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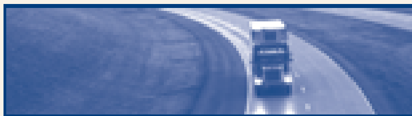

INFRASTRUCTURE

Infrastructure Issues in Latin American Countries[1]

*Paulina Beato**

This article present the main findings of a joint initiative of the World Bank and the Inter-American Development Bank undertaken during 2004 and 2005 to examine infrastructure issues in Latin America and the Caribbean. This has entailed commissioning a number of background papers to explore areas on which more information was needed (fiscal space, cost recovery, infrastructure finance, public discontent with private participation in infrastructure), as well as several country studies. It also included a conference, "Diagnosis and

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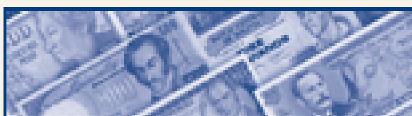
(1) This article is an abridged and free version prepared by Paulina Beato of Report No. 32640-LCR *Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges* by Marianne Fay and Mary Morrison, World Bank, August 2005.



FINANCIAL MARKETS

Securitization Structures for Bank Loans to Small and Medium Enterprises

*José Antonio Trujillo**

Small and Medium Enterprises (SMEs) account for a very large share of total employment in all economies, regardless of their degree of development. SMEs access to an adequate level of financial resources is a particularly important policy objective in many countries. Such policies can be either based on subsidies or on guarantees given to lenders to compensate them for the risk involved in lending to SMEs. In addition, governments can provide direct subsidies to the SMEs to soften market conditions, which result from their relatively higher risk. These direct subsidy mechanisms are effective if measured exclusively in terms of volume

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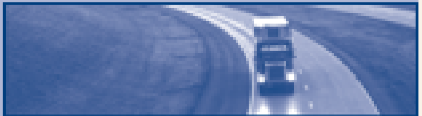


◀ p.1 *Infrastructure Issues*

Challenges of Economic Infrastructure in Latin America," which was held on June 6 and 7, 2005.[2]

Comparative Growth in Infrastructure in Latin America and the Caribbean

Infrastructure coverage and quality have increased in most sectors and countries of Latin America and the Caribbean over the last decade. This includes major improvements in access to water supply and sanitation, electricity, telecommunications, ports and airports. Road transport is the only sector in which coverage has not changed much. Despite these improvements, the region has lost ground relative to its competitors and peers.

In 1980, the region had higher coverage of productive infrastructure such as roads, electricity and telecommunications than the countries that subsequently became known as the East Asian Tigers. Today, these countries lead by a factor of 3 to 2 (see figure 1). Latin America and the Caribbean also trail behind the average for middle-income countries such as China, despite the fact that it has a higher per capita income. The only sectors in which the region has done comparatively well (at least in terms of coverage) are water supply and sanitation. But even there, there is no room for complacency: 58 million Latin Americans lack access to potable water and 137 million have no adequate sanitation.

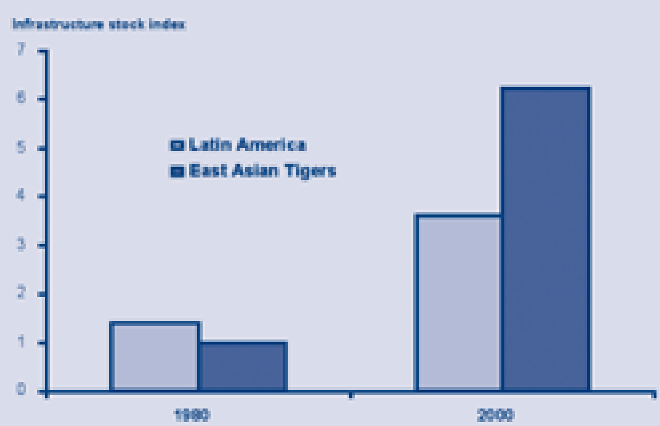
Studies suggest that the growth impact of these differences is large. For example, improving the region's infrastructure to the level of Korea (the East Asian Tigers' median) could result in annual per capita GDP growth gains of 1.4 to 1.8 percent. It would also reduce inequality by 10 to 20 percent, thereby helping make growth more pro-poor.[3] However, the investment required would be substantial, representing, at least, 4 to 6 percent of GDP per year over 20 years. The poor quality of infrastructure is also affecting competitiveness. While 55 percent of private sector entrepreneurs in Latin America complain that infrastructure is a serious problem, only 18 percent of East Asian entrepreneurs identify the same problem.

Public and Private Investment in Infrastructure

In most Latin American countries, public investment, particularly in infrastructure, bore the brunt of fiscal adjustments. Regionally, public investment in infrastructure fell from more than 3 percent of GDP in 1988 to about 1.6 percent in 1998 (see figure 2). Politically, these budget items were much easier to cut than current expenditures such as salaries and pensions. In Brazil current expenditures were actually increased, while investment, especially in infrastructure, was reduced.

However, Latin America did remarkably well in attracting private participation into infrastructure services. The region received half of the $786 billion in infrastructure transactions with private participation that flowed to the developing world between 1990 and 2003. Private involvement transformed infrastructure provision. At the start of 1990, only 3 percent of telephone and electricity connections in the region were provided by private companies,

Figure 1. Infrastructure Coverage in Latin America Compared to East Asia



(2) The presentations and papers of this conference are available at http://www.iadb.org/sds/conferences/infrastructure/WB_IDB_Conference.htm

(3) Calderón, C. and L. Servén. 2004. "Trends in Infrastructure in Latin America, 1980-2001." Policy Research Working Paper Series 3401. World Bank, Washington D.C. Processed.

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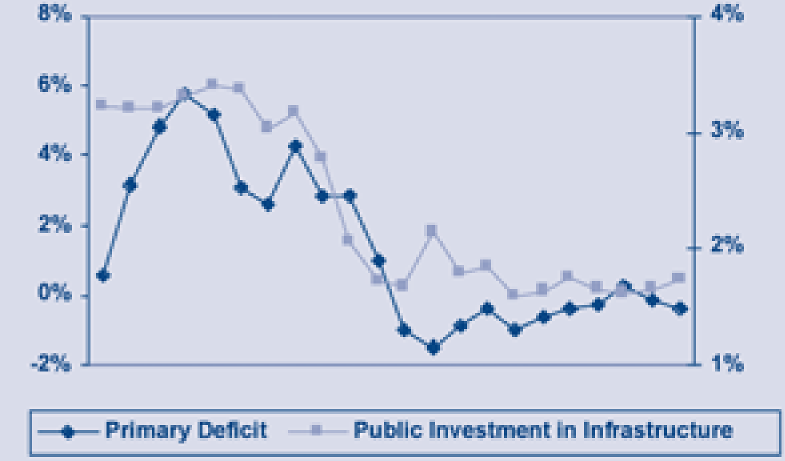
Figure 2. Primary Deficit and Public Infrastructure Investment (% of GDP)



and almost no water utilities were in private hands. By 2003, private utilities were managing 86 percent of telecom subscriptions, 60 percent of electricity provision, and 11 percent of water connections.

Nevertheless, private flows were not enough to offset the collapse in public investment (although they came close in the aggregate: at their 1998 peak investments financed through transactions that included private participation amounted to 1.7 percent of the region's GDP). In addition, private interest was focused on a limited number of countries (six countries attracted 93 percent of private investment flows) and sectors (telecommunication absorbed nearly half of private investment flowing to the region). As a result, for most countries and sectors, private flows did not offset reduced public investment.

Private Participation is Unpopular in Latin America

Today, public opinion in the region has turned against private participation in infrastructure (PPI) to the extent that it has become a serious constraint in most countries (see figure 3). And the private sector's appetite for both emerging markets and infrastructure has waned. Investments with private participation have declined markedly from about US$34 billion in 1998 to US$16 billion in 2003. A further illustration of this trend is given by the decline in the average number of bidders on power distribution transactions, which has gone from 4 in 1998 to less than 2 in 2000 and 2001.

■ ***The popular rejection of the PPI model may largely be due to a combination of poorly managed perceptions and unreasonable expectations.*** ■

The public reaction is at odds with the generally positive evaluation of the impact of privatization. In most cases, privatization has resulted in improved efficiency and increased coverage and quality. Labor productivity has also generally improved, largely due to substantial layoffs.[4] Most of these effects (increases in prices, efficiency and layoffs) took place during the transition to privatization with changes in the five years prior to privatization generally much greater than those in the five years that followed. The impact on the poor has also generally been positive, mostly because they have often been the primary beneficiaries of increases in coverage.

The popular rejection of the PPI model may largely be due to a combination of poorly managed perceptions and unreasonable expectations. In addition, several researchers have argued that macroeconomic crises lead to blanket rejections of the market economy model and that people have been unable to distinguish job losses due to recessions and those due to privatization. More generally, the perceived transparency and fairness of a transaction is crucial in shaping public perceptions.

An additional factor that affected popular opinion about privatization is the increase in tariffs necessitated to recover costs. Even though social acceptance appears to have improved in water supply and sanitation as well as in energy, it has only been complete in telecom. Yet, studies suggest that, with the exception of the poorest countries in the region, affordability is a problem only for a minority of the population. In many cases, governments are unwilling or unable to enforce payment for the services provided (this is a common complaint voiced by concessionaires).

Poorly targeted social tariffs hinder cost recovery and do too little for the poor. In most countries, social tariffs for water and electricity benefit far too many persons who are not poor. For example, 95 percent of Guatemalans and 85 percent of Hondurans benefit from the social tariff for electricity. The result is a continued dependence on public transfers. In Mexico, for example, low electricity tariffs set by the Ministry of Finance result in a public subsidy that is close to 1 percent of GDP.

Latin America Needs to Spend More on Infrastructure

How much is needed for infrastructure investment depends on the goal. Universal coverage for water, sanitation and electricity could be achieved over ten years at the relatively modest cost of about 0.25 percent of GDP. Adequate

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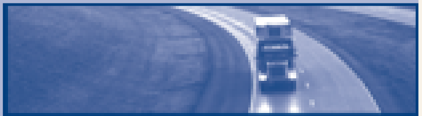
(4) However, most studies suggest that the layoffs were small relative to the overall workforce and that they were reversed in the medium run.



◄ p.3 *Infrastructure Issues*

maintenance of existing assets in water supply and sanitation, electricity, roads, rail and telecom would require about 1 percent of regional GDP. A "business as usual" approach suggests that 1.3 percent of GDP in new investments would be needed to satisfy consumer and industrial demand based on modest growth assumptions.

Pulling these estimates together, the implication is that about 2.5 percent of GDP would be enough to respond to expected growth in demand from firms and individuals, maintain existing infrastructure and achieve universal coverage in water supply and sanitation and electricity. This is a lower bound estimate as it does not include the cost of rehabilitation (which is likely to be large) or needed investments in urban transport, ports and airports.

A much higher investment (4 to 6 percent of GDP) would be required to bring the region, over 20 years, to the level of coverage enjoyed by Korea or to simply keep up with China. Clearly, spending on infrastructure alone will not be sufficient to guarantee for Latin America and the Caribbean the kind of growth that these countries have been experiencing in the last decades. Nevertheless, it is clear that a failure to keep up with other countries can only harm the region's competitiveness. Adding maintenance, a growth and competitiveness enhancing scenario would require annual expenditures of 5 to 7 percent of GDP. While ambitious, this is not unrealistic. In fact, similar increases were achieved by Korea (as well as China, Indonesia, and Malaysia) over the 20-year period from the late 1970s to the late 1990s.

This effort could not be financed by the public sector alone (or would require a massive reallocation of resources). Public expenditures averaged about 22 percent of GDP in the region in 2000-2001 and *total* public investment was around 3 percent of GDP. Investments with PPI only currently amount to about 0.9 percent of regional GDP and they are mostly in energy and telecom.

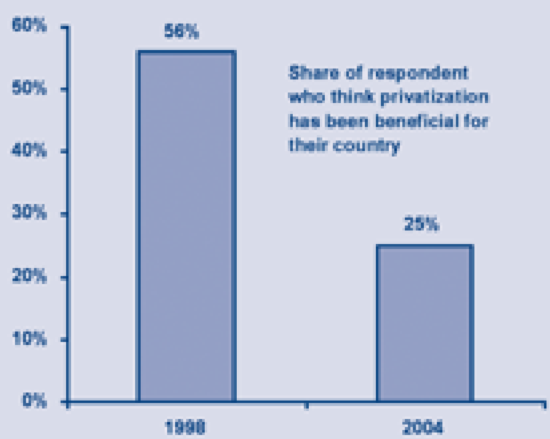
The implication is that governments need to better leverage their resources to promote PPI. In addition, it is clear that greater cost recovery is needed because there is only so much that taxpayer can or should fund. Cost recovery has largely been achieved in the telecommunication sector and is technically not achievable in roads (except for a tiny fraction of the network), so that not much change can be expected in these two sectors. However, there is room to increase cost recovery in water, sanitation and electricity (even though cost recovery in these sectors is already higher in Latin America and the Caribbean than in any other developing region and has actually improved over time), and probably in ports and urban transport.

Higher tariffs are a reasonable policy goal only if they are affordable. But simulations show that affordability is a problem only for a small share of the region's population, Largely those living in the region's poorer countries (Bolivia, Honduras, Nicaragua, and Paraguay) where a utility bill of $10 a month represents a substantial burden for 30 to 50 percent of urban households. Government commitment and support as well as improved targeting for subsidies are critical to greater cost recovery.[5]

Improve Cost Recovery Practices and Spending

Improved targeting of subsidies would go a very long way toward both freeing up resources for investment and maintenance, and making tariff increases socially feasible. Modifying existing tariff structures (for example, by reducing the size of the subsidized block of increasing block tariffs) would help reduce overall costs. The impact on targeting may be positive for electricity where there is a relationship between quantity consumed and income, but this is much less the case of water where the relation between consumption and income is tenuous. In countries that already have means-based social assistance, existing databases can be used to identify the poor and their needs. Geographic targeting is an option in countries that lack these databases, although one that can miss deserving households and include many non-poor ones. However, restructuring or abandoning consumption subsidies can be politically difficult. Eleven years after the passage of a public services law in Colombia that required base utility tariffs

Figure 3. Privatization Has Become Very Unpopular in Latin America



(5) Many private sector entrepreneurs complain of a lack of support for and enforcement of cost recovery.

to rise to cost recovery levels, the water sector continues to make substantial fiscal demands.

A better allocation of expenditures is also needed. Particular attention should be paid to the needs for maintenance, which currently are not receiving the needed resources. Many countries lack a reliable source of funding to ensure that regular maintenance is carried out (notably in the case of roads which, for the most part, are publicly funded). New investments should focus on strategic goals, such as completing networks. But tackling bottlenecks should not come at the expense of providing service to the poor, which (as mentioned earlier) can be done at a relatively low cost. Decentralization and participatory planning can help—although they can also complicate matters.

Expenditures can also be made more efficient in a number of ways. More reliable expenditure flows would substantially reduce the overall cost of investment programs as well as allowing for a regular maintenance program. In Brazil, for example, budgetary shortfalls regularly result in disruptions in payments to road contractors, who sometimes use them as an excuse to invoke price escalation clauses. Similarly, governments tend to pay much more for goods and services than the private sector because of collusion among vendors or other factors. An aggressive procurement (or competition) agency can significantly reduce total costs. A case can be made for establishing regional procurement agencies to benefit small countries.

In addition, risks can be managed and allocated better. Contracts, in particular, should better identify and allocate the different risks involved. Governments need to focus on improving the risk return ratio of investment projects, but must be careful not to take on an unnecessarily high burden. Many face enormous contingent liabilities from past commitments of this sort.

A critical remaining difficulty concerns institutional reform. While many of the technical improvements discussed earlier are fairly straightforward, their implementation depends on having the right institutions and capacity in place. It may be unproductive to require a comprehensive set of functional institutions as a prerequisite for private participation in infrastructure projects. Institutional advances in infrastructure will unfold at a pace that depends on the political economy of reform, the cultural context, and the country-specific ways of securing property rights.

Governments Remain at the Heart of the Infrastructure Challenge

With or without private sector participation, governments remain responsible for sector reform and regulation. This includes managing the political economy of reform. Infrastructure reform is a political process that is prone to backlash. Reform “losers” may be intent on recovering the benefits they enjoyed in the past, while reform “winners” may not feel like they have really benefited because they perceive that current sacrifices will not be rewarded with future gains or that private firms will eventually capture most of the gains. To push the reforms forward, governments and regulators need to find ways to take the reforms out of the “redistribution traps,” in which the gains of one group become (or are perceived to be) the losses of another. If those who stand to lose have veto power, the reforms will not take hold.

■ ***With or without private sector participation, governments remain responsible for sector reform and regulation. This includes managing the political economy of reform.*** ■

Governments remain responsible for the social goals that are part of the reform process. With or without PPI, the design, monitoring and financing of social policies are public responsibilities (although cross-subsidies can help fund them, notably in water and electricity). However, the private sector can also be tapped to meet these ends through output-based aid, for example. Moreover, small-scale providers can offer low cost solutions to provide services to the poor. Social tariffs are not only important for social reasons; they are also critical to the success of any reform.

Governments are responsible for much of infrastructure finance both directly, and indirectly, by helping structure financing frameworks. A critical issue is how to generate the fiscal space for increased public investments. A number of countries are saddled with a large debt burden. The budgets of many countries (Brazil, Colombia and Peru, for example) are quite rigid and more than 90 percent is nondiscretionary (pensions, social security, debt service, wages, transfers to subnational governments). In some there is scope for increasing tax collection (for example, Honduras), but this is not the case in all of them. In Brazil, for instance, where the tax to GDP ratio has reached 35 percent, simulations suggest that the impact of additional tax increases would more than offset the growth and welfare benefits of increased infrastructure investments.

Several options have been suggested to increase the fiscal space, based on the argument that current rules only reinforce the tendency of politicians to cut investment rather than more politically sensitive current expenditures. One approach could be to adopt alternative rules, such as the so-called golden rule that permits borrowing to finance capital but not current expenditures. Another could be to exempt particular investments based on their social or economic rates of return. Each country will probably have to be determined how to move forward on an ad hoc basis through a combination of expenditure reallocation, improved expenditure efficiency and reliance on increased revenues associated with better growth performance.

Governments can also help in providing a financing framework for long-lived infrastructure investments. For example, investors are likely to favor

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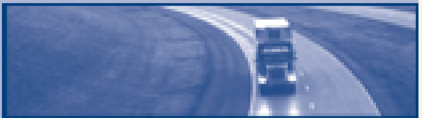


◀ p.5 *Infrastructure Issues*

projects that can incorporate substantial local currency financing. This can be done either by developing local capital or debt markets or through local currency loans, hedging products or creative financing structures offered by private, bilateral or multilateral financing institutions. Partial risk guarantees from multilateral institutions can protect lenders or bondholders against other perceived risks providing the credit enhancements that project companies require to raise adequate financing.

Courting the Private Sector

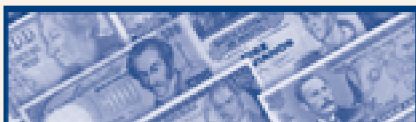
The private sector is critical as the only means to mobilize a large amount of financial resources as well as the know-how and management skills needed for better infrastructure performance. Creating an improved framework for private participation and risk management instruments are important steps in attracting the private sector. Also important is better management of the political economy of reform. Indeed, winning back public opinion is probably one of the most pressing challenges for promoting private participation in the region today.

■ ***Winning back public opinion is probably one of the most pressing challenges for promoting private participation in the region today.*** ■

Final Remarks

In the 1990s the emphasis was on the fight against poverty, which was equated rather narrowly with a need to increase social services. As a result, infrastructure needs were not paid adequate attention. Today, Latin American firms are losing competitiveness because of poor infrastructure and the region is falling behind its middle-income competitors and China.

While governments should remain at the heart of infrastructure service delivery, efforts should be made to bring back the private sector. Governments need to regulate infrastructure provision and finance a good share of the needed investments. Private transactions have collapsed to less than a quarter of their peak level and show no immediate sign of recovering. Bringing back the private sector entails decreasing risks and improving the framework for private participation. But more important, it also means improving public perceptions of private participation in infrastructure, which are so overwhelmingly negative as to be a serious constraint in some countries. ■



◀ p.1 *Securitization*

of resources going to the sector; however, they have been subject to criticism in cases where cost and efficiency factors are taken into consideration.

The Role of Securitization

Although the effect of policies based on securitization is indirect, it may prove to be more effective than the standard direct subsidy or guaranty mechanism. These policies are based on incentives to credit institutions to securitize their SMEs portfolios, as a first step to increase their flow of resources to the sector. It has to be understood that securitization techniques cannot be directly used by SMEs. Securitization transactions require a minimum size that is beyond the reach of most corporations, particularly small- and medium-sized companies.[1]

■ ***Due to lack of homogeneity, uncertain maturity, and the default frequency profile of SMEs portfolios, huge improvement are needed in the information for securitizing SMEs portfolios.*** ■

Securitization is a financial technique that transforms relatively complex and illiquid assets into marketable bonds (asset-backed securities) by means of special purpose entities (SPE), which are used to isolate the assets and their cash flows on behalf of bondholders. Securitization has become a flexible tool that provides banks funding diversification at competitive costs and longer maturities. It also provides selected risk transfer opportunities and the possibility of releasing regulatory and economic capital.

Most securitization transactions are designed to obtain funding for the originator and "seller" of the assets, while simultaneously transferring risk. However, the use of derivatives techniques is increasing the number of so-called synthetic securitization transactions, which are not design to obtain funding. Their sole objective is to reallocate risk.

The main driving forces behind the growth of securitization are advances in information and technology, improvements in risk analysis tech-

(1) A recent report from the European Commission, on which this note is based on. *Study on Asset Backed Securities: Impact and Use of ABS on SME Finance.* London: GBRW Ltd.. 30 November 2004.

niques, the trend of specialization and disintermediation in the financial industry, the growth of techniques and specialists in hedging and risk transference, the superior stability of ABS as a risk class, and greater investor sophistication. The last decade has seen the growth and expansion of securitization worldwide. In many countries, this has required the development of a new and specific legal framework to sustain an industry considered necessary for sound economic development.

■ *There is an active secondary market for SMEs loans in the United States; however, this is not the case in Europe where SMEs securitization transactions are important only in Germany and Spain.* ■

Securitization of SMEs Loans is not Widespread

The securitization of SMEs loans is not as widespread as that of other assets such as mortgages, credit card receivables, consumer loans, automobile loans and corporate receivables, among others. The reason for this is that SMEs loan portfolios are more difficult to securitize than other banking assets, mainly because of their lower degree of homogeneity with respect to their financial characteristics and underwriting procedures as well as to the limited historical data that credit institutions are able to show.

However, securitization of SMEs risk by credit institutions promotes increased lending to the sector. This is similar to developments in the real estate industry where growth in residential real estate can be attributed to the growth of the mortgage loan industry, which, in turn, resulted from the efficiency of refinance techniques, in particular, the securitization of mortgage-backed securities. If lenders can redistribute SMEs risk easily and at a reasonable cost (spreading it among investors by means of securitization techniques), there will be more resources available to finance small- and medium-sized businesses.

Information Standards and SMEs Loan Securitization

Efficient securitization requires long time-series data on the default frequency and loss experience in pools of assets. Due to lack of homogeneity, uncertain maturity, and the default frequency profile of SMEs portfolios, huge improvement are needed in the information for securitizing SMEs portfolios. However, proper risk management within the bank demands the same information that securitization does.

There are distinct size gradations within the SMEs asset class that may have quite different default characteristics. The numerous legal forms adopted by SMEs hamper credit analysis and security is taken in a number of forms. Copious client data is required to perform the necessary portfolio analysis, and it may not be readily available even when it does exist (for example, it may reside in incompatible databases, or be only available in hard copy paper form or be scattered over a number of geographic origination offices).

It may also be difficult to establish with certainty the cash flows of SMEs portfolios because of a lack of clear maturity profiling by the originator. In essence, only term loans provide the most suitable material for SMEs securitization, but these represent only a small part of the total credit granted to SMEs. Most loans to SMEs are in the form of revolving credit lines.

Accurate measures of default frequency are at the core of internal bank rating systems. For many banks, especially smaller ones, development of the appropriate rating tools takes time. Complete data may not be necessary to carry out a securitization transaction, but is likely to result in less attractive pricing, and over-sizing of the mezzanine tranches.

Resistance to Securitization

The initial cost of systems for preparing and collecting the information for SMEs portfolio securitization may be high. As a result, the proper assignment of such costs among the different units within the originating bank is key for the internal acceptance of the securitization process.

Securitization in most originating banks is initiated by the bank's financial unit rather than the teams or units that originate SMEs loans. In addition, it is usually driven by the strategic agenda of the institution as a whole. However, the origination unit often pays for the information costs associated with SMEs portfolio securitization. This may create resistance to securitization from senior management in the SMEs loan origination units. Depending on the management structures, this may prove to be a considerable obstacle, which can be overcome only by management intervention at the highest level. A more promising approach is assigning a portion of the information cost associated with securitization to the risk management units because proper risk management would required such information. Another option is assigning another portion to the financial unit because the availability of information would reduce the cost of funding.

The Relative Importance of Securitization in the Untied States and Europe

There is an active secondary market for SMEs loans in the United States that benefits from guarantees issued by the Small Business Administration 7(a) Program. However, despite efforts to reduce regulatory barriers to the securitization of small business loans (Riegle Community Development and Regulatory Improvement Act, 1994) as a means to improve liquidity, such asset transactions are infrequent.

In Germany, most transactions receive public support under the umbrella of the KFW Promise Programme created in 2000. This pro-

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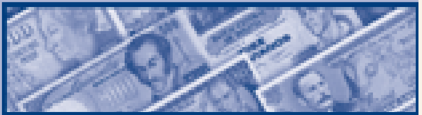

◀ p.7 Securitization

gram facilitates synthetic (non-funding) transactions used exclusively to transfer risk. KFW offers credit protection to the originator, carrying the full faith and credit of the Federal Republic of Germany, which implies a reduction in regulatory capital consumption, at the cost of a premium paid to KFW and the retention of a first loss piece. Reduction in regulatory capital is an incentive in itself for the banks to securitize their SMEs portfolios, but, in addition, the KFW Promise Program has had a positive market impact by consolidating a brand name and a recognizable structure for the transactions, which is valued by investors.

Spain is by far the largest issuer of SMEs securitization transactions in Europe.

A pioneering program started by the Spanish Treasury in 1999, which has been implemented also by the regional government of Catalonia, has achieved spectacular results in terms of the volume of SMEs loans securitized and the number of participating credit institutions. The program relies in the creation of so-called FTPYMES,[2] which are special purpose entities under Spain's securitization legislation, which enjoy a Treasury guarantee.[3] This differs from the KFW Promise Program in that all transactions involve funding, while only the risk portion of the loans is transferred in Germany.

■ *The effective benefits of securitization incentive policies will only materialize with continuous and long-term programs. Long-term programs would be better able to address obstacles and costs.* ■

The Treasury guaranty is given to series of SMEs loan-backed securities that reach an AA or equivalent rating level without the guarantee. Only 80 percent of the volume of these series is guaranteed and the originator acquires the commitment of reinvesting the resources obtained into new SMEs loans. At least 80 percent of the total amount securitized has to be granted in new loans within the next twelve months after the transaction is completed. The incentive to securitize derives from the fact that bond series guaranteed by the government enjoy zero percent regulatory capital consumption for investors, which amounts to a reduction of 15 to 20 basis points per annum in market spreads. Originators (loan sellers), as a result of securitization, do not necessarily reduce their own regulatory capital consumption. That effect depends on the characteristics of each transaction and the degree of risk retained by the seller.

The Benefits of Long-Term Programs

By releasing originating banks from risk, securitization increases their ability to lend to SMEs. A by-product of securitization is also to improve risk management within the banks themselves because efficient securitization requires quality information and risk control. Rating agencies and ABS investors demand that originators have a track record as pool servicers, as well as complete and long time series on the performance of the securitized asset class and a guaranty that they will provide access to a sufficient flow of relevant information during the entire life of the transactions.

SMEs securitization produces a wide range of securities in the capital markets: from fully sovereign guarantee tranches to mezzanine and subordinated tranches. The flexible nature of securitization techniques adapts each transaction structure to each particular market framework.

Finally, two important considerations that should be taken into account if securitization, in general, and SMEs securitization, in particular, is the objective of public policies. On the originator side, attention should be paid to the fact that internal costs for the banks to start a securitization programs may be important. On the market side, attention should be paid to the fact that consolidating broad demand and liquidity for a new asset class requires resources and time from investors. In addition, the increase in financial resources dedicated by banks to SMEs as a result of the securitization of their existing loans can only be indirect. Therefore, the effective benefits of securitization incentive policies will only materialize with continuous and long-term programs. ■

(2) FTPYME, stands for "Fondo de Titulización (FT)" and "Pequeña y Mediana Empresa (PYME)", which mean, respectively, securitization fund and small- and medium-sized company.
(3) The program sponsored by the regional government of Catalonia also provides a guarantee.

Book Reviews, Articles & Papers:

The Economics of Public Private Partnerships, *Darrin Grimsey and Mervin K. Lewis*, Edward Elgar Publishing Limited, UK, 2005.

Public private partnerships (PPP) are defined by the editors as arrangements whereby private parties participate in, or provide support for, the provision of infrastructure (defined in a broad sense), and a public private project results in a contract for a private entity to deliver infrastructure-based services. Although the concept of public private partnership is very old (the first concession contracts were awarded for the financing and construction of the Briare Canal), the dramatic change in the division of responsibility between the state and the private sector for the delivery of infrastructure and services has only occurred in the last decade of the twentieth century. This comprehensive book addresses the wide range of problems associated to modern PPP.

The publication includes 36 articles organized into six parts. Articles in Part I examine the forces that are leading to shifts in the provision of public services and the institutional implications of private involvement. Part II looks at the different PPP arrangements, which range from providing services to the public sector to the full privatization of infrastructure assets. It also discusses the risks associated with different arrangements, noting that payments from consumers or payments from a public sector entity pose quite different risks to infrastructure companies. Part III discusses organizational PPP issues. Several chapters analyze the relative efficiency of bundling services such as financing, construction and maintenance versus unbundling them. Part IV presents the experience of the United Kingdom with private participation, which was introduced by the Conservative government in 1992 and was continued by the Labor party. An interesting discussion in this section refers to PPP schemes in which the assets are fully paid by the public sector but are financed by the private sector. The relative advantage of the public sector in long-term financing is posed as an argument for the inefficiency of these schemes. Part V discusses infrastructure sectors in different countries. The U.S. experience with using public private partnerships in prisons is especially interesting. Finally, Part VI relies on case studies to address several aspects of risk management.

The book is an excellent guide for identifying the risks associated with infrastructure assets and services under different arrangements and how to modify arrangements to mitigate such risks.

Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges, *Marianne Fay and Mary Morrison*, Report No. 32640-LCR World Bank, Washington D.C., 2005.

This report presents the main findings of an initiative of the World Bank and the Inter-American Development Bank to examine infrastructure issues in Latin America and the Caribbean that was undertaken in 2004-2005. This entailed commissioning a number of background papers to explore areas on which more information was needed, as well as a number of country studies. It also included a conference that was held on June 6 and 7, 2005 on the Diagnosis and Challenges of Economic Infrastructure in Latin America.

The report is organized into three sections. The first section reviews progress made in infrastructure coverage and quality and discusses the impacts this has had on growth, competitiveness and the fight against poverty. The second section argues that the main problem has been an insufficient improvement in the management of scarce resources, and also reviews the region's experiences with Public Participation in Infrastructure (PPI). The third section builds on the lessons of the last decade to tackle three key challenges: improving social and economic returns from infrastructure, managing PPI better, and raising new finance for infrastructure.

This paper provides an excellent way for understanding infrastructure in Latin America and the Caribbean as well as the extraordinary transformations that have shaped it over the last 15 years. It discusses the false hopes and failed expectations that surrounded private sector participation, but also examines the progress made and the lessons learned. The report show that Latin American infrastructure coverage and quality have fallen below the average of the middle income countries despite the fact that this region was the recipient of half the world's private infrastructure transactions and, also, that it went furthest than any other region in transforming infrastructure delivery.

Value Added Risk Management in Financial Institutions: Leveraging Basel II and Risk Adjusted Performance Measurement, *David P. Belmont*, Wiley Finance, John Wiley and Sons (Asia) Singapore, 2004.

Risk management has evolved from simply limiting losses to addressing the strategic issue of optimizing the returns on risk. This evolution has been accompanied by statistical, mathematical, and financial techniques that, when actively and wisely applied, aid an institution in producing disproportionately high returns on risk. *Value Added Risk Management in Financial Institutions* describes these techniques, illustrates their application, and discusses their strategic value for financial institutions.

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This book convinces readers that good risk management is a valuable component in the creation of shareholder value. Investment in more sophisticated tools for risk and quantification, as well as for meeting Basel II requirements, will produce huge returns when the information is not only used for measuring performance, but also for such shareholder value-added activities as capital allocation and balance sheet structuring. The book shows why and how banks can make use of Basel II implementations to achieve a high degree of control and positioning of their operations and increase shareholder value. The book strikes a good balance between theory and reality, both in its explanation of market behavior and in the presentation of the arguments.

Financial Exclusion, *Santiago Carbo, Edward P.M. Gardener, and Philip Molyneux*, Palgrave Macmillan Studies in Banking and Financial Institutions, 2005.

Financial exclusion, defined as the inability or reluctance of particular social groups to access mainstream financial services, is a major problem in some developed countries and in most developing countries. There is growing evidence that deregulation in developed financial sectors improves financial inclusion for some social groups, but at the same time, may exacerbate the exclusion for others.

This book relies on the result of a survey to explore the problem of financial exclusion in the United States, the United Kingdom and in Europe. It evaluates the growing policy importance of financial exclusion in Europe and discusses the strategic implications of financial exclusion and policies for dealing with it for banks in general and savings banks in particular. One relevant finding from both US and UK experiences is the apparent attractiveness of requiring banks to account in a transparent manner for the services they provide to exclude and vulnerable groups in society. The UK approach, where banks are now disclosing their lending volume to lower income and other excluded groups, is a significant step forward.

This is the first text to focus on analyzing financial exclusion issues in different parts of the world. It covers the various public and private sector mechanisms that have been advanced to help eradicate this problem.

Study on Asset-Backed Securities: Impact and Use of ABC on SME Finance, *European Commission*, GBRW Ltd. London, November 2004.

Securitization is a method of transferring risk from one party (the originator) to investors through capital market transactions. In most securitizations, risks are transferred to investors by the cash sale of debt instruments (asset backed securities or ABS) whose cash flows and performance are wholly dependent on the underlying performance of the portfolio of assets sold; hence the expression "securitization."

The European Commission's Enterprise Directorate-General commissioned this report with the purpose of identifying the extent to which securitization programs could improve the financial access of SMEs. The report commences with a description and explanation of securitization and an overview of US and European securitization volumes, including those in the SMEs sector. The factors that account for market growth are then considered before examining in greater detail the SMEs securitization market and, in particular, activity in Spain and Germany, where SMEs securitization has been most evident. Obstacles to securitization are also explored, with particular regard to the SME product. The effectiveness of SMEs securitization in transferring risk from the originator to third parties is then considered. The penultimate section tackles the key issue, namely, does securitization aid SMEs access to finance? The closing section explores possible market developments that could facilitate increases in the volume and efficiency of SME securitizations, and discusses how continuing public sector support might act as a catalyst in deepening the SMEs securitization market.

Securitization may benefit banks by funding diversification and cost and maturity benefits; by transferring targeted risks as part of overall asset portfolio management; and by releasing regulatory capital, thereby enabling banks to grow organically rather than having to access additional external capital. The fact that a loan to a particular SME has been securitized may or may not improve access to finance for that same SME. The reason for this is that banks will limit their exposure to a borrower based on the aggregate exposure considered appropriate for that borrower and its assigned risk rating. However, at the portfolio level, securitization allows banks to both maintain existing levels of SME risk and release adequate capital resources to expand their lending to the SME market as a whole.

The report is an excellent tool for understanding what securitization can and cannot do. Moreover, it reviews the roles that banks, SME associations, trade groups, governments and regulatory authorities might play in encouraging the growth of this market.

Financial Market Development: Support from the Inter-American Development Bank Group 1990-2004, *Infrastructure and Financial Markets Division*, IDB, Fifth Edition, 2005.

Well functioning financial markets are one of the most important determinants for economic development and growth. The IDB Group (the Inter-

American Development Bank, the Inter-American Investment Corporation and the Multilateral Investment Fund) collaborates with governments and the private sector to reduce financial market deficiencies and devote significant resources to financial market development. This effort was reflected in more than 374 projects approved for 26 countries that total approximately US$22.2 billion between 1990 and 2004. Most of the operations supported financial intermediation, capital markets, insurance markets, pension reform, housing finance, and, more generally, financial market deepening.

This fifth edition of Financial Market Development provides an overview of the financial and non-financial activities of the Bank Group that supported financial market development in Latin America and the Caribbean during the period 1990-2004. The report includes detail information on loans and technical cooperation programs financed by the Bank Group as well as a list of the best practices, technical studies, working papers and books published in the field.

This report is published every two years and is available at http://www.iadb.org/sds/IFM/publication/publication_495_4151_e.htm

Events:

Challenges and Opportunities for the Development of the Insurance Markets in Latin America and the Caribbean

November 7-8, 2005
IDB Conference Center, Washington D.C.

Hosted by the Inter-American Development Bank, this forum focused on the analysis and discussion of the main challenges and opportunities for the development of the insurance markets among the leading participants and regulators of the region's insurance market, including representatives from the IDB member countries' supervisory agencies, insurance associations and consumer organizations; independent experts; and specialists from the IDB, the World Bank and the International Monetary Fund.

The event was jointly organized by the Association of Latin American Insurance Supervisors (ASSAL), the Inter-American Federation of Insurance Companies (FIDES) and the Bank.

The forum has launched an action-oriented research agenda around the topic of strengthening the insurance markets that is designed to enhance this sector. The launching of this agenda was based largely on the results of the IDB's study that included a recently designed survey that measured the effectiveness of insurance markets in Latin America and the Caribbean (LAC).

The study noted that insurance markets in LAC are relatively underdeveloped despite growing demand. Premium volume in the region totaled around 2 percent of gross domestic product, compared with 7 percent in Europe, 4 percent in Asia and 8 percent in the United States. Moreover, 90 percent of the insurance coverage is concentrated in just six countries. The report affirms that a strong, well regulated insurance market is an important macroeconomic component of well functioning, growing, and modern economies.

Workshops held during the forum centered their discussions on the study and the critical measures needed for further development of insurance markets in the region. Conference participants accepted a common work agenda that will involve the public and private sectors, ASSAL, FIDES and the IDB.

The forum's presentations and papers are available at: http://www.iadb.org/sds/ifm/publication/gen_407_3231_e.htm

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LAC Debt Group: Debt Strategy Workshop

September 26, 2005
IDB Conference Center, Washington D.C.

This first thematic workshop of the LAC Debt Group (Latin American and Caribbean Public Debt Management Specialists) was a joint effort of the Inter-American Development Bank and the debt management offices of the LAC countries.

The main objective of this workshop was to have an in-depth discussion on Debt Strategy issues among the participants, fostering an approach that will lead to continuous sharing of experiences across countries and privilege technical discussions involving a broad group of debt management analysts that deal with back, middle and front-office issues.

The sessions focused on the general framework and macroeconomic issues followed by some country experiences dealing with Debt Strategy. In addition, the discussion covered specific topics such as contingent liabilities, statistical framework for debt information system, and others.

During the workshop the Steering Committee of the LAC Debt Group declared the desire of distributing the leadership for the different activities of the group between countries. Following this idea, Chile declared its commitment to develop the activity of best practices standards for strategic planning to develop domestic public debt markets; Jamaica declared its commitment to lead a sub-regional study for the Caribbean countries and, Brazil declared its commitment to lead a regional study about trading.

The workshop's presentations are available at: http://www.iadb.org/sds/ifm/publication/publication_495_4235_e.htm

The Infrastructure and Financial Markets Division
Private Enterprise and Financial Markets Subdepartment

The Portfolio Management and Project Monitoring Division
Development Effectiveness and Strategic Planning Department

The Office of Learning

cordially invite you to the Workshop

Road Safety in Latin America and the Caribbean: Turning Knowledge into Action

December 2, 2005 • IDB Enrique V. Iglesias Conference Center, Washington D.C.

A World Health Organization Report (2004), estimates that the Latin America and the Caribbean region is expected to see a 48% increase in traffic fatalities by 2020, consistent with alarming trends generally in middle and low income countries, unless appropriate policies and countermeasures are put into effect rapidly. The human cost of road crashes for the region is estimated at over 100,000 lives and 1.2 million injuries annually, and the annual economic cost at US$19 to 30 billion, or about 1 to 1.5% of GDP.

The purpose of this workshop is to discuss the lessons learned, operational approaches, good practices and specific interventions, including market solutions, that the IDB could support in response to the growing needs of the region. Regional and international specialists from Honduras, Brazil, Chile, Demark, U.S. as well as PAHO and the World Bank will participate in this event.

For more information on this event, please contact Cynthia Nuques at cynthian@iadb.org.

The Infrastructure and Financial Markets Division
invites you to visit our website: www.iadb.org/sds/ifm/

The site provides access to:

- Strategies, policies, best practice papers, guidelines and technical studies on financial markets and infrastructure topics.
- Links to related sites.
- Our quarterly IFM Review.
- Proceedings of past events.
- News on upcoming events: Conferences, Workshops and Seminars.

The Infrastructure and Financial Markets Division of the Sustainable Development Department provides technical and advisory support, research and dissemination within the IDB group. This mission is accomplished through the development of policies and strategies, training programs, and dissemination of best practices.

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