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Keynote Speech

"Scaling up Support for Infrastructure"

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Good afternoon ladies and gentlemen. It is an honor to be here today, and a true pleasure to be in New Orleans. I would like to thank our sponsor for today's lunch, the Port of South Louisiana. I would also like to thank the City for all of its support, six months after the disaster that struck this beautiful part of the U.S., and wish New Orleans a swift recovery.

Introduction

Over the past day and a half, we have heard a number of speakers talk about the progress made in Latin American infrastructure in 2005, and the road ahead in 2006. You will have heard that the region currently invests on average 1.5% of GDP in Infrastructure, and that to grow, this figure must reach 4-5% of GDP. You have also had a chance to preview some of the top strategic infrastructure projects in the region, the innovative projects that will return the region to global competitiveness.

What we have seen over the past few years is that fiscal adjustment occurred at the expense of infrastructure. Private financing was not sufficient to offset the shortfall. This has resulted in unsatisfied basic needs (whether it is access to potable water, electricity, better roads, or improved sanitation) and a loss in competitiveness.

It is no secret that the news for infrastructure investors in Latin America hasn't been all good. Headlines from Latin America often tend to portray a somewhat embattled private infrastructure sector in the region. Disputes over

troubled concessions have in some cases spilled over into the streets in some communities. In other cases, the debate over the effectiveness of privatization has been re-opened, suggesting the re-nationalization of utilities to ensure that all citizens receive affordable services. As a result, private investment in infrastructure declined to just $56 billion in 2003, down from a peak of $114 billion in 1997. Needless to say, under-investment in infrastructure often acts as a bottleneck for natural economic development in many countries, which in turn, has a long-term negative impact for years to come.

What does all this mean for potential investors in Latin American infrastructure projects? On the one hand, with general economic growth comes increased demand for infrastructure. And this spells opportunity. On the other hand, the recent unrest surrounding privatization of basic services would suggest that investors are likely to proceed with greater caution than ever before. Yet, the fact that 450 of us have come here for this Latin American Leadership Forum suggests to me that our interest has not diminished but that there is an ever-increasing need to channel investors' interests into reality.

The Infrastructure Challenge

Experienced private investors and lenders in infrastructure in Latin America know all too well that there are major and unique risks associated with these investments. This is the case for projects in the power, water, transportation, telecoms, and oil and gas sectors.

The projects can be massive in scope, can involve numerous parties, and will inevitably require complex long term financing solutions. Also, projects in this area will often involve the government, be it sovereign or sub-sovereign, adding an element of complexity to the transaction. And, as mentioned earlier, political resistance to the private provision of services has also been an issue. Finally, in many countries, macroeconomic, legal, and regulatory concerns add a level of uncertainty that can complicate deals even more. As a result, investors can face a more expensive cost of capital, and can sometimes be discouraged from investing at all, or may even invest in other regions.

What will it take to get the private sector back into infrastructure in Latin America? Many of the traditional investors we worked with in the past have pulled out of emerging markets; often the result of poor returns, and a heightened perception of risk. Political risk insurance can be one piece of the equation in getting investors back, but that's not all. It will also take government goodwill, getting economies back on track, creating better regulatory regimes and better fiscal discipline. It will also take the creation of legislative frameworks to protect private ownership of projects.

As many speakers have commented over the past two days, a so-called "new" model is emerging whereby risks are shared more evenly between the government and the private sector under Public Private Partnerships. This is certainly an area where the World Bank Group is playing

an active role. The key, of course, is the risk sharing aspect of the formula. PPPs mean different things to different people and for it to work, there has to be a genuine partnership and genuine risk sharing.

MIGA and the World Bank Group

The help of multilaterals such as MIGA, the Multilateral Investment Guarantee Agency, and the other World Bank Group partners is also critical to make up for the loss of private appetite to provide equity and debt for these projects, and to encourage the types of reforms needed to offer a real assurance that private investments will be safe from government interference. The presentation given by my colleague yesterday morning on the Dominican Republic toll road which was financed by a 20-year private placement insured by MIGA, is but one example of creative financial solutions being developed by MDBs to meet today's changing needs and market requirements. But let us not forget that no amount of financial engineering, or even a favorable investment climate, will make a bad project good.

Within the World Bank Group, MIGA can help in increasing investment flows into Infrastructure in Latin America, by providing risk mitigation instruments, including guarantees to investors and lenders, covering the risks of expropriation, breach of contract, currency inconvertibility and transfer restriction, and war and civil disturbance.

It is no secret that there is tremendous liquidity in the market place these days. Speak to the financial institutions seated at your tables. They will readily confirm this. Yet foreign investment has problems going into emerging markets because of concerns with various risk factors. MIGA guarantees can provide effective risk management tools to bridge the funding gap for many infrastructure projects in the region. Often such guarantees can make the difference between a go and a no-go project decision, and this is the case all the more for complicated investments in infrastructure projects. Once again, let me cite the example of the DR Toll Road financing through MIGA guaranteed private placement, a highly necessary and developmentally effective project which would not have taken place without this innovation.

We are a multilateral agency with 167 member countries and can work with investors from any of these member countries to invest in other member countries. Infrastructure is one of our four strategic pillars and it is one of the core priorities of the World Bank Group as a whole. We are encouraging traditional investors to return to the emerging markets but also encouraging new regional investors to invest, the South-South investments, which is one of our other strategic pillars.

The agency also provides complementary services to achieve its mission, including mediation of investment disputes and provision of advice to developing countries on the needs of foreign investors to help countries attract and retain private investment. In-house sector experts help

ensure that deals are sound, projects are viable, and expectations are clear on all sides. And MIGA's guarantee products provide that extra level of comfort needed to protect investors.

Latin Finance magazine says "Foreign direct investment is surging around the world, but flows into Latin America fail to impress." We need to change this. "Regional leaders need to spur economic growth to bridge the gap" and return the region to global competitiveness. There is simply too much to do and little room for competition among private sector companies and among the MDBs. MIGA is most certainly committed to partake in its share to bridge the gap, as I have no doubt that all the participants here for this conference will.