

Financing and mega projects: An interpretation of the regional South American dynamic

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This is the introduction of the publication coordinated by INESC in Portuguese language¹. It is contained within the framework of INESC's objective to democratize the debate and the access to the information on the policies of integration and development in the South American region, in particular on the initiative for Integration of Regional Infrastructure in South America (IIRSA), and in the Brazilian case, on the Growth Acceleration Program, ensuring the creation of the political - institutional channels that provide the protection and promotion of economic, social and cultural rights of the populations and communities directly and indirectly impacted by these economic development strategies.

This publication is focused on the South American financial architecture and its relationship with the execution of large physical infrastructure projects being implemented in the region. It has been conceived as a result of the perception that we are facing a key moment for the promotion of a new critical effort of analysis and interpretation of what is taking place in the region.

The articles making up this publication show quite a different scenario from the one that brought about the models of analysis developed in the 1980s and 1990s, mainly focused on the action of the *International Bank for Reconstruction and Development (IBRD - World Bank)* and the *Inter-American Development Bank (IDB)*.

New actors and financial projects have emerged and are currently as important or more so than those ones in what regards to financing megaprojects. In the current scenario, we should highlight the *Andean Development Corporation (CAF)* and the *National Bank for Economic and Social Development (BNDES)*, the main long-term funding institution in Brazil, which in spite of being a national bank, operates at international level, providing financing for economic infrastructure projects and works of land and fluvial interconnection, energy and communications in practically all countries within the South American region.²

Besides providing us with a map of the main *regional financial institutions (RFIs)* that are currently operating in South America, **Eduardo Gudynas**³ helps us to perceive the existence of a close relationship between the concept of “integration” included within the project for the *Integration of Regional Infrastructure in South America (IIRSA)* and the role of RFIs. According to Gudynas, in spite of invoking integration, the action of RFIs is in fact mainly aimed at financing connections between infrastructure such as

¹ See full publication in Portuguese language (pdf format):
<http://www.inesc.org.br/biblioteca/publicacoes/livros/Livro%20-%20Financiamento%20e%20Megaprojetos%201.pdf>

² The BNDES has a financing line aimed at encouraging the insertion and reinforcement of national capital companies in the international market, through its financial support for investments or projects to be developed overseas. Investments in the construction of new units, the acquisition, enlargement or modernisation of installed units and shareholder participation in already existing companies are likely to obtain support. Besides this, the working capital of companies can also be financed.

³ See Gudynas' full article in Spanish language:
<http://www.integracionsur.com/americalatina/GudynasIFRsFinanciaMegaproyecos08Esp.pdf>

roads, waterways and gas pipelines. Their action is aimed at making feasible the physical conditions for increasing the economic interdependence at regional level, promoted by preferential integration agreements, in a context of opening and deregulation, arguing that this will increase the “competitive capacity” of countries in the globalised economy.

From the 1990s, and in a more accelerated way in the present decade, after the domestication of the financial crises that marked the end of the past decade and the start of this one, the insertion of countries of the region into the global context as exporters of commodities became accentuated. According to a recent study carried out by the *Economic Commission for Latin America and the Caribbean* (ECLAC, 2007), foreign direct investment (FDI) in South America in the past decade was mainly aimed at facilitating conditions to have access to the natural resources available in the region. In Brazil, the current development model has had a relevant environmental and social impact, as a result of the growing demand for natural resources from the producers of industrial goods. In this sense, the words of IDB president, Luis Alberto Moreno and of CAF executive president, Luis Enrique García, are symptomatic when they say:

(...) the current comparative advantage of Latin American countries in the world scenario lies in their endowment of natural resources. On the one hand, Asian countries have turned into the major global factory of mass consumption goods. On the other hand, the United States and Europe have become consolidated as providers of expert manufactured goods, technology and services. Africa and Latin America have been relegated to the role of raw material providers. However, this role as providers of lower value added goods has currently a strength connotation, given the relative lack of raw materials. Asia, Europe and the United States lack the necessary natural resources to support the strong growth of their economies, which has fuelled the prices of raw materials in a sustainable way and at unprecedented levels throughout the past decade (CAF and IDB, 2008)

On the other hand, underlines **Gudynas**, it is necessary to acknowledge some positive and necessary aspects regarding the operation of RFIs, such as solving interconnection and fragmentation problems at continental level. All the same, their action in fact responds to a vision in which the insertion into the global market is the essential thing. This implies generating greater accessibility to different continental areas, thus enabling the extraction of natural resources (such as mining, oil, soja, etc.), and facilitating the insertion of products into the global markets. This interpretation can be confronted with the following statement made by Enrique García, of the CAF:

In short, the integration of the physical infrastructure of South America aims at establishing mechanisms to overcome obstacles to growth and promote the development and integration of the region by means of methodological and financial innovations with a view to setting up connections in terms of transportation, energy and telecommunications among markets and areas with high growth potential or isolated areas offering comparative advantages of a social, natural and/or cultural order (García, 2007:33).

According to **Vince McElhinny**, many things have changed since the IIRSA initiative was launched in 2000. After eight years, this initiative has the support of those governments that came to power with platforms expressing open criticism of neo-

liberalism and International Financial Institutions (IFIs). The relative “economic prosperity” verified in the region has reduced the dependence on World Bank and IDB loans, and new national and sub-regional actors have gained a relevant position in the field of finance, such as the CAF and BNDES, together with the advent of ALBA, UNASUR and the Bank of the South.

The data published by the IIRSA’s Technical Coordination Committee in December 2007, states **McElhinny**, show that of the \$21 billion invested in IIRSA’s portfolio of priority projects until then, the IDB and CAF respectively accounted for 7% and 8% of total funding commitments, compared to 62% allocated by the national budgets of IIRSA’s 12 member countries and 21% by the private sector.

In this sense, says **McElhinny**, Brazil has strengthened its influence on the IDB management where, following the bank’s institutional realignment, it has come to lead the vice-presidency with more power – the Infrastructure Department – and several high-ranking posts. On the other hand, not only does the BNDES lend nearly eight times the total annual amount lent by IFIs, but also provides loans outside of Brazil (\$4.2 millions in loans from 2007 to 2008).

Another aspect that will be of interest to the authors of this compilation is the growing leadership of Brazil in the region, both of the government – through financing – and of public and private companies. The Brazilian business expansion towards neighbouring countries is the main sign in terms of the trans-nationalisation process of Brazilian capital and it is closely related to the conception and implementation of IIRSA’s strategy. As pointed out by **Alessandro Biazzini Couto**, many of the socio-environmental problems caused by inter-oceanic highways in Bolivia and Peru, are the result of a “run towards the Pacific” which hugely benefits the agro-business sector in Central West and Northern Brazil and the production chains of transnationals operating in the continent. Local territories are almost exclusively thought of as transit areas for products to get to the ports at the lowest possible market cost.

In fact, Brazil’s Northern and Central West regions play a major role in this (express) development strategy. It is mainly here that the capital linked to the mining and agro-business sector (including agrofuels) is defining the shape to be taken by the territorial occupation, the fate of local populations (indigenous peoples, *quilombola* communities and others) and their territories and how the potentialities regarding the environmental heritage of these regions will be explored. These economic sectors are guiding the implementation of fluvial and land transportation infrastructure as well as energy generation infrastructure – from within and outside the government – with financial resources provided by the *Programme for the Acceleration of Growth (PAC)*, reinforced by BNDES’ and resources of their own, captured within the national and international financial system (e.g. the International Financial Corporation-IFC/World Bank). This programme is part of a broader strategy promoted by those elites that are guiding the Brazilian economic expansion and modernisation process, either targeting regions within the national territory that are still not fully integrated into the capitalist economic system, or neighbouring countries.

On the other hand, we notice that the same companies that are in charge of the construction of roads are forming consortiums with business groups engaged in the exploration of mineral resources and oil – this is the case, for instance, of Odebrecht and

Petrobras in Peru. Odebrecht has been carrying out works in that country since 1979, when the construction of the Charcani V Hydroelectric Plant, in the department of Arequipa, was launched. Petrobras has been operating in Peru since 2003 and is currently Brazil's third most important company according to the amount invested in the country. In 2005, Petrobras became the second largest oil producer in Peru and the company with the largest concession area for exploration. Together, Odebrecht and Petrobras own, respectively, 60% and 40% of the largest petrochemical producer in Latin America, Braskem, also with presence in Peru.

Companies such as Odebrecht and Queirós Galvão are in fact part of greater structures, many-sided corporations, which operate in various fronts, often even developing activities that, in theory, would fall within the public power sphere. An example of this is Odebrecht in Angola, which according to the minister of Development, Industry and Foreign Trade, Miguel Jorge, explores diamond mines in partnership with a state company; it issues the country's official documents – birth certificates, identity cards, passports, etc., and is forming the country's first network of supermarkets, which in 2007 already consisted of 22 supermarkets, of a total of 60 that will be making up the network (PIB, September/October 2008, p.29).

In Colombia, Camargo Correa and Odebrecht received a \$650 million loan from BNDES for the construction of the Carare railway, which connects the Colombian high plateau with the Atlantic coast, and is devoted to transport coal for export. This rail line will have to have a branch for the Paz del Rio region, where a large iron and steel works purchased by Votorantim⁴ is located.

Taking into account the large sums allocated by BNDES to works, we cannot but agree with **Biazi Couto** when he says that this procedure fails to match the social goals advocated by the institution. Besides the social and environmental impacts and the reinforcement of privileges enjoyed by power groups in the region, these loans are responsible for the increase of public indebtedness of countries, to the detriment of investments of real social interest, such as basic sanitation, housing, schools and hospitals.

The article written by **Víctor Maeso** focuses its analysis on the relationship of two large Spanish private banks, the BBVA and Santander, with the funding of large infrastructure projects and exploration of natural resources in Latin America. He specifically draws attention to the operation of a financial sector that has been paid little attention in Brazil and on which there is little information available.⁵

According to Carlos Eduardo Carvalho and Carlos Augusto Vidotto (2007), one of the main goals regarding the entry of foreign banks into the Brazilian financial market as of the mid-1990s was to join the companies of the countries of origin that were expanding their activities in Brazil.⁶

⁴ About Brazilian investments in Andean countries, see: Ribeiro and Lima, 2008.

⁵ The BBVA is the largest bank ranked by loans and deposits in Mexico and Paraguay, the second largest in Peru and Argentina, the fourth in Colombia and Chile, the fifth in Uruguay and the third largest by loans and fourth by deposits in Venezuela. It has presence in Hong Kong as the seventh largest Chinese bank; it is the second largest bank in Spain and has a strong presence in Portugal. Last August, it signed an agreement with Bradesco regarding the cash management of client companies, thus becoming one of the major service platforms in Latin America (Valor Económico – August 14, 2008).

⁶ About Spanish investments in Latin America, see Ruesga et. al 2007.

There is clear evidence as to the fact that the BBVA has provided financial services (including loans and funding for projects, participation and structuring of loan and management groups and operation as bookrunner on bond issues) for twelve companies, which, at the same time, are involved in several projects under litigation. **Maeso** draws attention to the fact that all these companies belong to the energy sector or to sectors that are quite dependent on natural resources, such as the mining, cellulose and oil sectors. Most issues under litigation are related to the exploration of mines (10), followed by those related to the construction of dams (5), gas or oil projects (4) and cellulose manufacturing projects (2).

Like the BBVA, Banco Santander has also shown little transparency/openness. The same as with the BBVA, says **Maeso**, it was not until the intervention of activists of Setem and other NGOs at the general meeting of shareholders, that the bank's president himself, Emilio Botín, made direct reference to the Madeira Complex, co-financed by the Bank, saying that he was aware of the problems and risks involved, and publicly promising to hold a meeting with the representatives of Banco Santander in Brazil and affected groups. In fact there is still much to be done in terms of the systematic analysis and evaluation of the role played by private banks in South America, particularly in the so-called regional integration, in the implementation of megaprojects and the exploration of natural resources in the region. In the case of large Brazilian business groups, such as for instance Votorantim, Gerdau, Oderbrecht and Andrade Gutierrez, they all have a financial arm that attracts resources in the national and international financial market in order to be invested in undertakings of interest to the group or to be used as a matching contribution in negotiations or disputes in the market of megaprojects.⁷

Upon examining foreign investment trends in Colombia, **Jairo Estrada Alvarez and Margarita Flórez**, verify a gradual and systematic tendency of the legal system (the law regulating foreign investment) in the country towards a system that is based on the elimination of any kind of restrictions to investments (being either administrative or sectoral). Furthermore, in the period 2001-2006, an important change was registered in the composition of foreign investment in Colombia: there was a significant increase of participation in natural and energetic resources. In this sector, investments reached 47% of total investments, mainly in oil and mineral sectors, while they fell to 34% in the sector of services and to 19% in the manufacturing industry.

Alvarez and Flórez also underscore the growing presence of internationalised Brazilian capital in the economies of the Andean region and in particular in Colombia, thus contradicting the expectations of those who believed that under Lula's administration integration processes could reach new dimensions and overcome the essentially neo-liberal contents that have characterised them in the 1990s.

⁷ The BNDES, in partnership with multilateral institutions (such as the IDB and the IFC/World Bank) and Brazilian private banks, announced in September 2008 the creation of the Brazilian Company of Projects (EBP), aimed at structuring and shaping infrastructure projects under the form of public concessions and Public-Private Partnerships in Brazil and South America. The following eight banks are part of this company: Bradesco, Itau, Unibanco, Santander, Citibank, Votorantim, Espírito Santo and Banco do Brasil (Folha de SP, Sept. 14, 2008). About the financial liberalisation in the 1990s and development policies in South America, see: Santana and Kasahara 2006.

According to them, as of 2003, the Brazilian policy contributed to freeze the project of the Free Trade Area of the Americas (FTAA) but did not prevent the continuity of the transnationalisation and denationalisation process of most Latin American economies, which continued along other lines. Large Brazilian companies operating at global level are present in most Andean countries. This is the case of Petrobras, Vale, Gerdau, Votorantim, Odebrecht and Camargo Correa. For Jairo Estrada Alvarez and Margarita Flórez:

Undoubtedly, rather than a project aimed at strengthening the Latin American position within the context of the global economy, we notice the intention to consolidate the Brazilian position in the region, which coincides with an old aim of Brazilian elites to turn Brazil into a big power. The Programme for the Acceleration of Growth (PAC) of Lula's second administration is exactly aimed at encouraging the investment of large Brazilian capital, through diverse measures and projects, and at projecting its influence on other Latin American countries, beyond the MERCOSUR sphere. Among these projections is the aim to seek an outlet to the Pacific and reduce the outlets to the Atlantic for some Brazilian productive activities. Therefore, Brazil's involvement with large investment megaprojects – particularly within IIRSA – is not fortuitous.

We could not end this introduction without highlighting – from the analysis and interpretation of the authors making up this compilation – what we identify as part of the *challenges of the new times*. Following the same line of thought developed by Alvarez and Flórez, Eduardo Gudynas thinks that it is necessary to make further progress in what regards to changing development trends and generating an alternative integration. Gudynas argues that this is because:

(...) substituting the transnationalised capitalism, dependent on corporations based in industrialised countries, for a Brazilian, Argentinian or Chilean capitalism poses no substantial changes in terms of power relations and development trends. In this same way, to abandon a multidimensional integration, just maintaining the level of interconnections would imply accepting a sad defeat regarding citizen demands for “another integration”.

For **Vince McElhinny**, who has followed the development of the IIRSA initiative throughout the past eight years, civil society should get prepared for a different scenario without the current IIRSA model, when the task of elaborating an alternative integration model is fully transferred to the Union of South American Nations (UNASUR). This will imply to demand participation, transparency and accountability from the states making it up, that is to say, that which the FTAA, IIRSA and most IFIs failed to provide. This means that even under the coordination of UNASUR, much of the criticism and issues put forward will remain pending:

The article by **Omar Arach** brings another array of issues which, to a certain extent, are independent of political-institutional changes like those pointed out by **McElhinny**. Taking as reference the mobilisations and protests against the construction of large infrastructure works in the Argentine territory within the River Plate Basin (mainly hydric projects), he identifies an important common denominator: the leadership of

organisations and environmental arguments, linking social actors (individuals and groups) located at different levels of participation.⁸

These mobilisations, says Arach, show the setting up of new political configurations in the global debate on development and the environment. They show the creation of activist networks and organisations, which under certain conditions, start to operate as agencies in those political arenas where the future of these works is defined and end up partly deciding how the territorial goods of the region shall be used. But Arach does not stop there; he proposes three important issues: in the first place, he wonders to what extent the conventional definitions of development are being challenged and to what extent these movements are launching social processes that may help to visualise a future in which “post-development” or alternative development scenarios are designed. Secondly, what conditions are prompting (and what characteristics are expressing) this alliances between different and distant actors? And finally, in the third place, he wonders about the potentialities and limitations when it comes to administrating forms of management that may challenge the most conventional development paradigms. All of these are issues pointing to high-complexity situations, which have still been hardly analysed in a systematic way.

The above are, along general lines, the issues, contents and topics addressed in this publication, which as we mentioned in the beginning, aims at contributing to a new critical effort of analysis and interpretation of what is taking place in the South American region.

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⁸ In this paper, it is worth highlighting the link with local organisations that represent those populations affected by the construction of said works.

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