirsa.org/admin_iirsa_web/Uploads/Documents/cartera_2013_eng.pdf, pp. 33
- 43 A decision was made to incorporate Brazil's Northeastern and Midwestern territories into the Amazon Hub, which led to the creation of a new group and the inclusion of 12 new projects in Group 5.
- 44 Report of the Project Portfolio COSIPLAN 2013 – November 2013. Op. cit. pp. 34
- 45 UNASUR Constitutive Treaty – 05/23/2008. Available at: <http://www.unasursg.org/uploads/0c/c7/0cc721468628d65c3c510a577e54519d/Tratado-constitutivo-english-version.pdf>
- 46 UNASUR General Regulations - 05/2012. Available at: http://www.unasursg.org/uploads/24/3e/243ec214325b47c47e95107b2ec6f6a4/reglamento_english_version.pdf
- 47 South American Infrastructure and Planning Council Statutes. 01/28/2009. Available at: <http://www.unasursg.org/uploads/c0/7f/c07f8a4a4569eaa8b6d4ffa38c0c00f1/Estatutos-del-Consejo-de-Infraestructura-y-Planeamiento.pdf>
- 48 South American Infrastructure and Planning Council Regulations. Available at: http://www.iirsa.org/admin_iirsa_web/Uploads/Documents/Reglamento_Cosiplan_eng.pdf
- 49 Decision #7 of the Council of Heads of State and Government of UNASUR about the Creation of the Civic Participation Forum. Available at: http://www.unasursg.org/uploads/ec/6d/ec6d2361a7821_599442972eb20548/Decision-7-Foro-participacion-ciudadana-Lima-30-noviembre-2012.pdf
- 50 Directrices para el Funcionamiento del Foro de Participación Ciudadana de UNASUR (Guidelines for the Functioning of the Civic Participation Forum of UNASUR) – 08/30/2013. Available at: <http://www.unasursg.org/uploads/0b/39/0b3933b5b1bccd7a41a1176c562615d8/B.-FPC-DIRECTRICES-DEL-FORO-DE-PARTICIPACION-CIUDADANA-DE-UNASUR-CONSENSUADO.pdf>

4. MAJOR CRITICISMS BY THE CIVIL SOCIETY

One of the main criticisms leveled at IIRSA/COSIPLAN is that it proposes an integration that only amounts to improving connectivity between those countries that allow the creation of free trade corridors and to link sources of raw materials destined towards international markets. This is done at the expense of a model based on a concept of symmetrical intra-regional integration or sustainability, with social, environmental, economic, cultural, and political features to safeguard rights, and oriented towards supplementary developmental strategies.

At the same time, there are strong criticisms because a great number of the IIRSA's current sources of financing come from the public sector (directly or indirectly, through IFIs, such as the WB and the IDB, or RFIs, such as the CAF), which often causes a dependence on certain governmental interests and motivations. All this takes place in the context of countries whose economies have grown continuously during the previous decades and whose governments have a string interest in promoting infrastructure integration at the regional level, with Brazil at the helm. In addition, there is a context of weak competitiveness in the region, as



There are strong criticisms because a great number of the **IIRSA's current sources of financing** come from the **public sector**, which often causes a dependence on certain governmental interests and motivations.

well as inadequate planning and a lack of critical internal assessments of the Initiative.

Finally, besides the great number of social and environmental issues caused by many of the Initiative's projects, there are some particular concerns related to the quality of information about the projects. Among them, the files and information about the projects are sometimes inexistent or erroneous, and it is very difficult to gain access to trustworthy information and contact information for the responsible national officials.

The WB Group consists of five institutions, as shown in Table 2.⁵¹ Given the scope of this analysis, we will focus on the International Bank for Reconstruction and Development (IBRD); commonly known as the World Bank, and the IFC.

TABLE 2: Configuration of the WB Group

Institution	Date of foundation	Number of member countries	Mandate	Resources for fiscal year 2013 (billion dollars)
International Bank for Reconstruction and Development (IBRD)	1944	188	Reduce poverty by offering loans to the governments of developing countries	\$15.2
International Development Association (IDA)	1960	172	Reduce poverty by offering loans and grants to the governments of developing countries	\$16.3
International Financial Corporation (IFC)	1956	184	Promote private sector investment to support economic growth and reduce poverty	\$24.9
Multilateral Investment Guarantee Agency (MIGA)	1988	179	Promote foreign direct investment in developing countries to support economic growth	\$2.8 (in risk guarantees)
International Centre for Settlement of Investment Disputes (ICSID)	1966	149	Conflict resolution for international investment disputes	N/C

Sources: IBRD, IDA, IFC, MIGA, ICSID, and Department of Finance Canada

51 Department of Finance Canada. *Canada at the IMF and World Bank Group 2012-2013 – Part 2 of 3*. [online] Available at: <http://www.fin.gc.ca/bretwood/bretwd12-02-eng.asp#anx4> [retrieved on 03/31/2014].

1. THE WORLD BANK/IBRD

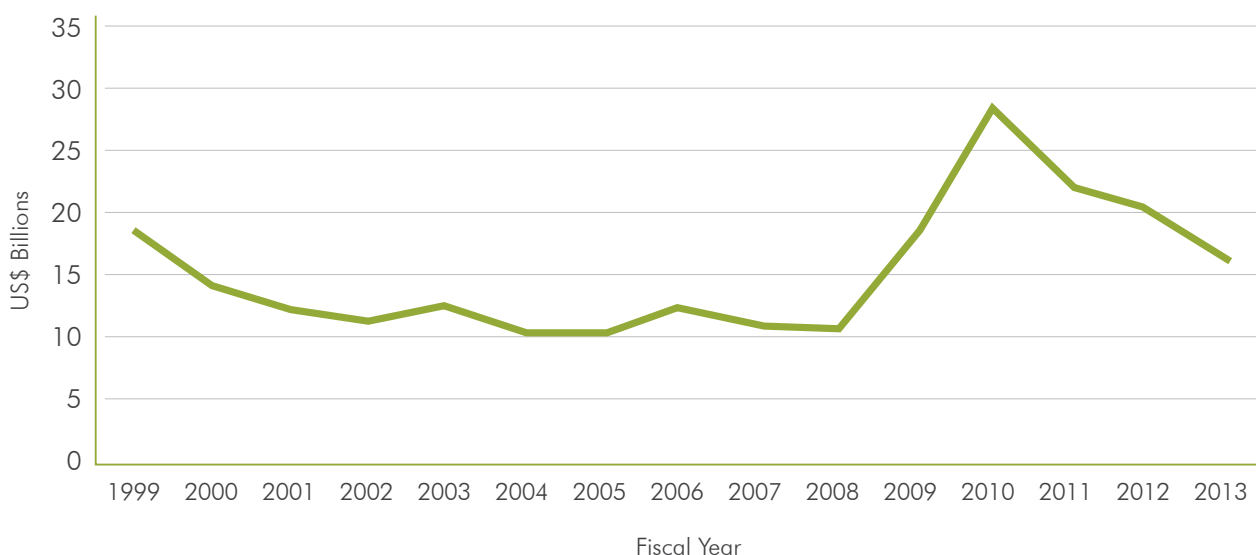
The WORLD BANK/IBRD was established in 1944; its original objective was to help rebuild countries after World War II.⁵² After this was accomplished, the Bank's aim became eradicating poverty and promoting economic development in developing countries. Nowadays, the World Bank still has the objective of ending poverty and promoting shared prosperity,⁵³ by providing loans to middle-income and creditworthy low-income countries.⁵⁴

1.1 The WB in the region

Over time, the WB has negotiated loans with its different member countries (see Figure 1). The

LAC region has been vitally important to the WB, since it has historically been the region with the greatest volume of loans and projects financed by the institution. This is illustrated in Figures 2 and 3, which show the total distribution of IBRD resources to each region. In 1977, 32.44% of its total resources were through loans to the governments of LAC countries, while in 2013 LAC was still the region that received the most resources, with 31% of the total. A review of several annual reports shows that this tendency remains constant.

FIGURE 1: Net Lending IBRD 1999-2013



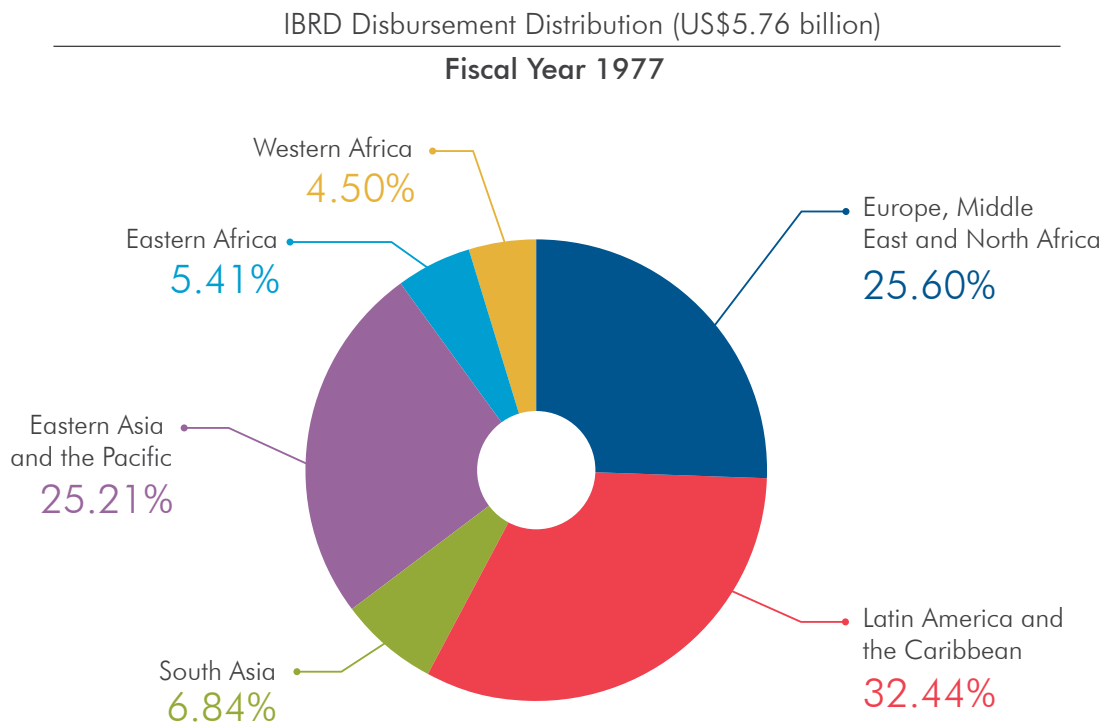
Source: Created by the authors with information from the Bank's Annual Reports

52 World Bank, *History*. [online] Available at <http://www.worldbank.org/en/about/history> [retrieved on 01/28/2014].

53 World Bank, *Annual Report 2013*. [online] Available at <https://openknowledge.worldbank.org/bitstream/handle/10986/16091/9780821399378.pdf?sequence=1> [retrieved on 01/28/2014].

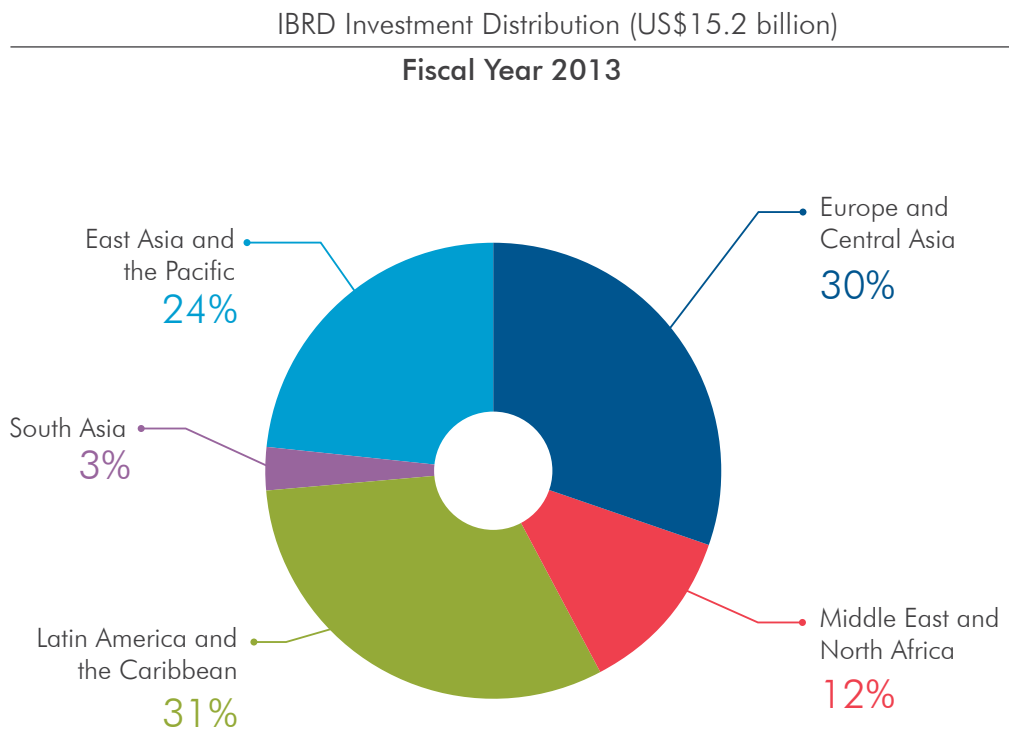
54 World Bank, *About*. [online] Available at <http://www.worldbank.org/en/about> [retrieved on 01/28/2014].

FIGURE 2: IBRD Lending 1977 Fiscal Year



Source: World Bank Annual Report 1977

FIGURE 3: IBRD Lending 2013 Fiscal Year



Source: World Bank Annual Report 2013

Altogether, 29 countries from the LAC region are WB members and receive financing from the institution (see Table 3). In addition to being the region that receives more funds through the Bank's loans, four of its countries - Brazil, Mexico, Colombia, and Argentina- are among the institution's top 10 borrowers (see Table 4).

TABLE 3: WB member countries from the LAC region

• Antigua and Barbuda	• Dominican Republic	• Nicaragua
• Argentina	• Ecuador	• Panama
• Belize	• El Salvador	• Paraguay
• Bolivia	• Grenada	• Peru
• Brazil	• Guatemala	• St. Lucía
• Chile	• Guyana	• St. Vicent and the Grenadines
• Colombia	• Haiti	• Suriname
• Costa Rica	• Honduras	• Uruguay
• Cuba	• Jamaica	• Venezuela, RB
• Dominica	• Mexico	

Source: WB.

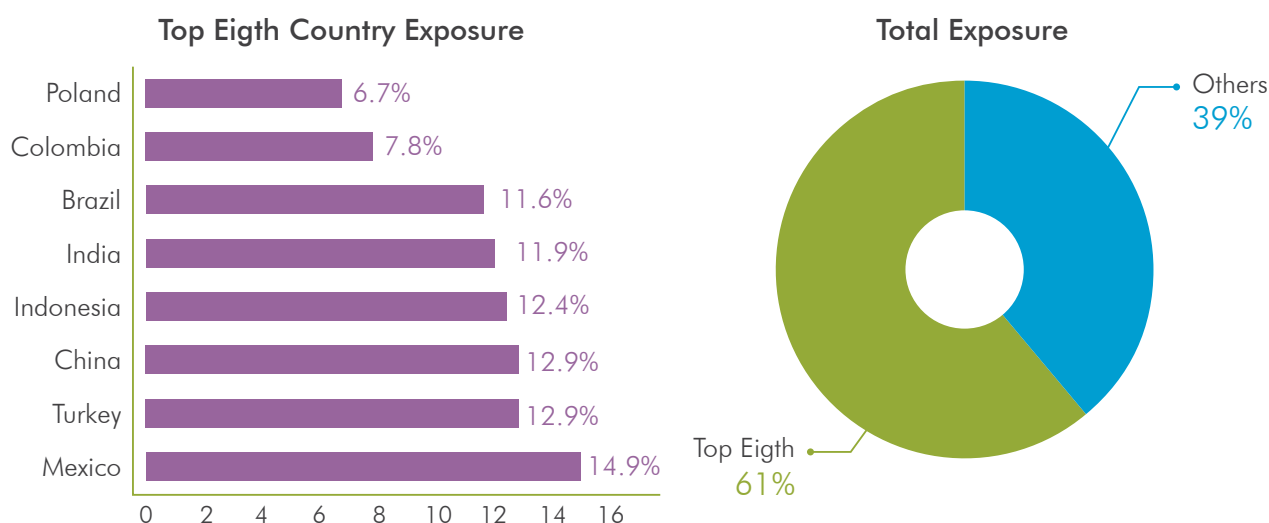
TABLE 4: The IBRD's top borrowers by total loans
IBRD Top Ten Borrowers Ranked By Share Of Total Loans Outstanding

FY 2009			FY 2010			FY 2011		
Country	US\$, bn.	(%)	Country	US\$, bn.	(%)	Country	US\$, bn.	(%)
China	12.6	12.0	China	12.9	10.7	China	13.0	9.8
Brazil	10.7	10.1	Brazil	11.3	9.4	Turkey	12.9	9.8
Turkey	8.6	8.2	India	10.8	9.0	Mexico	12.2	9.2
India	7.9	7.4	Mexico	10.5	8.7	India	11.4	8.6
Indonesia	6.6	6.2	Turkey	10.2	8.5	Brazil	10.4	7.9
Mexico	6.5	6.1	Indonesia	7.6	6.3	Indonesia	8.9	6.8
Colombia	5.9	5.6	Colombia	7.2	6.0	Colombia	7.5	5.6
Argentina	5.2	4.9	Argentina	5.3	4.4	Poland	5.6	4.2
Russia	3.5	3.3	Poland	3.8	3.2	Argentina	5.4	4.1
Poland	3.1	2.9	Ukraine	3.2	2.7	Romania	3.3	2.5
TOTAL	70.6	66.7	TOTAL	82.8	68.9	TOTAL	90.6	68.5

Source: Moody's Investors Service. Credit Analysis. IBRD (World Bank). Supranational

This trend has remained unchanged. In 2013, the top borrowers were Brazil (US\$3.1 billion), Colombia (US\$2.6 billion) and Uruguay (US\$2.4 billion)⁵⁵ and by the middle of last year (June 30, 2013), eight countries accounted for 68% of the WB's total portfolio, including Mexico, Colombia, and Brazil (see Table 5).

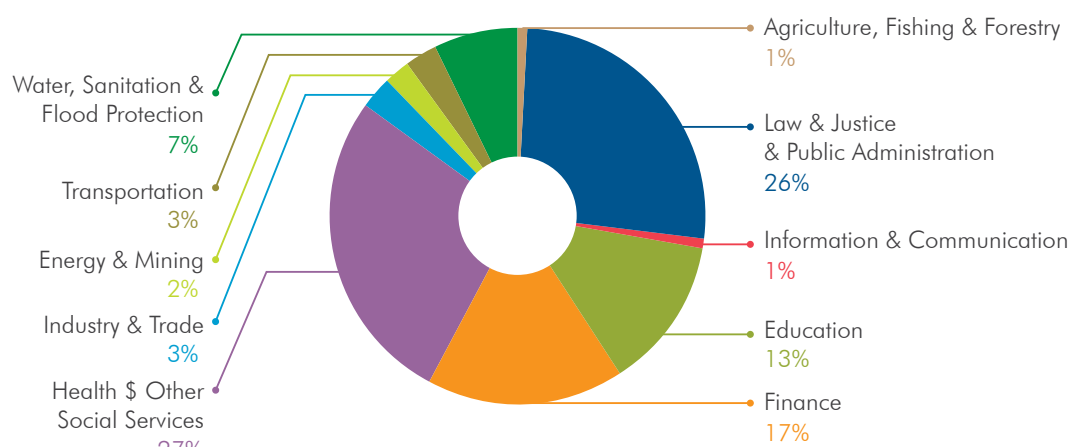
TABLE 5: Total IBRD Portfolio Concentration in Billions of US Dollars at June 30, 2013



Source: WB, Information Statement. IBRD

The issues and sectors have changed through the years, according to the international development agenda. Therefore, in 2003,⁵⁶ the largest percentage of IBRD and IDA resources were channeled to health and other social services (27%), law and justice and public administration (26%), and finances (17%); whereas in 2013,⁵⁷ the main issues were public administration and law and justice (40%), health and other social services (17%), and transportation (13%) (see Figures 4 and 5).

FIGURE 4: LAC: IBRD and IDA Lending by Sector, Fiscal 2003



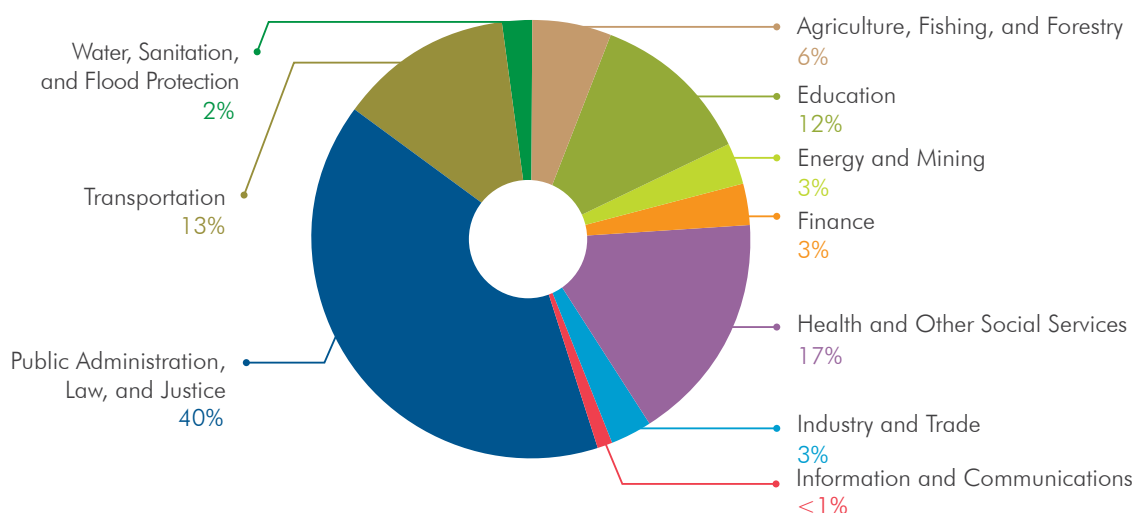
Sources: WB. Annual Report 2003 and Annual Report 2013

55 World Bank. *World Bank Group Backs Latin America and the Caribbean's Steady Poverty Reduction and Middle Class Growth*. 07/24/2013. Available at: <http://www.worldbank.org/en/news/press-release/2013/07/24/world-bank-group-backs-latin-america-caribbean-steady-poverty-reduction-middle-class-growth> [retrieved on 01/29/2014].

56 World Bank. *Annual Report 2003*. Available at: http://www-wds.worldbank.org/serlet/WDSContentServer/WDSP/IB/2003/10/16/000012009_20031016142454/Rendered/PDF/270000PAPER0English0WBAR0vol.02.pdf [retrieved on 01/29/2014].

57 World Bank. *Annual report 2013*. Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2013/0,,menuPK:9304895~pagePK:64168427~piPK:64168435~theSitePK:9304888,00.html> [retrieved on 01/29/2014].

FIGURE 5: LAC: IBRD and IDA Lending by Sector, Fiscal 2013
 IBRD AND IDA LENDING BY SECTOR - FISCAL 2013



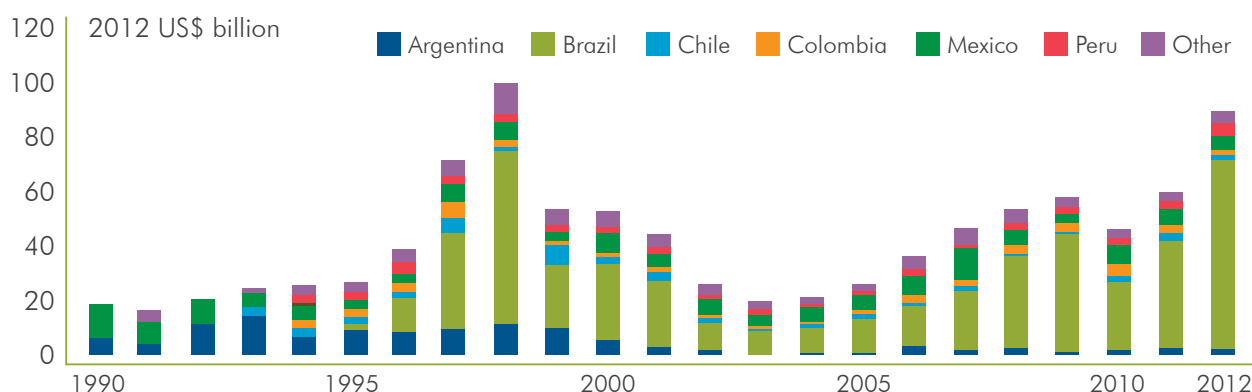
Sources: WB. Annual Report 2003 and Annual Report 2013

1.2 Regulatory Instruments

Infrastructure strategy: In 2012, the WB updated its Infrastructure Strategy for fiscal years 2012-2015. It “lays out the framework for transforming the Group’s engagement in infrastructure... for infrastructure to accelerate growth and even shift client countries toward a more sustainable development trajectory.”⁵⁸ In its Action Plan for the LAC region, the Bank identifies the sectors that will receive infrastructure funding:⁵⁹ transport, energy, water and sanitation, urban programs, disaster risk management programs, and rural infrastructure.

Furthermore, the current trends include PPAs and private sector involvement in infrastructure projects. In 2012, 78 projects signed infrastructure financing contracts that involved the private sector, in 12 countries within the region: Brazil (54), Chile (7), Peru (5), Mexico (4), Argentina (4), Uruguay (2), and Nicaragua (2). This trend is expected to increase (see Figure 6), particularly for the energy and transport sectors.

FIGURE 6: Infrastructure projects with private participation in LAC



Fuente: World Bank and PPIAF, PPI Project Database.

58 World Bank, *Infrastructure* [online] Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTINFRA/0,,contentMDK:23117980~pagePK:64168445~piPK:64168309~theSitePK:8430730,00.html> [retrieved on 01/29/2014].

59 World Bank, *Infrastructure Action Plan Latin American and Caribbean Region*. Available at: http://siteresources.worldbank.org/EXTINFRA/Resources/WB_InfraStrat_Brochure_LatinAmericaCaribbean_2-16.pdf [retrieved on 01/28/2014].

Access to Information Policy (AIP): The World Bank approved the last revision of its AIP⁶⁰ in April 2013, based on the AIP approved in July 2010. Like the previous policy, the principles of this AIP are:⁶¹

- “Maximizing access to information;
- Setting out a clear list of exceptions;
- Safeguarding the deliberative process;
- Providing clear procedures for making information available;
- Recognizing requesters’ right to an appeals process.”

The World Bank’s AIP represents a considerable progress regarding access to information; however, there remains a considerable gap between what the Policy states and its implementation.⁶²

Safeguard Policies: The WB’s Safeguards are a set of social and environmental policies that aim to prevent and mitigate undue harm to people and their environment due to the development projects financed by the institution.⁶³ These policies are: environmental impact assessment, natural habitats, indigenous peoples, involuntary resettlement, safety of dams, international waterways, pest management, physical cultural resources, forests, and projects in disputed areas.⁶⁴ At the moment, these Policies are being revised and, as can be seen in a recently divulged draft (July 2014), the new safeguard framework proposed by the Bank effectively shows a significant dilution of the institution’s social and environmental standards, and constitutes a step back that will endanger the work and achievements of an entire generation of civil society members and affected communities. At the same time, this proposal sets a dangerous precedent for the relaxation of standards, which will probably trigger a strong resistance against any efforts towards stricter social and environmental

standards in other banks and governments within the region. After a process of public consultation that should take place during the second half of 2014, the World Bank intends to approve the new safeguard framework by the end of 2014 or the start of 2015.⁶⁵

Inspection panel: The inspection panel was created in 1994 as an independent mechanism, where people who believe that they have been (or are likely to be) adversely affected by a World Bank-funded project can file a complaint. The duty of the Panel is to account for the Bank’s compliance with its own policies.⁶⁶ This mechanism has also experienced recent changes, and several cases that violated the Bank’s policies and people’s rights have gone unsolved and, therefore, have not been remedied.

1.3 Major criticisms by the civil society

The Bank is currently going through a process of transformation. As mentioned previously, the safeguard policies are being revised, and the civil society fears that the policies will effectively weaken. Furthermore, the civil society considers that this revision process could represent an opportunity to strengthen the safeguard framework and set a standard for other IFIs and RFI.

The main suggestions are:

- Avoid a significant weakening of the safeguards.
- Harmonize safeguards according to international law and the highest norms and standards.
- Expand the scope of the safeguards, and then, guarantee a human rights perspective.

60 World Bank. *World Bank Policy on Access to Information*. Available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSContentServer/IB/2013/07/01/000442464_20130701112846/Rendered/PDF/790340BR0SecM200Box0377330B00O0090.pdf [retrieved on 01/28/2014]

61 Ibid. pp. 2

62 In this subject, Fundar has carried out an analysis of the implementation of the World Bank’s AIP and demonstrated that the Bank does not fully comply with its own Policy.

63 World Bank, *Safeguards Policies*. [online] Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTSAFEPOL/0,,menuPK:584441~pagePK:64168427~piPK:64168435~theSitePK:584435,00.html> [retrieved on 01/29/2014].

64 Ibid

65 BIC “El Banco Mundial amenaza con debilitar sus Salvaguardas y abrir una brecha hacia la flexibilización mundial de estándares sociales y ambientales”. 07/22/2014. Available at: <http://www.bicusa.org/es/el-banco-mundial-amenaza-con-debilitar-sus-salvaguardas-y-abrir-una-brecha-hacia-la-flexibilizacion-mundial-de-estandares-sociales-y-ambientales/> [retrieved on 07/31/2014].

66 World Bank, *Inspection Panel*, [online] Available at: <http://web.worldbank.org/WBSITE/EXTERNAL/EXTINSPECTIONPANEL/0,,menuPK:64132057~pagePK:64130364~piPK:64132056~theSitePK:380794,00.html> [retrieved on 01/30/2014].

- Apply safeguards to all of the Bank's lending instruments. Particularly to the development policy loans (DPLs), the program-for-results (P4R) and the country systems, which are not currently subject to these policies and thus leave an important percentage of the Bank's project portfolio out of the scope of the safeguards. For example, in fiscal year 2010, the Bank approved \$26 billion in DPLs, which means that 52% of the total IBRD project portfolio was beyond the scope of the Safeguard Policies.⁶⁷ They should also help with risk management throughout all the stages of the process cycle.
- Ensure implementation; this means to secure necessary financing to implement and monitor safeguards when the Bank provides funds for a project.

Despite these suggestions, the draft of the new safeguard framework proposes:⁶⁸

- Massive dilution of various existing requirements, which ask for project designs that include protections to act as defense mechanisms for the environment and the affected populations.
- Relaxation, postponement and delay of responsibilities of avoiding damages until after the project's approval.
- Limited applicability, to only 50% of the Bank's activities, excluding development policy loans (DPLs) and program loans.
- Insufficient strengthening of safeguards, in particular in areas where the WB lags behind international best practices.
- Lack of adequate information to fully understand and judge the proposed changes,

including commitments and alternative plans for implementation.

The Inspection Panel is also revising its Operating Procedures at this time. Several civil society organizations (CSOs) have expressed their concern that the proposed changes to eligibility criteria and the pilot program will weaken the Panel. Furthermore, the Panel has been criticized due to its inability to process complaints properly and the lack of consequences in cases where the Bank's policies have been violated. Regarding the World Bank's AIP, there is still a significant gap that needs to be covered between the policy and its implementation.

2. THE INTERNATIONAL FINANCE CORPORATION (IFC)

The IFC was established in 1956 with the objective of promoting private investment to support economic growth and reduce poverty. It has 184 member countries and works in more than 145 countries.⁶⁹

2.1 The IFC in the region

The IFC has been active in the region from the moment of its inception. To date, LAC is the region where the largest volume of resources is channeled: 24% of the total resources committed for fiscal year 2012 (see Figure 7). For fiscal year 2013, 26.28% of the IFC resources (US\$4.8 billion) were channeled through the private sector in LAC (see Table 6).⁷⁰ Over the years, IFC financing for the implementation of projects in the region has increased, as shown in Figure 8.

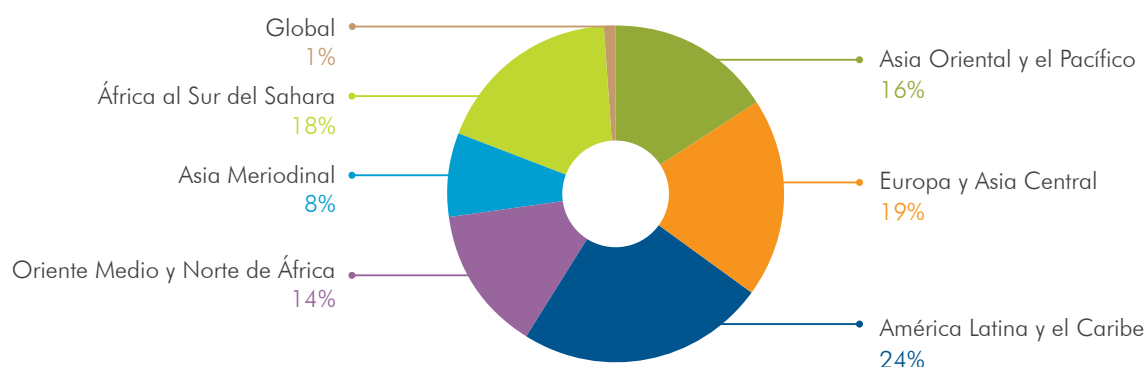
67 McELHINNY, Vince. *The World Bank and DPLs. What Middle Income Countries Want*. BIC. 02/2011. Disponible en: <http://www.bicusa.org/en/Document.102530.pdf>, [recuperado el 10/03/2014].

68 BIC. Op. cit.

69 IFC. *IFC in Latin America and the Caribbean. Creating Opportunity*. 10/2012. Available at: <http://www.ifc.org/wps/wcm/connect/45c632804d76a91ea96dbd48b49f4568/LAC+Brochure+ENGLISH+FOR+WEB+PDF.pdf?MOD=AJPERES> [retrieved on 03/10/2014].

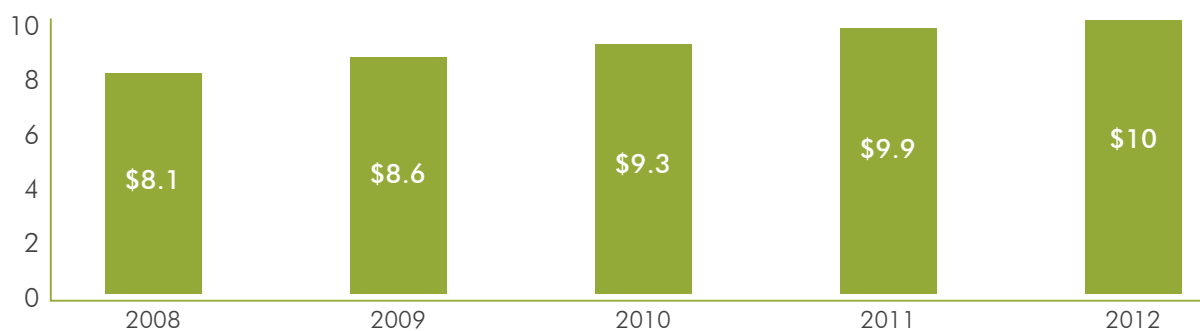
70 IFC. *Annual Report 2013*. Available at: http://www.ifc.org/wps/wcm/connect/d020aa004112357a8975ffe5679ec46/AR2013_Full_Report.pdf?MOD=AJPERES [retrieved on 03/10/2014].

FIGURE 7: 2012 Commitments by Region (US\$ millions)



Source: IFC in Latin America and the Caribbean. Creating Opportunity

FIGURE 8: Total Committed Portfolio in LAC, 2008-2012



Source: IFC in Latin America and the Caribbean. Creating Opportunity

TABLE 6: Fiscal Year 2013 by Region in Millions of Dollars

BY REGION	
Latin America and the Caribbean	\$4,822 (26.28%)
Sub-Saharan Africa	\$3,501 (19.08%)
Europe and Central Asia	\$3,261 (17.77%)
East Asia and the Pacific	\$2,873 (15.66%)
Middle East and North Africa	\$2,038 (11.11%)
South Asia	\$1,697 (9.25%)
Global	\$156 (0.85%)

Some amounts include regional shares of investments that are officially classified
 Source: IFC. Annual Report 2013

Brazil, Mexico, and Colombia are among the top ten countries in terms of the volume of projects supported by the IFC (see Table 7).

TABLE 7: Countries with the largest volume of IFC investment

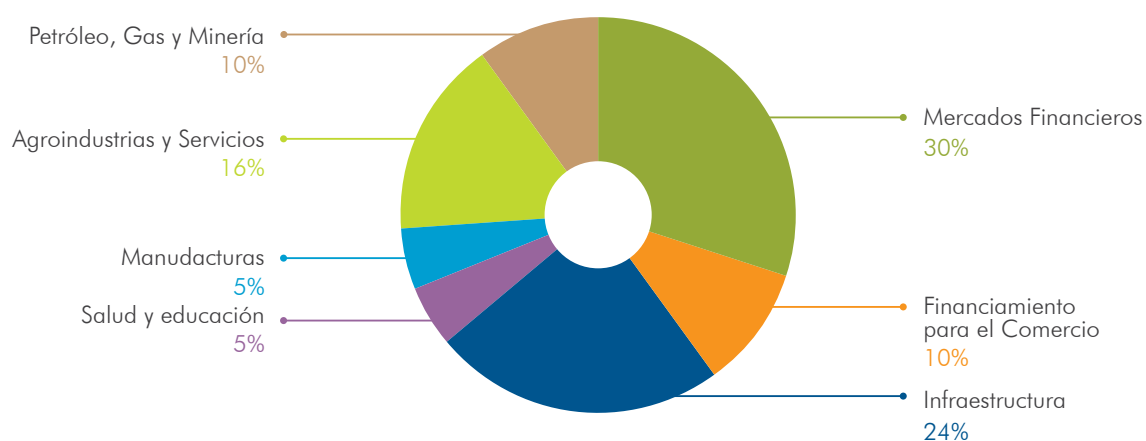
COUNTRY (Global Rank)	Committed Portfolio (\$ millions)	of Global Portfolio (%)
India (1)	\$4,453	9%
China (2)	\$3,002	6%
Turkey (3)	\$2,856	6%
Brazil (4)	\$2,690	5%
Russian Federation (5)	\$2,145	4%
Mexico (6)	\$1,584	3%
Nigeria (7)	\$1,334	3%
Egypt, Arab Republic of (8)	\$1,130	2%
Ukraine (9)	\$963	2%
Colombia (10)	\$947	2%

Excludes individual country shares of regional and global projects

Source: IFC. Annual Report 2013

The main sectors that receive IFC financing in LAC are financial markets (30%), infrastructure (24%), and agricultural industries and services (16%), as show in Figure 9.

FIGURE 9: Portfolio Committed in the Region, by Sector. 2012 Fiscal Year



Source: IFC in Latin America and the Caribbean. Creating Opportunity

2.2 Regulatory Instruments

Access to Information Policy (AIP):

The IFC updated its Access to Information Policy in 2012 (the previous policy had been effective since 2006). The AIP defines the information that the Corporation should publish for each proposed

investment, including project information and social and environmental implications, among others. For projects classified as Category A (which means that they will have strong and irreversible impacts), information about the program must be

published 60 days prior to consideration by the Board of Directors. For all other investments, the information should be published 30 days prior to their consideration.⁷¹ The policy distinguishes the Corporation's responsibilities from those of its clients. It also establishes the information that must be routinely disclosed. This information is divided into four categories: institutional, investment-related, advisory services-related, and related third parties. The required information is available both through the website and the Bank's *Infoshop* offices.⁷²

Performance Standards on Environmental and Social Sustainability:

The IFC performance standards are guidelines for clients who receive funding from the institution. Their aim is to identify the risks and impacts implied by specific projects in order to manage, avoid or mitigate them.⁷³ These Standards consist of:⁷⁴

1. Assessment and management of environmental and social risks and impacts
2. Labor and working conditions
3. Resource efficiency and pollution prevention
4. Community health, safety, and security
5. Land acquisition and involuntary resettlement
6. Biodiversity conservation and sustainable management of living natural resources
7. Indigenous peoples
8. Cultural heritage

The Performance Standards are relevant since a considerable number of private financial institutions have agreed to comply with them. An example of this is their adoption within the Equator Principles.⁷⁵

Compliance Advisor Ombudsman (CAO):

The CAO was established in 1999 to act as an independent mechanism for complaints and accountability related to environmental and social issues regarding the IFC.⁷⁶ Its mandate is to respond to complaints from IFC project-affected communities and prevent social and environmental impacts.

2.3 Major criticisms by the civil society

The IFC has financed, and keeps financing, controversial projects in the LAC region. The most recent example is the Dinant case in Honduras.⁷⁷ Regarding this case, the CAO itself⁷⁸ found that the IFC did not comply with its own policies; it failed to protect the local communities and allowed the company's wrongdoings during the last five years; it did not disclose essential information about the project, the community consultation and the high risks identified by the project; and it ignore the complexity of the social and political contexts, allowing human rights violations.⁷⁹ To date, these findings have had no consequences. This shows the wide gap currently in existence regarding Policies and normative frameworks, their implementation, and the enforcement of penalties due to non-compliance.

The IFC also has a mandate to invest in the private sector, so it is involved in projects that imply the privatization on public goods and that have investment as their main objective, beyond development in itself. As a result, it finances projects together with the IDB, the CAF, and other IFIs.

71 IFC. *Access to Information Policy*. Available at: <http://www.ifc.org/wps/wcm/connect/98d8ae004997936f9b7bffb2b4b33c15/IFCPolicyDisclosureInformation.pdf?MOD=AJPERES> [retrieved on 03/10/2014].

72 Ibid. pp. 13

73 IFC. *IFC Performance Standards on Environmental and Social Sustainability*. 01/01/2012. Available at: http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_pps [retrieved on 03/10/2014].

74 The complete standards are available at: http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afd998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES

75 The Equator Principles are general guidelines for social and environmental management in project financing, which private financial institutions can adopt voluntarily. They were created in June 2003, and, so far, have been adopted by 79 institutions in 35 countries. For more information, see: <http://www.equator-principles.com/>

76 CAO *Operational Guidelines*. Available at: http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines_2013.pdf [retrieved on 03/11/2014].

77 For more information about the Dinant case, see: <http://www.oxfamblogs.org/lac/el-banco-mundial-financia-una-empresa-implicada-en-violaciones-de-derechos-humanos-en-honduras/> or <http://www.hrw.org/es/news/2014/02/12/honduras-sin-justicia-en-la-ola-de-homicidios-vinculados-conflictos-por-la-tierra>

78 CAO. *CAO Audit of IFC Investment in Corporación Dinant S.A. de C.V., Honduras*. 12/20/2013. Available at: http://www.cao-ombudsman.org/documents/DinantAuditCAORefC-I-R9-Y12-F161_ENG.pdf [retrieved on 03/11/2014].

79 See CSO response to the CAO investigation into IFC investment in Corporación Dinant, Honduras. Available at <http://www.grain.org/article/entries/4854-cso-response-to-the-cao-investigation-into-ifc-investment-in-corporacion-dinant-honduras> [retrieved on 03/11/2014].

The IDB was established in 1959 according to the objectives of the Organization of American States (OAS), but completely independent from the latter. It finances social and economic development projects to promote regional commercial integration in LAC. While, at the time of its inception, the IDB's main objective was to finance regional integration among Latin American countries (creating larger markets), it currently claims that it focuses on:⁸⁰

- Reducing poverty and social inequalities;
- Addressing the needs of small and vulnerable countries;
- Fostering development through the private sector;
- Addressing climate change, renewable energy and environmental sustainability; and
- Promoting regional cooperation and integration.

Currently, the Bank has 48 members, 26 of them from LAC.⁸¹ Any country wishing to become a regional member has to belong to the OAS first; countries that want to become non-regional members have to belong to the IMF. The shareholders or owners of the IDB are the same member countries, which delegate their authority to the Board of Governors. Voting power depends on the Bank's capital subscribed to by the country. The largest shareholder, as a block, consists of the 26 LAC countries, which account for 50% of the voting power and are the organization's driving force; the US holds 30% of the voting power, and Europe and other countries hold the remaining 20%.

The IDB, the Inter-American Investment Corporation (IIC), and the Multilateral Investment Fund (MIF), together, form the so-called IDB Group.⁸²



1. THE IDB IN THE REGION

The IDB is one of the main financing sources for projects in the LAC region, because the institution currently provides its borrowing member countries part of the financing they receive from multilateral agencies. According to its 2012 Annual Report,⁸³ the IDB approved a program with 169 projects that year, for a total of US\$11.4 billion. This program included 151 investment projects for a total of US\$9.2 billion, 45 of them non-sovereign guaranteed operations (i.e., they go to the private sector and not to the State) for a total of US\$1.5 billion. These results consolidate the trend towards

a growing volume of the Bank's approvals. During the last five years, approvals were almost doubled, in average, in comparison to the five years before them; the annual average increased from US\$6.9 billion in the 2003-2007 period to US\$12.3 billion for the 2008-2012 period.⁸⁴

A breakdown by sector (see Figure 10) shows that 49% of the funds approved focused on infrastructure and environment sector programs, 31% on the strengthening of institutions for development, 19% on social sector programs and 1% on integration

80 IDB. *Our priorities and areas of action* [online]. Available at: <http://www.iadb.org/en/about-us/our-priorities-and-areas-of-action,6007.html> [accessed on 03/11/2014].

81 The IDB members are: Argentina, Austria, Bahamas, Barbados, Belgium, Belize, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Croatia, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Germany, Guatemala, Guyana, Haiti, Honduras, Israel, Italy, Jamaica, Japan, Mexico, Netherlands, Nicaragua, Norway, Panama, Paraguay, Peru, Portugal, Republic of Korea, Slovenia, Spain, Suriname, Sweden, Switzerland, Trinidad and Tobago, United Kingdom, United States, Uruguay, and Venezuela.

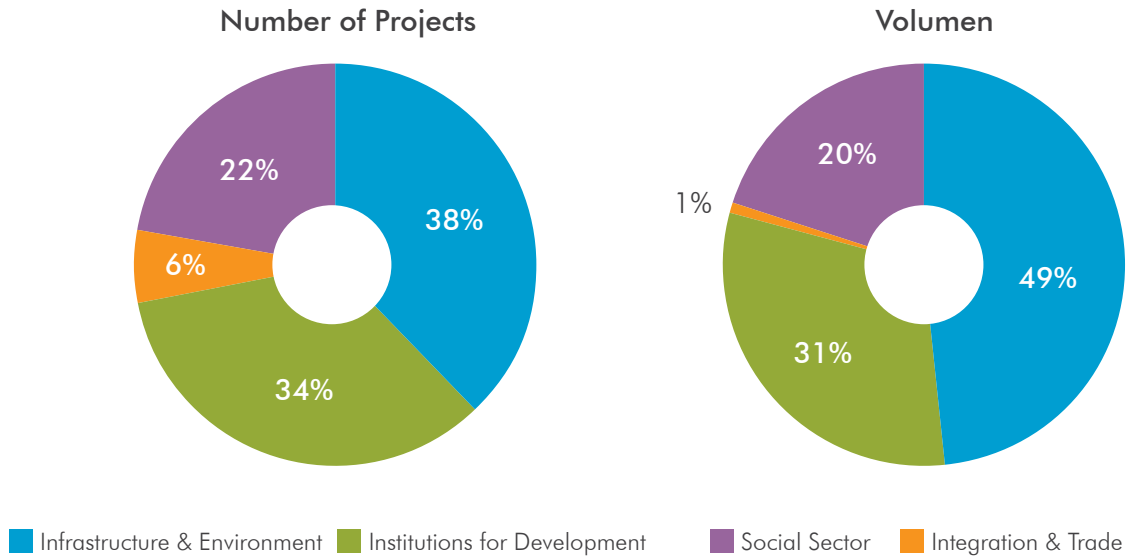
82 The IIC largely focuses on supporting small and medium businesses, while the MIF promotes private sector growth through grants and investments, with a special focus on microenterprises.

83 IDB. *2012 Annual Report*. Available at: [http://publications.iadb.org/bitstream/handle/11319/3399/2012 Annual Report. The Year in Review.pdf?sequence=5](http://publications.iadb.org/bitstream/handle/11319/3399/2012%20Annual%20Report.%20The%20Year%20in%20Review.pdf?sequence=5) [retrieved on 01/29/2014].

84 Ibid. pp. 5

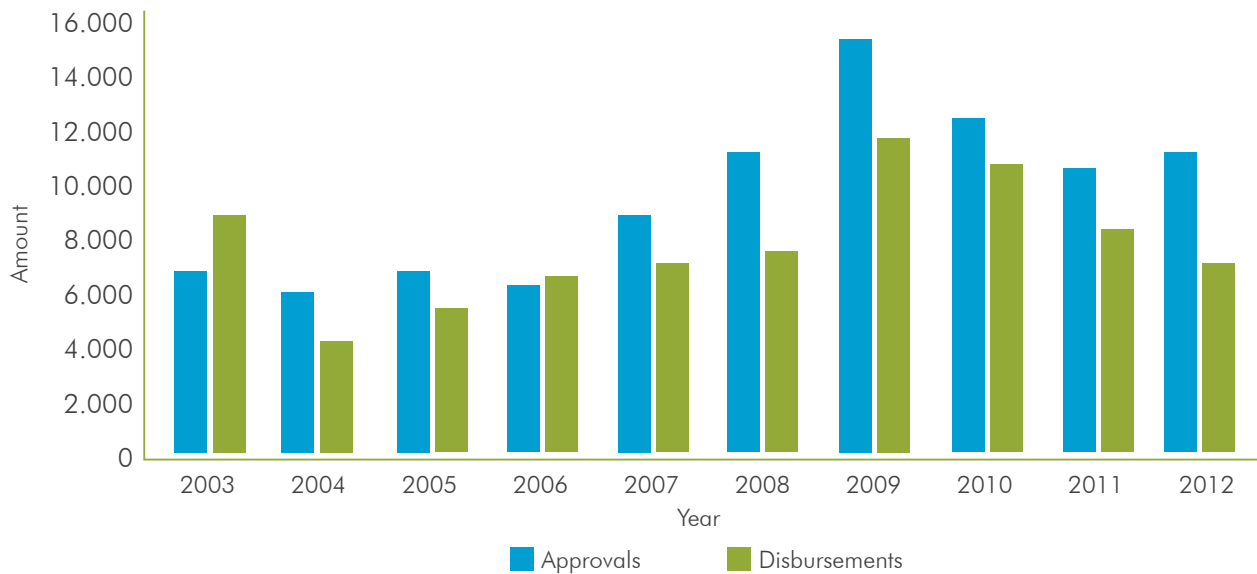
and trade sector programs. As for the number of operations, 38% of all new operations were approved for the infrastructure and environment sectors, 34% for institutions for development, 22% for social sectors and 6% for integration and trade.⁸⁵

FIGURE 10: Approvals by sector. 2012 Fiscal Year



Total does not add due to rounding.
Source: IDB. 2012 Annual Report

FIGURE 11: Approvals and Disbursements. 2003-2012 Period
(in millions of U.S. Dollars)



Source: IDB. 2012 Annual Report

85 Ibid. pp. 5

In terms of the Bank's project portfolio, by the end of 2012, the active portfolio of sovereign-guaranteed projects in execution included 622 operations with an undisbursed balance of US\$25.3 million. Of total undisbursed resources, 61% corresponded to the infrastructure and environment sectors, 24% to institutions for development programs, and 14% to social sector programs. These results, along with the support of by a higher flow of approvals, consolidate the growing trend in the Bank's portfolio. On average, the volume of the portfolio has increased 12% during the past five years, compared to the previous five-year period. The annual average grew from US\$38.9 billion in the 2003-2007 period to US\$43.4 billion in the 2008-2012 period.⁸⁶

2. REGULATORY INSTRUMENTS

The IDB has an Institutional Strategy, included in its Ninth General Capital Increase Report,⁸⁷ that determines five sector priorities: the social policy for equity and productivity; the infrastructure for competitiveness and social welfare; the institutions for growth and social welfare; the competitive regional and global international integration; and the mitigation and response to climate change, and renewable and sustainable energy.

Infrastructure

The IDB has an Infrastructure Strategy; according to the document *Sustainable Infrastructure for Competitiveness and Inclusive Growth. IDB Infrastructure Strategy*⁸⁸, its objective is:

"To guide future Bank support for the countries of the region in their adoption of a new vision for the infrastructure sector. According to this vision, infrastructure is planned, built, and maintained in order to support the provision of adequate quality services that promote

*sustainable and inclusive growth. This new vision of infrastructure rests on the key pillars of environmental, social, and fiscal sustainability, and it recognizes the need to expand multisector approaches that allow synergies between infrastructure sectors to be exploited."*⁸⁹

This Strategy indicates that most funds come from the public sector, leaving PPAs in the background. "The evolution of investment in infrastructure in Latin America and the Caribbean indicates that the public sector will continue to be the main source of resources for infrastructure financing. However, given the investment needs and budgetary constraints, an increase in mixed sources of financing will necessarily be required."⁹⁰

Apparently, this situation has changed. During its latest Assembly of Governors, held on March 27th, 2014, in Costa do Saúpe, Bahia (Brazil), the IDB decided to restructure the IIC, providing it with more capital; the amount and composition of such capital is expected to be defined by next October. One of the areas of investment is precisely that of public-private infrastructure.⁹¹

Private sector

Additionally, it is important to emphasize the relevance of the private sector's influence regarding the implementation of projects and policies within the IDB. In the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank, "the member countries development through the private sector" is established as an essential factor for the Bank's development strategies. Regarding the IDB's strategy for private sector development, it focuses on promoting development in the country through the private sector, and not on developing the private sector itself. This means that creating PPAs to promote equitable development is perceived as a fundamental task.

86 IDB. 2012 Annual Report. Op. cit. pp. 6-7

87 For more information, see: <http://www.iadb.org/en/capital-increase/ninth-capital-increase-idb-9,1874.html>

88 IDB. *Sustainable Infrastructure for Competitiveness and Inclusive Growth. IDB Infrastructure Strategy* November 2013. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=38579555> [retrieved on 01/29/2014].

89 Ibid. pp. 1

90 Ibid. pp. 12

91 MORENO, Carlos A. *El BID crea la "Nueva Corporación" para atender al sector privado*. Redacción Sinembargo.mx. 03/2014 [online]. Available at: <http://www.sinembargo.mx/30-03-2014/947943> [retrieved on 04/14/2014].

Access to Information Policy (AIP)

This policy, adopted in 2010,⁹² is based on four principles:

- Principle 1: Maximize access to information
- Principle 2: Narrow and clear exceptions
- Principle 3: Simple and broad access to information
- Principle 4: Explanations of decisions and right to review

The exceptions considered comprise a series of conditions that could hinder the access to information, including: information supplied in confidence and business or financial information, deliberative information, and country-specific information classified as confidential, among others.

TABLE 8: Sustainability and Safeguards Policies⁹³

Environmental and Social Policies of the IDB	
Operational Policy	Approval Date
OP-703: Environment and Safeguards Compliance Policy	January 19, 2006
OP-710: Involuntary Resettlement Operational Policy	July 22, 1998
OP-765: Operational Policy on Indigenous Peoples	February 22, 2006
OP-704: Natural Disaster Risk-Management Policy	February 22, 2007
OP-761: Operational Policy on Gender Equality in Development	November 13, 2010

Source: IDB website

The report *Mid-Term Evaluation of IDB-9 Commitments. Environmental and Social Safeguards, Including Gender Policy. Background Paper*,⁹⁴ written by the Office of Evaluation and Oversight (OVE)⁹⁵ and published in March 2013, addresses some issues regarding the implementation of these Policies that are worth noting:

- **Strengthening safeguards supervision.** It is recognized that a great effort has been made to implement the safeguards, but only a small number of high-risk projects have been followed

up through field visits. Therefore, there are no records about their performance in the Project Completion Reports and Progress Monitoring Reports.

- **Increasing attention to the social aspects of sustainability.** Adopting a Gender Policy has not effected any changes.
- **Enhancing implementation of the Gender Policy and Action Plan.** The document proposes two lines of action: to formulate implementation

92 IDB. *Access to Information Policy*. April 26, 2010. Available at: <http://publications.iadb.org/bitstream/handle/11319/2516/Access%20to%20Information%20Policy.pdf?sequence=2> [retrieved on 01/29/2014].

93 IDB. *Sustainability and Safeguards Policies* [online]. Available at: <http://www.iadb.org/en/topics/sustainability/sustainability-and-safeguards-policies,1515.html>

94 IDB. OVE. *Mid-Term Evaluation of IDB-9 Commitments. Environmental and Social Safeguards, Including Gender Policy. Background Paper*. 03/2013. Available at: <http://publications.iadb.org/bitstream/handle/11319/5870/IDB-9%3a%20Environmental%20and%20Social%20Safeguards%2c%20Including%20Gender%20Policy.pdf?sequence=1> [retrieved on 01/29/2014].

95 The Office of Evaluation and Oversight is an independent body of the Inter-American Development Bank, responsible for externally evaluating the Bank's projects and performance, to help the institution improve its development effectiveness. (IDB. OVE. *About Us*. Available at: <http://www.iadb.org/en/office-of-evaluation-and-oversight/about-the-office-of-evaluation-and-oversight-ove,6655.html>

guidelines for the gender policy, create toolkits and provide training for the staff; and to follow up their implementation closely.

- **Revisiting the allocation of resources for environmental and social safeguards work.**

This report by the institution's internal oversight mechanism points out the remaining gaps in the implementation of these policies.

The ICIM:

The Independent Consultation and Investigation Mechanism (ICIM)⁹⁶ was established as a partial answer to the public's demand. Its aim is to provide a way for people who feel that they were affected by the IDB's operations to raise their concerns. With less than five years of existence and due to an assessment conducted by the Office of Evaluation and Oversight (OVE), there are concerns about its potential suspension. Because of this possibility, on January 2013, a group of CSOs sent a letter to the Bank highlighting the Mechanism's achievements and formulating several recommendations. Most notably:

1. **Revising the Policy.** The Board of Executive Directors must guarantee that the revision of the ICIM's Policy: (1) is conducted by independent consultants with the support of a group of internal and external advisors (reference groups); (2) is transparent regarding the revision's timeline and scope; (3) involves a wide variety of stakeholders, including affected or potentially affected communities; (4) provides a well documented, reasonable and significant opportunity for public feedback about the revised policy's draft; and (5) reaches out through civil society liaisons and individual country offices to consult with the Civil Society Consulting Groups (ConSOCs) and other actors within the region.
2. **Budget capacity.** In order for the ICIM to be effective, it needs to receive resources similar to those granted to other international accountability mechanisms, considering its

different functions, potential number of cases and geographical area of action.

3. **Clarify internal roles within the ICIM.** Clarify internal roles within the ICIM

The ConSOCs:

According to the Bank, the ConSOCs are a platform intended to promote information exchange, dialogue strengthening, and recurring and timely consultation between the IDB and civil society organizations in the 26 countries where the Bank operates. Through their members, the IDB receives CSO comments in order to improve impact and effectiveness of the IDB's operations on the social and economic development of the countries. In theory, the Bank's Country Offices, in collaboration with the ConSOCs, determine the rules for managing the institutional relationship, so that it aligns with the reality, context, and dynamics of each country.⁹⁷

At the moment, these groups exist in some countries: Argentina, Peru, Mexico, Brazil, Ecuador and Colombia. They hold meetings about several general subjects, but there are no clear rules of operation or follow-up mechanisms. Furthermore, the groups have not been entirely effective so far, given their significance in terms of participation, something that has resulted in criticisms by the civil society.

These criticisms include:

1. Institutional relationship. Two issues are addressed: (i) several CSOs linked to the ConSOCs receive IDB funds, resulting in a conflict of interest; and (ii) other actors represent sectors implementing projects that are being financed by the IDB.
2. The lack of general operating rules or, at least, of some basic guidelines to follow; therefore, each national office sets its rules of operation, elections and other criteria.

96 IDB. *About the ICIM* [online]. Available at <http://www.iadb.org/en/mici/about-the-icim,7736.html> [retrieved on 01/29/2014].

97 IDB. *Civil Society Consulting Groups (ConSOCs)* [online]. Available at: <http://www.iadb.org/en/civil-society/civil-society-consulting-groups-consocs,7238.html> [retrieved on 01/29/2014].

3. The lack of procedures to call for members, since membership is usually granted through designation by the IDB's own staff.

3. MAJOR CRITICISMS BY THE CIVIL SOCIETY

The relationship between the civil society and the IDB has been a long-standing issue, with many ups and downs, as reforms are promoted and become claims that are initially accepted but lack continuity within the IDB's institutional policies. Some of the main criticisms are:

- The existence of ConSOCs can be seen as progress, albeit seriously limited progress, since they still don't have clear membership rules or a defined scope.
- Policy and strategy consultations are done virtually for the most part, and the ConSOCs' meetings lack the adequate preparation to allow for informed opinions. At the same time, there is a lack of clarity regarding the effect of the contributions in the Bank's consultation processes.
- While creating the ICIM was a breakthrough for civil society, it has a set of limitations that must be addressed. At the same time, there are serious concerns about potential attempts to undermine the Mechanism by the Bank's Management.
- Once more, the Infrastructure Strategy is focusing its efforts in competitiveness and, even though it suggests that conditions and relations with sectorial policies must exist, it has not shown any progress on how to implement this. However, what can be said is that a Strategy exists now; and this means that it will soon become a pillar for the Country Strategies and result in specific support for new projects.
- Recently, and without previous warning, the Bank decided to exclude the civil society from its 2014 Annual Assembly, at a time when the institution is deciding important actions regarding the role of the private sector in its development agenda, and thus setting a dangerous precedent.⁹⁸

98 For more information, see: <http://eurodad.org/Entries/view/1546179/2014/03/27/The-Inter-American-Development-Bank-excludes-civil-society-just-as-it-revises-its-work-with-the-private-sector>

D. THE BRAZILIAN NATIONAL BANK FOR ECONOMIC AND SOCIAL DEVELOPMENT (BNDES)

The BNDES, established in 1952, is a Brazilian federal public company, managed by the Ministry of Development, Industry and Foreign Trade of Brazil. During the last several decades, it has become one of the main financing agents in South America, displacing other international financial institutions that had historically been the main sources of financing for the region's countries, such as the WB or the IDB.

Essentially, this substantial increase in the level of funding and involvement of the BNDES in the region responds to the national development strategy advanced by Brazil, pursuant to the accelerated expansion and consolidation of its economy in recent decades, as well as the consequent increase in its domestic demand for energy and natural resources. At the regional level, this has translated into a strategy of internationalization of the leading Brazilian companies, where the BNDES now plays a central role, since its activities promote Brazilian exports and the direct involvement of the country's main transnational corporations (including Odebrecht, Camargo Correa, Vale, Andrade Gutiérrez, OAS, and Braskem) in major regional infrastructure projects.

According to its website, the Bank's mission is: *"To foster sustainable and competitive development in the Brazilian economy, generating employment while reducing social and regional inequalities."*⁹⁹ Therefore, the BNDES has become the Federal Government's main instrument for the implementation of industry and infrastructure policies, as well as the Brazilian Industry, Infrastructure and Foreign Trade Policy. In that sense, the BNDES currently plays a key role in promoting the expansion of industry and infrastructure, not only of Brazil itself, but also of most Latin American countries where the Bank's funds are present.

1. THE ROLE OF INFRASTRUCTURE ACCORDING TO THE BNDES

According to the Bank itself, one of its most important corporate goals of strategic planning consists in expanding investment for transport and energy infrastructure, in order to boost Brazilian economy.¹⁰⁰ Investment in infrastructure includes constructing, extending and modernizing highways, ports, airports, railways, and waterways in terms of transport and logistics. As for the energy sector, infrastructure investment includes the generation and transmission of electric, thermal, wind, and nuclear energy, as well as the production and transport of oil, natural gas, and renewable fuels.

In this regard, and as befits its traditional and significant support for the infrastructure sector, the BNDES plays a key role as the main financing agent for investment projects under the Brazilian government's Growth Acceleration Program (Programa de Aceleração do Crescimento, PAC). The PAC's objective consists in accelerating economic growth, increasing employment and improving living standards for Brazilians, through measures that aim to encourage private investment, increase public investment in infrastructure and remove obstacles –bureaucratic, administrative, normative,

99 BNDES. *Mission, Vision and Values* [online]. Available at: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES/mission.html [retrieved on 01/29/2014].

100 BNDES. *Annual Report 2012*. Available at: http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/RelAnual/ra2012/relatorio_anual2012_ingles_full.pdf [retrieved on 01/29/2014].

legal and legislative— to economic growth. In fact, the BNDES has launched a program for funding the Growth Acceleration Program (Programa BNDES de Financiamento ao Programa de Aceleração do Crescimento), which supports PAC projects in the infrastructure sector.¹⁰¹

According to its Annual Report 2012, the infrastructure sector led the Bank's disbursements for that year:

from a total of R\$156 billion, disbursements to infrastructure totaled R\$52.9 billion, which accounts for 34% of the total (exceeding the industry sector, which accounted for 31%). Within the infrastructure sector, the most significant disbursements went to the electric energy sector, with disbursements that amounted to R\$18.9 billion (18% more than 2011), and highway transport, with R\$15.5 billion (see Table 9 and Figure 12).¹⁰²

TABLE 9: BNDES. Disbursements per activity (in R\$ billion)

ACTIVITY	2008	2009	2010	2011	2012
Industry	39,0	63,5	78,8*	43,8	47,7
Infrastructure	35,1	48,7	52,4	56,1	52,9
Trade / services	11,2	17,3	27,1	29,2	44,0
Agriculture	5,6	6,9	10,1	9,8	11,4
TOTAL	90.9	136,4	168,4	138,9	156,0

Source: BNDES. Annual Report 2012

*Includes market operations with Petrobras.

FIGURE 12: BNDES. Disbursements to each sector



Source: BNDES. Annual Report 2012

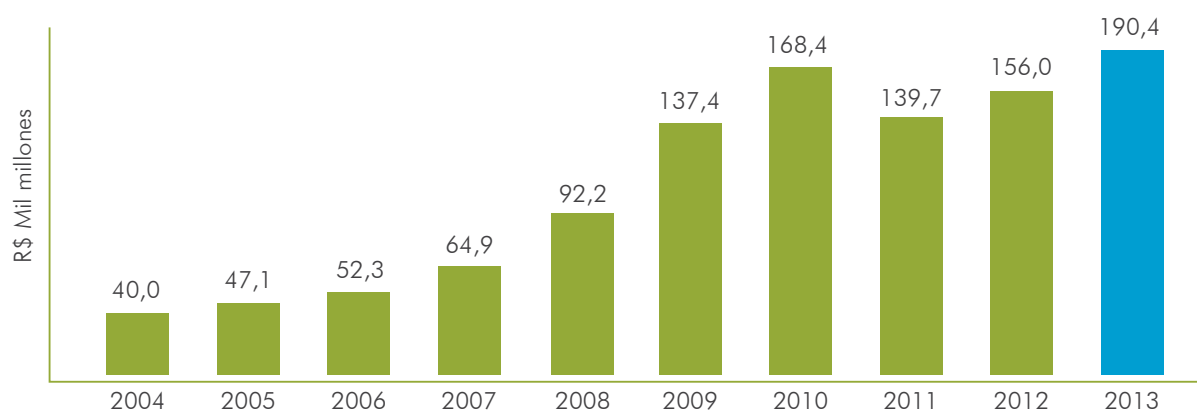
101 BNDES. Programa BNDES de Financiamento ao Programa de Aceleração do Crescimento [online]. Available at: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/Programas_e_Fundos/financiamentoPAC.html [retrieved on 01/29/2014].

102 BNDES. Annual Report 2012. Op. cit. pp. 9 and 40

In 2013, the Bank's disbursements totaled R\$190.4 billion, up 22% compared to 2012, and all sectors had increased disbursements. The infrastructure sector accounted for 33% of the total, with R\$62.2 billion released.¹⁰³

Figure 13 shows the evolution of the Bank's total disbursements from 2004 to 2013, which have grown exponentially over the last few years, reaching a record in 2013.

FIGURE 13: BNDES. The Evolution of the BNDES's Disbursements



Source: BNDES web site

2. THE BNDES IN THE REGION

In 2003, the BNDES amended its statute so that it could finance Brazilian companies abroad and, therefore, support investment outside Brazil. However, it wasn't until 2005, when the rules about international direct financing were approved, that the Bank became an important agent for the internationalization of Brazilian companies.¹⁰⁴ Since then, the Bank's operations in the region grew significantly, and it became one of the main financing agents within the region, particularly in the infrastructure sector.

Thus, in Latin America (and also in Africa), the Bank's operations are largely focused on infrastructure projects, particularly in the construction of hydroelectric power stations, aqueducts, gas pipelines, transport operations, subways, highways, railways and wind farms. Precisely, infrastructure

projects are the ones that receive most of the funding provided by the BNDES to strengthen and internationalize Brazilian companies,¹⁰⁵ particularly a small number of transnational companies close to the national government.

The lack of transparency in the Bank's activities, particularly those outside Brazil, hinders the access to official and detailed information about the institution's operations in Latin America. However, researchers from the civil society have generated estimated data about the Bank's approximated level of financing in the region. Thus, according to a study by the Brazilian Institute of Social and Economic Analyses (Instituto Brasileiro de Análises Sociais e Econômicas, IBASE),¹⁰⁶ for example, the BNDES' financing for the operations of Brazilian companies in other countries grew 1185% during the last 10 years.

103 BNDES. *Performance in 2013* [online]. Available at: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES_in_Numbers/performance_2013.html [retrieved on 01/29/2014].

104 Pública, Agência de Reportagem e Jornalismo Investigativo. "BNDES, para exportação" 11/28/2013. Available at: <http://www.apublica.org/2013/11/bndes-para-exportacao/> [retrieved on 01/29/2014].

105 VERDUM, Ricardo. *Brasil, BNDES y proyectos de inversión con implicancias en la Amazonía*. 2013. Lima, Peru, pp. 7. Available at: http://www.dar.org.pe/archivos/publicacion/122_Informe_espanol.pdf

106 IBASE. *Os Bancos de Desenvolvimento nos BRICS*. Available at: http://issuu.com/ibase/docs/brics_portugues [retrieved on 01/29/2014].

Likewise, from 1998 to 2012, the Bank gave its support to 48 infrastructure projects in Latin America, all with links to Brazilian companies, most notably to the construction company Norberto Odebrecht SA, which led more than half of the projects.¹⁰⁷

3. REGULATORY INSTRUMENTS

Due to lack of information on the BNDES website, as well as translation problems and other limitation on the institution's transparency, it is difficult to have precise information on the institutions regulatory instruments. However, the information on the website indicates that the Bank has three main policies regarding social and environmental responsibility, which seek to establish a link between social and environmental issues and the institution's procedures, practices, policies, and strategies:¹⁰⁸ the Social and Environmental Responsibility Policy; the Socio-environmental Policy; and the Sustainable Purchasing Policy. The Bank considers these three policies as part of their Transparency Policy. Furthermore, while the Bank has a Social and Environmental Safeguard Policy, it is virtually impossible to know exactly how the policy works and how the Bank applies this safeguard regime to its operations.

Regarding access to information, the financial institution has no AIP of its own at the moment, and its transparency and access to information regime is essentially governed by Brazil's Access to Information Law, Law No. 12.527/2011.¹⁰⁹ Several of the region's organizations have addressed this issue, drafting a document that establishes guidelines for the debate about an AIP for the BNDES.¹¹⁰

It should be noted that, thanks to the advocacy process and the pressure exerted by the civil society

in Brazil and in the region, the Bank recently decided to take a step forward in terms of public participation, and establish a Citizen Participation Forum to start a dialogue with the civil society. Although at the moment participation in the Forum is limited to only Brazilian organizations, other organizations in the region have been able to contribute to the debate by drafting contributions to be presented at the Forum. In this space, the Bank has committed to, among other things, improve transparency through new practices; collaborate with the civil society in the creation of a safeguard proposal; and discuss the Bank's stronger regional influence.

According to recent BNDES press releases, its Operational Policy has been revised¹¹¹ in terms of financial issues, emphasizing three priority areas, including economic infrastructure, especially in the logistics sector.

As for access to justice, the Bank has an Ombudsperson (*Ouidoria*) tasked with receiving complaints and reports about the institution's operation. However, the Ombudsperson is part of the Bank's institutional framework; it lacks independence and does not play an active role in addressing the complaints. Rather, its function consists in answering clients, mostly micro-entrepreneurs, or people with questions about certain financial products, such as the BNDES Card, for example.

4. MAJOR CRITICISMS BY THE CIVIL SOCIETY

Most criticisms of the Bank's activities have to do with the socio-environmental impacts and human rights violations derived from the projects that it finances, both in Brazil and in other Latin American or African countries.

107 Pública, Agência de Reportagem e Jornalismo Investigativo. "BNDES, para exportação" Op. cit.

108 BNDES. *Política de Responsabilidade Social e Ambiental* [online]. Available at: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/BNDES_Transparente/Responsabilidade_Social_e_Ambiental/politica_de_responsabilidade.html [retrieved on 01/29/2014].

109 Brazil's Access to Information Law, No. 12.527/2011. 11/18/2011. Available at: <http://www.cgu.gov.br/acessoainformacao/acesso-informacao-brasil/legislacao-integra-texto-completo.asp>

110 *Lineamientos para la discusión. Implementación de una Política de Acceso a la Información para el Banco Nacional de Desarrollo Económico y Social de Brasil (BNDES)*. 01/2014. Available at: <http://www.fundar.org.mx/mexico/pdf/Lineamientos%20AJA.pdf> [retrieved on 03/20/2014].

111 BNDES. *Nova Política Operacional do BNDES começa a vigorar*. 02/04/2014 [online]. Available at: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Sala_de_Imprensa/Noticias/2014/Institucional/20140204_novaspos.html [retrieved on 03/20/2014].

Currently, the main concern raised about the Bank refers to its lack of transparency and access to information regarding its operations. In this regard, several voices have been raised in recent years, both from the Brazilian and Latin American civil societies, as well as from political groups, journalists and other actors, questioning the Bank's lack of transparency and the bank secrecy used to justify the opacity surrounding the information about the funds granted and the projects that are carried out using these funds. Latin American civil society has also strongly contested the limited accessibility to information about the projects financed by the Bank outside Brazil, as well as the institution's social and environmental policies and their implementation during project approval.

Regarding the Citizen Participation Forum, the main concerns revolve around the effective compliance of the Bank's commitments, and opening up a space for the participation of regional, non-Brazilian organizations.

The previously mentioned factors about the current role and functions of the Bank's Ombudsperson have also been criticized by the civil society, which seeks to persuade the Bank to assign a budget to the mechanism, strengthen it, and let it play a real role during the implementation of projects financed by the BNDES.

E. THE DEVELOPMENT BANK OF LATIN AMERICA / ANDEAN DEVELOPMENT CORPORATION (CAF)

The Development Bank of Latin America (formerly known as CAF) is a multilateral regional development bank, with a similar structure to that of the IDB and created in 1967 (it started operations formally in 1970). Originally, its members were the five Andean countries (Bolivia, Colombia, Venezuela, Peru, and Ecuador), but it is now comprised of 18 countries from Europe, Latin America, and the Caribbean,¹¹² as well as 14 private banks from the Andean region. All member countries can obtain loans from the Institution, and many countries from South America and the Caribbean are regular clients.

The CAF states that its mission is to “provide sustainable development and regional integration through an efficient mobilization of resources for a timely provision of multiple financial services, with high value added, to clients in the public and private sectors of the shareholder countries.”¹¹³ Pursuant to this mission, it has managed to become a fundamental agency for the development of shareholder countries. Thus, the CAF is currently one of the main sources of public financing in South America (particularly in the Andean region) and has been one of the main promoters of regional infrastructure projects under the IIRSA. Additionally, the CAF is an important financial agency for the banking sector, granting considerable mid- and long-term financing to public and private banks within the region.



1. THE CAF IN THE REGION

According to the CAF’s 2011 and 2012 Annual Reports,¹¹⁴ the following figures describe the Institution’s performance within the region in those years:

Assets and Equity

Between 2010 and 2011, total CAF assets grew from US\$18.5 billion to US\$21.5 billion. During the same period, its equity increased from US\$5.8 billion to US\$6.4 billion. These figures confirm the CAF’s continued growth and productivity, which consolidate the institution as one of the most important multilateral financing sources in the region. Additionally, the CAF’s approved capital reached US\$10 billion, a historical milestone for the Institution.¹¹⁵

Approvals

In 2012, the CAF approved loans for US\$9.3 billion (see Figure 14). The growing presence of the CAF in Latin America has translated into an

increase in its involvement in most countries. Most notably, the Bank approved US\$4.0 billion for Argentina, Brazil, Panama, Paraguay, and Uruguay, which have become full member countries of the institution; these loans account for 43% of the year’s approvals. Adding these approvals to those for founding countries, the amount reaches US\$8.2 billion, that is, 88% of the total. The cases of Peru, Brazil, and Colombia are worth mentioning, since approvals for the productive sector via the financial system totaled US\$1.0 billion, US\$1.0 billion, and US\$815 million, respectively, all through medium- and long-term credit lines. From a sectorial perspective, the CAF approved US\$2.0 billion for the infrastructure sector, in accordance with the priorities established within the development agendas of the shareholder countries, particularly regarding roads and highways. These approvals accounted for 21% of the total and were divided as follows: 70% were channeled to support economic infrastructure while the remaining 30% went to infrastructure projects for regional integration.

112 Its members are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad and Tobago, Uruguay, and Venezuela.

113 CAF. *About CAF* [online]. Available at: <http://www.caf.com/en/about-caf/what-we-do>

114 CAF. *Annual Report 2011*. 05/2013. Available at: <http://www.caf.com/media/3659/AnnualReport2011.pdf> [retrieved on 01/29/2014].

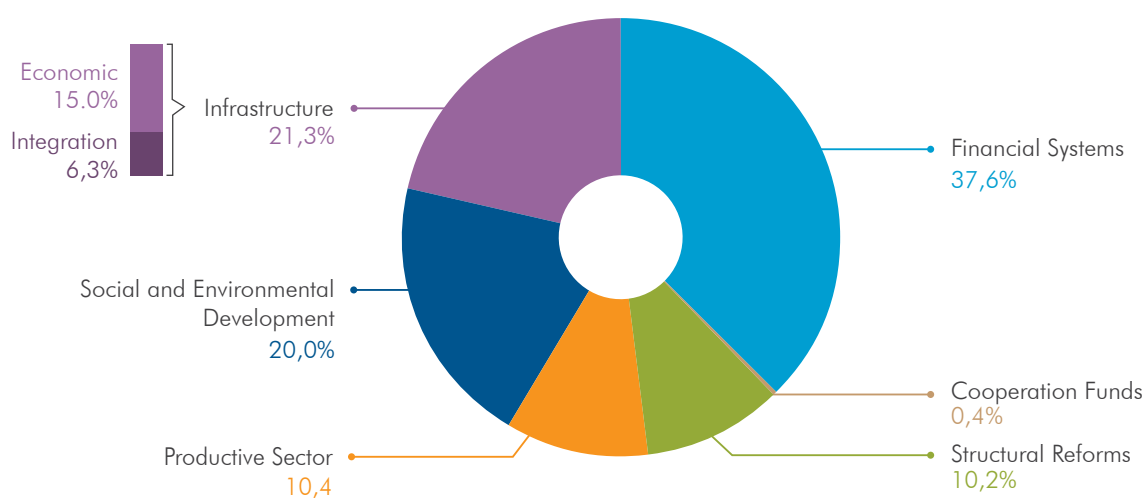
115 *Ibid.* pp. 8

FIGURE 14: Approvals in millions of USD 2012 Fiscal Year



Source: CAF. Annual Report 2012

FIGURE 15: Approvals by strategic area. Year 2012



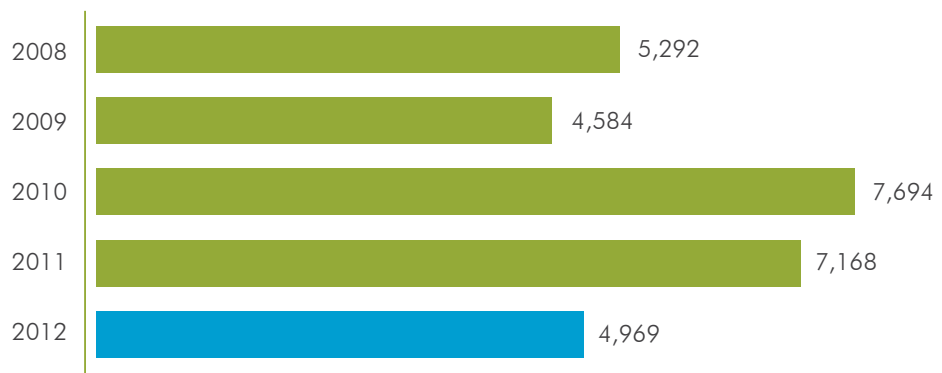
Source: CAF. 2012 Annual Report

Disbursements

By the end of 2012, the CAF had disbursed US\$5.0 billion (see Figure 16). A significant share of the year's disbursements, 39%, went to sovereign investment programs and projects, among other priority areas for the CAF Integrated

Development Agenda. The objective was to improve the competitiveness of productive sectors and to support the less-favored segments of the population, particularly through the provision of basic services.

FIGURE 16: Disbursements



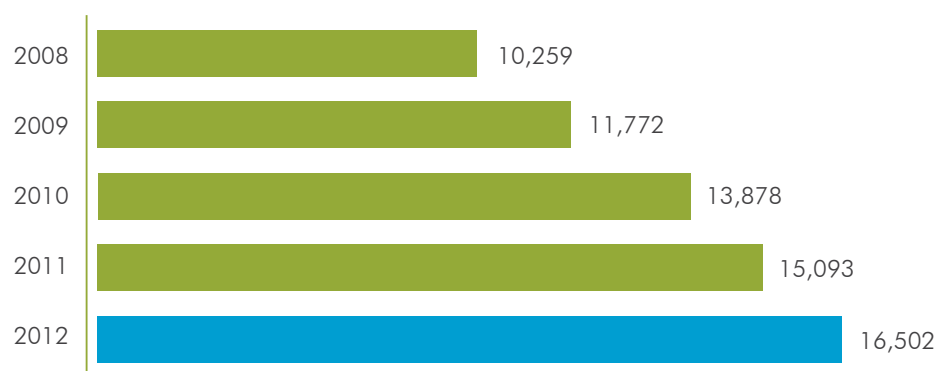
Source: CAF. 2012 Annual Report

Project Portfolio

By the end of 2012, the CAF's project portfolio amounted to US\$16.5 billion (see Figure 17), which represented an increase of 9.3% compared to 2011. It is worth mentioning that due to the high and sustained rate of growth of its project portfolio, the CAF has managed to duplicate its size in only six years, from US\$8.2 billion in 2006 to US\$16.5 billion in 2012. The Institution's operational and financial projections suggest that this trend of sustained growth will remain strong over the following five years. Contributing to infrastructure construction and promoting social development of its shareholder countries is one of the CAF's top strategic lines of action. Consequently, the portfolio related to loans for the transport sector totaled US\$5.8 billion,

accounting for 35% of the total portfolio at years end, and the share related to the telecommunications sector totaled US\$38 million, that is 0.2% of the total (see Table 10). The amount related to water, gas, and electricity distribution reached US\$5.5 billion, 34% of the total portfolio. It should be stressed that the increasing weight of the energy sector in the institution's operational variables, US\$4.6 billion by the end of the year, led to a corporate decision to create a new vice presidency for energy projects. This decision was made to address this sector's increasing importance within the CAF's Integrated Development Agenda. Additionally, 12% of the institutions total portfolio is related to health, social services, and education.¹¹⁶

FIGURE 17: CAF. Project Portfolio



Source: CAF. 2012 Annual Report

116 Ibid. pp. 27-33

TABLE 10: CAF. Portfolio by Economic Sector

	2008	2009	2010	2011	2012
Agricultural infrastructure	88	78	40	34	63
Mining and quarrying	70	43	66	50	0
Manufacturing	416	261	200	281	208
Electricity, gas and water supply	2,004	2,968	4,095	5,018	5,532
Transport, warehousing and communications	3,201	3,660	4,365	5,325	5,826
Commercial Banking	1,457	1,500	1,698	1,077	1,144
Development institutions	210	225	345	354	641
Education, social services and healthcare	1,740	1,698	1,599	1,854	1,970
Other activities	1,075	1,339	1,469	1,101	1,119
Total	10,259	11,772	13,878	15,093	16,502

Source: CAF. 2012 Annual Report

2. REGULATORY INSTRUMENTS

Infrastructure Strategy:

The CAF sees infrastructure as one of its priority lines of action, and supports it by promoting the development of shareholder countries and trying to cover their basic needs, in order to directly support “the processes of integration and international competitiveness of the region, especially aimed at the areas of roads, energy, telecommunications and Latin American river integration”.¹¹⁷

The CAF defines a general vision about its involvement and influence in this field of action, where the institution has provided technical assistance and financial advice to governments. These concrete actions have been fully oriented to “facilitate the project construction process, by funding key projects that would boost national and regional development, and implementing co-financing and A/B Loans¹¹⁸

(with the participation of private financiers) to attract more resources towards the sector”.¹¹⁹

To develop this area of action, the CAF proposes an Integrated Development Agenda, which aims to strengthen the infrastructure sector through the implementation of the following programs:¹²⁰

- Sustainable Energy Program
- GeoSUR Program
- Program for Information Technology and Communications Support (TICAF)
- Urban Mobility Observatory (SMO)
- First Class Ports Program
- Program for Border Development and Integration Support (PADIF)
- Infrastructure Integration
- Mesoamerican Integration and Development Project

117 CAF. *CAF in Infrastructure* [online]. Available at: <http://www.caf.com/en/areas-of-action/infrastructure> [retrieved on 01/29/2014].

118 See: CAF. *Capital Structure* [online]. Available at: <http://www.caf.com/en/caf-in-figures/capital-structure> [retrieved on 01/29/2014].

119 CAF. *CAF in Infrastructure*. Op. cit.

120 Ibid

Participation and Access to Information:

According to the environmental strategy proposed by the CAF in 2010, the Bank “views the participation and information of public, private, and civil society actors as decisive to the success of its mission, and consequently promotes and facilitates extensive discussion spaces and appropriate dissemination mechanisms relating to its activities in view of the policies and strategies established for CAF by its shareholder countries in this area”.¹²¹ The Bank also establishes that its Comprehensive, Systemic Approach “consider[s] mechanisms to foster the information and participation of any communities present in the areas of influence, taking into consideration their points of view in any courses of action decided upon for operations’ social and environmental management”.¹²² Despite the previous asseverations, the Bank lacks a specific normative instrument regarding access to information to establish minimum transparency guidelines at the institutional level.

Safeguard Policy:

The CAF includes the environment as one of its areas of action, arguing that the Bank “is committed to the environment within the framework of its institutional mission to promote sustainable development and regional integration”.¹²³ Consequently, it sets forward an Environmental Strategy with different lines of action. They include complying with social and environmental safeguards while conducting the operations it finances, acknowledging that these safeguards “set basic benchmarks for the development of sustainable and responsible environmental and social management for operations” financed by the CAF.¹²⁴

The Environmental Strategy also poses that as part of its implementation methodology approach, the CAF should conduct “continuous follow up and control to ensure compliance with the environmental principles, with the safeguard guidelines and, in particular, with the commitments acquired by the

operation and for the environmental and social management and administration, as well as with their corresponding budget execution.”¹²⁵ The safeguards are acknowledged as basic benchmarks for the development of sustainable and responsible social and environmental management of operations and projects. The CAF recognizes the following safeguards for the projects it finances:¹²⁶

- **National legislation:** Adjustment of the projects financed by CAF to the national environmental laws of the country where they are implemented; as well as the application of additional precautions or internationally accepted technical standards.
- **Assessment of impacts, risks and environmental and social opportunities:** A review process and a complementation of the environmental and social assessment for every project, from the beginning.
- **Environmental and social management and budget measures:** As a resulting outcome of the review of the environmental and social assessment of the operations, based on the cost implementation of environmental and social management practices to handle environmental impacts and opportunities.
- **Institutional strengthening, human resource training and information:** Strengthening of governance and generation of capabilities in the actors associated with the operations financed by the CAF.
- **Conservation of hydric resources:** Sustainable use of water and other resources, and an integral management of river basins.
- **Natural parks and protected natural areas:** Preservation of these territories as public assets, adjusting the implementation of the projects financed by the institution.
- **Prevention of disaster risks:** Assessment (when necessary) of operations according to the CAF’s vulnerability to natural risks, due to the implementation of a project or a funded operation.
- **Pollution prevention:** CAF’s implementation of measures geared toward pollution prevention.

121 CAF. *CAF’s Environmental Strategy*. 09/2010. Available at: http://publicaciones.caf.com/media/1407/estrategia_ambiental_eng.pdf , pp. 13

122 Ibid. pp. 19

123 CAF. *CAF and the Environment* [online]. Available at: <http://www.caf.com/en/areas-of-action/environment> [retrieved on 01/29/2014].

124 CAF. *Environmental Strategy* [online]. Available at: <http://www.caf.com/en/areas-of-action/environment/environmental-strategy/lines-of-action> [retrieved on 01/29/2014].

125 Ibid

126 CAF. *CAF’s Environmental Strategy*. Op. cit. pp. 17-18

- **The region's cultural heritage:** Protection of areas with archeological or historical treasures, or the sacred grounds of indigenous peoples.
- **Ethnic groups and cultural diversity:** Preservation and strengthening of the region's cultural diversity during the development of CAF-funded operations, through compliance with the participation process required by the laws of each country.
- **Community participation and development:** Contributing through the operations financed by the CAF, to strengthen informed, active, and timely participation of the inhabitants of the zones where these operations are carried out.
- **Involuntary relocation or resettlements:** When the relocation of human groups is required.
- **Protection of children:** No funding for child exploitation activities.
- **Gender equity:** Gender equity in the operations it finances.

3. MAJOR CRITICISMS BY THE CIVIL SOCIETY

In spite of its relevance and growing influence, the CAF has largely operated out of the scope of public scrutiny and the radar of many of the region's civil society organizations and public interest groups. In 2008, the Bank Information

Center (BIC) documented several issues regarding the CAF's institutional performance in a report titled *Corporación Andina de Fomento (CAF): Guión Básico para la Sociedad Civil*.¹²⁷ The report concludes that the CAF is a financial institution that lacks transparency, is very flexible regarding its loans, and operates more like a private commercial bank than as a driver for sustainable development.

The CAF's environmental policy is very weak, and it applies a country system approach,¹²⁸ that is, it uses the social and environmental regulations of the borrowing country, instead of having its own policy with harmonized laws to regulate all the projects financed by the Bank. Additionally, it relies on the client countries to monitor the implementation of the projects funded by the CAF. Under IIRSA, this means that controversial projects with high negative impact and risk levels are funded by the CAF, since this institution can provide funds easily without having to ensure compliance with environmental regulations.

Furthermore, the CAF does not have an information disclosure policy, nor does it adopt minimum transparency standards; this makes it one of the less transparent IFIs in the region.¹²⁹ The only sources of specific information about the Bank's activities are its press releases, which usually provide partial information. The loan documents are not available to the public, and the organization does not respond to information requests about them.

127 HAMERSCHLAG, Kari. *Corporación Andina de Fomento (CAF): Guión Básico para la Sociedad Civil*. BIC. 06/2008. Available at: <http://www.bicusa.org/wp-content/uploads/2013/01/Guion-Basico-para-la-Corporacion-Andina-de-Fomento-2008.pdf> [retrieved on 01/29/2014].

128 Ibid. Executive Summary, pp. xii

129 Ibid. pp. 12

FINAL THOUGHTS

Trends regarding financing impacts

Some reflections can be derived from the preceding analysis about the landscape of financing infrastructure in the LAC region, and the main actors involved, in order to develop potential advocacy strategies for the Latin American civil society.

It is quite clear that the financing infrastructure architecture in the region is a complex matter that requires defining lines of action and advocacy strategies articulated with specific short-, medium- and long-term scopes at different levels (local, national, and regional). In general terms, we can see a growing involvement and level of influence in the region of certain national and international development institutions, such as the BNDES, CAF, CBD, and Chinese FDI. In recent years, these actors have gained ground as opposed to institutions such as the World Bank, IFC and IDB. However, the latter are still relevant in terms of the funding for infrastructure in the region, particularly after the financial crisis of 2008. LAC is still the region that receives the highest volume of funds from these institutions, and some countries, such as Brazil, Mexico, Argentina, and Colombia, are among the top borrowers from both the WB and the IFC.

The existence of different sources of funding requires a comprehensive understanding of both the context and the financial framework in the region. It is also necessary to develop constant and comprehensive

monitoring strategies in order to influence macro-level dynamics in the field of infrastructure financing, through an understanding of regional and global processes, such as the G-20, the BRICS coalition, the creation of the Development Agenda Post 2015 and the COSIPLAN processes in the UNASUR, to mention just a few examples. This understanding will allow the articulation of strategies at a regional level to influence trends in the countries within the region and in particular local processes.

A first impact trend is the relaxation of the financing sources' institutional frameworks and environmental regulations. The proliferation of financing sources for the region has resulted in a competition among diverse institutions to grant loans and be involved in the countries, as these are ultimately banking institutions and their priority is to move and increase their capital. This happens in different ways; the BNDES, for example, participates through Brazilian transnational companies, as was described above. This competition represents a potential trend towards a weakening of the regulatory frameworks that currently govern the provision of funds by some institutions and help prevent and mitigate impacts (these have yet to incorporate a human rights discourse).

Thus, the WB is in the process of relaxing its social and environmental policies, while a considerable share of its loan portfolio is not subject to these policies.

Furthermore, the loans that the IDB grants to the private sector are subject to different policies. The BNDES and the CAF lack a precise framework of social and environmental policies, while the regulatory frameworks of Chinese banks are largely unknown to the region's civil society. In all cases, the gap between the existing legislation and its implementation is a constant. That the WB is generating a new, more relaxed framework whose implementation will mostly depend on the borrowing countries is a great source of concern, on the one hand, because the institution has served as a reference both for other multilateral development banks and for international financing to the public sector (through the IFC's Performance Standards). On the other hand, several regulatory frameworks in the region's countries are weaker compared to those of the IFIs (such as the safeguard policies); therefore, the latter's existence serves as one more advocacy strategy for specific cases, while an effort is made to strengthen human rights regulatory frameworks in each country and their implementation.

A second trend is a weakening of the mechanisms of access to justice and accountability in funding sources. The countries within the region all are facing the challenge to strengthen their institutional mechanisms for access to justice. As for international financial institutions and national development banks, it is essential that they have grievance or accountability mechanisms, such as the Inspection Panel, the ICIM, and the CAO, as well as evaluation mechanisms, such as the WB Independent Evaluation Group, and the IDB's OVE. However, these mechanisms need to be impartial and effective, something that is not true at the moment. There is also a trend to weaken accountability

mechanisms, because they constitute (or should constitute) a counterbalance and threaten to slow or stop altogether certain financing processes for projects that imply social and environmental impacts and do not respect human rights.

A third trend is a weakening of the environmental regulations of borrowing countries, as a consequence of the relaxation of the institutional frameworks and environmental regulations of their financiers. In order to have a real normative and practical influence, it is necessary to have an institutional budget that enables the implementation of those rules, both for the financial institution and for the borrowing client or country. This explains the current reluctance: administrative budgets and staff vary considerably from institution to institution, regardless of the size of their loan and project portfolio. Another reason for institutions to resist having social and environmental policies to govern their financing processes is the added time they require, since they need to plan the project, assess the risks, and develop an action plan to address these risks, before the disbursement. For the WB and IDB, for example, which have safeguard and access to information policies, it takes between 16 and 20 months to prepare and approve a project, and up to six months from the project's approval to the moment when the disbursement is made; while for the CAF, preparation and approval take less than a year, and the period between approval and disbursement does not exceed three months. Consequently, countries and clients go to those institutions with faster processes and a smaller number of procedures. The existing spaces for public participation in these institutions have limited influence and, for the most part, are merely procedural.

A fourth trend is the emergence of mixed associations (PPP), where private actors play a leading role in infrastructure projects and that are supported by different financial institutions. The private sector has gained prominence in the project portfolio and initiatives of financial institutions. This poses several challenges, given the nature of a private entity that carries out public interest activities, as has been illustrated through the application of bank secrecy in the transactions of the BNDES, but is not considered as a public actor. Therefore, the region's organized civil society will have to analyze such associations to understand how they work and be able to develop advocacy strategies accordingly.

This scenario allows us to anticipate not only a continuation but also an exacerbation of the current tensions between infrastructure projects and: a) human rights; b) the collective rights of indigenous populations; c) environmental protection; and d) sustainable development and climate change commitments. This

poses several challenges for the civil society in Latin America regarding advocacy in at least three levels: a) in each financial institution; b) at a regional level, particularly in each of the region's countries; and c) at a local level, following the cases of particular projects in the region. These levels should be incorporated into a wider strategy that gives the civil society a greater ability to monitor the negative impacts from infrastructure financing, while allowing them to maximize the positive impacts that may be generated in the long term.

Consequently, it is necessary, at least, to systematize information about the experiences and accumulated knowledge, and to create effective mechanisms to coordinate and communicate all the networks, platforms and organizations involved in the region, which address these issues at different levels; this, in order to create synergies and comprehensive strategies with a greater capacity to make changes at the three levels, while generating concrete development alternatives.



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