Urbanization is a defining 21st-century feature: 59% of the world’s population will live in urban areas by 2030.¹ In Latin America, the most urbanized of emerging market regions, 80% of the population is already in cities.² Economically, cities drive global growth and prosperity, the world’s top 600 accounting for over half of global GDP. And this is expected to rise to nearly 65% by 2025.³ In Latin America, the 10 largest cities generate around 30% of the region’s GDP.⁴

As the number of people living in cities rises — and people’s growing affluence continues to raise their expectations — infrastructures are coming under increasing pressure. In particular, transport and roads, power, water and other utilities need urgent new capacity in Latin America. The difference between existing and needed infrastructure investment in Latin America is USD170 billion a year to 2020.⁵ In Brazil, the need for investment has been further boosted by its future hosting of the 2014 World Cup and 2016 Olympics. In addition to the inability of existing infrastructure to meet current and future needs, failure to invest in infrastructure acts as a drag on economic growth. Middle-income nations in Latin America could add two percentage points to annual growth rates if their infrastructures were comparable with that of middle-income nations such as Turkey or Bulgaria.⁶ Moreover, an increase in infrastructure investment equivalent to 1% of GDP could add an additional 1.3 million jobs in Brazil.⁷

A new model for investment
Historically, investment in infrastructure in Latin America has been funded primarily by national governments. However, the scale of investment required to meet existing and future demands means that a new approach is needed. The broad focus on fiscal restraint across the region further reinforces the need for alternative — private sector — funding to bridge the gap between public funds and necessary infrastructure investment.

In response, many governments across the region have — through political support and improvements to regulatory frameworks — created an environment increasingly favorable to leveraging private capital for public investments. According to the EIU’s 2012 Infrascope study, 14 of 19 countries have improved their investment climates for public-private infrastructure partnerships (PPPs) since 2010. The study attributes much of the improvement to the creation of specialized agencies to promote and implement PPP investment models.

Bridging Latin America’s Infrastructure Gap

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One recent high-profile PPP in Latin America is the awarding of three concessions for three airports – Aeroporto Internacional de Guarulhos, Aeroporto de Viracopos and Aeroporto de Brasília – that account for 30% of the air traffic in Brazil. While the concessions are an indication of the increasing prominence of PPP in many Latin American countries, they are also a reminder that PPP often serves to supplement other forms of financing: Brazil’s development bank BNDES will provide up to 80% of the total investment for each airport project.

Meanwhile, developments in the financial sector are changing the mix of non-government organizations that fund infrastructure investment. The eurozone debt crisis has reduced the capacity of some European banks previously active in project finance in Latin America. Global regulatory changes, such as Basel III, which significantly increases the amount of capital banks must hold, effectively penalizes banks that lend beyond seven years, further restricting the involvement of banks in infrastructure investment.

Despite these challenges, it seems certain that external sources of funding that include private companies, Export Credit Agencies (ECAs), pensions, insurance companies and sovereign wealth funds will become increasingly significant in infrastructure financing. As a result, there is a need to connect governments in Latin America with financial institutions around the world. Moreover, there is a requirement for greater support for all infrastructure market participants across every stage of a project lifecycle, from development to construction to operation.

Citi’s unique global capabilities, local knowledge and joined-up approach to servicing the infrastructure investment lifecycle make it an ideal partner for governments, private companies and other organizations seeking to participate in Latin America’s infrastructure future.

**Services across the project lifecycle**

The increasing involvement of non-government institutions in infrastructure investment shines a spotlight on the various requirements of different types of organizations during different stages of a project. The need to optimize efficiency and returns makes it imperative that these requirements be considered in a holistic fashion. Governments and private companies should choose to work with a bank familiar with project lifecycles and with the interlinked nature of the many organizations involved in them – they are inevitably linked by payments, liquidity or trade flows.

Before a specific project begins, governments may require assistance in establishing a financial and legal framework that can support project finance. It is important that a framework encourages investor confidence. Many projects in Latin America fail to go ahead because of a lack of convergence between a government’s demands and the private sector’s expected returns based on the underlying risks. At the same time, a framework must be transparent and methodical to ensure efficiency and value for money: Chile’s national Public Investment System uses standard forms, procedures and metrics, and rejects as many as 35% of proposed projects.

During the development phase of a project, private participants in infrastructure projects need access to services such as bid bonds, export letters of credit (LCs), receivables financing, escrow accounts (during the front-end engineering and design phase or to facilitate sponsor equity participation) and investment options for cash.

Increasingly important sources of funding for infrastructure projects – both during the development and during the construction phases – are ECAs and multilateral agencies. ECA and multilateral involvement helps to minimize political risk for longer tenors and can be advantageous for banks because they have to hold less capital for ECA and multilateral-backed debt than regular debt. However, building relationships with ECAs and multilaterals takes time, and governments need to ensure they work with a bank familiar with these agencies’ requirements.

In June 2012, Citi executed a USD250 million financing in support of the construction of Line 1 of the Panama Metro, which runs for approximately 13.7km along highly populated sectors of the city and which will have an initial transport capacity of 16,000 passengers an hour – significantly easing congestion in this rapidly growing city. The financing was guaranteed by the Multilateral Investment Guarantee Agency, which is part of the World Bank, and was the first of its kind in Latin America.
Pension funds are also becoming increasingly important in funding infrastructure in Latin America. Some countries there have managed to establish large pension fund industries, in both absolute terms and in relation to the size of their economies. In December 2010, Chile’s pension funds had accumulated assets equivalent to 63% of its GDP while Peru and Brazil have asset-to-GDP ratios close to 20%. Latin American pension funds also have among the highest allocations to infrastructure projects – around 3% of total assets in countries such as Peru and Mexico. The increasing investment flexibility of the Specialized Retirement Funds (Siefore) in Mexico is also opening up the possibility of channeling resources to infrastructure projects, especially through structured instruments.

As projects lead into the construction phase, there are additional services that may be required that include performance bonds, escrow accounts, and note trustee and paying agents for bond issuances. To enhance cash flow during this construction phase, Engineering, procurement and construction (EPC) contractors are often seeking to monetize these receivables to reduce their costs of capital and channel funds back into the projects. Once a project reaches operation, services such as cash and liquidity management, supplier financing and trade services may be required.

Once a project reaches operation, cash and liquidity management, supplier financing and trade services may be required. Finding the right financial provider is crucial.

Finding the right provider

In summary, it is important to choose a banking provider that has the visibility of the cash flows of the different participants during the development, construction and operation phases of an infrastructure project.

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5 United Nations Economic Commission for Latin America and the Caribbean.
6 Justin Yifu Lin, Bridges to Somewhere, Foreign Policy, 1 September 2011, as quoted in McKinsey Global Institute, Infrastructure Productivity: How to Save $1 Trillion a Year, January 2013.
7 McKinsey Global Institute, Infrastructure Productivity: How to Save $1 Trillion a Year, January 2013.
8 Ibid.
10 Ibid.