

Building a New Continent

A Regional Approach to Strengthening
South American Infrastructure



INITIATIVE FOR
THE INTEGRATION
OF REGIONAL
INFRASTRUCTURE
IN SOUTH AMERICA
(IIRSA)





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The Bridge over the Acre River linking Peru and Brazil, inaugurated on January 21, 2006, was the first IIRSA priority project to be completed.



IIRSA: EXECUTIVE SUMMARY

Regional integration is unlocking new forces in Latin America. Democracies in the region have increasingly worked towards regional integration, reducing tariffs, expanding trade and cross-border investment and taking a multilateral approach to achieve economies of scale and efficiency. In September 2000, the heads of state of 12 South American countries took a major step forward, launching the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and opening a broad new continental approach for greater investment and harmonization of economic regulations and procedures. Since then much technical work and political alignment have been accomplished to strengthen the initiative, which has enjoyed the support of successive elected heads of state. Support for regional integration has strengthened as new trade opportunities opened up and economic stability, together with periodic elections, brought a new emphasis on responding to the needs of the majorities in each country. Greater integration and openness have also created new opportunities for regional companies, which have increasingly invested across borders in manufacturing as well as in services and infrastructure.

IIRSA, already with a substantial portfolio of active projects, is now one of the most dynamic and ambitious regional integration initiatives undertaken in the Western Hemisphere. As projects are implemented they are creating significant new investment and development opportunities. Participating nations are coordinating their planning and

investment strategies while progressively harmonizing their regulatory structures. Under the IIRSA umbrella, South America for the first time has acted as a single, integrated unit to develop a portfolio of infrastructure projects—covering transportation, energy and communications—that forms the core of converting a regionwide vision for physical integration into a reality. Of the 348 projects in the portfolio, requiring a total investment of US\$ 38 billion, the IIRSA nations have assigned priority to 31 projects as part of a “consensus agenda.” The full list of projects can be found on the IIRSA website at www.iirsa.org, while the list of the 31 priority projects may be found on page 24 of this publication. A list of 20 IIRSA projects offering investment opportunities can be found on page 35.

IIRSA goes beyond physical works

IIRSA goes beyond physical works. Completion of the IIRSA investments will have a substantial impact on the economy of the region, contributing to gains in competitiveness and social development and creating new opportunities for the population. This impact will be multiplied by the benefits from other important aspects of IIRSA activities that go beyond the construction of physical works. These activities include efforts to harmonize



regulations across the region, improve cross-border traffic, remove administrative bottlenecks and provide an infrastructure of services, such as facilitating exports by small and medium-sized enterprises through the regional postal system. IIRSA emphasizes environmental and social sustainability, as well as fiscal responsibility, reflected in a structured process of selection, implementation, monitoring and evaluation of projects that also takes into account the combined effect of such projects in the framework of the complete portfolio and its territorial implications for the region.

High transportation cost limits growth, and social integration

The core objective of IIRSA of enhancing physical infrastructure has important social implications. Physical infrastructure serves as a platform for regional growth and competitiveness. High costs for transportation, energy and other services associated with insufficient infrastructure are some

of the main limits on both economic and social integration. In particular, better physical infrastructure is an important tool to create new opportunities for populations in the poorest, most isolated areas, facilitating their integration in the regional economy and equalizing their access to markets.

The Inter-American Development Bank (IDB) has been a firm supporter of IIRSA from the onset. The Bank is joining with partners to finance both public and private sector projects that are part of the initiative and is contributing to the design and enforcement of world-class environmental and social standards. The Bank has also developed innovative systems to support the introduction of new standards in project implementation and monitoring. The Bank is involved in the financing of one third of the projects in IIRSA's priority portfolio of 31 projects.

The unshakable commitment of the IDB to IIRSA is particularly important because the time is ripe for infrastructure investment in South America. The region in recent years has benefited from a strong upswing in the economy. The effects of this cycle have been reinforced by reforms undertaken in the past 10 years that in many countries continue to yield positive results. Most countries in the region have completed an election cycle that reaffirmed the strength of democracy and the attendant need of governments to create opportunities and deliver economic growth and social services to the majority of their citizens, without compromising fiscal responsibility and medium-term economic stability. These developments present an opportunity for a renewed focus on improving the quality of public expenditure and on enhancing infrastructure investment. This is especially meaningful now because the productive use of resources in good times will help the region weather an eventual slowdown of the world economy. The IDB continues to contribute to effective development in the region in a timely way through the financing of studies and projects carried out by the public and private sectors as part of IIRSA, as well as by financing other projects in member countries and helping to reduce barriers to trade, investment and growth.

WHY IIRSA?

Historical Perspective: Key Role of Trade and Infrastructure

Latin America has a strong tradition of trade that began well before the arrival of Europeans. Complex commercial webs in the Andean region dating back thousands of years are well documented and are prime examples of how trade can improve the general welfare. Trade between the Pacific coast and the mountain areas in the northern Andes, for instance, sustained several civilizations whose achievements in art, agriculture and food technology were substantial. These civilizations would not have been possible without trade, since the coast is arid and the highlands did not provide for all the needs of a large population (see Box 1, page 9).

While trade continued to be the lifeblood of the region, expanding infrastructure has been instrumental in promoting economic change. External trade sustained the Spanish and Portuguese Empires for 300 years, although large highways were not developed. They were

not needed to export gold, and most agricultural production was located near the coast. This pattern started to change in the 19th century, as railroads allowed agriculture to develop farther from the coast. The impact of the development of such an infrastructure is well illustrated in the case of Argentina, which grew in importance as an exporting nation, quickly becoming one of the richest economies in the world. Contemporary investments in railroads and other infrastructure also had a significant impact on other countries, such as Bolivia and Chile. More recently, the opening of roads across Brazil's central regions from 1950 to 1970 made it possible to transfer the national capital to Brasília, better distribute large segments of the country's industry and open up vast new markets for agriculture—thereby enabling Brazil to become a major world exporter of grains, meat and other foodstuffs, as well as to rebalance its growth pattern (see Tables 1 and 2).

Table 1. Top 5 Exporters in Soybeans and Maize (2004)

SOYBEANS		MAIZE	
Country	Quantity (thousands of tons)	Country	Quantity (thousands of tons)
Brazil	35,443	U.S.A.	50,830
U.S.A.	30,373	Argentina	10,835
Argentina	29,166	France	7,025
Netherlands	6,027	Brazil	5,271
Paraguay	3,687	China	2,736

Source: FAOSTAT - FAO Statistics Division (August 2006).

Table 2. Top 5 Exporters in Chicken and Bovine Meat (2004)

CHICKEN MEAT		BOVINE MEAT	
Country	Quantity (thousands of tons)	Country	Quantity (thousands of tons)
Brazil	2,478	Australia	1,544
U.S.A.	2,440	U.S.A.	1,426
Netherlands	695	Brazil	875
France	679	Argentina	790
Belgium	478	Canada	631

Source: FAOSTAT - FAO Statistics Division (August 2006).

New Realities: Integration, Infrastructure and Democracy

South America in the past 15 years has accelerated trade liberalization, both at the regional and world levels. One compelling reason for this trend has been the region's reassessment of the import-substitution model that guided economic policies from the 1950s through the 1970s. In the past 15 years, an increasing number of policymakers in the region have acknowledged the inefficiencies associated with that model, especially applied at country level. These inadequacies arose from small-scale, inward-looking incentives and a lack of competition—characteristics typical of closed economies, that were exacerbated in a region of large expanses and relatively low population density (Table 3).

As countries started to look beyond their borders for increased trade and integration, a new reality emerged.

In particular, countries began to see significant bottlenecks in infrastructure and wide disparities in institutional frameworks, difficulties compounded by natural barriers that included vast distances and the world's longest rivers and mountain chain.

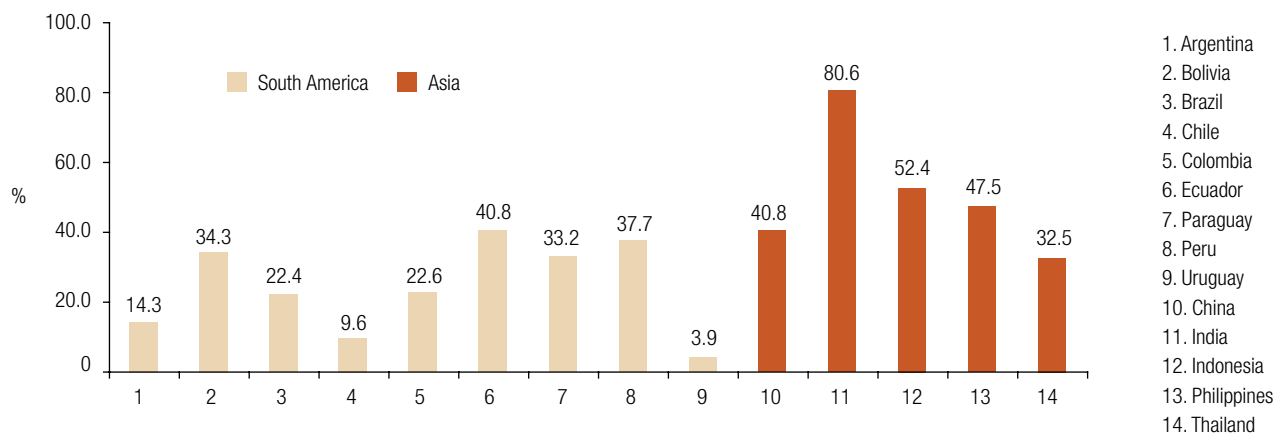
Successful democratization has created a new demand for infrastructure. Democratization has helped bring the countries in the region closer together, fostering a desire for economic and political integration, and raising the awareness of the importance of infrastructure to achieve this goal. In addition, it spurred the perception that investments in infrastructure are of particular help for the marginal, remote and poor communities. These considerations became increasingly relevant to many leaders, as democracy nurtured decentralization and gave a larger role to a broader segment of the population. It was recognized

that investment in infrastructure reduces the risk of these communities being priced out of the mainstream economy because of high transportation or communication costs. It is also crucial to ensure the higher productivity needed to keep the region competitive and reduce the low-income population (Figure 1). Improved infrastructure allows remote communities, as well as the overall population, to be integrated into the regional and world economy and to benefit effectively from the opportunities and income trade can generate.

While the profound economic adjustments undergone by the region in the last 15 years may have temporarily dampened the ability of governments to respond to these demands, the recent improvement in the overall economy of the region opens new opportunities to these countries.

Successful democratization has created a new demand for infrastructure

Figure 1. Population Living on Less Than US\$ 2 a Day – Selected South American and Asian Countries



Source: World Development Report 2006

Box 1. Infrastructure and Trade in the Cradle of South American Civilization

Native Americans developed infrastructure to support cultures and civilizations of high sophistication in South America that go back more than 3,000 years. Existing long before the well-known Inca Empire, the Moche and Chimu peoples are good examples of this sequence of cultures that thrived in the northern Andes and culminated with the Incas in the centuries before the arrival of the Iberians in the Western Hemisphere. Infrastructure and trade were the basis of the livelihood of the Moche peoples, who lived in a 220-mile stretch of desert in northern Peru between the Andes and the Pacific. The size of the most famous Moche ruins, dating between 200 B.C. and 750 A.D., indicates that some villages were home to more than 10,000 inhabitants. These people learned to divert the flow of the rivers from the headwaters in the Andes to form intricate and lush irrigated valleys, where they raised corn, beans, squash and peanuts. Their culture is also well known for gold, turquoise and stone artifacts that are breathtaking, both in their intricacy and their detail. Materials used in crafts and food were imported from as far away as today's Ecuador and Chile, where Moche artifacts have also been found, indicating the scope of their trade network. The succeeding Chimu Empire furthered these achievements, as witnessed by the ruins of the city of Chan-Chan, with its vast buildings, vaults and channels.

The Inca Empire, centered in Cuzco, Peru, emerged by the 13th century A.D. At its height, it maintained an impressive network of more than 5,000 kilometers of roads, crossing the Andes and reaching into parts of what are now Argentina, Chile, Colombia and Ecuador—distances the equivalent of that between Lisbon and Moscow, well beyond those stretched by empires of that time. Trade in goods and exchanges of information were conducted over those lanes.





Table 3. Comparative Indicators of Selected South American and Asian Countries

VARIABLES	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Paraguay
Land area (sq. km)	2,736,690	1,084,380	8,459,420	748,800	1,038,700	276,840	397,300
Population (1,000)	38,747	9,182	186,405	16,295	45,600	13,228	6,158
Population per sq. km	14.2	8.5	22.0	21.8	43.9	47.8	15.5
GDP per capita (US\$)	4,730.93	1,016.51	4,260.07	7,072.72	2,682.21	2,739.95	1,323.74
GDP in US\$ per sq. km	66,982	8,607	93,871	153,913	117,752	130,920	20,517
Human Develop. Index	0.863	0.687	0.792	0.854	0.785	0.759	0.755
Exports of goods and services (% of GDP)	25.3	30.9	22.7	41.8	21.5	24.4	33.4
Foreign direct investment net inflows (% of GDP)	2.7	1.3	3.0	8.0	3.2	3.5	1.3
Mobile phones (per 1,000 people)	352.2	199.9	356.7	593.3	231.6	348.5	293.8
Internet users (per 1,000 people)	133.4	38.9	119.6	266.7	79.8	47.9	24.9

VARIABLES	Peru	Uruguay	China	India	Indonesia	Philippines	Thailand
Land area (sq. km)	1,280,000	175,020	9,327,430	2,973,190	1,811,570	298,170	510,890
Population (1,000)	27,968	3,463	1,304,500	1,094,583	220,558	83,055	64,233
Population per sq. km	21.9	19.8	139.9	368.2	121.7	278.5	125.7
GDP per capita (US\$)	2,804.31	4,848.94	1,708.59	717.6	1,302.23	1,183.62	2,749.40
GDP in US\$ per sq. km	61,274	95,943	238,958	264,184	158,546	329,697	345,676
Human Develop. Index	0.762	0.840	0.755	0.602	0.697	0.758	0.778
Exports of goods and services (% of GDP)	24.6	29.7	34	19	37.7	46.4	73.7
Foreign direct investment net inflows (% of GDP)	2.7	2.4	2.8	0.8	0.4	0.5	0.9
Mobile phones (per 1,000 people)	148.5	174.4	258.3	43.8	137.9	403.5	429.9
Internet users (per 1,000 people)	116.8	197.7	72.5	32.4	66.7	53.9	109.5

Source: SIMA - World Bank and UNDP Human Development Report 2005

Cross-country coordination is often a key ingredient for transborder projects

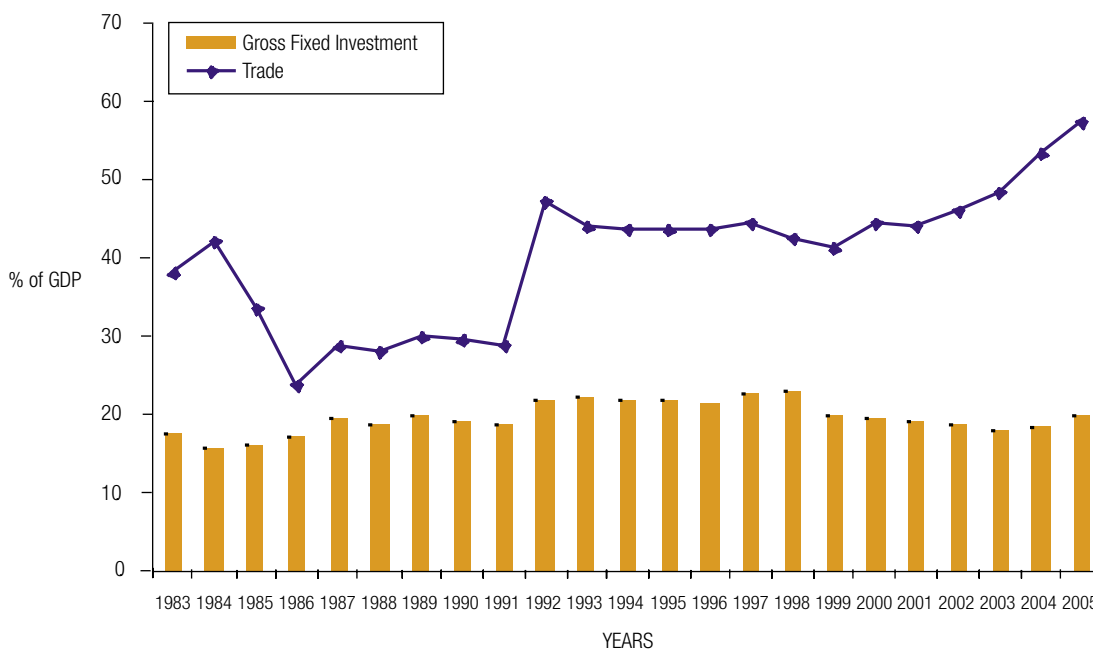


growth in East Asia compared with Latin America. The social benefits of greater infrastructure investment may include the creation of new jobs because of the lower cost of long-range transportation, greater access to health and education or electrification in remote areas.

Cross-country coordination is often a key ingredient for transborder projects. These projects are intrinsically more complex than purely national initiatives. The costs, benefits and impacts of a cross-border investment typically are different for the countries involved. Decisions on designing and undertaking the project need to resolve asymmetries of fiscal and regulatory capacity, coastal access and other geographic challenges, population income levels and national priorities. Projects that face these kinds of complex challenges require transnational agreements, intraregional coordination and nontraditional financing schemes. They need a common institution that enables countries to agree on how to determine and share the investment costs, how to price the services and how to coordinate activities. In short, they need IIRSA.

More infrastructure investment can prolong the current economic boom, while helping to improve social indicators. Channeling increased public and private revenues into high-quality infrastructure investment can accelerate growth and reduce poverty, providing additional momentum to the region. This perception is supported by a growing body of empirical studies that suggest that the impact of infrastructure on growth can be fairly large. Some studies sponsored by the World Bank conclude that the “infrastructure slowdown” of the past two decades, which contrasts with the increase in external trade in the region (Figure 2), accounts for as much as one third of the difference in

Figure 2. Gross Fixed Investment and Trade in South America



Source: World Bank Database.



WHAT IS IIRSA?



IIRSA: The Consensus Response to a Common Challenge

IIRSA is a multilateral and multisectoral consensus response to the challenges of effective integration and growing infrastructure needs. The initiative, launched by 12 countries in September 2000, includes actions and plans to improve transportation, energy and telecommunications. IIRSA is multidisciplinary, because it addresses economic, social, legal, cultural and environmental dimensions of individual projects.

IIRSA has been designed to address the asymmetries in regional integration. From the onset the initiative was devised to address market and coordination failures and to help the participating countries overcome operational, legal and institutional obstacles. The initiative provides the tools for coordinating the efforts of participating countries and achieving the goals set by the region's political leadership, business

community and civil society. It involves several levels of decisionmaking and technical analysis, conducted by diverse stakeholders, ranging from sector experts to ministers of individual countries, with the support of multilateral financing institutions.

IIRSA's Agile Institutional Structure

IIRSA is meant to be agile, relying on the coordination of existing institutions. Rather than creating a new bureaucracy, IIRSA was built around a core group of decisionmakers that make up the Executive Steering Committee, which in turn is advised and supported by task forces comprised of officials from participating countries: the National Coordinators and the Executive Technical Groups. Advice and expertise are also contributed by a Technical Coordination Committee, which includes staff from the IDB, the Andean Development Corporation (CAF) and the *Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA)*. This simplified structure facilitates continuity, inclusion and savings. The location of IIRSA meetings rotates, further encouraging the growth of a network of regional officials familiar with the initiative. The participation of the private sector and civil society is fostered by seminars, invitations to work in technical groups, the posting of information on the IIRSA Web site (www.iirsa.org) and international promotional exhibits.





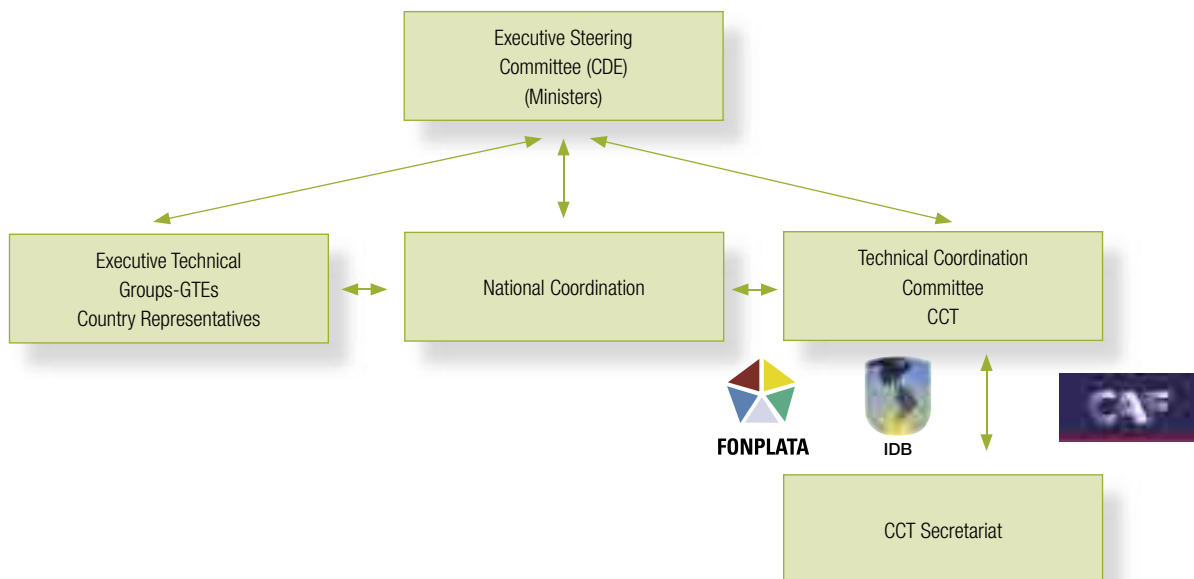
The Executive Steering Committee, composed of high-level representatives from the 12 participating governments, builds an overall consensus and vision for the initiative. The committee typically represents ministries involved in financing infrastructure as well as planning and foreign affairs. It is chaired by a president and, alternately, two vice presidents. The latter posts are held by the past president and the incoming president who will assume office by rotation. The committee issues recommendations on the technical work done by the Executive Technical Groups and Technical Coordination Committee (CCT).

Executive Technical Groups (GTEs) are composed of officials and experts representing relevant institutions of the participating governments. Representatives of the private sector also may be invited to GTE meetings. GTEs are responsible for analyzing and making

recommendations on specific issues. Operating like task forces, they are disbanded after their mission is over. GTEs deal with issues that may include the harmonization and standardization of regulatory and legal frameworks; methods to identify and evaluate projects; environmental, social and economic analyses of projects and hubs; and institutional mechanisms. Once GTE members reach agreement, their decisions are carried out in each country by the relevant national institutions.

The CCT provides managerial and operational support for IIRSA activities, including support for the GTEs. Member institutions analyze the requirements for developing specific projects and contract the necessary services under budgetary allowances defined by the CCT. The technical representatives to the CCT from the participating institutions help coordinate the operation of multilateral agencies, both regional and nonregional. This coordination contributes to ensuring that

Figure 3. Institutional Structure of IIRSA





financing needs are identified at an early stage, facilitating bilateral agreements between IIRSA governments and the financial institutions.

IIRSA's National Coordinators are the backbone of the initiative.

These country officials foster effective implementation of projects by linking together a range of domestic stakeholders concerned with infrastructure issues—such as governmental and regulatory agencies. In this capacity coordinators contribute to the application of IIRSA's standards to national or subnational procedures while accelerating project selection and implementation. Coordinators from different countries also form a network that helps share information about infrastructure and related matters among countries and different levels of government. In addition, National Coordinators interact with IIRSA's Secretariat and institutions that comprise the CCT, and they are a conduit to the GTEs and the Executive Steering Committee. Coordinators can submit proposals for IIRSA action by national governments, regional bodies and the private sector. Finally, they are prime interlocutors for dialogue with the private sector.

The CCT coordinates the technical support provided by its three supporting agencies.

This work is focused on the priority areas defined by the Executive Steering Committee (CDE) and the Executive Technical Groups. The contribution of the three multilateral institutions that comprise the CCT—the IDB, the CAF and the FONPLATA—increasingly includes studies and development of management tools for enhancing the action of National Coordinators. The CCT's Secretariat is permanently based in Buenos Aires at the Institute for the Integration of Latin America and the Caribbean (INTAL), which is part of the IDB. All the documents and the results of IIRSA's meetings—including those by the National Coordinators, the GTEs and the annual meeting of the CDE—are posted by CCT's Secretariat on IIRSA's Web site (www.iirsa.org).

IIRSA's National Coordinators are the backbone of the initiative





IIRSA IN ACTION



IIRSA is working along three main lines of action. First, it established a comprehensive list of infrastructure projects that will serve as a catalyst for regional integration and growth. Second, it developed a forum for dialogue between regulatory and planning authorities. Third, it is developing new tools for improving project implementation and future project selection. These tools are being applied experimentally to a select group of 31 priority projects, also known as the “Consensus Agenda,” many of which are already in execution. The focus on improving selection and implementation helps bridge the gap that often exists between line ministries, such as public works, and central ministries, such as finance, by facilitating an understanding of the costs and benefits of projects and their evaluation within the general financial objectives and constraints of the government.

IIRSA identified a portfolio of infrastructure projects that reflect a common nationwide vision of opportunities for integration and development. This portfolio consists of 348 projects in transportation,

energy and communications and will help governments set priorities for integration and trade for years to come and also buttress the regional dialogue. The portfolio is further consolidated around eight original Integration and Development Hubs (the Hubs). The concept of the Hub is novel in that it attempts to fully address the economic, social and environmental dimensions of physical integration and their interplay in the project development process.

Project selection was organized around two principles. One was the anticipated impact by the project on effective sustainable development and the other was feasibility. Projects were assessed not in isolation, but as part of a portfolio associated with a hub. The projects chosen and evaluated reflected a consensus by the Executive Technical Group responsible for each hub. The estimated public and private investment of US\$ 38 billion for the 348 projects is relatively modest compared with their anticipated impact, reflecting the restraint imposed by the high standards of feasibility and affordability adopted by the technical groups.



The 10 IIRSA Hubs

Ten hubs help map opportunities and infrastructure demand in South America. Hubs reflect the economic, demographic and physical affinities of large sections of South America. Most hubs overlap with at least one other hub. Several hubs cover territory coast to coast, while the envisaged impact of others is in the interior, such as the hub built around Argentina's northern provinces, a large and resource-rich region still largely undeveloped that is the focus of special attention by the national government. The blossoming of this region could bring important benefits to Bolivia and Paraguay, creating a whole new pole of development for the continent. A list of projects has been identified for the eight original hubs, and work is underway to select specific projects for the other two hubs, which are more recent.

Figure 4. IIRSA Integration and Development Hubs (IDH)



- 1 The **Andean Hub** comprises connections (trunk road networks, ports, airports and border crossings) in Bolivia, Colombia, Ecuador, Peru and Venezuela. It includes 11 groups of projects, many around the Pan American Highway and the Marginal Jungle Highway, which connects the Andes in Venezuela and the Amazon basin in Colombia, Ecuador and Peru.
- 2 The **Guianese Shield Hub** comprises four project groups focusing mainly on roads. They will strengthen the Caribbean coastal links among Venezuela, Guyana and Suriname and the coast and the Amazon basin (Venezuela-Manaus and Georgetown-Bela Vista).
- 3 The **Amazon Hub** includes regions in Colombia, Ecuador, Peru and Brazil. Its seven groups of projects aim primarily at improving roads and waterways in the area to help establish a firm connection between the Pacific and Atlantic coasts. It also focuses on improving the availability of electricity that could markedly improve the welfare of the 50 million people who live in the area.
- 4 The **Peru-Brazil-Bolivia Hub** comprises three groups of projects. One of them is aimed at linking the northwestern Brazilian state of Acre with the eastern side of the Andes and the Peruvian coast by road. The others will link La Paz, the Bolivian lowlands and the Amazon basin.
- 5 The **Central Interoceanic Hub** involves five groups of projects, including the modernization of two transportation networks out of Bolivia and the strengthening of the rail system of São Paulo, Brazil. The westward projects, including several on the Bolivian border, will strengthen the links to Peruvian and Chilean ports. The eastward projects involve mainly those in Brazil and, together with the enhancement of border infrastructure, may have a significant impact on the Santa Cruz area in Bolivia. The hub also includes the northern part of a railroad beltway that will be built around the city of São Paulo. The enhanced rail system will dramatically reduce transportation costs to the Brazilian ports of Santos and Sepetiba, as well as congestion in the city of São Paulo.
- 6 The **Capricorn Hub** features several small and medium-sized projects designed to revitalize the interior of northern Argentina and southern Paraguay. This region is likely to benefit from new developments in agriculture and, given its relatively low population density, may have potential for very rapid growth as a result of better domestic and cross-border communications. The hub also includes projects to enhance access by Paraguay to the Atlantic through Brazilian ports, especially improvements in border infrastructure.
- 7 The **MERCOSUR-Chile Hub** includes five groups of projects, three of which will ultimately create a transportation system through Uruguay and Argentina that will link Chile to the state of Minas Gerais in central Brazil. Another group of projects will revitalize road connections in the province of Santa Fe, Argentina, including an underwater tunnel linking it to the province of Paraná. The MERCOSUR-Chile Hub also includes a strong group of projects in the energy sector linked to the completion of major hydropower projects in Argentina, as well as further integration of the Brazilian, Argentine and Uruguayan natural gas pipeline network.
- 8 The **Southern Hub** comprises two groups of projects geared toward improving cross-border conditions in the southern Andes and the maintenance of road infrastructure in the lake region, an important tourist destination.
- 9 The **Paraguay-Paraná Waterway Hub** is one of the newest, established in 2005. Although a final list of projects has yet to be completed, the hub may become the main inland waterway system linking the Tieté-Paraná, Paraguay-Paraná, Uruguay and La Plata river networks.
- 10 The **Southern Andean Hub** is a recent endeavor that is awaiting project selection. The clear commitment of Chile to further development of IIRSA should soon be reflected in the completion of the project list.

Implementation Agenda based on Consensus 2005-2010 Using new management tools

The Information System for Strategic Project Management—ISSPM (SIGE in Spanish)



The Information System for Strategic Project Management—*ISSPM (SIGE in Spanish)*—was developed to manage IIRSA projects, providing a tool to help predict the flow of required resources and anticipate any slippage or bottleneck in implementation. ISSPM will contribute to reducing the overall cost of projects by cutting dead time and helping to coordinate the work of different government agencies, suppliers and contractors. It will thereby help increase the rate of return of public and private investment in infrastructure in South America. The tool already helps public officials and technical specialists share information, allowing government to know, to better control and to inform stakeholders about the status and progress of individual projects, ensuring a higher level of transparency for IIRSA activities. In short, ISSPM already is demonstrating the advantages of moving away from cumbersome and excessively bureaucratic project oversight to a real time, objective system of project management that is needed to make better use of public funds.



IIRSA as Promoter of the “Software” for Integration

IIRSA has provided a forum for the dialogue among the countries’ regulatory and planning authorities. The initiative has developed a mechanism, the Sectoral Integration Processes (SIPs), to help identify regulatory, operational and institutional obstacles to the efficient use of the region’s basic infrastructure. Through the SIPs, regional working groups have been organized to promote harmonization of the policies, plans, and legal and institutional frameworks governing the use of infrastructure.

Studies under the auspices of the SIPs have covered seven sectors. These studies can be found on the IIRSA Web site (www.iirsa.org) and provide a diagnosis of the sectors, as well as indications on how to address some of the issues identified in the process:

- Air transportation (http://www.iirsa.org/secTaereo_ENG.asp?CodIdioma=ENG);
- Maritime transportation (http://www.iirsa.org/SecTMaritimo_ENG.asp?CodIdioma=ENG);
- Multimodal transportation (<http://www.iirsa.org/SecTMultimodal.asp?CodIdioma=ESP>);
- Border crossing facilitation (http://www.iirsa.org/SecPFrontera_ENG.asp?CodIdioma=ENG);
- Energy integration (http://www.iirsa.org/secEnergia_ENG.asp?CodIdioma=ENG);
- Information and communications technology (http://www.iirsa.org/SecTelecom_ENG.asp?CodIdioma=ENG);
- Financing mechanisms (http://www.iirsa.org/secIfinancia_ENG.asp?CodIdioma=ENG).

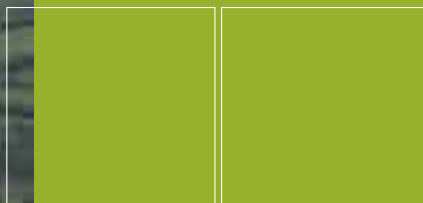
Looking forward, IIRSA is also developing tools to help better identify the indirect economic effects of key projects. This systematic approach will be instrumental in the continuous definition of priorities in the project pipeline. It is aimed at helping make this choice as transparent and comprehensive as possible, considering the economic, social and environmental implications of each project. In a multilateral setting, this approach can help forge consensus around a set of projects and build outside support from civil society, the private sector and the international financial community.

IIRSA has also been a laboratory for innovative public investment management practices. To ensure quick, high-quality implementation of complex projects, IIRSA is betting heavily on the development and dissemination of modern, transparent public management tools, in particular the concept of *intensive project management*. Among these tools is the *Information System for Strategic Project Management* developed with the help of the IDB and FONPLATA and known in Spanish as SIGE. Applying these tools to specific IIRSA projects requires cooperation between the project manager and the National Coordinators. Specific tools are being tested in the implementation of the 31 priority projects. An eventual goal is to make these tools standard features in the management structure of most South American planning and public works ministries. Transparency is particularly important to IIRSA projects, which often compete for financing with national projects. Reinforcing the ability of local agencies to select, develop, implement, monitor and evaluate projects is a major priority of IIRSA and one of the major needs of the region.

Box 2. IIRSA's Environmental Approach

IIRSA's comprehensive approach to projects places a priority on environmental protection and is responsive to a growing awareness of its importance by the people of the region. Organized society and elected governments are increasingly attuned to this reality. The IIRSA approach of applying the concept of hubs helps address environmental issues in a structured way and offers planners and other stakeholders a vision of development opportunities, alternatives and needs to ensure effective and balanced regional integration. This effort has been reinforced by promotional activities, such as seminars, and the development of planning tools and other mechanisms. IIRSA transportation projects that integrate rivers and other waterways with roads—for instance by improvements in ports and storage structures—are examples putting a priority on protecting the environment. This kind of multimodal transportation reduces the length of roads needed to effectively link cities in the region, therefore reducing the environmental impact of highways and traffic on land connections.

The IDB and other financial institutions support the IIRSA commitment to protect the environment and take a proactive approach when analyzing the environmental and social dimensions of potential infrastructure projects. When an IIRSA infrastructure project or another proposal is submitted to the IDB for possible financing, the environmental and social impacts are taken into account at the onset of the Bank's participation. The IDB prepares guidelines and reviews projects to help borrowers carry out various analyses, studies and action plans to ensure that the best practices are applied for resource use that are sustainable and socially responsible. The goal is not only to meet the standards of national legislation, international rules and IDB policies, but also to enrich the project and strengthen national and regional environmental and social standards, applying the experiences and expertise of the countries and other stakeholders in technical, social and environmental design and protection mechanisms. Special funds, including grants, are available to finance preliminary studies on how IIRSA or other infrastructure projects can be structured to enhance the capability of countries and financial institutions to minimize the environmental impact.



THE IIRSA “CONSENSUS AGENDA” OF PRIORITY PROJECTS



The “*Consensus Agenda*” provides focus for the current phase of IIRSA. This consensus agenda, approved in November 2004, includes 31 high-impact projects to be carried out during 2005-2010. The portfolio is not static. While the focus it provides helps governments assign priority to projects within a framework of fiscal discipline, other projects may be included in the portfolio over time as the original projects are implemented (see Figure 5).

The priority portfolio comprises investments totaling US\$ 6.4 billion. Most of the investments, for a total of US\$ 4.1 billion, correspond to 16 road projects. Fifteen of the priority projects, just under half the total, require investments from more than one country. The other 16 are national projects with a strong “bridging effect” across national borders, typically raising the return on previous investments in the same country or in a neighboring country (see Figure 6).

Figure 5. The Consensus Agenda Projects by Sector

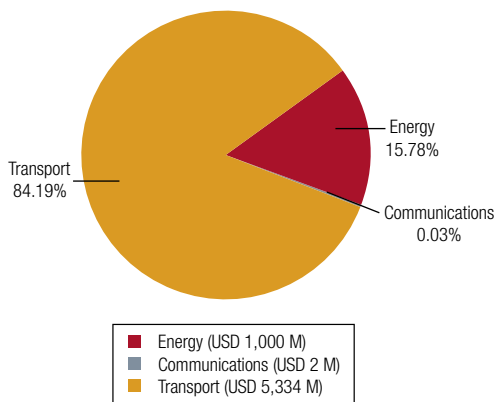
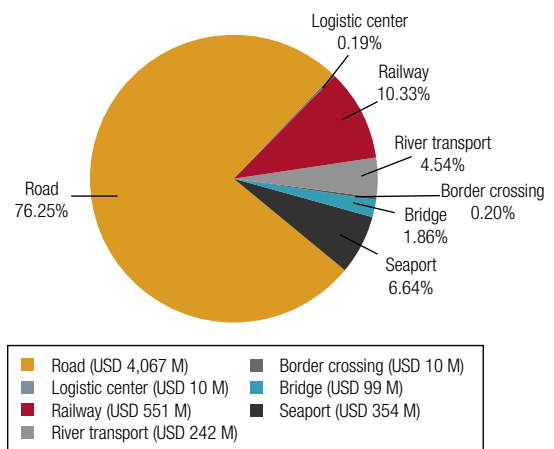


Figure 6. Priority Agenda Transportation Projects by Type



The IIRSA priority portfolio is already in the implementation phase.

Among these projects, 13 have secured financial commitments from institutions that comprise IIRSA's Technical Coordination Committee (IDB, CAF and FONPLATA). The external financing from these sources

totals about US\$1.5 billion, leaving US\$3.3 billion to be financed by governments or other institutions. Also, nine projects are already in execution, while four are at the bidding stage; 17 are in preparation, and one, the bridge over the Acre River, has been completed (Table 4).

Table 4. The 31 IIRSA Priority Projects

Stage	N°	PROJECT	HUB	US\$ millions	COUNTRIES
	1	Duplication of Route 14	MERCOSUR-Chile	370.0	AR (BR)
	2	Remodeling of the Rio Branco-Montevideo-Colonia-Nueva Palmira Corridor	MERCOSUR-Chile	176.8	UY (AR-BR)
	3	Building of the Jaguarão-Rio Branco International Bridge	MERCOSUR-Chile	12.0	BR-UY
	4	Duplication of the Palhoça-Osorio-MERCOSUR Road	MERCOSUR-Chile	800.0	BR (AR-UY)
	5	Reconstruction of Los Andes-Mendoza Railway	MERCOSUR-Chile	251.0	AR-CH
	6	Concession and improvement of International Route 60 CH (Valparaíso-Los Andes)	MERCOSUR-Chile	286.0	CH (AR)
	7	Construction of Northeast Argentina Gas Pipeline	MERCOSUR-Chile	1,000.0	AR (BO)
	8	Construction of the Salvador Mazza-Yacuiba Binational Bridge	Capricorn	10.0	AR-BO
	9	Construction of Presidente Franco-Porto Meira New Bridge and Border Center	Capricorn	55.0	PY-BR
	10	Construction of the Pailón-San José-Puerto Suárez Road	Central Interoceanic	435.3	BO (BR-CH-E)
	11	Construction of São Paulo Railway Beltway (North and South)	Central Interoceanic	300.0	BR
	12	Construction and Implementation of Infante Rivarola-Cañada Oruro Border Crossing	Central Interoceanic	1.2	BO-PY
	13	Paving of the Cañada Oruro-Villamontes-Tarija-Estación Abaroa Road (First Stage)	Central Interoceanic	60.0	BO (PY)
	14	Rehabilitation of Toledo-Pisiga Road	Central Interoceanic	76.0	BO (CH)
	15	Rehabilitation of the Iquique-Colchane Road	Central Interoceanic	19.0	CH (BO)
	16	Rehabilitation of the El Sillar Road	Central Interoceanic	30.0	BO (BR-CH-E)
	17	Construction and Implementation of Desaguadero Border Center	Andean	7.0	BO-PE
	18	Construction and Implementation of Cúcuta-San Antonio del Táchira Border Crossing	Andean	2.0	CO-VE
	19	Recovery of Meta River Navigability	Andean	108.0	CO-VE
	20	Rehabilitation and Construction of Pasto-Mocoa Road	Amazon	183.0	CO
	21	Rehabilitation of Paita-Tarapoto-Yurimaguas Road, Ports and Logistic Centers	Amazon	338.0	PE (BR)
	22	Rehabilitation of Lima-Tingo María-Pucallpa Road, Ports and Logistic Centers	Amazon	589.0	PE (BR)
	23	Construction of Francisco de Orellana Port	Amazon	105.0	EC
	24	Paving of the Iñapari-Puerto Maldonado-Inambari-Juliaca/Inambari-Cusco Road	Peru-Brazil-Bolivia	1,055.0	PE (BR)
	25	Construction of Bridge over the Acre River	Peru-Brazil-Bolivia	12.0	BR-PE
	26	Studies for the Boa Vista-Bonfim-Lethem-Georgetown Highway Project	Guianese Shield	3.3	GY-BR
	27	Construction of Bridge over the Takutu River	Guianese Shield	10.0	GY-BR
	28	Studies for The Venezuela (Ciudad Guayana)-Guyana (Georgetown)-Suriname (Paramaribo) Highway Project	Guianese Shield	0.8	VE-GY-SU
	29	Improvements in Nieuw Nickerie-Paramaribo-Albina Road and Construction of the International Bridge over the Marowijne River	Guianese Shield	105.0	SU-GY
	30	Exports through Postal Services for MSMEs	ICTs	1.2	All of them
	31	Implementation of a Roaming Agreement in South America	ICTs	1.0	All of them
Total				6,403.6	

■ In preparation
 ■ Bidding/Concession
 ■ In execution
 ■ Completed

Figure 7. Map of the 31 IIRSA Priority Projects

IIRSA—IMPLEMENTATION AGENDA BASED ON CONSENSUS 2005-2010



Map: Andean Development Corporation

ECONOMIC ANALYSIS OF SELECTED PROJECTS IN THE PRIORITY AGENDA



Construction of the Jaguarão-Rio Branco Bridge is a binational project at the border of Brazil and Uruguay. A modest investment of US\$ 12 million will leverage a major overhaul of one of the main roads crossing Uruguay. Currently the border crossing between Uruguay and Brazil is precarious, relying on a one-lane decades-old bridge that will be a bottleneck after the conclusion of the IIRSA project for “Upgrading the Rio Branco-Montevideo-Colonia-Nueva Palmira Road Corridor.” The new bridge will be an important link in the MERCOSUR-Chile Hub. Feasibility studies scheduled to be finished by November 2006 already suggest an estimated rate of return of 23 percent for the project that may or may not be captured by tolls.

will restore and adapt the existing railway connection. The two cities are important nodes in the basic railway network of the respective countries. As such, the service is expected to move 580,000 tons of freight in the first year of operation and up to 2.8 million tons in the fifth. By the tenth year traffic should rise to 4 million tons, absorbing 40 percent of the cargo traffic now trucked by highway through the Cristo Redentor Pass. Studies show that the project can achieve an internal economic return rate of 23 percent for the Chilean section and 21 percent for the Argentine side. The anticipated investment is estimated at US\$ 251 million with participation of the private sector. Concession teams from both countries are coordinating the terms of the tender documents, with a view to call bids soon.



Duplication of Route 14 between Pasos de los Libres and Gualeguaychú is a project to be carried out by Argentina. Although implemented at the national level, the project is expected to have positive externalities beyond national borders. The road forms a South-North corridor that crosses the three provinces of a region in Argentina known as Mesopotamia. Average daily traffic now exceeds 7,000 vehicles, and the duplication of the road—widening it from one lane in either direction to two lanes in either direction—will facilitate international traffic between Chile and Brazil, as well as the land connection with Paraguay. Studies indicate an economic rate of return of 20 percent, based on an annual increase of overall traffic of 3 percent a year, in addition to a 4.2 percent increase in light vehicle traffic and an 8 percent increase in bus traffic. The total estimated investment is



The **Los Andes-Mendoza railway** linking Chile and Argentina is another high-impact project in the MERCOSUR-Chile Hub. The project consists of the reactivation, operation and maintenance of railway freight transportation service that links Mendoza, Argentina with the Chilean city of Los Andes, 70 kilometers from Santiago. The project



US\$ 370 million. The IDB is contributing with a US\$ 200 million loan to the government of Argentina. The Province of Corrientes has already carried out environmental hearings, and the detailed design is being developed and will be presented soon.

Transportation investments in IIRSA also include multimodal projects. The **Paita-Tarapoto-Yurimaguas Roads, Ports and Logistical Centers** initiative entails investment in river and maritime ports, roads and logistical centers. This group of projects strengthens logistical chains in the area and lowers the costs of vehicle traffic. A goal is to finance these projects through public-private partnerships. It is estimated that the project will lead to a reduction in vehicle operating costs by more than US\$ 42 million in the next two decades.

The project is one of the main multimodal projects included in the Consensus Agenda. This type of investment has a minor environmental impact, because it benefits from the synergies among the different means of transportation and minimizes road works. Promoting international trade, it will advance the consolidation of the coast-mountain-jungle integration corridor of the northern region of Peru that will be linked to its regional partner, the Brazilian state of Amazonia.

This type of investment also avoids the “turnpike effect,” as it constitutes a commercial and service platform that reinforces the existing logistic chains in the areas of influence of the project, allowing the sustainable development of the beneficiary populations, which have traditionally been isolated, nationally as well as regionally.

Feasibility studies for the Paita-Tarapoto Road, which is the main roadwork of the investment group, indicate an economic return rate of 12.3 percent. The building of this road will have a powerful impact on the reduction of vehicle operation costs. The total estimated investment in this cluster is US\$ 338 million.

In supporting this project, the IDB approved its first guarantee for a public sector financing program—an innovative operation designed to attract greater private investment in the framework of a public-private partnership and to reduce costs for a strategic IIRSA road in northern Peru. The US\$ 60 million guarantee serves as a credit enhancement to the expected US\$ 218 million investment for the improvement and rehabilitation of a 960-kilometer road system (see Box 4 in section on “IIRSA and the Private Sector”).

The **Modernization of the Callao Port** involves the construction of a new container terminal in Peru that will raise the productivity of a number of investments programmed for the area. It is estimated that the project will enable the transit of containers to rise from 725,490 20-foot equivalent units (TEU) moved in 2004, to 1,500,000 TEU in 2010 and 2.5 million in 2035.



The construction and implementation of the **Desaguadero Border Center** between Bolivia and Peru is a prime example of a cross-border project sponsored by IIRSA. The objective of this project is to install an integrated binational control center at Desaguadero, a border crossing that accounts for 90 percent of the traffic between the two countries. This new center will facilitate the circulation of passengers, goods and vehicles through the route, stimulating trade flow and fostering regional economic relations in the Andean regions of Peru and Bolivia, as well as the northwestern region of Argentina. The coordination features of IIRSA proved relevant to promote a project expected to substantially reduce transportation time at the border.

This project will reduce waiting times for traffic into both countries from about three hours to about 15 minutes. The Desaguadero Border Center was also selected as one of the five IIRSA pilot projects for the modernization of International Customs Traffic. Best practices in

these projects will be extended to other countries in the region. On the Peruvian side, the project is in its final stages of preparation prior to expected IDB financing. Feasibility studies indicate an economic return rate for Bolivia and Peru of 36 percent and 30 percent, with discount rates of 12 percent and 17 percent, respectively. These data reflect the high socioeconomic impact of the project, especially regarding national policies and strategies to promote international trade.

The IIRSA portfolio includes US\$ 5.4 billion in investments in energy interconnections and US\$ 14.7 billion in projects for energy production. South America has an abundant supply of oil, gas, coal and hydroelectric potential, offering very significant opportunities for the development of new projects in this field.



Argentina Gas Pipeline

project, which is intended to transport 20 million cubic meters of gas a day from Bolivia to Argentina, has immense economic potential for private investors. Project estimates rise from 7.7 million cubic meters to 27.7 million cubic meters per day in gas exports from Bolivia to Argentina, at a price of US\$

5.50 per million BTU. With this new gas volume, 25 percent of the Argentine market will be supplied by Bolivia. This project will ensure natural gas supply to the northern and central regions of Argentina, which includes the provinces of Salta, Formosa, Chaco, Misiones, Corrientes, Entre Ríos, Santa Fe and Buenos Aires.

The trunk gas pipeline will be 1,500 kilometers long and 30 inches in diameter, and it will operate under a pressure of 95 bars. The project includes the trunk gas pipeline and its provincial branches, as well as the corresponding compression, regulation and measurement plants, surface installations and other complementary civil, electricity and communication works, such as data transmission, remote operation and telemetry. The total investment is estimated at US\$ 1 billion. The private sector is expected to provide 75 percent of the investment through a gas transportation concession that will be determined by international public bidding. At present the project is under preparation.

The implementation of roaming agreements in South America and postal exporting for small and medium enterprise projects

are examples of the opportunities that can result from better harmonization of regulations and procedures. The roaming project is now being prepared for a pilot phase in Peru and Brazil. Cellular telephony in South America has a penetration rate of 34 percent—a rate that is growing by 39 percent a year. Considering that this rate is potentially even greater for the targeted population group because of its relative regional mobility and because of the relationship between average income and penetration rate, the implementation of a South American regional roaming service would offer a unique platform on which new business opportunities could be created, both in voice and data traffic. At the same time, public entities would be able to obtain higher incomes through both phone calls and taxes on the economic activities induced by the new services. Additionally, the implementation of the new 3G telephone services, to be deployed in the medium term, will allow the spreading of more flexible broadband Internet services.

The postal exporting program was initially implemented in Brazil, and it is anticipated that microenterprise and small and medium businesses (MSMEs) will export US\$ 146 million using this facility by the end of 2006. The project will enhance the competitiveness of MSMEs in the international market, contributing to sustainable development in the region through the implementation of a Simplified Export System through Postal Services.

The implementation of the project includes the following activities: establishment of a regional interinstitutional coordination network; adaptation of legal, custom and postal regulation, as well as the logistic processes involved in exports; identification of the sectors and regions with higher potential for exportation through the new service; adaptation of public postal infrastructure to guarantee a wide coverage of export services for MSMEs; implementation of the Simplified Export System to be offered by the public postal operator; coordination of the involvement of logistic agents and private postal operators in project implementation; and an information campaign directed to MSMEs about the business opportunities offered by the new service.

IIRSA AND THE NEW DYNAMICS OF A CONTINENT



IIRSA as an Ingredient to Stimulate Trade and Growth

South America's intraregional trade is still far from its ceiling after two decades of strong growth. IIRSA's challenge is to help mobilize the appropriate hardware and software to strengthen the integration process and accelerate the expansion of trade and economic growth. Intraregional trade grew from 8 percent of the region's total commerce in 1990 to a peak of 14 percent in 1998. It currently stands at about 12 percent (2004), owing in part to the rapid increase of overall exports to countries outside the region since 2002 and a temporary contraction in Brazil-Argentina trade. Overall exports of South America increased by 54 percent during 2002-2004 and for many countries by close to 100 percent. That proportion of intraregional trade to total trade is, nonetheless, lower than in East Asia (China, Japan, Korea and Taiwan), where intraregional trade accounts for 18 percent of total trade, and with respect to the European Union, where the figure is close to 42 percent. It is noteworthy that part of the intra-European trade results from the ability of ports such as Rotterdam and Antwerp to attract cargo from the whole continent. This pattern reveals one way in which

More
infrastructure
can level
opportunities
in the region

intraregional trade can make exports more affordable, increasing competitiveness and strengthening the links of the whole region.

Successful integration will avoid excessive concentration of economic activities.

While lowering the cost for exports, infrastructure investment can play a fundamental role in leveling opportunities for South America as a whole, especially in remote areas. A better supply of transportation, energy and communication can foster the geographic deconcentration of new businesses and help reduce congestion in large cities. It may also reduce the risk of a backlash against trade owing to poorer areas feeling that they were left behind. Geographic expansion of industry and other economic activities as a result of better roads and lower energy and communications costs has been witnessed, for instance, in Brazil, where industrial output has increasingly moved away from São Paulo to the South and Center regions, creating new patterns in the national geography of income distribution.

Lower trade tariffs have given new prominence to freight costs.

Average tariffs in most South American countries are now a fraction

of what they were two decades ago and close to the lowest in the developing world (see Figure 10). In addition, several countries have free trade agreements among themselves or with countries offering significant markets, such as the United States. In this environment, reducing freight costs becomes critical for trade expansion. These costs still account for too high a share of the cost of imports. They often reflect the type of intraregional transportation available—more often road than rail or waterborne—and the conditions of operation, such as road maintenance and the time it takes to cross borders.¹ Freight

Integration of power systems: a source of energy efficiency

costs account for 8.3 percent of total imports of Latin America (excluding Mexico). By comparison, freight accounts for only 3.8 percent of the value of the merchandise imported by the United States and only 5.3 percent worldwide. In

several South American countries the cost of freight exceeds that of tariffs by far: the weighted average freight rate of imports from neighbors to Brazil is equivalent to 6.8 percent of the country's imports from these partners, well above the 1.6 percent intraregional tariff.

The IIRSA priority portfolio gives weight to transportation projects as a way to maximize development impact. Studies have shown high responsiveness of trade to lower transportation costs. A 10-percentage point change in transportation costs typically results in a 20 percent change in trade volumes.² Also, trade is typically stronger in countries with better physical communications. Countries in the top quartile of transportation efficiency have on average 25 percent more trade with the United States than those at the bottom quartile.

Better roads help lower freight costs. In more developed areas, road capacity expansion can deliver a very attractive return on

investments. Several studies have pointed to the decline in wear and tear of trucks and accidents, with a very significant number of lives saved, that results from better road conditions and duplication of high-traffic roads, the widening of a highway with one lane in either direction so that it will have two lanes in either direction. A prime example of this type of opportunity is the capacity expansion of the trunk linking the heart of Brazil (Minas Gerais) to the main economic centers of Argentina and to the Pacific Ocean through Valparaíso in Chile. By the same token, the completion of selected segments of roads and the enhancement of some key transportation lanes in the Amazon, including the improvement of ports and waterways, can help alter the trade equation in the region and bring prosperity to remote areas. Looking forward, the broader use of waterways in the southern part of the region also holds great potential for lower costs.

Progress in regulations and other “soft” aspects of integration will accelerate efficiency gains. While roads and other installations can be seen as part of the hardware for regional trade, harmonization of tariffs and regulatory frameworks can be seen as the software that will allow the systems to run smoothly. Harmonization needs to be reflected in the smoother operation of systems, such as quicker border crossings in the case of roads, and, with respect to pipelines, accessible clearinghouses for energy markets. Fostering domestic and intraregional competition through independent and strong regulatory oversight of road and rail transportation is also essential in increasing supply and reducing freight charges.

Energy is also at the forefront of regional integration developments and new forms of trade. The region has abundant resources of petroleum, natural gas, coal, hydropower, and the capacity to make much greater use of solar power and biofuels, but the geographic distribution of the resources is uneven. The large hydroelectric installations of Itaipú and Yacyretá in the Iguazu-La Plata basin are prime examples of decades-long cooperation among South American countries in exploring and sharing renewable sources of energy. Pipelines also traverse several countries, and interregional trade in electricity is a long-standing reality. More recently, regional power companies have consistently invested in neighboring countries, promoting gains of scale and efficiency in the region. Gains from physical and commercial integration of power generation systems across the continent arise from the availability of complementary energy sources, which can be used for achieving optimum results by making use of seasonal and geographic patterns. Vigorously addressing regulatory and institutional issues in these sectors, as well

1 Freight is computed as a proportion of imports because it is the importer who typically pays for it, as most trade is conducted on a FOB/CIF basis (free on board for exports and [customs], insurance and freight for imports).

2 Clark, Ximena, David Dollar and Alejandro Micco (2004), “Port Efficiency, Maritime Transport Costs and Bilateral Trade,” NBER Working Paper 10353.

IIRSA's Policy Framework: Responsibility and Predictability

The policy framework provided by IIRSA responds to the demands of more investment in infrastructure that safeguards fiscal responsibility and enhances predictability. By taking into consideration national and regional priorities, IIRSA helps identify the benefits of individual projects in a more comprehensive and systematic way. This analysis is fundamental in ranking projects and attributing priorities in the face of budget constraints. The IIRSA approach also deals with the intertwined issues of physical investment, regulatory environment and operational issues that ultimately determine the real return of any investment. By developing several tools to improve project implementation, the initiative is reducing the risk of slippages regarding construction schedules, environmental mitigation measures and accurate cost estimates. The combination of these elements, in addition to the requirement of transparency, helps attract private investment, further reducing the fiscal impact of a comprehensive infrastructure policy. In dealing with regional integration, IIRSA also provides a coordination mechanism to address challenges sometimes raised by different levels of fiscal efforts required by distinct countries to conduct projects that have features of a collective good.

A framework to discipline infrastructure investment, as offered by IIRSA, may be the key to achieve balanced growth in the next decade. Project selection, implementation, monitoring and evaluation have come to the foreground as a consequence of the increased desire for higher public and private investment in infrastructure. Choosing priorities and expanding the range of modalities are fundamental to achieving a maximum return on the investment of public resources, even when they become more abundant (Box 3). Indeed, developing and adopting policy instruments to help increase good quality infrastructure investment has become one of the main challenges for governments in the region in a period of stronger fiscal revenues. This challenge has been embraced by several multilateral financial institutions, including the IDB, which for many years has assisted most Latin American countries with loans, grants and technical assistance to improve fiscal management of public investment resources. The International Monetary Fund (IMF) is conducting a pilot program in this area with Brazil, Chile and Colombia, among other countries. The main objective of this pilot program is to create conditions to ensure that infrastructure investment projects yield a rate of return that exceeds the cost of financing of the public sector, as measured by the yield of the public debt. The IMF has also developed a special mechanism within its program arrangements with Peru built on the progress made by this country in improving the selection of investment projects.

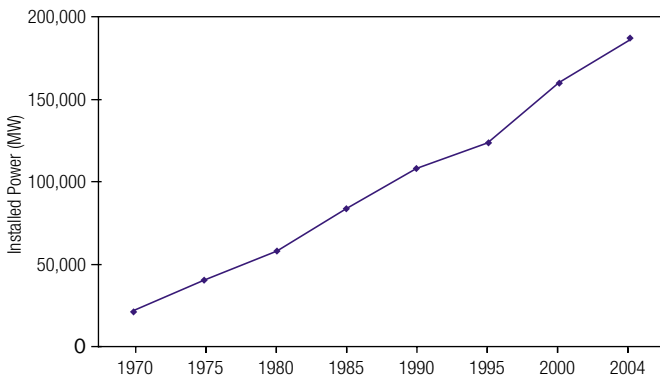
A framework to discipline investment in infrastructure, like IIRSA, is a key to boost economic growth

Box 3. Possible Policy Instruments to Help Increase Total Infrastructure Investment

	Private Investment	Public Investment
Short- to Medium-Term	<ul style="list-style-type: none"> • Use public-private partnership. • Provide government guarantees. 	<ul style="list-style-type: none"> • Reallocate public expenditure. • Implement tax policy measures. • Relax fiscal targets, financed by debt or the sale of state assets.
Medium- to Long-Term	<ul style="list-style-type: none"> • Implement improvements in market-supporting institutions that help strengthen the rule of law, property rights and the regulatory framework. • Deepen financial markets. 	<ul style="list-style-type: none"> • Carry out structural reforms, including civil service reform and social security reform to help reduce current expenditure. • Improve tax administration and expenditure management systems to improve efficiency.

Source: IMF, 2005 Public Investment and Fiscal Policy—Lessons from the Pilot Country Studies.

Figure 8. Evolution of Electric Power in South America



Source: CIER Report, 2005.

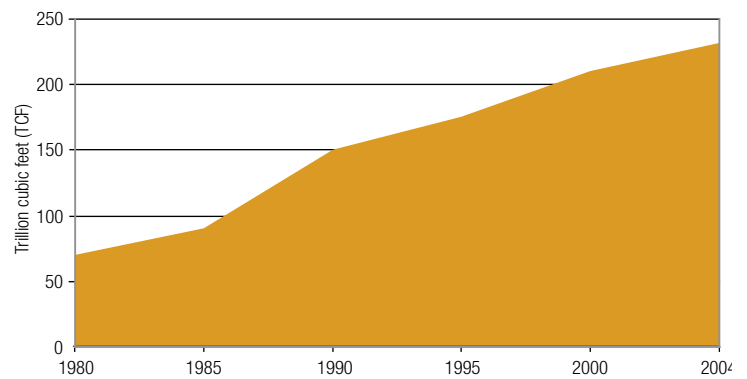
as finding innovative ways to finance new infrastructure projects—such as hydropower generation plants, transmission lines, pipelines and liquefied natural gas facilities—is recognized as a fundamental step to provide impetus to further integration in these sectors.

IIRSA and the Private Sector

The private sector plays a prominent role in the IIRSA initiative.

Private firms regularly bid on contracts resulting from infrastructure works, and four of the 31 priority projects in the Consensus Agenda are works that will be completed by private concessionaires, including the reactivation of the strategic railroad linking Los Andes, Chile, with Mendoza, Argentina. Privately owned and operated tourism facilities, manufacturing and services will benefit from the increase in economic activity and regulatory harmonization in the areas of influence of the IIRSA hubs and beyond. In the policymaking area, private sector representatives attend meetings of IIRSA's Executive Technical Groups, the task forces that make recommendations on specific issues, such as regulatory standardization and project development. The private sector may submit concrete proposals for action through IIRSA's National Coordinators or through multilateral development institutions. The private sector is a primary stakeholder in making cross-border transportation and communication more efficient and is consulted on issues of regulatory harmonization. Public-private partnerships will be a vehicle of choice in moving the IIRSA agenda forward. An example of this kind of cooperation is the bidding process for a private concessionaire for the construction, operation and maintenance of the IIRSA Norte Paita-Piura-Yurimaguas toll road corridor in the Northern Amazon Hub. The

Figure 9. Evolution of Proved Gas Reserves in South America



Note: South America reserves amount to 3.8% of world reserves
Source: CIER Report, 2005.

IDB supported the project with a US\$ 60 million dollar guarantee that promoted competition in the bidding process and ensured payments by the government to the private operator (see Box 4, page 34).

IIRSA focus on private sector opportunities reflects on market forces in the region in the past 15 years.

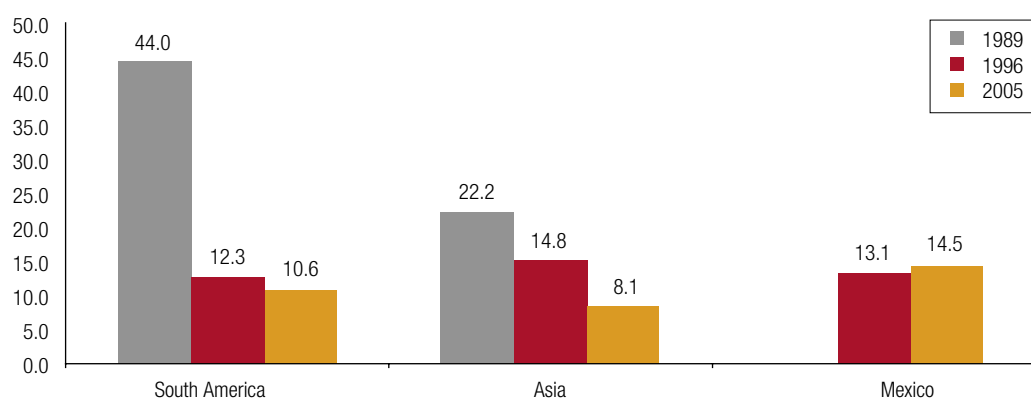
As governments controlled inflation and addressing fiscal imbalances became a priority, the participation of the private sector in developing the region's infrastructure became part of the agenda and complemented other efforts to liberalize economies

and increase competitiveness. Efforts by MERCOSUR, the South American Common Market, and the Andean Community to develop common policies and regulations, and foster economic convergence further contributed to this change. Also, cross-border investment by private companies in the region become increasingly common, reflecting a very important aspect of regional integration. News about Colombian companies investing in Brazil, Brazilian companies investing in Argentina and Chile and Chilean companies investing in neighboring countries have become a regular feature in the business press.

Railways, ports and logistical services are among the sectors that offer opportunities for private investment under the IIRSA

**Railways,
ports and
logistics are
now vibrant
sectors**

Figure 10. MFN Tariffs Liberalization, various years South America, Asia and Mexico (in percent)



Notes: The countries included in South America are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Paraguay, Uruguay and Venezuela. The countries included in Asia are China, Indonesia and Malaysia. Given the constraints in data for year 1989 South America only considers Brazil, and Asia only considers Indonesia. Source: IDB calculations based on Unctad Trains database

initiative. Increasing private investment in the rail sector has helped bring to life once moribund railroad systems, and privately operated ports have demonstrated important efficiencies. Further opportunities are part of the IIRSA portfolio of projects. Transported cargo grew an average of 25 percent between 2000 and 2005 in Argentina, Brazil and Chile. Also, private logistical and commercial services will continue

to grow in the wake of the implementation of the IIRSA hubs. On the institutional side, the private sector is often active as an advocate for greater regulatory standardization, efficiency and transparency. Looking forward, growing competition among private investors and operators to create efficiencies and apply new technologies will help to achieve further reductions in costs and increase the supply of services.

Improving cross-border time can increase freight supply

A typical trip by truck from São Paulo to Santiago can take 300 hours, of which only 200 hours will actually be spent to cover the 3,500 kilometers separating the two cities. The remaining third of the trip is often spent at borders (Brazil-Argentina and Argentina-Chile). This is not unique to this route. It is common for road cargo traffic to wait for days at other border areas as well. Reducing idle time can increase the productivity of trucks by up to 50 percent, in addition to reducing the risk of goods being damaged or stolen. A modest amount of investment in weighing stations and customs offices, as well as simpler procedures, such as single checks on just one side of the border, can have a substantial effect in reducing idle time (Table 5). Such steps would leverage the progress achieved so far in other regulatory issues, such as uniformity of weight standards and classification of hazardous materials.

Table 5. Times and Procedures at the Desaguadero Border Pass

Procedure	Without the project		With the project	
	Bolivia	Peru	Bolivia	Peru
Transit from/to third countries	1-2 hours	1-2 hours	10 minutes	10 minutes
Import transit	2-3 hours	2-3 hours	15 minutes	15 minutes
Export transit	1-2 hours	1-2 hours	15 minutes	15 minutes
Waiting Times at the Desaguadero Border Pass Procedure	Without the project		With the project	
	Bolivia	Peru	Bolivia	Peru
Outgoing waiting time	3 hours	2 hours	0 hours	0 hours
Incoming waiting time	1 hour	1 hour	0 hours	0 hours



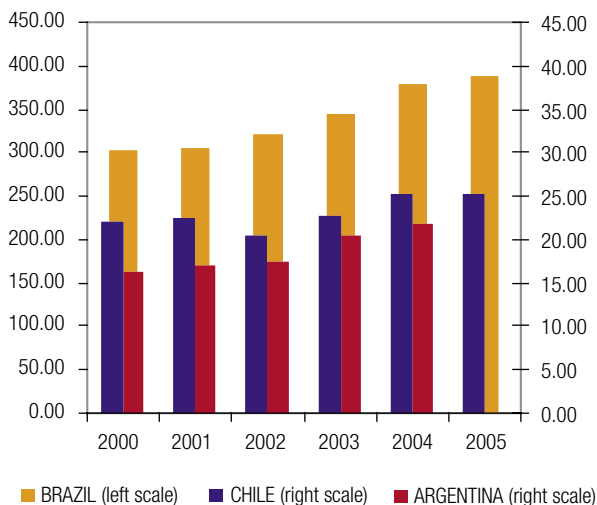
Box 4. The IIRSA Norte IDB Guarantee for Public-Private Partnership

On August 11, 2006, the private road operator, IIRSA Norte in Peru, floated US\$ 213 million in bonds to finance a project backed by an innovative IDB guarantee of US\$ 60 million in the context of a public-private partnership supporting a major IIRSA project.

The rolling, reinstallable partial credit guarantee, the first by the IDB to the public sector, served as an enhancement to the expected US\$ 218 million private investment for the improvement and rehabilitation of a 960-kilometer privately operated toll road system linking the port of Paita on Peru’s northern Pacific coast to the port of Yurimaguas on the Huallaga River, a main tributary of the Amazon. The guarantee will support deferred government annual payments to the concessionaire—Concesionaria IIRSA Norte—over a 20-year period. The guarantee, which will be converted into sovereign debt in the event of a lapse in payment to the concessionaire by the government, required the development of new ways for the Bank to structure its financial participation as well as the creation of new legal documentation. This innovative financial structure induced greater competition in the bidding to select a private concessionaire for the project and facilitated the bond placement.

The operation demonstrated that partial credit guarantees are well suited to public-private partnerships. They are easy to understand, relatively inexpensive, and have positive market acceptance. The primary U.S. rating agencies consider that the presence of a partial credit guarantee typically results in at least a single notch increase in the rating of the underlying credit instrument.

Figure 11. Railway freight transportation in Argentina, Brazil, and Chile (Millions of tons per year)



Sources: Argentina: Instituto de Estadística y Censos de la República de Argentina
 Brazil: ANTT (Agencia Nacional de Transporte Terrestre)
 Chile: Instituto Nacional de Estadísticas de Chile.

Figure 12. Investments in Brazilian railways (R\$ million)

	2000	2001	2002	2003	2004	2005
R\$ Million	672	810	626	1,072	1,889	3,378



Table 6. 20 IIRSA Investment Opportunities for the Private Sector

Nº	NAME	HUB	US\$ Million	SECTOR
1	Transmission Line Yacyretá-Buenos Aires	MERCOSUR-Chile	150.0	Energy
2	Combined cycle thermoelectric unit San José	MERCOSUR-Chile	170.0	Energy
3	Construction of Corpus Christi Hydroelectric Power Plant	MERCOSUR-Chile	2,100.0	Energy
4	Construction of Hydroelectric Power Plant of Garabi	MERCOSUR-Chile	1,300.0	Energy
5	Gas Pipeline of Noreste Argentino	MERCOSUR-Chile	1,000.0	Energy
6	Railway Project of Los Andes (Chile) - Mendoza (Argentina) (Transandean Railway)	MERCOSUR-Chile	224.0	Transport
7	Bayóvar Port	Amazon	100.0	Transport
8	Rehabilitation of Lima-Tingo María-Pucallpa Road, Ports and Logistic Centers	Amazon	185.4	Transport
9	Pucallpa Airport	Amazon	6.3	Transport
10	Manta Port	Amazon	132.0	Transport
11	Paita Port	Amazon	80.0	Transport
12	Bogotá Beltway	Andean	60.0	Transport
13	Improvement in Bogotá – Girardot – Ibagué Road	Andean	160.0	Transport
14	Routes 2 and 3 (with the bypass of Chiclayo y Trujillo)	Andean	203.0	Transport
15	Gas Pipelines Projects	Andean	130.0	Energy
16	Rehabilitation and Construction in the electric interconexions of Cuatricentenario - Cuestecitas and el Corozo - San Mateo	Andean	125.0	Energy
17	Construction of Hydroelectric Power Plant Madeira River Complex	Peru-Brazil-Bolivia	6,200.0	Energy
18	Transmission lines from Madeira River Complex to the Brazilian central system	Peru-Brazil-Bolivia	1,000.0	Energy
19	Construcción Interconexión a 500 Kv Región Comehúe - Cuyo	Southern	180.0	Energy
20	Ferrocarril de São Paulo (tramo norte e sul)	Central Interoceanic	300.0	Transport
TOTAL (20)			13,805.7	

source: IIRSA's Projects Portfolio, 2004-2005





IIRSA AND THE IDB

The IDB supports IIRSA with a range of financial and nonfinancial instruments, including loans, grants, guarantees and technical assistance. The Bank, together with CAF and FONPLATA, is one of the three institutional members of IIRSA's Technical Coordination Committee that coordinates technical support, develops management tools and finances studies. The IDB has been committed to integration of the Americas since its founding charter in 1959, and in 1965, in an agreement with Argentina, the Bank created the Institute for the Integration of Latin America and the Caribbean (INTAL). Located in Buenos Aires, INTAL has carried out multiple activities to support integration for more than four decades, including research, publications, training and technical assistance for governments, academia and the private sector. INTAL's offices in Buenos Aires are in the same building as those of the IDB and serve as the site of the permanent Secretariat of IIRSA's Technical Coordination Committee.

The IDB has made significant investments in the region's infrastructure and foreign trade capacity in the past 45 years. Of the US\$ 137 billion in loans approved from 1961 through the end of 2005, the IDB provided US\$ 18.7 billion in financing for energy projects and US\$ 14.8 billion for transportation and communications. In that same period it also approved US\$ 2 billion in trade financing. In 2005 alone the Bank approved US\$ 13.9 million in loans for trade support projects. In the area of private sector financing, the IDB, through its Private Sector Department, is the world's largest financier of private sector projects without government guarantees in Latin America and the Caribbean. The Bank also supports the private sector through sister institutions in the IDB group, the Multilateral Investment Fund, —the region's largest source of technical assistance to the private

sector—and the Inter-American Investment Corporation, which provides loans, guarantees and investments to support small and medium-sized businesses. For a more detailed description of IDB operations, see www.iadb.org/.

New measures taken by the Bank will benefit IIRSA and other lending programs through streamlined procedures and more flexible policies. The IDB during 2005-2006 adopted new policies to enable it to disburse funds in local currencies under some conditions, apply new, more flexible financial instruments and harmonize programs with other development agencies while relying more on national procurement and evaluation systems. For the first time, the IDB in 2006 authorized a percentage of its loans to be made directly to subnational governments—such as municipalities and provinces—without sovereign national guarantees. At the same time most restrictions on the categories of lending to the private sector without government guarantees were lifted. Infrastructure was identified as one of the strategic, priority areas of investment and pilot projects under a new regionwide Bank initiative, *Building Opportunity for the Majority*, launched in June 2006, which seeks more effective ways to bring the benefits of growth to that 70 percent of the population of Latin America and the Caribbean that earns US\$ 3,000 a year or less.

The Bank is already involved in the financing of one third of the projects in the 31-project IIRSA priority portfolio. In addition, the IDB has provided US\$ 10 million in grants to finance meetings, studies and other IIRSA activities from 2000 through mid-2006. Although most IIRSA countries have increasingly easier access to credit markets, financial and technical support from multilateral financial institutions offers unique

IIRSA and the IDB: Mitigating Social and Environmental Risks



The Bank takes a proactive approach when considering the environmental and social dimensions of infrastructure projects. From the time an infrastructure project—whether associated with IIRSA or not—is first submitted to the IDB for possible financing, its potential environmental and social impacts are tracked and addressed. The Bank’s Committee on Environmental and Social Impact (CESI) reviews an initial Environmental and Social Strategy document, which is published on the Bank’s website (www.iadb.org). Under the terms of the Bank’s Environmental and Safeguards Compliance Policy (August 2006), the CESI screens the proposed operation to determine its compliance not just with the directives of this policy, but also with other Bank sector-specific operational policies and the provisions of cross-sectoral policies related to social and environmental impacts, such as those on Involuntary Resettlement, Natural and Unexpected Disasters Policy, Indigenous Peoples and Information Disclosure. A specific directive of the Environmental and Safeguards Compliance Policy requires the identification of potential transboundary issues associated with a proposed operation early in the project cycle. Examples of transboundary issues cited in the directive include impacts on another country’s use of waterways, watersheds, coastal marine resources, biological corridors and regional airsheds and aquifers.

As part of its initial screening of all proposed operations, the CESI classifies projects as belonging to either Category “A”, Category “B” or Category “C.” For Category “A” projects—defined as those proposed operations that “are likely to cause significant negative environmental and associated cultural impacts whether direct, indirect, regional or cumulative”—the Bank requires the preparation of environmental assessment documentation, normally an Environmental Impact Assessment (EIA). For proposed operations with particularly complex and sensitive environmental, social, or health and safety concerns, the Bank suggests that the borrower, be it public or private, establish an advisory panel of experts to provide guidance for the design and execution of the project. Category “A” and “B” projects require consultations by the Bank and the prospective borrower with affected parties and consideration of their views. Additional public consultations and information disclosure are expected to continue following completion of the environmental assessment process—extending through implementation of the project—in accordance with the provisions of an Environmental and Social Management Plan (ESMP) agreed to between the Bank and the borrower.

Overall, the IDB’s goal is not only to meet the standards of national legislation, international rules and its own policies, but also to enrich the project and strengthen national and regional environmental and social standards. The IDB sets great store by the application of experiences and expertise of borrowers—both governmental and the private sector—and other stakeholders in technical, social and environmental design and protection mechanisms. In all instances the Bank seeks to encourage use of the highest standards and the best practices among all parties in a proposed operation so that co-financing entities adopt a single environmental and social assessment process and unified documentation, consultation and disclosure requirements. In the context of individual operations, the Bank will consider the use of borrowing member countries’ existing safeguards systems when the Bank has determined that the country’s system is equivalent or superior to the Bank’s.

Table 7. IIRSA Projects Financed or in the IDB Pipeline (Millions of US\$)

	Project	HUB	Countries	Stage	Total	IDB
1	Paita–Yurimaguas Road, Ports, and Logistic Centers	Amazon	PE (BR)	In execution	220.0	60.0
2	Rehabilitation and Construction of Pasto–Mocoa–Road	Amazon	CO	Pipeline	150	100
3	Construction and Implementation of the Desaguadero Border Center	Andean	PE (BO)	Pipeline	7.0	5.0
4	NOA-NEA Electrical Interconnection (Phases 1 and 2)	Capricorn	AR	Approved	605.0	350.0
5	Paving Tartagal–Misión, La Paz–Poza Honda–Mariscal Estigarribia	Capricorn	PR (AR)	In execution	190.0	100.0
6	Construction of Salvador Mazza (AR)–Yacuiba (BO) Binational Bridge and Border Center	Capricorn	AR, BO	Pipeline	20.0	10.0
7	Access Road to Cisco Border Crossing	Capricorn	AR	Pipeline	56.0	56.0
8	Construction of Route 8 Caazapa–Coronel Bogado Stretch	Capricorn	PR (AR)	Pipeline	90.0	80.0
9	Improvement of Georgetown–Albina Road	Guianese Shield	GY	In execution	121.4	110.3
10	Construction of Pailón–San José–Port Suárez Road	Central Interoceanic	BO	In execution	435.0	75.0
11	Duplication of Route 14	MERCOSUR-Chile	AR	In execution	370.0	200.0
12	Duplication of the Palhoça–Osorio Stretch	MERCOSUR-Chile	BR	Pipeline	1,100.0	322.0
13	Remodeling of the Río Branco–Montevideo–Colonia–Nueva Palmira Corridor	MERCOSUR-Chile	UY	In execution	163.0	77.0
14	Montevideo Port Modernization	MERCOSUR-Chile	UY	Pipeline	85.0	48.0
15	Construction of Guayaramerín–Riberalta–Yucumo–La Paz Road/Guayamerín Guajará Mirín Binational Bridge	Peru – Brazil – Bolivia	BO, BR	In execution	250.0	33.0
	Total				3,862.3	1,486.3

assistance in developing complex infrastructure projects. IDB loans for 15 IIRSA projects, representing total investments of almost US\$3.9 billion, have been approved or are in the Bank's lending pipeline. The IDB share of these projects is estimated at nearly US\$1.5 billion, while the other US\$2.4 billion corresponds to government counterpart financing (See Table 7). The IDB coordinates its lending program with CAF and FONPLATA, the two other members of IIRSA's Technical Coordination Committee. For instance, there have been cases in which one institution provides guarantees for private funding, while another provides loans to the public sector to complete a financial package. An innovative feature of IIRSA is that it enables the three institutions to use different combinations of financial instruments and sources to finance a single project in a complementary way.

The Multilateral Investment Fund, an autonomous fund administered by the IDB that promotes private sector growth, is an important source of grant resources to support IIRSA. The MIF has pioneered the application of the concept of project clusters—in which a series of projects are identified, developed and evaluated as a group—for

multilateral financial assistance programs. Two of the 14 MIF clusters support IIRSA: facilitation of international trade and investment and public-private partnerships. MIF finances projects that strengthen regulatory systems to help create a more favorable environment for private investment and gives timely support for government efforts to carry out concessions or public-private partnerships. Financing from the MIF has helped governments secure the necessary legal, financial and technical expertise needed to prepare and review bidding documents, as well as to draw up and negotiate contracts. (See table 8).

The new IDB Integration Fund offers grants to accelerate the development and implementation of IIRSA projects, ensuring their quality and effectiveness. The *Fund for Technical Cooperation Operations for Infrastructure Integration Initiatives* provides US\$ 20 million in grants to finance prefeasibility and feasibility studies; project design; analysis of the technical, economic, financial, institutional and legal viability of projects; and social and environmental assessments. By helping to ensure a solid process of project design, preparation and land use planning, the fund helps strengthen the platform for successful



The Integration Fund and MIF, partners to increase the return in infrastructure investment

Table 8. MIF Technical Cooperation for IIRSA Sectors
(Thousands of US\$)

Projects	
1. Program for the Strengthening of Airport Security (South American Countries)	3,935.0
2. National Program for Institutional Development of Public-Private Partnerships (Brazil)	2,480.0
3. Modernization of Customs and Border Crossings (Regional)	2,015.0
4. Public-Private-Association (PPA) Minas Gerais (Brazil)	675.0
5. Strengthening Electricity Sector Regulation in Support of Private Investment (Guyana)	500.0
6. Support for the Regulatory Framework for Telecommunications Services (Uruguay)	420.0
7. Public-Private Partnership Program in IIRSA (Colombia)	420.0
TOTAL	10,445.0

Table 9. IDB Integration Fund–IIRSA Operations Approved or in the Pipeline (Thousands of US\$)

Projects	
1. Preparation of Montevideo's Port Modernization Program (Uruguay)	900.0
2. Final Design and Environmental Impact Study, Caranavi-Bellavista Segment/others (Bolivia)	800.0
3. Highway Access to Presidente Franco–Porto Meira Bridge (Paraguay)	1,200.0
4. Connectivity Study, freight and passenger transportation (Chile–Argentina)	960.0
5. Preparation of the Program for the Pasto-Mocoa Road (Colombia)	1,200.0
6. Preinvestment for the Georgetown–Boa Vista Highway (Guianese Shield)	900.0
7. Navigability of the Amazon Waterways System (Peru)	640.0
8. Navigability Studies for the Napo River (Ecuador–Peru)	800.0
TOTAL	7,400.0

completion of IIRSA projects and their implementation. By mid-2006, there were eight projects totaling US\$ 7.4 million in the fund's pipeline. (See table 9).

Mainstreaming IIRSA projects in the Bank programming has become a reality in 2006. Because of its permanent dialogue and joint project and programming exercises with the national authorities of its 26 borrowing country members, the IDB is in a unique position to mainstream IIRSA activity in its regular process of providing developmental financial assistance. This permanent dialogue normally involves setting an investment agenda for the next three years. IIRSA projects are now being regularly incorporated into this dialogue, which paves the way not only for greater and more coordinated investment opportunities, but also for the strengthening of institutions involved in the initiative and the application of new and more effective management tools on a worldwide basis.

In sum, through partnership with the IDB and the Bank's reinvigorated pledge to fulfill IIRSA objectives, the benefits of integration can become a reality for all. The IDB is structuring its business strategies to respond to the demonstrated need of its borrowing member countries for expertise and financial resources to help develop complex infrastructure projects that require transnational cooperation, consistency with fiscal realities and country investment priorities, a design and planning process that meets the challenges of cross-border enterprises, new and modern management tools and regulatory harmonization. The IDB's participation in IIRSA is an important lever to achieve the Bank's ultimate goals of regional integration, poverty reduction and the creation of new opportunities to bring the benefits of growth and job creation to the majorities of the Western Hemisphere.

The IDB believes that the time is ripe to expand infrastructure in South America. High-quality, environmentally and socially sustainable infrastructure investment is a wise way to channel additional revenues arising from greater international demand for South America's goods. Investing in this "exports dividend" in strategic infrastructure projects within a clear, rational framework—as provided by IIRSA—and in the current context of fiscal discipline can further reduce risk premiums on the region's debt and unlock new growth opportunities, which are fundamental to ensure a sustainable reduction in poverty and create new jobs and income for the majorities in the region. Better planning and project implementation, combined with further improvements in the regulatory harmonization and strengthening of institutions serving the countries, will help the region reap the benefits of structural reforms and the marked improvement in fiscal conditions achieved in the last few years.

IIRSA is an effective vehicle to plan the expansion of regional infrastructure, as well as to address institutional and regulatory issues. IIRSA has opened new venues for planning the expansion of infrastructure in a much more integrated and coordinated fashion, overcoming many of the obstacles for regional integration. The initiative has emphasized efforts to design and integrate logistical platforms, upgrade information systems and the regulations governing cross-border trade by land and sea, develop information and communication technologies and promote multimodal transportation. The early incorporation of social and environmental considerations into the process, as well as a coordinated and targeted strategy for the participation of civil society, help explain the scope and success of the initiative so far.

The IDB believes
that the time is
ripe to expand
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CONCLUSIONS

The focus on effective implementation and project management brings additional assurances that IIRSA projects will deliver their promise. Turning the 10 IIRSA Integration and Development Hubs into a complete reality opens new opportunities for remote and poor regions, creates new jobs and favors welfare improvement typically associated with enhanced trade and economic growth. IIRSA underpins its choice of projects with solid assessment of environmental and social issues and comprehensive cost-benefit analyses that help make them and the plans associated with the hubs both sustainable and affordable. The growing emphasis of IIRSA on new tools for project implementation and monitoring will address bottlenecks in implementation and reduce delays, risk and costs. Projects will have greater capacity to achieve their intended results, contributing significantly to development effectiveness and sustainable growth.

The increasing participation of the IDB in IIRSA reflects a commitment to integration specified in the Bank's founding charter. Regional integration is a core mission of the IDB that can be effectively advanced through intensified cooperation with IIRSA in the framework described in this publication. This framework includes close cooperation with CAF and FONPLATA that so far has proven to be an important ingredient of IIRSA's success. Promoting regional integration is a priority that is also part of an overall process of innovation, seeking new ways to structure the Bank's operations to achieve greater effectiveness and meet the needs of borrowers.



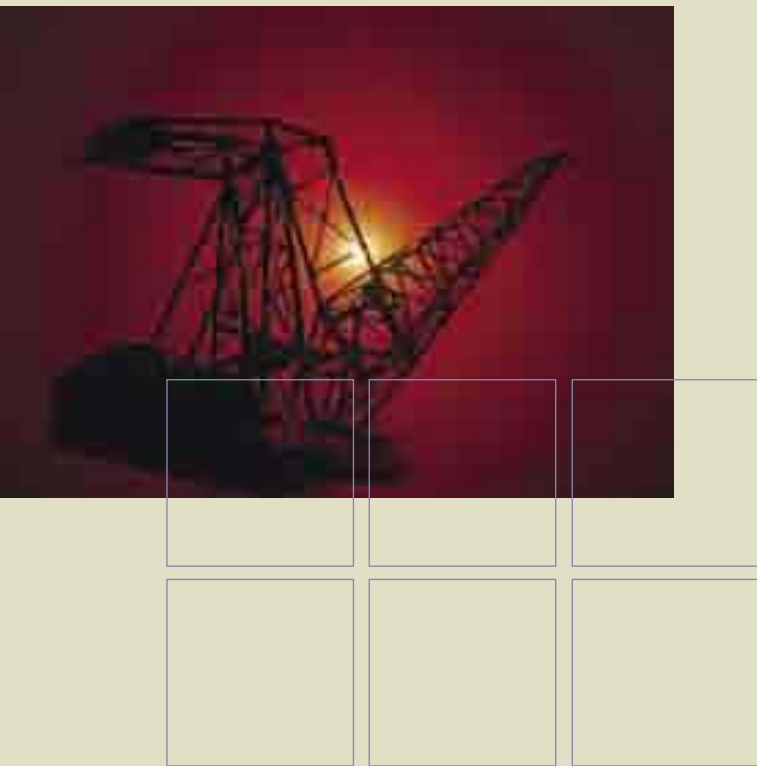
HOW TO DO BUSINESS WITH THE IDB

Annual lending by the Inter-American Development Bank has averaged US\$ 7 billion in the past 10 years. The Bank finances primarily public sector projects and programs, which are identified and developed during the permanent dialogue between the Bank and the governments of its 26 borrowing member countries. The Bank also lends to the private sector and to subnational governments such as municipalities and provinces, without government guarantees. Bank loans and guarantees, in addition to providing financing, are structured to achieve overarching developmental goals, such as poverty reduction, job generation, export promotion, infrastructure improvement, regional integration and modernization of the state. At least 90 percent of the IDB's lending must be backed by a sovereign government guarantee. Generally, but not always, the projects supported by the IDB's financing also receive local counterpart funding. For more information on IDB projects, visit the Bank's Project Gateway portal at www.iadb.org/projects.

The IDB's Private Sector Department (PRI) was established in 1994 with the purpose of supporting physical infrastructure projects. Its mission was subsequently expanded to provide support for financial markets and international trade. In 2006 the IDB's Board of Governors removed virtually all restrictions on the categories of lending by the PRI, enabling it to enter new areas of financing, such as manufacturing and mining. Direct IDB loans may be up to a maximum of US\$ 200 million for a single project, or up to US\$ 400 million in exceptional circumstances. The IDB also syndicates loans from commercial banks for private sector operations through its "B-loan" program. Generally, the PRI finances up to 25 percent of a project's cost. More information on PRI operations can be found at www.iadb.org/pri.

The Multilateral Investment Fund, an autonomous fund administered by the IDB, is Latin America's largest source of technical assistance to the private sector. Eighty percent of its financing operations, which total about US\$ 100 million annually, consist of grants, typically ranging between US\$ 1 million and US\$ 1.5 million. Hundreds of MIF partners for individual projects—firms, business associations, universities and nongovernmental organizations—contribute roughly half the project cost. The MIF has partnered with other financiers to establish 35 venture funds to demonstrate the opportunities for risk capital in areas such as renewable energy, clean production, business clusters, microfinance and information technology. These funds support firms with fewer than 100 employees with annual sales of a maximum of US\$ 5 million. More information on the MIF can be found at www.iadb.org/mif.





Procurement Opportunities

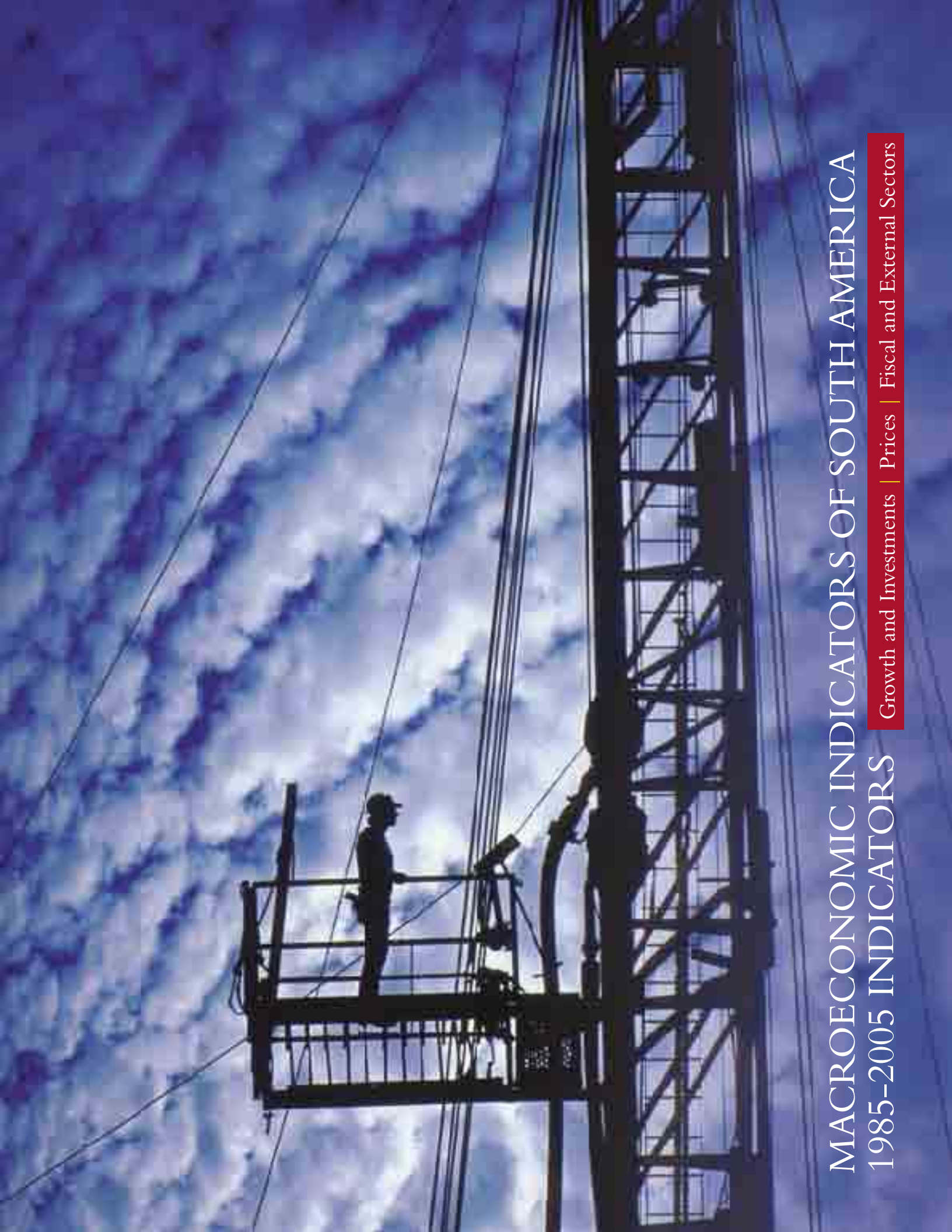
IDB lending generates more than 12,000 contracts annually. About 5 percent of the annual volume of procurement is in support of project preparation, while the remaining 95 percent, for the purchase of goods and services, is administered by the executing agencies in borrowing countries. Only businesses and organizations from IDB member countries are eligible to provide goods and services for projects. Information on the Bank's procurement policies and opportunities may be found at www.iadb.org/procurement. For information on the Bank's project portfolio including financial data, project status, descriptions, procurement information, contact information and project documents, see www.iadb.org/projects. Procurement and other information on business opportunities with the IDB may be obtained from regularly scheduled business seminars held in Washington, D.C. For a schedule of the seminars, see www.iadb.org/biz. Questions about the IDB's procurement policies and opportunities may be addressed to business@iadb.org.

How Proposals Are Chosen for IDB Financing

Applications for IDB lending to public-sector projects, are conducted through government channels. In these cases, unlike loans made directly to the private sector without government guarantees, it is generally not possible for an individual or private firm to propose a project for IDB funding. Instead, firms need to identify projects that are either under development or that have been approved that may need their products and services. Interested parties may request more information on dealing with the Bank from the Public Information Center (pic@iadb.org) or from the Bank's 26 Country Offices.

Projects for private firms considered for financing from the Bank's Private Sector Department must be financially and legally sound. The proposed project must demonstrate technical viability and serve a developmental purpose. The company must be located in an IDB borrowing member country, and the majority of its capital must be controlled by individuals or firms in the Bank's member countries. Inquiries regarding PRI operations may be addressed to prisector@iadb.org.

Proposals for financing selected by the Multilateral Investment Fund should demonstrate innovative approaches to private sector development that can be used as a model elsewhere in the region. Civil society organizations, private industry associations and chambers of commerce are among the entities that may submit proposals for MIF financing, which may support both public sector and private initiatives. Proposals may be submitted to the MIF through any one of the 26 IDB Country Offices. Applications should be roughly seven to 15 pages in length, exclusive of annexes. The Country Offices send the completed applications to the corresponding operational department at IDB headquarters in Washington, D.C., where they are appraised. The local executing agency for a MIF project is responsible for at least 30 percent of its cost, half to be paid in cash. For more information, contact mifcontact@iadb.org.



MACROECONOMIC INDICATORS OF SOUTH AMERICA 1985-2005 INDICATORS

Growth and Investments | Prices | Fiscal and External Sectors

Table 10. Macroeconomic Indicators of South America (1983-2005)

Country	Simple Averages, 2003-2005											
	Growth in Real GDP (%)				Gross Fixed Investment (% of GDP)				Inflation (%)			
	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05
ARGENTINA	2.14 (11.94)	4.51 (8.11)	-3.13 (-10.89)	9.02 (9.18)	n.a. n.a.	18.88 (19.37)	16.06 (11.96)	18.59 (21.46)	779.74 (24.90)	3.77 (0.53)	4.72 (25.87)	9.17 (9.64)
BOLIVIA	1.22 (1.65)	4.59 (4.95)	2.42 (2.43)	3.66 (4.06)	13.58 (16.32)	16.44 (18.97)	17.95 (15.69)	12.30 (12.30)	1,367.93 (12.06)	8.75 (4.71)	3.39 (0.92)	4.39 (5.40)
BRAZIL	2.11 (-0.50)	4.20 (3.30)	1.70 (1.93)	2.60 (2.28)	19.80 (18.42)	19.84 (19.49)	19.66 (18.32)	19.10 (19.92)	732.06 (951.65)	818.51 (6.93)	6.08 (8.45)	9.39 (6.87)
CHILE	6.53 (12.28)	7.47 (6.61)	2.50 (2.18)	5.48 (6.35)	18.72 (22.42)	25.67 (27.11)	21.81 (20.59)	21.17 (22.13)	21.21 (15.43)	9.18 (6.14)	3.67 (2.49)	2.31 (3.05)
COLOMBIA	4.01 (5.03)	3.78 (3.43)	0.54 (1.93)	4.62 (5.20)	16.97 (15.07)	21.28 (20.21)	14.82 (15.24)	17.63 (18.60)	24.26 (27.03)	21.22 (18.47)	10.62 (6.35)	6.03 (5.05)
ECUADOR	2.49 (1.51)	2.64 (4.05)	1.43 (3.41)	5.07 (3.93)	18.81 (19.16)	18.55 (17.91)	20.35 (22.82)	21.57 (22.40)	44.57 (54.34)	30.07 (30.64)	46.92 (12.48)	4.28 (2.12)
GUYANA	-0.73 (7.83)	7.17 (6.23)	0.64 (1.05)	-0.69 (-3.00)	28.94 (42.30)	32.16 (30.35)	23.57 (20.01)	33.81 (34.40)	n.a. n.a.	7.62 (3.56)	5.25 (5.34)	5.85 (6.90)
PARAGUAY	2.79 (1.80)	3.16 (2.59)	0.02 (-2.32)	3.64 (2.95)	22.31 (21.90)	22.58 (22.69)	20.43 (18.18)	18.88 (19.00)	23.82 (15.19)	13.79 (6.99)	9.01 (10.51)	8.45 (6.79)
PERU	-0.96 (-0.43)	7.10 (6.84)	1.63 (4.85)	5.15 (6.67)	20.11 (16.47)	21.98 (23.83)	20.37 (17.68)	18.26 (18.92)	1,257.89 (73.53)	20.71 (8.56)	3.33 (0.19)	2.51 (1.62)
SURINAME**	-0.03 (-0.20)	0.83 (6.47)	1.65 (3.04)	4.95 (4.61)	15.54 (11.13)	14.40 (17.64)	22.18 (25.34)	33.89 n.a.	19.05 (43.67)	150.80 (7.15)	46.28 (15.53)	22.98 (22.98)
URUGUAY	2.12 (7.93)	3.82 (5.05)	-2.83 (-11.03)	6.85 (6.56)	12.19 (14.20)	14.25 (14.45)	13.09 (10.10)	11.20 (12.89)	74.23 (68.46)	37.85 (19.82)	7.91 (13.97)	11.08 (4.70)
VENEZUELA	2.75 (6.06)	1.61 (6.37)	-1.49 (-8.86)	6.49 (9.33)	18.83 (21.45)	19.07 (25.48)	23.85 (21.93)	17.38 (18.99)	28.92 (31.42)	61.76 (50.04)	22.10 (22.43)	22.93 (15.96)

Notes: The numbers are percentage points, the numbers in parentheses are the values for the last year considered.

** The data for Suriname come from World Development Indicators and only cover the period 2003-2004.

Sources: Economist Intelligence Unit and World Development Indicators.

Table 11. Macroeconomic Indicators of South America (1983-2005)

Country	Simple Averages, 1983-2005											
	Fiscal Balance (% of GDP)				Primary Fiscal Balance (% of GDP)				Total External Debt (% of GDP)			
	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05
ARGENTINA	n.a.	n.a.	-5.71	1.62	n.a.	0.96	0.87	3.30	50.36	35.81	70.95	100.92
	n.a.	n.a.	(-5.71)	(1.77)	n.a.	(0.50)	(0.72)	(3.70)	(29.87)	(43.76)	(146.89)	(64.10)
BOLIVIA	n.a.	n.a.	-8.69	-5.17	-0.81	-0.90	-3.78	-2.53	117.44	74.27	64.50	68.03
	n.a.	n.a.	(-8.69)	(-2.05)	(-1.69)	(-1.87)	(-6.74)	(0.60)	(75.03)	(66.04)	(63.10)	(64.00)
BRAZIL	-1.33	-3.22	-0.86	-3.68	n.a.	-0.28	2.84	4.55	37.51	26.30	42.57	35.69
	(-2.11)	(-0.01)	n.a.	(-3.30)	n.a.	(-1.01)	(3.89)	(4.80)	(33.04)	(24.52)	(50.59)	(23.50)
CHILE	n.a.	n.a.	-0.87	2.15	3.48	2.81	-0.37	2.50	84.75	38.99	51.39	48.28
	n.a.	n.a.	(-1.24)	(4.75)	(3.48)	(2.46)	(-0.95)	(5.00)	(45.69)	(32.66)	(61.28)	(39.70)
COLOMBIA	n.a.	n.a.	-8.28	-1.26	1.41	0.62	-0.17	2.86	39.82	29.51	39.77	37.92
	n.a.	n.a.	(-9.57)	(-0.53)	(2.70)	(-0.77)	(0.73)	(3.10)	(35.11)	(29.94)	(40.65)	(28.50)
ECUADOR	1.64	0.38	n.a.	1.31	n.a.	2.88	3.93	3.81	98.58	75.49	77.45	53.09
	(-0.27)	(0.04)	n.a.	(0.73)	n.a.	(2.07)	(4.18)	(2.96)	(102.28)	(65.20)	(67.67)	(49.30)
GUYANA	n.a.	n.a.	n.a.	-7.30	n.a.	n.a.	n.a.	n.a.	420.68	320.64	196.88	n.a.
	n.a.	n.a.	n.a.	(-7.90)	n.a.	n.a.	n.a.	n.a.	(518.87)	(212.02)	(190.14)	n.a.
PARAGUAY	1.23	0.25	-2.04	0.61	n.a.	n.a.	n.a.	n.a.	45.51	26.17	42.13	52.13
	(0.90)	(-1.00)	(-2.98)	(0.80)	n.a.	n.a.	n.a.	n.a.	(25.34)	(25.60)	(53.40)	(49.30)
PERU	-4.54	-0.60	-1.65	-0.92	1.05	1.30	-0.18	1.15	77.48	57.23	53.14	44.38
	(-3.46)	(0.48)	(-1.40)	(-0.02)	(1.22)	(2.10)	(-0.14)	(1.94)	(56.31)	(50.15)	(49.65)	(38.50)
SURINAME**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
URUGUAY	0.72	-1.37	-3.48	-2.86	n.a.	n.a.	n.a.	n.a.	55.91	30.80	49.49	90.22
	(0.66)	(-1.07)	(-4.87)	(-1.60)	n.a.	n.a.	n.a.	n.a.	(35.20)	(30.68)	(86.40)	(74.70)
VENEZUELA	1.65	0.28	-2.75	-1.55	n.a.	n.a.	0.02	2.28	64.77	53.88	35.63	33.94
	(-1.89)	(3.21)	(-3.23)	(1.69)	n.a.	n.a.	(1.02)	(4.74)	(64.73)	(41.61)	(36.59)	(27.70)

Notes: The numbers are percentage points, the numbers in parentheses are the values for the last year considered.

** The data for Suriname come from World Development Indicators and only cover the period 2003-2004.

Sources: Economist Intelligence Unit and World Development Indicators.

Table 12. Macroeconomic Indicators of South America (1983-2005)

Country	Simple Averages, 1983-2005																																
	Trade (% of GDP)					Growth in Exports fob (%)					Current-Account Balance (% of GDP)					Net Flows of Direct Investment (% of GDP)																	
	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05	83-92	93-97	98-02	03-05													
ARGENTINA	15.41	19.77	25.85	41.30	9.99	15.59	-1.42	15.95	-1.55	-3.29	-0.99	3.80	0.88	2.09	3.50	2.19	(14.73)	(23.30)	(40.49)	(43.42)	(3.67)	(8.95)	(-8.79)	(16.00)	(-2.47)	(-4.17)	(8.50)	(3.10)	(1.94)	(3.13)	(2.11)	(2.50)	
BOLIVIA	46.70	49.28	47.30	54.97	5.69	8.50	0.89	27.27	-7.16	-5.39	-5.37	3.21	0.61	5.16	9.87	n.a.	(49.11)	(50.47)	(49.23)	(58.15)	(-1.42)	(0.17)	(5.18)	(24.45)	(-9.46)	(-6.98)	(-4.44)	(1.65)	(9.22)	(8.54)	n.a.	n.a.	
BRAZIL	17.29	17.89	23.71	32.72	7.85	7.51	3.57	25.24	-0.41	-1.91	-3.86	1.51	0.48	1.09	4.57	2.31	(19.25)	(17.66)	(28.90)	(37.62)	(20.10)	(10.09)	(6.17)	(22.63)	(1.56)	(-3.77)	(-1.66)	(1.78)	(0.53)	(2.43)	(3.60)	(1.90)	
CHILE	57.86	57.13	60.74	72.37	12.16	11.02	5.53	31.27	-4.31	-3.97	-1.69	0.32	2.35	5.06	6.83	6.55	(59.94)	(51.99)	(70.91)	(75.40)	(11.74)	(5.39)	(12.16)	(25.95)	(-2.28)	(-4.42)	(-0.86)	(0.61)	(2.23)	(6.37)	(3.79)	(6.25)	
COLOMBIA	30.11	35.65	38.76	43.04	9.48	13.12	-0.03	21.44	-0.68	-4.66	-1.24	-1.27	1.47	2.59	2.63	4.57	(33.47)	(35.60)	(39.61)	(42.82)	(-0.99)	(7.22)	(-7.28)	(26.63)	(1.83)	(-5.39)	(-1.64)	(1.48)	(1.48)	(5.21)	(2.59)	(2.59)	(8.30)
ECUADOR	57.81	51.72	57.59	50.26	6.86	7.62	-0.22	26.14	-4.72	-3.52	-1.36	-1.74	1.10	2.78	4.74	4.48	(67.21)	(51.35)	(55.42)	(50.68)	(7.57)	(7.95)	(3.85)	(30.27)	(-1.02)	(-1.93)	(-5.76)	(1.48)	(3.06)	(5.24)	(4.50)		
GUYANA	151.41	222.26	204.28	195.56	9.96	9.78	-2.08	5.12	-11.33	-17.91	-9.90	-8.38	4.37	12.56	7.29	n.a.	(280.36)	(209.13)	(198.30)	(201.46)	(31.73)	(3.14)	(1.30)	(-3.25)	(-37.62)	(-8.42)	(-9.17)	(-15.00)	(39.92)	(6.94)	(6.10)	n.a.	
PARAGUAY	57.96	80.47	63.16	73.85	11.35	9.12	-6.61	21.79	-3.46	-2.82	-1.66	0.16	0.56	1.60	1.59	n.a.	(66.65)	(70.63)	(74.34)	(69.35)	(-4.01)	(-5.74)	(27.48)	(3.82)	(-0.89)	(-6.77)	(1.67)	(-2.20)	(1.83)	(2.46)	(0.18)	n.a.	
PERU	31.67	30.47	33.12	39.49	5.20	13.74	2.48	31.37	-5.40	-6.79	-3.12	-0.05	0.04	4.82	2.83	2.68	(27.99)	(32.74)	(33.82)	(43.94)	(7.05)	(14.28)	(9.03)	(35.34)	(-5.23)	(-5.69)	(-1.88)	(1.41)	(-0.22)	(3.62)	(3.82)	(3.21)	
SURINAME**	74.13	51.43	67.49	91.08	-12.04	18.03	-1.19	n.a.	1.87	3.15	-8.16	-14.00	n.a.	n.a.	n.a.	n.a.	(62.44)	(59.99)	(64.80)	(91.08)	(-24.39)	(15.65)	(10.45)	n.a.	(6.28)	(-7.30)	(-13.78)	(-12.42)	n.a.	n.a.	n.a.	n.a.	
URUGUAY	43.37	39.51	39.68	53.18	8.47	11.17	-9.18	22.52	-0.31	-1.61	-1.46	-0.23	0.23	0.76	1.21	n.a.	(40.07)	(41.09)	(41.97)	(57.59)	(14.56)	(12.23)	(-20.80)	(16.16)	(-0.07)	(-1.32)	(2.62)	(-0.52)	n.a.	(0.58)	(1.43)	n.a.	
VENEZUELA	47.88	53.06	44.85	53.55	1.39	10.59	6.03	29.09	2.25	4.23	3.44	14.80	0.67	2.76	3.25	2.23	(55.26)	(51.25)	(48.58)	(56.35)	(-5.00)	(0.77)	(1.16)	(43.20)	(-6.41)	(4.35)	(8.18)	(1.08)	(7.23)	(0.84)	(2.11)		

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Sources: Economist Intelligence Unit and World Development Indicators.

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