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**USAID SUPPORT FOR TRANSPORT CONCESSIONS IN PERU:
A SUCCESS STORY¹**

INTRODUCTION

I believe USAID is most effective in terms of achieving development outcomes when it works at the policy level, particularly when it promotes an improved business environment that is conducive to private sector investment; and that USAID has a comparative advantage in the provision of technical assistance to promote and implement policy reform. The great success achieved by USAID/Peru in promoting three important concessions, for two separate roads and for the Port of Callao in Peru, leveraging almost one billion dollars (\$952 million) with \$8 million in expenditures, supports my assertion on the effectiveness of USAID. I know of many other examples of the tremendous impact USAID has had in promoting business friendly policies, such as its role in the reform of the power and telecommunications sector of El Salvador and Guatemala, or the role it played in promoting trade liberalization and private banking in Costa Rica, but this article will only discuss the Peru case.

USAID SUPPORT

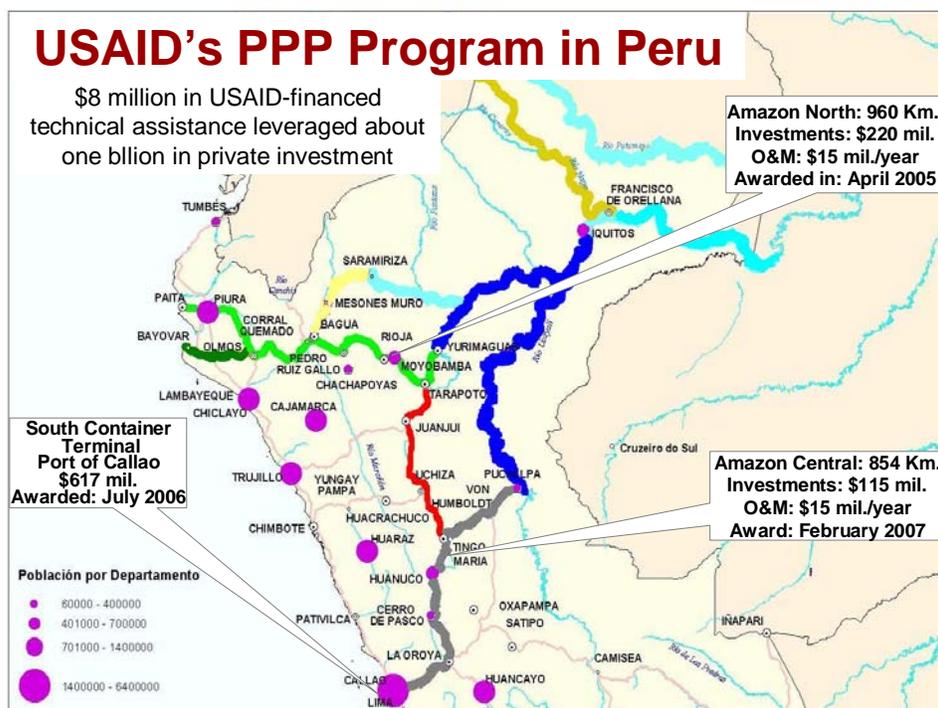
USAID's Poverty Reduction and Alleviation Project (PRA) in Peru, implemented under a contract with Chemonics International, was amended in 2003 to include a component designed to promote Public-Private Partnerships (PPP) to finance, build, operate and maintain major transport infrastructure projects.² From August 2003 to 2006, USAID and the Chemonics team worked with the Peruvian Agency for the Promotion of Private Investment (PROINVERSION), the Ministry of Economy and Finance (MEF), and the Ministry of Transport and Communications (MTC), and the regulator of transport (OSITRAN) in the design and implementation of three major infrastructure projects, two for roads and one for the port of Callao. Total expenditures under the PPP component of the Chemonics contract were \$8 million, and about one billion dollars of private

¹ The views expressed in this publication are those of the author and may or may not necessarily reflect the views of the United States Agency for International Development or the United States Government.

² The PRA project is part of the Alternative Development Program (ADP) which has as its objective the reduction of coca cultivation. ADP includes components for self-eradication, employment creation and economic growth, with PRA concentrated in activities designed to promote economic growth.

investment was leveraged. The main features of the three concessions are summarized in the map that follows.

The roads are among the longest private concessions negotiated in Latin America, and the first under the *Initiative to Promote Integration in South America through Infrastructure* (IIRSA); the concession to permit private operation of a part of the Port of Callao has been an unrealized objective of different donors, including the Inter-American Development Bank (IDB), for many years if not decades. All three concessions are socially, politically and economically complex transactions. In economic terms, the concession of the South Container Terminal at the Port of Callao is likely to have the greatest economic benefits.



The Port of Callao is presently government owned and operated, and the only major port in the Pacific coast of South America without gantry cranes, so that containers have to be unloaded using the ship's own cranes. As a result, the cost of unloading containers in Callao is \$500/TEU, compared to \$160/TEU at the Port of Valparaiso in Chile, and \$100/TEU expected when the concession in Peru is in operation.³

After a highly competitive process, the concession for operating the Port of Callao was won by Dubai Ports International (DP) (70 % of the equity) in partnership with a Peruvian company. The concessionaire agreed to invest \$256 million in the initial phase and \$217 in the second phase within the area of the concession, and also agreed to invest \$144 million in works that would benefit the entire port, including the remaining

³ Twenty-foot equivalent container.

government-owned and operated cargo port as well as the fisheries port. Initial volume at the Southern Container Terminal is expected to begin at 830,000 TEUs/year, increasing to 1.35 million TEUs in about six years. Therefore, annual savings to exporters and importers would start at over \$330 million per year and reach \$540 million when the project is fully developed. In addition to comprehensive support for the technical and financial structuring of the concession, USAID support was notable for the efforts that were made to involve the main stakeholders. For example, the PROINVERSION officer who led the government team told the author that in addition to numerous workshops, press events, and distribution of printed material, over 2,000 meetings took place and that eventually a win-win solution was found.

SOME HYPOTHESES OF WHY USAID SUCCEEDED AND OTHER DONORS FAILED

Below are some hypotheses on why USAID succeeded:

1. USAID/Peru management identified that the two main roads linking the Amazon basin and the Sierra with the coast and the port were significant constraints to competitiveness, and took the decision to support activities to encourage private sector investment to reduce or to eliminate those constraints.
2. USAID staff in country have both strong technical skills and in-depth knowledge of the operating environment (social and political) which enabled them to supervise project the consultants in a more thorough manner than most of the MDBs.
3. MDB support for concessions is generally tied to a specific transaction. USAID engaged Chemonics through a performance-based contract to develop between three and six concessions, without identifying the specific transaction. Therefore, the consultants were able to provide support according to the demand of the GOP.
4. When MDBs, support activities to promote private participation in infrastructure, they usually do not provide funding to engage a single consulting firm, and carry out International Competitive Bidding (ICB), or domestic bidding, for each separate transaction. Therefore, consultants under MDB funding do not develop the same type of rapport with the client that can be developed under a long-term contract involving several transactions. GOP officials interviewed by the author praised this aspect of the USAID support, and all praised the consulting team and the Chief of Party (COP). Besides praising the USAID approach, they also stated that the COP was totally committed to the effort, and that the lead consultant was always ready to share information and support the institutionalization of the process.

5. A multiple transaction approach with a single firm (points 2 and 4 above) resulted in economies of scale and in reduced transactions costs.
6. MDBs provide loans, and the governments hire consultants directly using those funds (Host Country Contracts). While this can result in greater “ownership” by governments, they also can result on non-transparent procurement. Additionally, American firms are likely to prefer contracts with the USG as disputes are resolved under US law, and in US courts, and this is particularly important with technical assistance contracts, where the outputs may be more difficult to measure objectively. Therefore, it is likely that USAID gets more value per dollar spent than the MDBs.
7. MDB projects to support concessions often separate concession design from concession implementation. Usually, transaction design is by a consulting firm, while the actual transaction is carried out by an investment bank that is compensated by a fixed fee (to cover initial costs) and by a success fee, usually a percentage of the investment that results. This approach of MDBs may have the advantage of providing better incentives for performance at the concession implementation phase. An advantage of the approach used by USAID is that it could have resulted in a better integration of design and implementation which is especially important for concessions with complex socioeconomic and political variables. GOP officials stated that this was particularly important, as it allowed for a process where marketing the concessions informed the concession design process.
8. The transaction design followed models used successfully in Chile, which were adapted by Chemonics to the specific conditions of Peru. Given that Chile has been the leader in successful concessions in Latin America, it would seem that Chemonics chose a good model. USAID should study the conditions of this contract to determine how applicable they are to other countries with different levels of development and different institutional frameworks. Additionally, Peru’s relative fiscal strength, favorable investment climate and strong political commitment at the highest level, including President Toledo, were positive factors.
9. The methodologies and approaches developed by Chemonics are being used by the PROINVERSION in the design of other transactions. For example, documents prepared for the Amazon North road concessions, such as the concession contracts and bidding documents, were used as templates for the more than 2,000 Km. *Interoceanica Sur* road concession which also required government contributions/subsidies and guarantees. Additionally, the transaction design and concession contract for the Amazon Central is also being used by PROINVERSION as a template for other transactions with the same characteristics (i.e. “self-sustainable” and entirely privately financed type concessions) such as the *Red Vial #4*.

FUTURE ACTIVITIES

We consider USAID support for transport concession in Peru to be a “best practice”. One of the main roles of the Economic Growth, Agriculture and Trade Bureau (EGAT) is to promote learning from successful and unsuccessful programs. We plan to develop four case studies from the Peru experience as described below.

1. Overall approach to the problem: use of single firm, flexibility and results-based contract.
2. Northern road: example of concession with significant requirement for Government guarantees and MDB credit enhancements (both the Inter-American Development Bank and the Andean Finance Corporation provided credit enhancements).
3. Central road: pure private finance, without any government or MDB support.
4. The Southern Container Terminal at Callao: a concession that involved significant dialogue with stakeholders.

These case studies will be used to help USAID staff design similar activities, and will be used as teaching materials in an infrastructure course planned for October 2007. The course will include cases of USAID support for transport, power, telecommunications and power sector reforms. In all these sectors, USAID has been highly effective in promoting reform, and has been able to leverage resources significantly.