



Joint infrastructure financing efforts

Within the framework of the discussion on infrastructure financing, the importance and urgency of this issue at the national and global levels, especially in developing countries, is highlighted.

From a regional perspective, four main challenges or objectives are identified when working on long-term financing and infrastructure with development banks, as well as in the financial and capital market areas. The first objective is to promote greater impact and achievement of the sustainable development goals through coordinated actions. The second one focuses on the transition to a low-carbon economy, identified as a global environmental need and an opportunity for the LAC region, especially with the potential for investments related to clean energy, such as green hydrogen. The third challenge is the mobilization of private resources, since public resources are insufficient due to fiscal constraints. Many times, public budgets are barely enough to cover the depreciation of the capital required for these investments. It is therefore necessary to mobilize

other private resources. Finally, and related to the previous point, there is the need for long-term financing, which requires optimizing the relationship between the public and private sectors through innovative financial instruments.

Noteworthy experiences can be found with regard to infrastructure financing in the cases of Banco del Nordeste (BNB), drawing on both its own resources and those of the Fondo Constitucional de Financiamiento del Nordeste (FNE) and by establishing strategic alliances with multilateral organizations such as the IDB, the New Development Bank (NDB)¹ and the World Bank to mobilize resources and implement important projects in the northeast region of Brazil. However, the available resources are still insufficient to meet the need for an annual investment of between 40 and 48 billion reais (about US\$7.64-9.17 billion).



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BNB takes a holistic approach to this issue, viewing it as a complete cycle. On the one hand, it focuses on providing technical assistance to improve the structuring of financial instruments and leverage private resources, in collaboration with public banks and/or the Ministry of Finance. On the other hand, it offers financial assistance through lines of financing, also in cooperation with these same actors. In terms of financial assistance, BNB focuses on providing long-term financing solutions for complex operations that support both public and private investments. To this end, four main instruments or categories are being developed: credit lines, guarantees, participation in the capital market and the implementation of specific operations and tools in Brazil. In terms of credit lines, BNB offers specific options tailored to various sectors such as telecommunications, transportation, energy and sanitation, with features designed to meet the particular needs of each sector. It

also prioritizes the development of financing lines focused on climate mitigation. Moreover, there is the provision of guarantees, which are used in the infrastructure field to cover three specific areas: backing public bidder risks in Public-Private Partnership (PPP) projects, providing support for the structuring of related guarantee funds, and ensuring infrastructure-related bond issuances.

In Brazil, the BNDES also is increasingly involved in sharing project risks through the Project Finance and Limited Resource² modalities. These key financial approaches are used by BNDES in its infrastructure development work, allowing projects to be largely self-sustaining, thus promoting long-term financial sustainability. In addition, BNDES adopts a countercyclical strategy to face market challenges. In times of market closure, BNDES increases its willingness to disburse funds, thus ensuring that projects continue even in adverse economic environments. This flexibility is crucial to maintain the momentum of ongoing infrastructure projects and mitigate the impact of market fluctuations. The bank has stood out for its innovative approach to providing financial solutions. This includes expanding its participation in the capital market, providing additional guarantees, and strengthening its socio-environmental analysis of each project, especially the larger ones. The bank works in collaboration with companies to propose solutions that mitigate or solve problems related to climate change, transportation logistics, and electric mobility, among others. This approach reflects BNDES' commitment to sustainability and social responsibility in all its operations.

In the infrastructure sector, regional organizations, such as the IDB, are implementing several financing schemes. In some countries, the institution is focused on financing projects in this sector. The initiative actively promotes the direct use of these funds to support a greater number of internet providers and technologies associated with telecommunications. In addition, it is involved in structuring investment funds and trusts to increase available resources. Simultaneously, the IDB is developing proposals for thematic securities and carrying out an investment attraction strategy, which often involves the issuance of securities. This process includes support in the structuring and issuance of these securities, both in partnership with private banks and donors, with the objective of establishing mechanisms that reduce the issuance cost.

In addition, the Eco-Invest program works on the structuring of financing schemes that include several components, such as Blended Finance, aimed at providing support to investors interested in issuing abroad; the Long-Term FX Facility, which consists of a contingent credit line to mitigate financial risks of companies with foreign currency debt; and the reduction of the cost of exchange rate hedge, aimed at attracting foreign investments through options and swaps to improve the liquidity and price of these products. In terms of technical assistance linked to this type of financing, the IDB provides support in mapping investment, development and project portfolio priorities, as well as in improving the institutional capacity of development banks. It also provides advice on taxonomy and financial regulation issues.

FONPLATA - Development Bank, which manages some US\$2.4 billion, has experienced significant growth in recent years, especially in infrastructure, which represents close to 80% of its portfolio. In addition, it has promoted socio-environmental and productive sectors, integrating environmental components to ensure the social and environmental sustainability of the projects. The bank finances through special lines with differentiated rates to meet its main objective of boosting infrastructure, especially in smaller countries. These lines include the green line for climate events and the post-pandemic economic recovery line. These initiatives encourage the incorporation of sustainability and gender equity aspects in infrastructure projects. In terms of funding strategy, the bank has sought additional alternatives as it has grown. In addition to contributions from member countries, it has established

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strategic alliances with banks such as CAF, AFD and KfW to meet the growing demand for resources; and it has ventured into the capital market -in Switzerland and Japan- and is evaluating opportunities in new markets with its medium-term note program. The challenges the institution faces and the strategy to address the growing demand are diverse, and it has traditionally faced them with capital contributions from its partners. However, FONPLATA prioritizes focusing on alliances given the importance of working in coordination with all the banks in a context of debt and fiscal restrictions in the countries. Therefore, the institution considers it crucial to generate venues for dialogue between the multilateral banks and the countries to ensure a more efficient use of resources.

- 1 Multinational bank established by the BRICS countries (Brazil, Russia, India, China and South Africa) to finance infrastructure and sustainable development projects in member countries and emerging economies.
- 2 Limited Recourse implies that lenders have limited recourse to the project assets in the event of default, which reduces their risk.

