

INFRASTRUCTURE FINANCE, REGULATION AND MANAGEMENT STUDIES PROGRAM

(TC-96-01-40-3-RG)

EXECUTIVE SUMMARY

REQUESTER: Bank initiative

EXECUTING AGENCY: The Bank, through the Infrastructure and Financial Markets Division of the Social Programs and Sustainable Development Department (SDS/IFM)

BENEFICIARIES: The Bank's borrowing member countries

FINANCING: IDB/FSO: US\$600,000  
Total: US\$600,000

TERMS: Execution period: 24 months from approval date  
Disbursement period: 30 months from approval date

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of May 21, 1996, classified this as a Category II operation.

OBJECTIVES: The purpose of the program is to foster private initiative in infrastructure and support the reform and modernization processes under way in Latin America and the Caribbean. The object is to help disseminate successful experiences with institutional and regulatory reforms, especially in small economies and local markets, and with options for infrastructure financing and private-sector participation, including incentives for investment and risk reduction. In addition, the program incorporates the need to adapt established analytical and theoretical models to institutional and economic conditions in Latin America. The program will thus help the Bank serve as a clearinghouse for information on, and the analysis and dissemination of, Latin American experience in infrastructure.

DESCRIPTION: During execution of the program expert consultants and regional research centers will be commissioned to conduct studies, present papers and promote the dissemination and discussion of experiences in infrastructure and private-sector participation. The subjects to be addressed include analysis of institutional and regulatory reforms, the management of political risks and the design of financial

instruments that facilitate involvement of the private enterprise in this sector.

Given the objectives of the program, two components have been designed: (i) institutional, regulatory and infrastructure management reform, and (ii) infrastructure financing and risk reduction. The findings of the studies will be publicized through seminars organized for that purpose, the publication of documents and electronic dissemination through the Internet.

**BENEFITS:**

The countries of the region will benefit from the information on best practices that emerge from dissemination and discussion of the following subjects: (i) evaluation of international experience in regulation of infrastructure services, which is essential to ensure effective, sustainable execution of the investments required in this area and for substantial participation by the private sector in the process; (ii) innovative practices in infrastructure financing; and (iii) incentives for private investment and the reduction of risks in infrastructure projects. Countries with smaller economies will benefit particularly from dissemination of the institutional and regulatory reform processes they are carrying out, as a result of coordination and strengthening of the evaluation of issues of common concern and of institutional options, the dissemination of successful practices and the promotion of appropriate solutions for such countries.

Similarly, the Bank will benefit from all the issues studied and disseminated, with which it will be supporting effective, sustainable private investment in infrastructure and laying the foundations for the design of more effective financial instruments to meet the particular needs of the region and to be able to make specific recommendations to the governments in the region.

**RISKS:**

Crucial to the effectiveness of the program is its capacity to mobilize and ensure cooperation with the member countries and the other divisions of the Bank so that an effective contribution will be made to the effort for change in the region and its results will be tangibly assimilated into the Bank's actual operations. Furthermore, achievement of the objectives and maximization of the benefits to the countries will depend on their institutional and political capacity to implement the recommendations

and learn from the experiences discussed and disseminated under the program.

To ensure that the work done and results obtained are of high quality and of use to the region and the Bank, the program will be assisted by the Finance and Basic Infrastructure Divisions (FI), the Legal Department (LEG), the Private Sector Department (PRI) the Country Offices and the Regional Technical Cooperation Division (INT). In addition, it will enjoy the support of an advisory group made up of three members, two from the Bank and one from outside, and a full-time consultant with experience in project management, who will coordinate and administer the program with the support of a working group in SDS/IFM.

**THE BANK'S  
COUNTRY STRATEGY:**

The program supports the initiatives referred to in the report on the Eighth General Increase in the Resources of the Bank and supplements the Bank's activities to devise new financing strategies and consolidate initiatives for infrastructure reform. The Policy Committee of the Board of Executive Directors considered the proposed strategy for infrastructure development in the region ("fostering infrastructure development in Latin America and the Caribbean. Strategy proposal", document GN-1884-1), which included the launching of an infrastructure finance, regulation and management studies program to set up a regional forum on these matters. This is the specific purpose of the proposed program.

**RESPONSIBILITY  
IN THE BANK**

The funds of the project will be administered by SDS/IFM.

## I. BACKGROUND

- 1.1 The modernization and reform efforts of the countries in Latin America and the Caribbean share certain common features, among other elements, that characterize these processes: (i) the governments are redefining their spheres of action, and are modernizing and moving forward in institutional reforms to develop their capability to achieve the goal of modernization and economic liberalization efficiently; (ii) the private sector is taking more initiative in development programs and contributing increasingly to investment in basic services and infrastructure, which used to be considered the exclusive purview of government; and (iii) the countries are moving forward with projects designed to improve and upgrade the infrastructure for basic services, which are a fundamental component of the modernization and reform effort.
- 1.2 Over the past 30 years, infrastructure services in Latin America have been provided by the State either directly or through government-owned enterprises. Government has regulated those services and set infrastructure standards either directly through the government enterprises or as the guarantor of publicly executed projects, but has always made these activities subject to public procedures for contracting, supervision and financing.
- 1.3 The breakdown of the traditional system under fiscal and macroeconomic pressures, the need to respond to growing needs for the expansion of coverage, and the inadequate quality and efficiency of basic infrastructure services are prompting far-reaching reforms and privatizations. In this context, government is taking on new functions and withdrawing from its traditional roles, which has rekindled debate on the scope and modalities of regulation and the need to create a legal and institutional environment that will favor private-sector involvement in infrastructure.
- 1.4 Basic infrastructure services have traditionally been provided by government enterprises, which guaranteed highly integrated captive markets. Under the new system the delivery of services includes the creation of competitive markets, as in the case of energy and telecommunications. Legal, regulatory and institutional reforms are therefore necessary to ensure operation of these markets, promote competition in areas where it can be generated, deregulate the sector and lower institutional barriers, and at the same time protect the interests of consumers of basic services by regulating the services that operate as natural monopolies, such as water supply and electric power distribution and transmission.
- 1.5 The very special conditions in some countries of the region, especially less developed ones with small economies and weak institutional capacity, warrant studies on regulatory schemes and procedures that are original, simple and efficient, and not necessarily patterned on those used in countries with more highly

developed markets. The same situation can be found in services provided on local or strictly municipal markets.

- 1.6 Though its importance has been recognized throughout the region, private-sector involvement in infrastructure investment has not been without its impediments, many of them owing to the embryonic state of reform. There are still legal, regulatory and institutional barriers that act as real disincentives to investment and reduce interest in new projects, thereby compromising the badly needed expansion of basic service coverage. One of the greatest obstacles to effective involvement of the private sector in infrastructure is that of obtaining long-term financing for private projects and the implications for the cost and structure of the financing of the risk perceived by investors given the economic and institutional environment in the region.
- 1.7 In its implementation of the initiatives set forth in the report on the Eighth General Increase of Resources, the Bank has been promoting private ventures in infrastructure and supporting institutional, legal and regulatory reform. It is also starting to provide direct support for private investment in infrastructure through its new window for private-sector lending and the use of guarantees to promote private medium- and long-term financing. The Bank has confirmed that progress in an effective strategy for institutional and regulatory reform and the design of successful financing schemes requires the adaptation of established analytical and theoretical models to institutional and economic conditions in Latin America.
- 1.8 The Policy Committee of the Board of Executive Directors considered the strategy for infrastructure development in the region ("fostering infrastructure development in Latin America and the Caribbean. Strategy proposal", document GN-1884-1), which included the launching of an infrastructure finance regulation and management studies program to establish a regional forum on these matters. This is the specific purpose of the proposed financing.

## II. PURPOSE

- 2.1 The general purpose of the program is to foster private initiative in infrastructure and support the reform and modernization processes under way in Latin America and the Caribbean, paying special attention to analysis of the particular conditions in countries with small economies. The object is to promote the analysis, discussion and dissemination of successful experiences in institutional and regulatory reform and infrastructure financing to help the Bank serve as a clearinghouse for information on, and the analysis and dissemination of, Latin American experience in infrastructure.

- 2.2 The program is designed to provide a focal point for the Bank's know-how and technical expertise on infrastructure as a source of analysis and information for promoters and managers of infrastructure services in government agencies, the private sector and utility regulators. The dissemination of successful experiences is also expected to contribute to the preparation of the lending and technical assistance programs the Bank carries out in the region.
- 2.3 The specific objectives of the program are to:
- a. Support the institutional and regulatory reforms under way in the region, with special emphasis on countries with small economies and infrastructure services of local or regional scope. The analysis will evaluate their specific characteristics, help coordinate and strengthen efforts in the evaluation of common issues and institutional options and, through the dissemination of successful practices, promote effective solutions consonant with the concrete situations in such countries.
  - b. Identify legal, institutional and regulatory barriers to and constraints on the development of private infrastructure projects in order to promote reform strategies and processes that can be successful in this environment.
  - c. Promote the discussion, analysis and dissemination of innovative methods and techniques for the private financing of infrastructure, especially with regard to the establishment of incentives and reduction of risks.

### III. DESCRIPTION

#### A. Activities

- 3.1 The program will provide nonreimbursable financing to support initiatives for the analysis and dissemination of know-how on basic service infrastructure. The topics of study include institutional and regulatory reforms, particularly in small economies (Group C and D countries) and services confined to the local scale, the management of political risks, and the design of financial instruments that foster private-sector participation. The findings of the program will be disseminated through seminars, round tables and conferences specially organized for that purpose, the publication of documents on the principal findings, and electronic dissemination through the Internet.
- 3.2 To achieve the program objectives, two components have been designed: (i) institutional and regulatory and infrastructure

management reform and (ii) financing of infrastructure with private-sector participation and risk reduction. Under the first component, two subjects will be studied: institutional and regulatory reform, with special reference to small economies and local markets, and a comparison of regulatory instruments through concession contracts with comprehensive legislative reforms and general regulatory frameworks, based on international experience. Under the second component, two other subjects will be studied: the role of the private sector in infrastructure projects and incentives for its participation, and the risks for private investors and their reduction or elimination. The two components are mutually complementary and afford an overall view of the challenge of fostering participation by the private sector in infrastructure on a sustainable basis.

1. Institutional, regulatory and infrastructure management reform

- 3.3 Latin America already has some experience in the privatization of infrastructure and in institutional and regulatory reforms, which are essential to foster a suitable environment for private investment in the context of efficient management of services. The Inter-American Development Bank and other multilateral agencies have been conducting in-depth studies on the many dimensions of institutional and regulatory reform needed to encourage active private-sector participation in infrastructure. Recently the Network of Centers of Applied Economic Research published a wide-ranging analysis of privatization experience in Latin America. <sup>1/</sup> Through the network, the IDB is also, currently conducting research on the institutional and regulatory options adopted in five countries of Latin America (Mexico, Peru, Argentina, Chile and Honduras) and their impact on incentives to investment in and management of water supply systems.
- 3.4 However, one of the greatest difficulties in studying infrastructural reform issues is the fact that most experiences are concentrated in economies that are highly developed or have large populations and markets. Hence more has to be learned about the conditions and particularities of the legal, economic and social environment in Group C and D countries and about the specific conditions of locally provided services. Blind application of models that have been successful in more developed countries with mature markets is no guarantee of success in other countries in the region with less institutional capacity and with the restrictions inherent in the relative size of the economies and their degree of development. The same holds true for the evaluation of

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<sup>1/</sup> "Procesos de Privatización en América Latina", Network of Centers of Applied Economic Research, Inter-American Development Bank, Autonomous Technological Institute of Mexico, Ed. Manuel Sánchez, 1993.

institutional and regulatory reforms of services with local coverage or confined to a region in a given country.

- 3.5 The purpose of this component of the program is to examine two related subjects that have been considered important in the current discussions of institutional and regulatory issues, with emphasis on their applicability to the economies of Group C and D countries and local or regional infrastructure systems. The first is analysis of the specific institutional and regulatory features of small economies and of services provided in local or regional markets in a country. The second is the evaluation of regulatory schemes based on contracts between the public and private sectors for the provision of services, and their comparison with alternative proposals based on legal reforms that include the establishment of regulatory commissions independent of the executive branch of government. The findings of the studies will be published and especially disseminated in a seminar and a round table respectively, organized for that purpose, and which representatives of utility regulators will attend as special participants (see Annex III-6).

a. Institutional and regulatory reform in Latin America. Theory and practice with special reference to small economies and local or regional services

- 3.6 Three studies will be financed under the general theme of "Institutional and regulatory reform in small economies in Latin America" emphasizing the important institutional factors in such countries. The studies will review current reform proposals with emphasis on the economic, legal, institutional and regulatory issues common to the countries classified by the Bank as Groups C and D, also referred to as countries with small economies. Their findings will also be useful in the evaluation of institutional and regulatory alternatives for services like water supply that have a markedly local or municipal impact.
- 3.7 The findings of the studies will be presented in a seminar specially organized for such countries. The seminar will help strengthen and catalyze the current reform efforts of those countries and afford a comparative evaluation taking into account their distinctive legal, economic and institutional features.
- 3.8 The subjects of the studies will be as follows: (i) regulatory and institutional reform of infrastructure in countries with small economies: three examples; (ii) new regulatory institutions in Latin America: theory and practice with special reference to small economies; and (iii) exclusive contracts for infrastructure development: a comparison of two cases in water supply and electric power.



3.9 The content of the three proposed studies is as follows:

(i) Regulatory and institutional reform of infrastructure in countries with small economies: three examples

3.10 To lay the foundations for the general context of the theme and the seminar, an analytical description will be presented of three examples of regulatory and institutional reform in Group C and D countries. This component will evaluate the reforms in progress in three countries from the legal and economic standpoints, highlighting institutional and regulatory factors and reviewing their possible implications for a successful strategy to attract private investment to infrastructure services. The three countries will be selected for the progress they have achieved in their reforms or for specific features of those reforms compared with the other countries in the area. Comparative analyses will be conducted between the same sectors in the different countries. See Terms of Reference 1.a.i in Annex III.1.

(ii) New regulatory institutions in Latin America: theory and practice with special reference to small economies

3.11 Under this topic, the current institutional and regulatory reform process will be examined, in particular the institutional and legal solutions being proposed and implemented in Latin America, especially in Central America, the Caribbean, and other Group C and D countries. The study will emphasize institutional factors and consider the legal basis of the reforms, the technical nature and funding of the different infrastructure services, their market structures and the role of competition in the different activities. It will also evaluate the impact of institutional capacity and human resources on the selection and implementation of instruments for regulatory intervention and the institutional arrangements adopted.

3.12 Successful experiences will be reviewed in the institutional development of regulation and the operation and characteristics of the regulatory agencies in order to identify the basic conditions that ensure the permanence of the reforms, the independence of regulation and the regulatory solutions to specific problems encountered by the countries in this area. See Terms of Reference 1.a.ii in Annex III.1.

(iii) Exclusive contracts for infrastructure development: a comparison of two cases in water supply and electric power

3.13 Water supply and electric power are two infrastructure sectors that require major changes in their management because it is difficult to extend their coverage and improve their efficiency so long as

they are operated exclusively by public authorities. Institutional and regulatory changes are essential to foster modernization and privatization of the services. The role of government in the provision and regulation of these services therefore needs to be transformed, in particular because of major service rate distortions, discriminatory subsidies and substantial coverage shortfalls, compounded by glaring shortcomings in the management of the systems and obsolete regulatory frameworks.

- 3.14 Public-private contracts with exclusive concession clauses are being proposed in the region to encourage private investment in these services and at the same time substantially extend coverage and restructure rates. This experience of privatization and reform has been better analyzed in countries with developed markets and greater economic development, but not in small economies, where coverage and management deficiencies are glaring. The private sector could play an important part in financing and management in such countries, but the institutions there are less able to provide a favorable regulatory environment or to ensure monitoring and enforcement.
- 3.15 The study will include an evaluation of the advantages and drawbacks of contractual schemes, including, temporary exclusive fixed-term concessions. The purpose of this study is to assess their implications for the private development of such services as water supply and electric power, with emphasis on regulatory and institutional factors. See Terms of Reference 1.a.iii in Annex III.1.

b. Regulation by contract or legislation: international experience

- 3.16 The development of regulatory schemes through concession contracts has been considered as an alternative to comprehensive legal reform and the establishment of independent agencies or nonministerial regulatory commissions. The institutional arrangement and instruments for regulatory intervention affect the scope of the private involvement in infrastructure, the degree of risk perceived by investors and the viability of project financing. Institutional capacity and the resources available to the country must also be considered in selecting the institutional modalities for regulation in Latin America.
- 3.17 Consultants or regional research institutes will be selected and hired to conduct an advance review of the literature and of international experience in order to evaluate the advantages and drawbacks of different modalities. The institutional conditions, the characteristics of each service and the modalities and extent of private involvement in infrastructure will be identified in order to demonstrate the advantages of one instrument over another. Contractual factors in water supply concessions and the role of regulation will be important elements of the study and will be

contrasted with those prevalent in other infrastructure services such as electric power, telecommunications and transportation. Special emphasis will be placed on the analysis of issues in rate renegotiation under long-term concessions and of the role of regulation. The impact of institutional and regulatory restrictions that arise in services of local or municipal scope will also be evaluated.

- 3.18 Another part of the analysis will be three case studies conducted with the participation of research centers of the region with experience in infrastructure issues. The finding of the research and the case studies will be published and presented and extensively discussed at a round table to be especially organized by SDS/IFM. See Terms of Reference 1.b in Annex III.1.

2. Infrastructure financing with private-sector participation and risk reduction

- 3.19 Private investment in infrastructure has encountered difficulties, many of which have stemmed from the rudimentary state of reform. Persisting legal and institutional obstacles to private investment are heightening private investors' perception of risk, which raises the cost of financing. In addition, experience in the region attests to the difficulty of obtaining long-term financing for infrastructure projects.
- 3.20 Suppliers of long-term funds, such as investment and pension funds, do not want to assume the specific risks inherent in infrastructure investments. In fact, long-term investors are not prepared to accept either the so-called regulatory risk or the risk of default of a government enterprise when these risks are different from the sovereign risk. Their reasons for not accepting these risks stem from the problem of risk management, which also derives from the difficulty of statistical forecasting.
- 3.21 This second component of the program will examine two subjects of great importance for the promotion of infrastructure financing: analysis of the role of the private sector in infrastructure projects and the necessary incentives, and the definition of new schemes for reducing the risks of such projects.

a. Analysis of the role of the private sector in infrastructure projects

- 3.22 This theme will systematically examine the institutional, legal and financial requirements for fostering private-sector participation in infrastructure projects, in order to identify the obstacles to the financing of private infrastructure projects and propose incentives for private initiative.
- 3.23 One of the lessons learned from recent experiences with private-sector participation is that there is no universal solution for all

cases. Because the types of participation vary greatly between the extremes of privatization between types of infrastructure and between large and small countries, no single solution can be found. It is possible, however, to state general principles of best practice for similar cases.

- 3.24 To this end, consultants will be hired to conduct studies, which will serve to disseminate successful experiences and strengthen the capacity of the countries to enjoy the benefits of, and reduce the obstacles to, private-sector participation in infrastructure.
- 3.25 This theme will be developed through five country studies examining the barriers to private-sector participation and the lessons learned from the various experiences in the region. A sixth study will be carried out to draw overall conclusions and sum up in a single document the findings of the other five studies.
- 3.26 Each country study will review several infrastructure sectors, with emphasis on the following three types of issues: (i) legal (contract enforcement and arbitration, property rights, legal framework for asset security, treatment of foreign capital and restrictions on competition); (ii) institutional (type of private-sector participation, procedures for private participation, bidding procedures, rates and subsidies, decentralization); and (iii) financial (successful and unsuccessful of private financing). The Bank's borrowing countries can use these studies as guides to sound and poor practices and as the basis for the design of technical-cooperation projects and MIF programs, among other operations.
- 3.27 The studies will be closely coordinated with the activities of the Free Trade Area of the Americas (FTAA) and its Working Group on Investment, World Bank programs, and other agencies involved in this area. In addition, the Infrastructure and Financial Markets Division will work with the Regional Departments, the Finance and Infrastructure Divisions, the Integration and Regional Programs Department (INT), the Legal Department (LEG), the Multilateral Investment Fund (MIF) and the Office of the Chief Economist (OCE). See Terms of Reference 2.a in Annex III.1.

b. Instruments for risk reduction in infrastructure projects

- 3.28 The purpose of this theme is to research schemes for reducing the specific risks of infrastructure projects that are compatible with incentives for private enterprise and efficient management of services. Such schemes must also avert perverse behavior on the part of the government agencies overseeing the services. The specific risks of infrastructure projects for which risk reduction is needed are those associated with a government agency's willingness and ability to fulfill its monetary and other obligations. The risk reduction schemes must be appropriate for the financing of infrastructure projects in local currency in order to shield

infrastructure projects, whose income is generated in local currency, from exposure to exchange risks.

- 3.29 The Inter-American Development Bank and the World Bank have experience in guarantee programs to reduce the infrastructure risks stemming from decisions by government agencies. However, these guarantees are directly or indirectly counterguaranteed by the central government. These counterguarantees have an impact on the activities of the agencies supervising the services that could lead to counterproductive behavior, such as when a multilateral bank provides guarantees for a concession contract between a municipal government and a private enterprise and the central government provides a counterguarantee to the multilateral bank.
- 3.30 Growing participation by the private sector in the particular case of water supply, sewerage and garbage-collection services, which in most cases are the responsibility of local government, makes it advisable to develop risk reduction schemes that will complement existing schemes and limit the responsibility of the central government for the reduction of risks arising out of steps taken by other authorities.
- 3.31 Guarantees based on funds built up by government agencies or on the future revenues of such agencies (for example, assignment of invoices) can reduce the risks of unilateral decisions by a government agency and avert undesirable behavior on the part of the regulators of the respective service.
- 3.32 To design such funds it is necessary to ascertain the legal provisions under which they are established and to determine their optimal size with respect to the volume of and return on the investment, the risk of which is to be reduced.
- 3.33 Local pension funds have two features that make them particularly well suited to infrastructure finance: they provide funds in local currency and they provide long-term financing. However, the regulation of such funds requires in most cases that the investments for which they are used be very low-risk and be rated by established rating agencies.
- 3.34 For this theme of the program, two consultants, a legal expert and a financial expert, will be selected and hired to conduct a study on the conditions under which the debt issues of infrastructure utilities using risk reduction schemes could be well rated by the rating agencies. The studies will examine the regional experience of investment funds and pension funds in local currency to identify the criteria that govern their investments. Special attention will be paid to the risk reduction strategies that the funds require. On the basis of the study, the consultants will compile a list of the risks that usually prompt rejection by local-currency funds, as the basis for the design of risk reduction schemes.

- 3.35 The document to be prepared will contain a legal and financial analysis of the following points: (i) the characteristics of the risk reduction schemes required by local-currency investment and pension funds; (ii) risk reduction schemes, including an analysis of the incentive system used by important agents; and (iii) the role of the Bank in the implementation of such systems. The study and the document on its findings will be made public in a round table in which financial institutions and funds will participate. See Terms of Reference 2.b in Annex III.1.

B. Organization and execution

- 3.36 The project will be executed by SDS/IFM. To ensure that the analytical studies conducted are of high quality and useful to the countries, and that their findings further the purposes of the Bank in the region, a working group from the Infrastructure and Financial Markets Division will administer, monitor and coordinate the program very closely, with the assistance of a full-time consultant as coordinator, who will manage the project. In addition, an advisory group will be set up to make recommendations and issue opinions throughout the program, in addition to which other units of the Bank will also collaborate, in particular the Regional Departments, the Country Offices, the Legal Department (LEG), the Private Sector Department (PRI), the Finance and Infrastructure Divisions (INT), the Integration and Regional Programs Department, the Multilateral Investment Fund (MIF), and the Office of the Chief Economist (OCE). The Country Offices will be involved in the organization of the seminars, and the studies will be coordinated with local consultants hired using resources in local currency. See the organizational chart in Annex III.4.
- 3.37 The advisory group will have three members, one representing the Infrastructure and Financial Markets Division, the second one of the Bank units mentioned in the preceding paragraph, and the third an advisor from outside of the Bank to be hired for that purpose. See Terms of Reference 3.c in Annex III.1.
- 3.38 The primary function of the advisory group will be to ensure that the program is of use to the regions and countries. For each of the studies to be carried out, the group will receive the terms of reference prepared by the Infrastructure and Financial Markets Division and all draft and final documents on the studies for review and recommendations.
- 3.39 Moreover, the working group, supported by the coordinator and taking into consideration the recommendations of the advisory group, will select and hire consultants and regional research institutions conduct the studies and will oversee them.
- 3.40 The coordinator will manage the project in close contact with the working group and will, among other duties, coordinate the contracts, supervise the studies, handle communications with the

advisory group, disseminate the findings through publications and seminars and prepare periodic progress reports on the program. See Terms of Reference 3.a in Annex III.1.

- 3.41 Consultants and/or research centers will be hired to perform the studies and prepare the documentation for publication and presentation in the seminars, round tables and conferences.
- 3.42 To ensure the quality of the studies, the dissemination of their findings and their application to policy-making in the region, the regional education and research institutions must be active in the study of the subjects in question, and the experts must have excellent credentials and extensive experience to conduct the studies.
- 3.43 The consultants will sign individual contracts and the research institutes will sign letters of understanding with the Bank in which their terms of reference will be set forth. The contracts and letters will also state the starting and termination dates, the amount of the financing and conditions for its disbursement, the reports to be prepared, the monitoring required, other items of information on the study, and a detailed work plan.
- 3.44 The findings of the analytical studies will be published in high-level academic and institutional media and included in presentations at seminars and specialized conferences, in addition to the activities already included in the program.
- 3.45 The studies to be conducted under the program are expected to take an average of seven months to complete, but may vary in duration depending on the complexity of the topics and the availability of information. Taking into account the time required for hiring the consultants, preparing the final documents for publication and the conferences and conducting final evaluation of the program, the program is expected to be completed in a total of two years. See timetable in Annex III.5.
- 3.46 The studies to be carried out under the program were preselected by the working group with the collaboration of other Bank units, bearing in mind the principal economic and social problems and the needs of Latin America and the Caribbean.
- 3.47 The seminar entitled "Institutional and regulatory reform in Latin America: theory and practice with special reference to countries with small economies" will be organized jointly by the Infrastructure and Financial Markets Division, the Regional Departments, and the Bank's Country Office in Costa Rica (CCR).
- 3.48 The round table entitled "Regulation by contract or legislation: international experience" will be organized by the Infrastructure and Financial Markets Division.

- 3.49 The conference entitled "The Role of the private sector in infrastructure projects" will be coordinated by the Infrastructure and Financial Markets Division and with the collaboration of the Regional Departments, the Integration and Regional Programs Department (INT), the Legal Department (LEG), the Multilateral Investment Fund (MIF), and the Office of the Chief Economist (OCE).
- 3.50 The Infrastructure and Financial Markets Division will also coordinate the round table entitled "Risk reduction instruments for infrastructure projects."
- 3.51 The dissemination events will be carried out with the participation of high-level government officials, members of regulatory commissions in Group C and D countries or other countries with small economies, parliamentarians from the region, private-sector representatives and senior executives of utilities in the region.

C. Monitoring

- 3.52 The Infrastructure and Financial Markets Division, and the working group and coordinator in particular, will monitor the program and prepare progress reports on program activities and the findings of the studies. It will also submit final reports within six months following the completion of each study and activity. These reports will also be submitted to the advisory group for review and comment.

D. Cost and financing

- 3.53 The total cost of the program will be US\$600,000 in foreign exchange out of the net income of the Fund for Special Operations. The category of "Administration, Evaluation and External Adviser" includes the expenditures required for the hiring of a full-time consultant to administer the program, including travel expenses and per diems for official travel totaling US\$140,000. It also includes US\$10,000 to cover the cost of a general evaluation of the program to be conducted within the four weeks after program completion by a consultant hired for that purpose, and another US\$10,000 to cover the fees, travel expenses and per diems of an external adviser to be a member of the advisory group.
- 3.54 The estimated budget is summarized in the following table (in thousands of United States dollars):



ACTIVITY	TOTAL US\$
1. Regulatory and institutional reform and infrastructure management	220
2. Infrastructure financing and risk reduction	220
3. Administration, evaluation and external adviser	160
Estimated total	600
TOTAL (%)	100

- 3.55 The financial contribution for the program will be used primarily to finance the studies and disseminate their results.
- 3.56 Annex III.2 presents in greater detail the budget for the program activities showing only the costs external to the Bank and not the normal budgetary expenditures. It itemizes the amount of financing to be granted to the consultants and research institutes based on the breadth and depth of each study.
- 3.57 The financing will be disbursed following the Bank's established procedures.

#### IV. BENEFITS AND RISKS

- 4.1 The countries in the region will benefit from the conclusions on best practice that emerge from discussion and dissemination of the following subjects: (i) international experience in the regulation of infrastructure projects, which is fundamental for effective, sustainable investment in the infrastructure required, with appropriate participation by the private sector; (ii) innovative practices in infrastructure financing; and (iii) incentives for private investment and risk reduction in infrastructure projects. Countries with small economies will benefit particularly from dissemination of their institutional and regulatory reforms in progress through the coordination and strengthening of the evaluation issues of common concern and institutional options, the publicizing of successful practices, and the promotion of appropriate solutions for this type of country.
- 4.2 The Bank, too, will benefit from all the subjects to be discussed and disseminated, which will promote effective, sustainable private investment in infrastructure and lay the foundations for the design of more effective instruments to meet the region's particular needs and concrete recommendations for the governments in the region.
- 4.3 The main benefit of the program will be its contribution to the modernization and extension of basic infrastructure services by

increasing the involvement of the private sector in the management and financing of projects and supporting the institutional and regulatory reforms needed for the long-term consolidation of the services. Special emphasis will be placed on involving the region's regulatory agencies, including those now being set up, high-level government officials, parliamentarians from the region, representatives of the international private sector and senior executives of utilities in the region in the discussion of the program studies and the dissemination of their findings. In the area of regulation a special role is reserved for the agencies mentioned in Annex III.6, which lists the regulatory agencies with which the Bank maintains relations. Execution of the program requires the maintenance of those relations and their extension to other regulatory agencies in the region.

- 4.4 In addition, the program seeks to contribute to the Bank's dialogue with its member countries through training, exchanges of information and the dissemination of successful experiences in infrastructure. The program is thus expected to contribute to the Bank's effort to innovate in its loan operations by introducing new products for the financing of private projects, and thereby improve the quality of its operations in this area.
- 4.5 The effectiveness of the program depends crucially on the Bank's capacity to attract and collaborate and coordinate with the member countries and the other divisions of the Bank so that its results may tangibly influence the Bank's concrete activities. In addition, achievement of the program objectives and maximization of its benefits to the countries will depend on the institutional and political capacity of those countries to implement the agreements and experiences to be discussed and disseminated through the program. To enhance its effectiveness the program will have an advisory group, a highly experienced working group, a program coordinator and the collaboration of several departments of the Bank.

## V. EVALUATION OF THE PROJECT

- 5.1 Partial evaluations will be conducted by the Infrastructure and Financial Markets Division. The advisory group will issue written opinions at the different stages of the program. A final evaluation of the program will be carried out by an independent consultant, who will submit a report on the findings of the program and their implementation to the Bank for consideration. For this independent consultant, see Terms of Reference 3.b in Annex III.1. In addition, EVO will be asked to cooperate in the evaluation process.

Corr.

**TECHNICAL-COOPERATION PROGRAM FOR  
INFRASTRUCTURE FINANCE, REGULATION  
AND MANAGEMENT  
(TC-96-01-40-3-RG)**

**ITEMIZED BUDGET**

1. Institutional, regulatory and infrastructure management reform

a. Institutional and regulatory reform in Latin America. Theory and practice with special reference to countries with small economies and local or regional services

Budget		US dollars
2.0	Individual consultants	90,400
2.2	Emoluments. Study: regulatory and institutional reform in the infrastructure sector: three examples. [Professional services and fees. Six (6) weeks of work, two (2) consultants at equivalent of US\$500/day.]	30,000
2.2	Emoluments. Study: New regulatory institutions in Latin America. Theory and practice with reference to small economies. [Professional services and fees. Seven (7) weeks of work by one lawyer and three to four (3-4) weeks by a research assistant at US\$500 and US\$133 per day, respectively.]	20,000
2.2	Emoluments. Study: Exclusive contracts for infrastructure development: the cases of water supply and electric power [Professional services and fees. Twelve (12) weeks of work by one consultant at US\$500/day.]	30,000
2.5	Travel (4 consultants, one trip each, at US\$1800/trip)	7,200
2.5	Per diems (4 consultants for 4 days at US\$200/day)	3,200
7.0	Publications	10,000
7.1	Editing	3,000
7.2	Translation	1,500
7.3	Printing	4,000
7.4	Distribution	1,500
3.0	Fellowship recipients and participants	8,200
	Interpretation (2 simultaneous interpreters for 2½ days at US\$400/day)	2,000
	Presentation material, premises, clerical assistance	6,200
<b>TOTAL</b>		<b>108,600</b>

b. Regulation by contract or through legislation: international experience

Budget		US\$ dollars
2.0	Individual consultants	95,600
2.2	Emoluments. Study of three cases (consultants for three cases, total of about 16 weeks, at US\$500/day)	40,000
2.2	Emoluments. Legal consulting services (one lawyer for 7 weeks and one research assistant for 3.75 weeks at US\$500 and US\$133 per day, respectively.)	20,000
2.2	Emoluments. Economic consulting services (one economist for 8 weeks at US\$500/day)	20,000
2.5	Travel (6 consultants, one trip each, at US\$1800/trip)	10,800
2.5	Per diems (6 consultants for 4 days at US\$200/day)	4,800
7.0	Publications	10,000
7.1	Editing	3,000
7.2	Translation	1,500
7.3	Printing	4,000
7.4	Distribution	1,500
3.0	Fellowship recipients and participants	5,800
	Simultaneous interpretation	1,600
	Presentation material, premises, clerical assistance	4,200
TOTAL		111,400

2. Infrastructure financing and risk reduction

a. Role of the private sector in infrastructure projects

Budget		US dollars
2.0	Individual consultants	104,000
2.2	Emoluments. Studies (6 studies, total of 32 weeks, at US\$500/day)	80,000
2.5	Travel (10 persons, one trip each, at US\$1800/trip)	18,000
2.5	Per diems (10 persons, 3 days, at US\$200/day)	6,000
7.0	Publications	10,000
7.1	Editing	3,000
7.2	Translation	1,500
7.3	Printing	4,000
7.4	Distribution	1,500
3.0	Fellowship recipients and participants	9,000
	Simultaneous interpretation (2 interpreters, 2½ days, at US\$400/day)	2,000
	Presentation material, premises and clerical assistance	7,000
97	Special programs	7,000
TOTAL		130,000

b. Risk reduction mechanisms for infrastructure projects

Budget		US dollars
2.0	Individual consultants	75,000
2.0	Emoluments. Financial advisory services (1 consultant for 18 weeks at US\$500/day)	45,000
2.0	Emoluments. Legal advisory services (1 consultant for 12 weeks at US\$500/day)	30,000
3.0	Fellowship holders and participants	8,000
7.0	Publications	7,000
7.1	Editing	2,100
7.2	Translation	1,050
7.3	Printing	2,800
7.4	Distribution	1,050
TOTAL		90,000

3. Administration, evaluation and external advisor to the program

Budget		US dollars
2.0	Individual consultants	150,000
2.2	Emoluments. Administration (1 full-time consultant for 2 years, plus travel expenses and per diems)	140,000
2.2	Emoluments. External advisor	10,000
8.0	Evaluation of the program	10,000
8.2	Emoluments. Evaluation (1 consultant for 4 weeks at US\$500/day)	10,000
TOTAL		160,000

**TECHNICAL-COOPERATION PROGRAM FOR  
INFRASTRUCTURE FINANCE, REGULATION  
AND MANAGEMENT  
(TC-96-01-40-3-RG)**

**LOGICAL FRAMEWORK**

OBJECTIVES	INDICATORS	INSTRUMENTS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
To promote private initiative in infrastructure and support institutional and regulatory reforms in Latin America and the Caribbean	<p>Number of private ventures in next 5-10 years.</p> <p>Creation of new financial instruments and modalities for private-sector participation in infrastructure.</p> <p>Acceleration of reforms and of entry of private partners.</p> <p>New projects, with improvements over their predecessors.</p> <p>Creation of new instruments by the Bank.</p>	<p>Observation of statistics on private projects in infrastructure.</p> <p>New instruments created by the Bank.</p>	<p>Growing need for participation by the private sector in infrastructure, and reduction of role of government to one of less intervention. Existence of legal, regulatory and institutional barriers. Special conditions in small economies.</p>
<b>PURPOSE</b>			
To propose discussion, analysis and dissemination of successful methods and techniques that promote participation in infrastructures by the private sector, with emphasis on current institutional and regulatory reforms, legal barriers and restrictions, possible risk reduction mechanisms and inter-regional cooperation.	<p>Number of discussions in region on infrastructure finance, regulation and management (1996/97).</p> <p>Dissemination of successful experiences in private-sector participation, reforms, risk reduction instruments. etc. (1996/97)</p> <p>Success of seminars, round tables and conferences in terms of attendance, level of discussions, interest of participants, and applicability of conclusions.</p> <p>Number of studies published and disseminated on the Internet.</p>	<p>Reports of the advisory group.</p> <p>Progress report of the consultant for administration, called the coordinator, and of the working group.</p> <p>Final evaluation report.</p>	<p>Interest of countries in continuing their reform processes and their capacity to do so.</p> <p>Flexibility of government institutions to make changes in the infrastructure sector.</p>

OBJECTIVES	INDICATORS	INSTRUMENTS OF VERIFICATION	ASSUMPTIONS
<b>OUTCOMES</b>			
<p>1. Reforms of institutions, regulation and infrastructure management.</p> <p>1.a Study, seminar and publication on "Institutional and regulatory reform in small economies and local and regional services."</p> <p>1.b Study, round table and publication on "Regulation by contract or legislation: international experience"</p>	<p>1.a Three (3) research studies for presentation at a seminar and publication.</p> <p>The 3 studies are: i) regulatory and institutional reform in small economies (Group C and D countries) in the infrastructure sector; description of 3 examples; ii) new regulatory institutions in Latin America: theory and practice with special reference to small economies, and iii) exclusive contracts for infrastructure development; comparison of two cases, water supply and electric power.</p> <p>2½-day seminar attended by participants from the Bank's regional offices, government officials and private-sector representatives, chiefly from countries with small economies, though all regions will be invited. The seminar will be held in Costa Rica with logistical support from the Bank's Country Office there.</p> <p>1.b Three (3) case studies, with legal and economic analyses, for presentation at a round table and publication.</p> <p>2½-day round table to be attended by participants from the Bank's regional offices, government officials and private-sector representatives from all the regions. Will be held at the Bank's headquarters in Washington DC and coordinated with support from the coordinator.</p> <p>The case studies will instruct on and evaluate international experiences in regulation by concession contracts and by legislation and independent regulatory commissions, each focusing on a different area of infrastructure: water supply, highways, and electric power. The studies will proceed concurrently. Also, an evaluation will be made of the legal, regulatory and institutional conditions that make for the success of any given scheme.</p>	<p>Consultants, consulting firms and teaching and research centers to be engaged will be chosen by competitive selection, taking into account demonstrated experience in the area of the study.</p> <p>Reports of the advisory group, the consultant on administration, and the working group, and the final evaluation report.</p>	<p>Continuation of government policies toward institutional and regulatory reforms, interregional agreements and greater participation by the private sector in infrastructure.</p> <p>Availability and transparency of information.</p> <p>Small economies can benefit from such case studies and establish closer ties with each other to stimulate, strengthen, and coordinate their efforts.</p>
<p>2. Infrastructure financing and risk reduction</p> <p>2.a Analysis of role of private sector in infrastructure projects.</p>	<p>2.a Execution of i) 5 case studies on different countries and infrastructure sectors, with emphasis on legal, institutional and financial issues, and a general study synthesizing those experiences; iii) a conference to disseminate and discuss the findings of the studies, and iii) publication of the studies.</p>	<p>Success of the conference (attendance, recommendations, positive reactions to studies)</p> <p>Publications</p>	<p>Interest of governments and their capacity to take into consideration the examples of best practice followed in other countries of the region.</p>

OBJECTIVES	INDICATORS	INSTRUMENTS OF VERIFICATION	ASSUMPTIONS
b. Research, round table, and publication on "Risk reduction instruments for infrastructure projects"	<p>2.b Performance of a financial and legal study of schemes for reducing the risks of financing infrastructure projects compatible with incentives for private-sector participation and efficient management of services. The document will address the following points: (i) characteristics of risk reduction schemes, (ii) design of risk reduction schemes, and (iii) role of the Bank in the development of these schemes.</p> <p>The findings of the study will be disseminated in a round table and then published. The round table will be held at the Bank's offices in Washington, D.C., and will be organized by the program coordinator.</p>	<p>Success of the round table.</p> <p>Publication of the study and high acceptance of it.</p> <p>Clear recommendations on how to develop risk reduction schemes and how the Bank can participate in this work.</p>	
<b>ACTIVITIES</b>			
1. Institutional, regulatory and infrastructure management reform	<p><b>Budget</b></p> <p>1.a Consultants and/or consulting firms and research centers that possess the specialties required in the terms of reference will be hired to perform the studies. Provision will be made for their travel to the seminar and per diems. The financing required for the studies totals US\$90,400 in foreign exchange. Interpreters will be engaged for the presentations, and the studies will be published, for a total expenditure of US\$18,200 in foreign exchange.</p> <p>1.b Consultants or research centers will be hired to perform the studies. Provision is made for the payment of per diems and the travel expenses of the consultants to attend the round table. The financing for the studies totals US\$95,600 in foreign exchange. In addition, interpreters will be engaged to interpret the presentations, and the studies will be published, for a total of US\$15,800 in foreign exchange.</p>	<p>Terms of reference and contracts with consultants and consulting firms, which will establish payment in several installments depending on the part of the work delivered. First payment upon signature of the contract; second payment on delivery of a draft; third payment upon final delivery, and fourth (and last) payment upon confirmation of the quality of the material.</p> <p>Accounting records of the program budget, budget execution.</p>	<p>Support by region 2 in organizing and conducting the seminar in I.1.</p> <p>Attendance at the events (seminars, round tables and ministerial meetings) as projected, and the interest shown.</p>



OBJECTIVES	INDICATORS	INSTRUMENTS OF VERIFICATION	ASSUMPTIONS
2. Financing of infrastructure and risk reduction	<p>2.a Consultants and/or research institutes will be commissioned which possess the requisite specialties (legal and business or economics) and experience (foreign investment in the region) to perform the six studies, the cost of which totals US\$80,000 in foreign exchange. IFM will organize a conference and the results will be published, for US\$50,000 in foreign exchange.</p> <p>2.b Hiring of a financial adviser to conduct the financial analysis of the study, for US\$45,000 in foreign exchange.</p> <p>Commissioning of a legal adviser to conduct the legal analysis of the study, for US\$30,000 in foreign exchange.</p> <p>Organization of the round table and publication of the material, for US\$15,000 in foreign exchange.</p>	<p>An overall evaluation of the program to be conducted upon its completion.</p> <p>Ongoing supervision and evaluation by the Bank (IFM). There will also be a full-time consultant to monitor the program and the achievement of its objectives throughout its duration.</p> <p>Periodic progress reports</p>	Flexibility during project execution in regard to contracting for components in accordance with the strategic interests of the Bank and the regions and their relative importance.
3. Administration, evaluation, and external adviser	<p>3. Administration, evaluation, and external adviser:</p> <p>An external adviser will be hired in order, in conjunction with two staff members of the Bank, to express opinions and make recommendations on the studies, publications and activities, including terms of reference, list of consultants, draft studies, etc., at the various stages of the program. In addition, a full-time consultant will be engaged to administer the program from the Bank's headquarters in Washington, D.C. for the duration of the program. Finally, a consultant will be hired to conduct an evaluation of the program upon its completion, which work is expected to take about 4 months. The total expenditure for this component is US\$160,000 in foreign exchange.</p> <p>Program total: US\$600,000 in foreign exchange.</p>		

PROPOSED RESOLUTION

REGIONAL. NONREIMBURSABLE TECHNICAL COOPERATION  
FOR A PROGRAM ON FINANCING, REGULATION  
AND INFRASTRUCTURE MANAGEMENT

The Board of Executive Directors

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document AT- with respect to a Program on Financing, Regulation and Infrastructure Management.
2. That up to the sum of US\$600,000 in foreign exchange, is authorized for the purpose of this resolution, chargeable to the net income of the Fund for Special Operations.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.