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Chile’s conservative pipeline

Chase Collum

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All across Latin America, infrastructure development is in vogue. Massive development pipelines are being touted by governments in Mexico, Colombia, and even Argentina, which is once again opening up to investors.

Chile, on the other hand, is taking a more conservative stance. This is a frustration to international banks who see Chile as an established infrastructure market, free from corruption scandals like those uncovered by the Lava Jato investigation in Brazil.

In a Q&A session following a panel focused on new financing models for projects at IJGlobal's Chile Energy & Infrastructure Finance Forum, an infrastructure banker put a representative of the Minister of Public Works (MOP) concessions team on the spot when asking why Chile’s list of projects up for tender is so limited in comparison to its neighbors’. It is a question worth exploring in some depth.

In the bag

At the opening of the Chile forum, Javier Velázquez, the MOP’s head of project development, tenders and concessions coordination, revealed a roughly $3.5 billion ‘cartera’ of infrastructure projects that are scheduled to be tendered in the next four quarters. The pipeline includes seven road projects, two airports and three water works.

Although there are upcoming projects, many in the room were left disappointed, having hoped to hear of high-speed rail and other types of development gaining traction in other markets in the region.

In the energy sector, Chile has established itself as a leader of the renewables transition for Latin America. Minister of Energy Andrés Rebolledo Smitmans said there are a string of transmission projects on the way, including an interconnection between the northern and southern power grids expected by the end of 2017, and a second wind tender for the Taltal region is set to commence in June.

No bluffing

Despite the limited quantity and scope of infrastructure projects up for PPP tender, Chile has a reputation for successfully completing projects it brings to market. An analysis of *IJGlobal* data in January showed that Chile led the region in terms of value of primary financial closes ($5.9 billion) in 2016 despite Colombia’s closure of a slightly larger volume of projects.

The analysis also shows that Chile has kept a relatively steady volume and value of projects moving in recent years, averaging roughly $3.6 billion in closed project financings over the past four years. An average of 12 projects have completed financings each year—a number that puts the current outlook right in the pocket of what should be expected to keep up with business as usual.

This underlines a strategy that is based around “no bluffing”, as one member of the MOP concessions team told *IJGlobal* in a closed meeting following the forum.

The officials in the conversation said that in talks with their counterparts across the region, they’ve found them to be less than 100% certain that all of their aspirations will be brought to fruition. Chile, they said, is focused rather on only putting up for bid what it believes can be brought into commercial operation by its MOP team. Unlike certain other government PPP agencies, MOP stays actively involved in the projects it tenders throughout their lifespan.

Comparing tequila to pisco

Chile's activity can not be compared like-for-like other infrastructure programmes across Latin America. While some PPP markets are quite nascent, Chile’s is maturing. Mexico’s power market was only recently liberalised, and Colombia is in the early years of its own major transportation concessions programme. Meanwhile, the now 20-year-old MOP is contemplating “re-competition” of existing toll roads that are nearing the end of their original contract terms.

What’s more, there are only a handful of localities in Chile that have the credit capacity to undertake major infrastructure projects through the PPP model. And given the natural geography of the country there is less need for development of complex road systems that are at the heart of programmes in countries like Chile, where there are several “second cities” that strong transportation links to boost productivity.

Another point on which the Chilean government prides itself is that it sees all of the projects in the pipeline as attractive. As one official put it, “other countries have 500 projects, but they’re $2 million each.”

The ‘five-year plan’

Even considering all of the above, the visibility on projects in Chile is severely limited, due in part to the inability to separate infrastructure development plans from the four-year political cycle that results in the entire government being reshuffled every time a new leader takes office.

That is in part why Chile is not attempting to sell the idea of a longer-term pipeline of projects at this time. The current administration is primarily concerned with ensuring there is a workable amount of projects lined up in anticipation for the upcoming elections to get the next administration on its feet.

That isn’t to say that there isn’t a longer-term plan in place, but the MOP said it isn’t willing to divulge anything more than it has at this time because there is less certainty surrounding what will be prioritised by the yet-to-be-chosen incoming administration.

Chile’s legislature is mulling over a package that would help to break this cycle and allow more comprehensive outlook through the creation of a potential infrastructure fund that would aim to create a steady, five-year pipeline. The fund as it is now envisioned would operate as an independent state-owned entity and would be additive, rather than competitive with the construction companies, banks and other sources of financing in the market. In essence, it would ostensibly operate along the lines of an infrastructure bank in certain respects.

MOP has said that the plan is for the fund to operate not as a subsidy or as a traditional development bank, since the government already has subsidy options in the form of its regional development funds for struggling projects, but as a provider of warranties and other financial instruments.