2015

From lending in the Andes to thriving in Latin America: CAF's continuity, growth and long-term financing in the region

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Submitted to the Department of Global Governance

in partial fulfillment of the requirements for

Doctor of Philosophy in Global Governance

Wilfrid Laurier University

Author's Declaration

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

Abstract

What explains the Development Bank of Latin America's (CAF, in Spanish) continuity and expansion since the 1990s? This thesis explores how an initially small Andean development bank crafted a successful strategy to survive in a troubled region and eventually thrive as an important lending source. This thesis argues that CAF's expansion can be attributed to four main factors: 1) leadership, 2) institutional design, 3) member governments' preferences and 4) Brazil's push for regional cooperation beyond trade.

Theoretically, this thesis draws upon two sets of interrelated academic debates to explain CAF's growth: 1) International Political Economy (IPE) and International Organization (IO) theories discussing the main motivations for the design, culture, and behaviour of international institutions, and 2) IPE and International Relations (IR) literature on national interests, regional cooperation and development governance in South America.

This thesis makes an empirical contribution to existing literature by providing the first detailed analysis of the history of CAF, while seeking to explain the reasons behind its expansion within a region in which defaults on external debt obligations have not been uncommon. Theoretically, this thesis invites scholars to reengage with the study of leadership in IOs. The study of CAF highlights the importance of successful agency under strong leadership in the survival and growth of RFIs. This thesis accounts for how and when CAF has employed its granted discretion and taken advantage of its institutional features to expand its mission and act in ways that were not originally outlined by its principals. It also examines how CAF has successfully balanced in its own terms the distinct demands of two types of stakeholders (member countries and credit rating agencies), while partaking in regional discussions and agendas related to infrastructure development. Moreover, this thesis shows that the rise of certain states as regional leaders can also influence an IO's strategy in trying to understand and engage more often with a state that is leading the agenda on regional cooperation.

Acknowledgements

I began my PhD studies as a full-time international student and living in Waterloo. I've concluded this thesis as a part-time student, a permanent resident of Canada and currently living in Toronto. It has been five years of constant learning about CAF, academia and myself. It has been five years of many people showing me their kindness, support and encouragement throughout the ups and downs of this project.

First and foremost I would like to thank my supervisors, Eric Helleiner and Kathryn Hochstetler. Working under your supervision during these years has been an invaluable experience, not only academically, but also from a personal standpoint. You have provided me with incredible guidance and support throughout this project. You were there for me during difficult times both at the intellectual and personal levels. You are simply amazing and I will always treasure the experience of being able to talk to you openly about academic and non-academic matters. Mil gracias. A further thank you to Will Coleman. You have been supporting my ideas since my days at McMaster University. I still remember one of your early emails about applying for the Ashbough scholarship, which ultimately made possible my attendance to the M.A. program. Thank you for continuing this journey with me at the Balsillie School of International Affairs (BSIA).

I would also like to thank the faculty and administration members of Wilfrid Laurier University (WLU) and the University of Waterloo (UW) for your enduring support (especially while studying as an international student), particularly Randy Wigle, Andrew Thompson and Kelly Brown. You always made the time to provide detailed answers to all my questions.

Thank you to the staff at CAF's Centro de Información y Documentación, particularly Carolina and Dalia, for facilitating my archival research while conducting fieldwork in Caracas. Thank you to all my interviewees in Washington, D.C., Caracas and Quito for generously granting me their time to discuss the political economy of CAF.

Thank you to my friends at the BSIA. You have been a great source of inspiration in so many different ways and I am grateful that you have allowed me to learn so much from you during our academic discussions and potlucks. Thank you Anton Malkin, Adam and Nayantara Malloy, Rhys Machold, Sarah Martin, Maryam Javan Shahraki and Dan Herman. Thank you for being my family during my time at Waterloo. In addition, I would like to thank Antulio Rosales who provided invaluable advice and support during my fieldwork.

Thank you to the Research Center of Excellence (CoE) at the Royal Bank of Canada. My manager and colleagues have been very supportive of my academic work and of my role at the bank as a research manager focusing on digital strategies. I am incredibly grateful to be part of such a diverse team and to conduct qualitative research on so many interesting topics.

I would like to thank my parents, Maria Elena Vega and Francisco Rubio, my siblings, Alexandra and Francisco Xavier, and my grandparents for their unconditional love and empathy. Papis, I can't even begin to imagine how hard it has been for you to have three kids who immigrated to Canada. The immigration process has been tough at times but you have always being supportive and have let us pursue our dreams (Papis, no puedo ni siquiera empezar a imaginarme lo difícil que es para ustedes tener tres hijos que han emigrado a Canadá. El proceso de emigración ha sido difícil muchas veces, pero ustedes siempre nos han apoyado a seguir nuestros sueños). My family has taught me the true meaning of diversity of thought, they have helped navigate the concept of emotional intelligence and they are a constant inspiration to me (Mi familia me ha enseñado el verdadero significado de la diversidad de pensamiento, me han ayudado a navegar el concepto de la inteligencia emocional y son una fuente de inspiración constante).

Thank you to my friends, Lorena Fernández, Isabel Boceta and Luana Koucher. It has been fifteen years since we met for the first time and we have shared so many happy memories and conversations despite many oceans in between. You have also been my biggest supporters in the completion of this dissertation.

Last, but certainly not least, I would like to thank my husband, Sepandar. You are the reason why I wake up happy every morning. We are an incredible team and the way you deal with both happy and challenging times is simply remarkable. Dr. Sepehr, it has been a pleasure and a privilege to share with you this PhD journey.

This thesis is dedicated to Koroush, Parnia and Maya for providing me with incredible powerful (Shirazi/Tehrani) roots to establish my family tree in Toronto.

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List of Abbreviations

AIC	IIRSA’s Agenda Based on Consensus
BICECA	Building Informed Civic Engagement for Conservation in the Andes-Amazon
BNDES	Brazilian Development Bank
BOS	Bank of the South
CAF	Development Bank of Latin America (previously known as the Andean Development Corporation)
CAN	Andean Community of Nations
CCT	IIRSA’s Technical Coordination Committee
CRAs	Credit Rating Agencies
CRPAO	Certificate of Recognition of Annual Payments Per Work
ECLAC	Economic Commission for Latin America and the Caribbean
EID	Integration and Development Axis
FONPLATA	Plata Basin Financial Development Fund
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GTEs	IIRSA’s Executive Technical Groups
GTIF	IIRSA’s Working Group on Financial Integration
IADB	Inter-American Development Bank
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
INTAL	IADB’s Institute for the Integration of Latin America and the Caribbean
ISI	Import Substitution Industrialization
MAP	Montevideo Action Plan

MDBs	Multilateral Development Banks
NAFTA	North American Free Trade Agreement
NDB	New Development Bank (formerly referred to as the BRICS Development Bank)
OAS	Organization of American States
RFIs	Regional Financial Institutions
SAFICO	Andean Trade Financing System
SAP	South American Project Network
SEA	Strategic Environmental Assessment
SELA	Latin American Economic System
SIGE	IIRSA's Strategic Management Information System
SPIDs	Sectoral Programs' Schemes
SUCRE	Regional Clearance Unity System
WB	World Bank

Chapter 1. A unique sub-regional bank that found a way to stand out in Latin America

1.1 Introduction

This study demonstrates how in a large world of powerful multilateral agencies, a small sub-regional development bank under strong leadership can successfully use its agency—taking advantage of its institutional design, member preferences and the regional environment— to craft a strategy in order to survive in a troubled region and eventually thrive as an important lending source. When it comes to multilateral lending in South America, most academic debates in International Political Economy (IPE), International Relations (IR) and regional studies have historically focused on the roles played by the World Bank (WB) and the Inter-American Development Bank (IADB). Nevertheless, in the last decade, countries in the region have been turning increasingly to a variety of sources beyond these multilateral agencies, including extra-regional and sub-regional arrangements for long-term development financing. In the midst of this challenging and changing lending environment, there is an institution— the Andean Development Corporation (CAF, in Spanish)—that has shown an incredible capacity throughout its existence to accommodate its vision, rules and procedures to distinct economic and political conditions within its member countries.

CAF, recently renamed the Development Bank of Latin America, was originally a small regional trade bank established in 1968 by five Andean countries. At present, the number of shareholders has grown to eighteen countries, including most Latin American countries. This thesis provides the first detailed analysis of the history of CAF, while seeking to explain the reasons behind its survival and growth within a region in which defaults on external debt obligations have not been uncommon. Compared to other regional agreements with limited participation and agendas, CAF continues to attract its members' interest and high demand for loans and related services. What explains then CAF's continuity and expansion since the 1990s?

CAF's success and proactive leadership can be captured first in terms of its current lending figures. While the institution accounted for less than 5% of multilateral financing in the region in the 1980s, today it provides around 30% of the total multilateral lending in Latin America and, most notably, has taken over the top spot in recent years in terms of approved financing for infrastructure development (Garcia, 2014; Moody's, 2013). CAF's annual commitments to Latin America are now on a par with that of the IADB and the WB. From 2007 to 2011, CAF's approvals in the region accounted for US$ 44,3 million, while the World Bank approved US$ 32,6 million, and the IADB, US$ 58, 9 million (*see* Appendix A). Moreover, CAF is still the main source of multilateral financing for the five founding member countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) (Moody's, 2013). After seven years of growth averaging 12% annually, CAF's loan portfolio totaled $16.4 billion by the end of 2012 (Moody's, 2013). By comparison, another RFI in South America, the Plata Basin Financial Development Fund—Fonplata, in Spanish—has had a much more limited lending impact that CAF, with a loan portfolio of US$ 664 million by the end of 2013 (*see* Appendix B).

But beyond loan figures, CAF makes an interesting case of study for IO and global governance scholars due to its unique features and developments and how these have shaped its survival and performance under a clear institutional mandate. CAF's is essentially a Latin American-owned institution, which at first glance could be perceived as a limiting factor for growth, considering that the existence of donor countries is a defining aspect of most regional financial institutions (RFIs) worldwide. The unique shareholder-borrower feature has been, however, an important determining factor of its institutional success and has enhanced its management's ability to promote the entity within international credit markets. CAF has received strong support from its member countries through remarkable debt service, ongoing increases in capital and non-interference with CAF's management. CAF has also ultimately survived a diversity of regional economic and political integration strategies and agendas in the last four decades, while ensuring that it continues to have a role to play in development financing in Latin America (despite the existence of well-established RFIs and the emergence of regional and bilateral financing alternatives).

1.2 Framework for explaining CAF's expansion and contributions to knowledge

Research on CAF, despite its unique owner-recipient structure and increasing importance in the region, is still limited. With the exception of Humphrey (2012, 2014) and Humphrey and Michaelowa (2010, 2013)—whose research provides detailed discussions on CAF's institutional design and operational characteristics—most available literature on CAF consists of brief discussions in some United Nations' publications focusing on Latin America's regional institutions. At the empirical level, this dissertation is the first detailed analysis of CAF that accounts for the factors that have contributed to its survival and growth and attempts to provide a comprehensive story of the institution since its creation. Through archival and secondary research, this work reveals that prevalent regional dynamics were important in consolidating a unique constitutive agreement in the 1970s that would in later decades allow the institution's management to carve a niche for the institution—infrastructure lending—while entering the international financial markets to expand its portfolio and impact in the region. This thesis also reveals that CAF is an institution that has had to reinvent itself throughout the years to accommodate members' changing preferences dependent on specific economic, regional, political and development contexts. But through these reinventions, CAF has not been a mere tool for members to achieve their national development agendas but instead, the entity—through a clear mandate defined by its Executive President, Enrique Garcia—has become a well-respected technical advisor, financier and active participant in regional discussions, independent of the political inclinations of member nations.

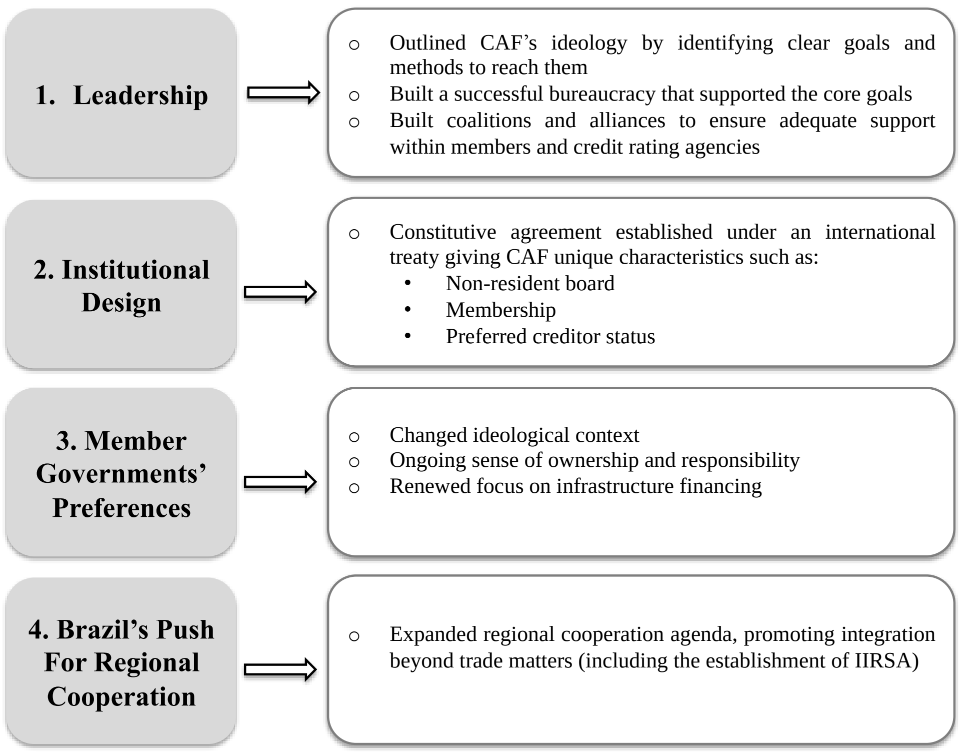
At the analytical level, this study shows how the principal-agent (P-A) literature can serve as the foundation to better account for RFI's (agents) and country members' (principals) actions and for how and when smaller banks like CAF employ their granted discretion and actually take advantage of their institutional features to expand their mission and act in ways that were not originally outlined by the principals. Recently, the work of Humphrey (2012, 2014) and Humphrey and Michaelowa (2010, 2013) has engaged with the examination of shareholding arrangements within three RFIs (CAF, the IADB and the WB) and the role of agency within these institutions. For example, CAF has a unique owner-recipient structure in which shareholders and borrowing countries are two sides of the same coin. As such, CAF can be considered a borrower-dominated regional bank. These shareholding arrangements are very distinct from other institutions. Industrialized non-borrowing countries largely continue to determine lending policies at the WB while at the IADB, there is a stronger but still secondary influence of member states that are also borrowers (Humphrey, 2012). These are valuable contributions to the literature and this study expands these authors' analysis of CAF's institutional design. At the same time, it presents a wider lens than their institutional examination. Besides CAF's unique shareholder agreements, other features embedded in its constitutional agreement (such as a non-resident board and its preferred creditor status) have been crucial for the institution to balance both members and global markets' demands, while carrying out CAF's revamped mandate outlined in the 1990s by its current Executive President.

This study also takes into account other factors that have not been discussed in depth in the available literature and that are vital for better understanding how CAF (and possibly other RFIs) operate in order to remain self-sustaining institutions. First, this work reintroduces the study of leadership as a crucial variable for better understanding how international institutions (IOs) use their autonomy. In the last two decades, most studies have treated regional IOs (the agent) as a unitary actor, even when P-A theory has been complemented with constructivist insights when discussing bureaucratic cultures. This study suggests that in order to understand how RFIs actually outline their agenda and approve budgets, we may need to look at the role of the executive president, especially when the individual has become a well-recognized personality in the region and has successfully navigated the policies and priorities of both left- and right-of-center governments.

This work also argues that to better understand RFIs' actions, we also require an examination of how member states (principals) manifest and act on their national and regional interests and how institutions foresee and/or act on those governments' plans. This is particularly relevant for a smaller bank like CAF that has survived in a tumultuous region where visions and recipes for achieving economic growth and regional integration tend to ebb and flow over time. Members' preferences—some of them constant throughout CAF's existence and others more recent due to ideational motives and economic factors—have facilitated Garcia's role and contributed to the institution's work in the region. Moreover, this dissertation shows that the rise of certain states as regional leaders can also influence an IO's strategy in trying to understand and engage more often with a state that is leading the regional agenda.

Therefore, this study contributes to significantly expanding the existing literature on CAF, while demonstrating that a detailed study of various theoretical elements is necessary when accounting for CAF's continuity and expansion. This work ultimately argues that CAF's expansion has been possible primarily due to four factors: 1) leadership, 2) institutional design, 3) member governments' preferences and 4) Brazil's push for regional cooperation beyond trade (*see* Figure 1). In order to answer the main research question of this study, the next chapters explore how the four explanatory factors have manifested in CAF's mandate and operations. Theoretically, this study draws upon two sets of interrelated academic debates to explain CAF's growth: 1) contrasting IPE and IO theories discussing the main motivations for the design, culture, and behaviour of international institutions (including insights on RFIs), and; 2) IPE and IR literature on national interests, regional cooperation and development governance in South America. The significance of leadership draws on insights from P-A theories and IO leadership literature to show how individuals can play autonomous roles. The role of institutional design draws on the IO literature on that subject. The role of member governments' preferences draws on development, regional integration (and new forms of regionalism evolving in South America) and ideational literatures to show how principals have participated and supported CAF's mission throughout the years. Finally, the role of Brazil and its push for a more comprehensive regional agenda draws on realist insights (including a discussion on regional hegemony) and literature on regional initiatives beyond trade.

Figure 1. Framework for explaining CAF's growth since the 1990s



This is a study that engages then with the role of leadership in IOs and as such, it explores the motives that prompted Enrique Garcia—CAF's Executive President since 1991—to define and pursue an institutional agenda and ideology that had three key interrelated goals: promoting infrastructure financing, accessing the international markets to expand its lending scope and impact in the region, and expanding institutional membership within Latin America. Garcia was successful in cultivating an internal culture and bureaucracy that supported his core goals for the institution. Meanwhile, Garcia used his charisma, diplomatic abilities and expertise working in RFIs to build coalitions and alliances to ensure adequate support from both credit rating agencies (CRAs) and member governments. Garcia's work was crucial in outlining and executing a mix of strategies to balance the needs of both groups. In regard to CRAs, CAF has delivered a careful expansion of membership and risk diversification, sustained increases of paid-in capital and excellent repayment records. For members, CAF has ensured speedy loan approval, low conditionality and loan availability during both economic booms and downturns.

CAF's institutional design has provided the necessary foundations for its leadership to carry out Garcia's vision for the institution. CAF was established through a very solid and formal constitutive agreement that envisioned the preferences for integration of the founding members in the late 1960s. The agreement was key in setting the stage for its later institutional growth, since it has given CAF structural foundations to respond and adjust to a variety of geopolitical and economic conditions within and beyond the region. The agreement has also facilitated management's operations in the region. For example, the fact that it has a non-resident board, as opposed to a permanent one, has permitted management to increase its autonomy in the everyday functioning of the institution. The agreement also gave the institution its preferred creditor status, which ensures that debt owed to the entity is excluded from debt restructurings carried out by official debtors. The special status has contributed to CAF's excellent record of loan repayment. Further, its unique shareholder-borrower member composition has been a crucial feature in supporting CAF's expansion; member governments have developed a sense of ownership and responsibility in the survival of the institution.

When CAF's mission statement was updated in the mid-1990s to emphasize physical interconnection and cross-border development, these areas attracted various non-Andean countries that initially joined the entity in the 1990s as associate shareholders. A changed ideological context in various member countries combined with an improved fiscal situation after the late-1990s regional crises favoured a renewed emphasis on infrastructure. Consequently, greater attention could be paid to the role that institutions like CAF can play in member governments' long-term financing agendas. This factor was relevant for countries in the Southern Cone, which were allowed to join the institution as full members in the mid-2005.

Moreover, CAF's management has shown an incredible ability to navigate the regional landscape, which has been shaped to a great extent by Brazilian interests in the last fifteen years. Brazilian foreign policy in this period created a renewed enthusiasm for regional cooperation, drawing attention away from trade and focusing instead on the mutual benefits of physical integration and framing a South American identity. CAF has been able to capture Brazilian priorities, while ensuring its participation in regional infrastructure discussions and schemes such as the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

1.3. Overview of the institution and its shareholders

CAF's main objective, as outlined in its constitutive agreement, is to promote sustainable development and regional integration through credit operations, grants and technical support. CAF offers financial structuring services to the public and private sector. Besides its capital, CAF raises funds for operations primarily in the international financial markets. CAF's day-to-day management is divided into two broad functions: client relationship management and financial management. This study explores—in order to answer the research question above—CAF's ability to balance both functions, while ensuring that the institution remains a relevant lending agent in the region. This ability has enabled CAF to act as a catalyst of funds for its members and also as an advisor for countries when trying to fulfill their development agendas' priorities—especially when it comes to infrastructure.

CAF has three different classes of shares (A, B, and C), with full-member shareholder countries having A and B shares, while associate member countries only holding C shares. The different types of shares come with different entitlements for electing directors to its Board. The five original Andean members, in addition to Argentina, Brazil, Panama, Paraguay and Uruguay are both A and B shareholders. The new full members are each allowed to appoint one director to the Board of Directors, while the founding members are allowed to appoint two directors each. Commercial banks from member countries also are able to hold series B shares. The other member countries hold series C shares which entitle them to elect two principal directors collectively (*see* Table 1).

Table 1. Types of shares

Types of shares	**Description**
Series A shares (Available for full members)	• Subscription of **Series "A" Ordinary Capital shares is available to the governments of each member country** or to public-sector institutions, semipublic or private entities with social or public objectives, as the respective government may designate. Currently, the ownership of these shares corresponds to **Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Uruguay and Venezuela**, either directly or through an institution designated by the government.
Series B (Available for full members)	• **Subscription of Series "B" shares is available to the governments or to public, semipublic or private entities of the Member Countries.** • Series "B" shares **may be subscribed by private entities** from the **Member Countries**, provided that the percentage of their equity interest by country does not exceed 49% of the total shareholders for that series.

Series C (Available for associate members)	• The subscription of **Series "C" Ordinary Capital shares is available to legal entities or natural persons outside of the sub-region**. Series "C" Ordinary Capital shares may be converted into Series "B" Ordinary Capital shares once the conditions for the member country's adhesion to the Articles of Agreement, approved by the Shareholders' Assembly, have been met by the respective **Member Country**.

Sources: Data from CAF (2014) and Standard & Poor's (2013), compiled by author.

In 2005, an amendment to the constitutive agreement was approved so that Latin American countries other than the five founding members could become Series A and B shareholders. A new phase of growth began then by allowing the admission of new Latin American and Caribbean countries as full members of CAF (*see* Table 2). Non-Latin American countries—Spain and Portugal—are not eligible to purchase A or B shares. As of 2013, only Spain was represented on the Board of Directors with 4.5% voting power.

Table 2. Full and associate country members

Full members	**Year of Incorporation to CAF**	**Year Country Became Full Member**
Peru	Founding members	1970
Venezuela		
Colombia		
Ecuador		
Bolivia		

Brazil	1995	2007
Panama	1997	2008
Paraguay	1997	2008
Argentina	2001	2007
Uruguay	2001	2007
Associate members		
Mexico	1990	
Chile	1992	
Trinidad and Tobago	1994	
Jamaica	1999	
Spain	2002	
Costa Rica	2002	
Dominican Republic	2004	
Portugal	2009	

Source: CAF - Annual reports

CAF is an institution that has been very active within infrastructure financing, a critical component of its story. The biggest share of CAF's loan portfolio goes towards funding infrastructure projects (transportation, telecommunications, electricity, gas and water) (Moody's, 2013). At the end of 2012, infrastructure accounted for 70% of the total portfolio, followed by social development (19%) and financial intermediation (10%) (Moody's, 2013). CAF headquarters are in Caracas, Venezuela, and it maintains offices in each of the other original full-member shareholder countries. In addition, it has offices in Argentina, Brazil, Panama, Paraguay, Spain, and Uruguay. The offices in Uruguay and Panama serve as regional hubs for credit analysis in the region. The Madrid office serves as a bridge between Europe and Latin America. CAF's governance is based on its constitutive agreement, which dictates that the shareholders' annual regular meeting is the ultimate forum for management and shareholders' decisions. At this meeting, CAF's Board of Directors reviews various documents and functions including the institution's financial statements, credit policies, annual expense budget, and membership of the Board of Directors, among others (Standard & Poor's, 2013; CAF, 2014a).

The Board also appoints the Executive President, CAF's Chief Executive Officer. Enrique Garcia took the office in December 1991 and began his fifth five-year term in 2012. CAF's Board of Directors, as previously mentioned, is a non-resident board, meeting only three or four times a year. According to CAF's constitutive agreement: "the Board shall meet whenever it agrees to do so, when called by its Chairman, upon the request from at least twenty five per cent (25%) of Directors, or upon the request from the Executive President" (CAF, 2012a, p.21) Consequently, the Board delegates various responsibilities, including credit approvals within specified limits, to an executive committee of the Board. Garcia chairs this committee, which comprises one director from each of the Series A countries and one director representing the collective Series C members. (Standard & Poors, 2013; CAF, 2014.)

Since the mid-2000s, a substantial political shift to the left has taken place in some countries—including Argentina, Bolivia, Brazil, Ecuador, Uruguay, and Venezuela. In some cases, these governments have criticized the major international financial institutions, while trying to restructure their relations with them and searching for alternative financing of their own. Throughout these changes, CAF has remained as a relevant and timely financing alternative for members, despite the fact that some members have increasingly had more options when it comes to financing their national agendas. The landscape of developing lending is now a maze of RFIs, national development banks from Brazil and China and emerging geopolitical institutions such as the Bank of South (BOS). The lending provided by the Brazilian Development Bank (BNDES) in South America continues to attract academic and media attention, while reaffirming Brazil's weight in the region as a financing actor. Fonplata, a small development bank in the Southern Cone, has had a much slower expansion than CAF, suggesting that CAF's rise was intentional with a clear mandate by its leadership and not a structural development in the region. Fonplata has just begun to follow CAF's footsteps by creating the position of executive president in 2013 and by obtaining the first capital increase—which was pursued by the new president—since its creation (Fonplata, 2013).

Appendix B provides an overview of existing institutions and arrangements for financing long-term development projects in South America, including recent financial and non-financial highlights. Providing this brief overview is important for this study since it shows how RFIs like CAF now coexist with other funding sources, which are often more linked to individual countries' foreign relations. Some recent academic analyses have focused on the renewed impetus behind more ambitious and more radical projects such as the Regional Clearance Unity System (Sucre, in Spanish) and the Bank of the South (BOS) (see Rosero & Erten 2010; Trucco 2012). Although these projects will continue to coexist with other financial arrangements in South America and to introduce themselves as non-market and non-hegemonic alternatives, their impact so far has been limited. The BOS continues to confront serious implementation problems—for instance, the Brazilian Congress has not ratified the institution to this day. Understanding the continuity and political economy elements of CAF may also help to highlight the reasons behind the limited success of more alternative projects.

1.4. Methodology

This study applies a process tracing research method based on qualitative analysis. Primary documents, websites, and secondary sources from academia and press releases were consulted to inform the analysis of the main internal and external factors impacting CAF's survival and growth. This study compiled and analyzed documents in English, Spanish and Portuguese. When non-English documents are cited, translations are the author's except where otherwise noted. Archival documents were important for explaining CAF's first two decades of existence and they were obtained by visiting the Library of Congress in Washington D.C. during the summer of 2012. The Documentation Center of the IADB Institute for the Integration of Latin America and the Caribbean (INTAL) was also an important source since it compiles many documents on integration and regional cooperation. Various internal documents were provided by CAF's Centro de Información y Documentación and by the Vice-Presidency of Country Programs during fieldwork in Caracas in the Fall of 2012. An exhaustive keyword search and ongoing Google alerts were also employed to further explore available documents in the public domain related to the geopolitical context in South America, especially since the creation of IIRSA, and further information regarding CAF's institutional dynamics and regional environment.

To strengthen this analysis, I conducted thirty-nine interviews with the approval of Wilfrid Laurier University's Office of Research Service granted in September 2012. Twenty-five respondents were former or current CAF staff—including lengthy interviews with its president and vice-president— and fourteen respondents were infrastructure consultants, public officials and academics. In-person interviews were conducted in Caracas, Washington, D.C. and Quito. Most interviews were in person; only four interviews were conducted via phone. Given the limited availability of primary and secondary documents surrounding the day-to-day activities of

CAF, especially in regard to its organizational culture, these interviews were crucial to outline and better understand the work environment within the institution and to explore how relationships are forged with members' public officials. The interviews were conducted in Spanish with a semi-structured format in order to establish commonalities between interviews, while granting interviewees the opportunity to further elaborate and identify new processes, events and actors that account for CAF's growth and survival. Where permission was obtained, the names and positions of the interviewees are disclosed. Where permission was not obtained, the names and/or positions of interviewees are kept confidential at interviewees' own request. When interviewees are cited in this dissertation, the Spanish-English translations were conducted by the author.

George and Bennett (2005) acknowledge the range of different forms of process tracing. These authors argue that it ranges from detailed narratives with more explicit use of theory, where "at least parts of the narrative are accompanied with explicit causal hypotheses highly specific to the case without, however, employing theoretical variables for this purpose or attempting to extrapolate the case's explanation into a generalization.' (George & Bennett, 2005, p. 210-211), to varieties of process tracing where "the investigator constructs a general explanation rather than a detailed tracing of a causal process" (Ibid, p. 211).

Consequently, process tracing can be closely related to historical explanation, which is not simply a detailed description of a sequence of events; rather, it draws on theories to explain each important step that contributes to causing the outcome (Bennett & Checkel, 2014). This dissertation uses the interpretive case study method, employing the theoretical discussion developed Chapter 2 to provide an explanation of the particular case of CAF, which according to Vennesson (2008) can lead as well to an evaluation and refinement of theories. While the goal may be theory testing, the diverse theoretical approaches presented in Chapter 2 will guide the empirical analysis. The study of CAF as a case study within RFI and IO literature provides an opportunity to contribute to broader scholarly debates: RFIs are situated at the junction of international political economy, systemic developments in globalization and development debates. The empirical analysis is presented in the form of historical explanations, supported by theoretical foundations, in order to explain CAF's survival and growth in Latin America.

Relying on interviews from a 'small-n' sample size renders inference precarious due to the bias of the respondents (King, Keohane & Verba, 1994). Through fieldwork, this dissertation attempts then to construct a historical narrative linked to IO and IPE theories from which one can better understand two aspects of the case study: a) how CAF survived and grew through tumultuous economic times in the region and b) how CAF's staff perceive their own work, Garcia's character and responsibilities, and the role of the institution in regional and national lending. This approach is justified in this case given this study's interest in shedding light on how an understudied development bank has thrived within a region in which defaults on external debt have not been uncommon and other regional initiatives established throughout the years (e.g. Fonplata) have had a limited impact. In addition, proponents of qualitative research have shown how "small n" studies that select on the dependent variable are more likely to generate novel interpretations of historical processes (George & Bennett, 2005).

1.5. Brief outline of the dissertation

CAF's expansion has been possible due to both internal and external factors. The examination of these factors sheds lights on how the combination of leadership, institutional design, member governments' preferences and CAF's ability to navigate the regional landscape and engage with the regional leader have contributed to the growth of an Andean, South American and increasingly Latin American organization.

Chapter 2 provides an overview of CAF's mission and organizational characteristics, while engaging with existing literature on the institution. It outlines scholarly explanations accounting for IOs' independence by employing principal-agent (P-A) theory and complementing it with insights from constructivist explanations. A framework—which was briefly discussed in this introduction—is then outlined and further developed in order to answer the main research question, while addressing the limitations of available literature. The framework takes into account four explanatory factors that have prevailed in CAF's operations as they relate to its institutional ability to consolidate its relationship with its members and international capital markets, and ultimately provide infrastructure financing. Therefore, this chapter reviews existing IPE, IO and regionalist literature that might be relevant to account for CAF's growth. A proactive leadership and a unique institutional design, combined with distinctive member preferences and Brazil's desire for increased regional cooperation have provided the necessary space for Garcia's vision to flourish.

Chapter 3 discusses the context that prompted CAF's creation, the establishment of key features in its constitutive agreement and operation and the most relevant changes that the entity underwent in order to survive and become a relevant lender for the Andean countries by the 1990s. In addition, it examines CAF's relationships with its member countries and fundamental institutional policies introduced and promoted by Enrique Garcia, CAF's Executive President since 1991. This chapter suggests that CAF survived the 1980s, but that it was not until the arrival of Enrique Garcia that the entity redefined its goals and somewhat isolated itself from the dilemmas and disagreements with the prevalent Andean integration goals and schemes. Garcia intended to make CAF a key source of long-term financing for the region. This strategy consisted of developing capital and human resources to have an impact in three areas: gaining access to capital markets, developing a niche in financing physical infrastructure and expanding its membership while strengthening relationships with distinct stakeholders in Latin America.

Chapter 4 showcases how CAF has been able to survive and grow its lending portfolio by nurturing and balancing two key relationships: the one the institution has with its shareholders and the one it has developed with the CRAs since the 1990s. CAF has continuously tried to find a balance between strengthening its financial position, making its operations more complex, keeping up good relationships with its principals and increasing resources to provide loans in key sectors such as infrastructure. CAF has employed a mix of balanced strategies to respond to members' and CRAs' needs such as: ongoing and sustained increases in its paid-in capital (to later raise more funds globally) and a cautious expansion of membership within the region (to also reduce concentration of its loans in any one country). At the same time, in order to preserve its South American (and nowadays increasingly Latin American) essence, the institution has had to forgo its capability and/or willingness to improve financial indicators such as callable capital.

Moreover, members' trust has been fundamental in this process: they are committed to maintain and further strengthen CAF's institutional credibility and have opted to keep their obligations to CAF in full despite numerous crises by respecting its preferred creditor status. In addition, CAF's institutional design, leadership and self-promotion as an institution with technical knowledge and expertise on infrastructure lending —as opposed to an entity that results from the mere combination of various nations in the region—have been key elements in this narrative. Additional factors that have contributed to ensure that country members continue to participate and invest in CAF are also examined in this chapter including: the speed of loan approval, the ways CAF has tried to stay away from conditionalities linked to loan approvals and the entity's development of specialized knowledge according to national government's priorities. CAF has played a recognized catalytic role in the region, financing projects in good and bad times. This role has attracted the attention of new institutions like the New Development Bank (NDB),[1] whose officials have recently studied CAF's design as a potential operational model. Features that may be worth studying for newer development banks include CAF's relationship with its members, its lean organizational structure, its catalytic role and current hiring practices.

Chapter 5 analyzes how infrastructure, as a key component for development, has been understood and promoted by CAF. The institution's focus on promoting infrastructure projects for regional physical integration constitutes a strategic component of its corporate mission, while making CAF more attractive and relevant for member countries. Promoting infrastructure financing has been one of the key goals in Garcia's strategy and has carried more weight in terms of impact than getting involved in other areas of regional cooperation such as trade and finance. In South America, infrastructure reentered the agenda of regional cooperation in the 2000s. CAF's work in this area since Garcia's arrival provided the basis to respond and update a mandate that now increasingly needed to take into account regional developments. In recent years, CAF's senior management have focused on highlighting the role of MDBs in promoting regional cooperation in infrastructure, following CAF's mandate to enhance its portfolio in this area. They also had to ensure that despite emerging alternatives for financing and cooperation in the region, CAF would find a way either to participate in these alternatives or to frame itself as an entity that could co-exist with newer institutions. Further, CAF's work on infrastructure has been facilitated due to the combination of several issues including Brazil's involvement and

[1] The NDB formerly referred to as the BRICS Development Bank, is a multilateral development bank operated by the BRICS states (Brazil, Russia, India, China and South Africa).

leadership in promoting cooperation on infrastructure; an improved fiscal scenario within countries in South America, especially before the 2008 global crisis and member governments embracing ideational motives in regard to how infrastructure could be the right channel to prompt regional integration. This chapter also examines CAF's parallel agenda to infrastructure, which consists of its activities for supporting the creation of knowledge in this area.

Chapter 6 continues to further explore infrastructure matters but under a regional scheme, the IIRSA initiative. IIRSA is a platform where multilateral agencies and South American nations, following Brazil's leadership, have come together to define high priority infrastructure projects with regional scope. This chapter focuses on the IIRSA initiative as the platform by which member governments' (principals') actions can be observed within a changing regional environment, in which Brazil led initial cooperation efforts while other members consolidated their own views on infrastructure. This chapter also provides an examination of what has IIRSA meant for participants and critics. Through the examination of IIRSA, Chapter 6 demonstrates CAF's ability to navigate and respond to its principals' (both converging and diverging) interests in regard to their national and regional agendas for development. Further, it also shows how IIRSA got away from CAF in the later years, since the initiative encountered key challenges in mainly two areas: the lack of strong environmental safeguards, and some countries' desire to limit RFI participation within the regional entities such as the Union of South American Nations (Unasur). Ultimately, CAF has, however, benefited from participating in IIRSA. First, the initiative has served to strengthen its relationship with several countries and has enhanced its understanding of members' national priorities in regard to infrastructure. Second, it has kept the institution informed of ongoing geopolitical discussions in the region, while giving it a forum to broadcast its programs, lending opportunities and how the institution can support its members.

Chapter 7 provides a conclusion to the thesis by summarizing its main arguments and the theoretical framework and narrative employed to answer the main research questions. The chapter also revisits the contributions of the dissertation to existing literature and highlights potential future research agendas to build on these contributions. In particular, it suggests that it is time for IPE and IR to revisit the role of leadership in regional and international organizations and also to expand in innovative ways the study of principal-agent (P-A) dynamics in explaining IO performance.

Chapter 2: Explaining CAF's continuity, growth and its role in regional long-term lending dynamics

2.1 Introduction

This chapter explores theoretical underpinnings in order to provide an explanation that can account for CAF's continuity and growth in Latin America. It begins by examining how the existing literature has explained the ways IOs exist independently of states and can be autonomous actors, drafting their own strategies for survival and growth. Theoretically, two approaches have been widely used to explain how IOs function as autonomous actors: principal-agent (P-A) theory and constructivism. The first approach focuses on contracting arrangements between states (principals) and IOs (agents), while in the second approach, IOs are depicted as bureaucracies that partake in the construction of the context in which states operate, thereby shaping their preferences.

P-A theory emphasizes how IOs are created to overcome problems emerging from the management of diverse preferences among states but acquire a life on their own because they develop their own interests and— in the language of P-A theory—have discretion; a circumscribed range of activity for deciding exactly how they should carry out their mandate and pursue their interests. These interests are also often defended by strategic action. As such, IO autonomy is at least partially the result of rational, strategic calculations undertaken by agents. For constructivists employing sociological theories, states also create IOs to overcome collective action problems, but in doing so, they create cultural entities. These entities, through their internal cultures and organizational practices, develop their own sense of what their raison d'être is and how their collective action goals can be attained.

The frameworks described above provide an important basis for understanding how CAF has been able to survive and grow in the region, especially since Garcia became its executive president in the 1990s. This dissertation seeks to build on the work of existing scholarship; despite differences in emphasis and conceptualizations between P-A and sociological organization theories, both approaches treat IOs as important actors in taking their behavior and actions seriously. This dissertation builds on the same premises, looking for those instances in which both theoretical approaches may complement each other to strengthen explanations of how internal and external influences and social and material factors impact an IO's behavior. In CAF's story, member governments are the principals and the institution is the agent.

Moreover, despite the important contributions of existing literature, there are key empirical and theoretical limitations that this thesis seeks to address. This chapter expands on the analytical framework presented in Chapter 1 to address these limitations. The framework identified four fundamental factors in accounting for CAF's survival and growth: 1) leadership, 2) institutional design, 3) member governments' preferences and 4) Brazil's push for regional cooperation. Through a P-A analytical lens, this chapter discusses these four factors—from a principal, agent or principal-agent viewpoint depending on the factor—and buttresses their insights with existing IPE, IR and regionalist literature in order to highlight how a comprehensive study of CAF requires an expansion of our current understanding of principal-agent dynamics. This is needed in order to account for how and when these four factors have contributed to the strengthening of the institution. CAF has benefited from a proactive leadership and a unique institutional design, while member preferences and Brazil's desire for increased regional cooperation have provided the necessary space for Garcia's vision to flourish.

2.2. Previous literature on CAF

Research on CAF, despite its unique owner-recipient structure and increasing importance in the region, is still limited. The institution has been discussed briefly in some United Nations' publications that focus on regional cooperation. For instance, in a chapter of an Economic Commission for Latin America and the Caribbean (ECLAC) edited volume, Culpeper (2006) argues that factors explaining the comparative success of CAF likely include judicious management and the sectorial composition of the borrowing portfolio, with its heavy emphasis on public sector infrastructure. Moreover, Ocampo and Titelman (2009) suggest that CAF has succeeded in providing services to member countries in a timely way, with countercyclical effects, and on a large scale relative to other forms of multilateral financing. Further, Prada (2012) remarks that the balance of forces between competition and collaboration among RFIs in Latin America and other sources of development finance have formed a system that is decentralized and client-oriented. For Prada (2012), CAF has a comparative advantage in structuring financing for large infrastructure projects by catalyzing funds from multiple private investors and investment funds due to its closeness to global capital markets.

While advocating for the enhancement of the role of regional development banks within the multilateral landscape, some scholars have stressed CAF as an example of a solid regional bank and a "successful experience " (Griffith-Jones, Griffith-Jones & Hertova, 2008, p.6). These scholars suggest that there is a need for new or expanded regional development banks to fill gaps in the international financial architecture, since RFIs have specific and localized roles that are not always covered adequately by global institutions. Similarly, Desai and Vreeland (2011) also suggest that regional governance mechanisms are often better placed to coordinate economic actions given the greater stakes that nations may have. Without going into details of how CAF has been able to increase its operations throughout the years, Griffith-Jones et al. (2008) discuss briefly some institutional features:

> [CAF] is unique in being almost exclusively owned by developing countries. A noteworthy feature is also the exponential growth of its loans since 2000 and the great average speed at which their loans are approved, with an average period of around 3–4 months. These, and other positive features of the CAF provide very good lessons for potential new development banks (p.vii).

Moreover, in an OECD Working Paper, Santiso and Whitehead (2006) explore how some Latin American IOs are locally grounded and illustrate the interaction between technocratic and political rationality in the region. They argue that CAF is a cognitive institution, "which has also developed over the past decades an important locally-grounded capacity" (Santiso & Whitehead, 2006, p.25). These scholars emphasize the high level of education of the approximately 300 staff members and suggest that CAF can substantially contribute to the debates, agenda setting and spread of policy-making opinions between and within the countries on issues as different as fiscal sustainability, pension reforms and growth strategies in Latin America.

Santiso and Whitehead (2006), Griffith-Jones et al. (2008), Ocampo and Titelman (2009), and Prada (2012) briefly discuss some elements that have contributed to CAF's survival and growth, such as the strong sense of ownership that states attach to these institutions and the catalytic role that CAF has played throughout the years. Culpeper (2006) especially draws attention to CAF staff management's abilities, while Griffith-Jones et al. (2008) suggests that the speed of loan approval remains an attractive feature. As such, all of these authors' contributions are brief but valuable and their arguments regarding CAF's success will be further explored in this study. However, there are important limitations in the available literature. These authors' contributions are for the most empirical and need to be linked to theoretical underpinnings in order to provide a more complete explanation of how CAF has acted in order to survive in a tumultuous region. These authors provide an account of CAF's story by providing figures such as loan approvals through the years and the increase of staff numbers. Nevertheless, these authors' examinations do not situate key institutional developments and advancements within the broader context of the ongoing regional landscape and theoretical perspectives on IO, IPE and regional dynamics. This study addresses this gap by providing a more complete theoretical and empirical account of the institution.

Only recently, scholars at the University of Zurich have dedicated considerable effort to conduct a comparative analysis of the three largest RFIs operating in Latin America: the WB, IADB and CAF (Humphrey, 2012; Humphrey & Michaelowa, 2013; Humphrey, 2014). These scholars have examined how the categorization of RFIs according to the balance of power among shareholders helps explain why countries might prefer one or another RFI. Humphrey and Michaelowa (2013), using statistical analysis and qualitative research, show that the balance of power amongst shareholders in RFIs shapes the terms of the loans (such as the financial costs, bureaucratic procedures and safeguard requirements). Another important contribution of these authors is the way they highlight how RFIs like CAF are affected by the evolving demand for their loans—therefore emphasizing the financial character of multilateral banks, which constitutes a key element for understanding their institutional scope and actions.

Humphrey (2012, 2014) and Humphrey and Michaelowa (2014) successfully demonstrate how CAF's institutional characteristics have shaped the character of the institution and contributed to expand its staff's agency, while giving member countries a sense of responsibility to preserve the entity since it has helped them with financing during tumultuous times. For example, Humphrey (2012) shows how in CAF, the shareholding dominance of borrowing countries—which results in the alignment of principals' goals for the bank with the agent having considerably less incentive to pursue interests that do not coincide with the principals' goals—has resulted in a more streamlined administration (p.167). CAF's management is then less bureaucratic than other RFIs and given much greater room to manouvre by the shareholders.

Humphrey (2012) and Humphrey and Michaelowa (2013) also demonstrate how RFIs are to a large degree self-financing and do not rely to a great extent on fiscal contributions from shareholders. At the same time, this has meant that institutions like CAF also must follow closely the developments in global capital markets and the criteria used by credit rating agencies (CRAs) when shaping their operational and financial policies (Humphrey, 2012). This study expands these authors' analysis of CAF's institutional design, but at the same time presents a different lens to their institutional examination. This work examines how CAF's institutional design has provided solid foundations to balance both members and CRAs' requirements and needs and how this design has contributed in carrying out Garcia's vision of making infrastructure CAF's primary "niche." This study also takes into account other factors that have not been discussed in depth in the available literature and that are vital for better understanding how CAF operates. These factors are CAF's leadership and the impact of both Brazilian foreign policy and CAF member governments' preferences in regional cooperation both at the ideational and material level.

2.3 Understanding IO's survival and growth through principal-agent theory

The ontological position of this dissertation is that IOs exist independently of states. Institutions like CAF have dynamics on their own that make them matter within international institutions, regional dynamics and long-term financing for development. P-A theory provides several theoretical underpinnings to understand how and when IOs act autonomously. P-A theory does so by establishing how and under what conditions states (principals) exercise control over IOs (agents). Through P-A theory, scholars have identified very similar mechanisms as explanations for autonomous behaviour of IOs as have been found to be at play in domestic politics. These mechanisms can be summarized as: preference heterogeneity among principals, uncertainty about the effectiveness of a policy, the costs of information emerging from controlling agents, and the interests of the agent (Hawkins, Lake, Nielson, & Tierney, 2006; Koremenos, Lipson, & Snidal, 2001). These factors help to explain why states grant discretion to IOs. For Hawkins et al. (2006), discretion specifies "the principal's goals but not the specific actions the agent must take to accomplish those objectives." (p.8). For example, with regard to preference heterogeneity amongst principals and uncertainty about the effectiveness of a policy, states may benefit from delegating decision-making power to an IO when their preferences over policy goals are shared but they disagree on relevant details and outcomes involving cooperation (Hawkins et al., 2006). Moreover, P-A theory suggests that controlling the agents is a resource intensive activity and can be expected to be conducted imperfectly; states will rarely use tools to impose intensive control on agents, because tight control has considerable costs and can reduce the gains from granting agents discretion (Hawkins et al, 2006).

P-A literature suggests various ways agents use the autonomy granted: some stick to the mandate (work-to-rule), others use discretion given by design (gap-filling) or 'exploit' autonomy (exploitation); and still others build buffer zones in case principals might react negatively in the near future (buffering) (Elsig, 2011). Therefore, depending on how the P-A issues are managed, some IOs become tightly controlled by their principals, while others have considerable space for discretion, and may act in ways that run counter to the preferences of the states that created them. Consequently, principals can and often do incur agency losses defined as “costs when agents engage in undesired independent action or when they [principals] expend resources to contract with or monitor and control those agents” (Hawkins et al 2006, p.7). Independent action by agents occurs through agency slack, the difficulty of monitoring and control by multiple principals, and the space created by incomplete contracts (Hawkins et al. 2006; Nielson and Tierney, 2003; Vaubel, 2006). Agency slack manifests in the form of shirking and slippage. Agency shirking refers to a conflict situation between the interests of the principals and those of the agents (McCubbins & Kiewiet, 1991). For instance, the agent’s interests might not be aligned with those of the principals if an agreement matters for the agent more than its specific content. In contrast, agency slippage takes place when the structure of delegation in itself stimulates the agent to adopt a different position from the principals (McCubbins & Kiewiet, 1991).

Moreover, IOs have three different ways in which they can influence the relationship with their principals. First, they can actively engage in the negotiation of delegation (and subsequently in the interpretation and reinterpretations) of agreements. Early in a delegation relationship, agents are likely to mirror principals’ interpretation of the rules (Hawkins & Jacoby, 2006). However, once substantial delegation occurs, “agents are less likely to demonstrate their deference for the benefit of less important principals that have not yet joined. As a result, longstanding agents are more likely—depending on the agent preferences—to openly reinterpret their mandate and other rules in way that are at odds with principal preferences “ (Hawkins & Jacoby, 2006, p.206-207). Second, IOs can attempt to increase their autonomy by protecting their core tasks from interference by their principals (Hawkins & Jacoby, 2006). Because control mechanisms of principals are imperfect, IOs can adopt strategies which make it difficult for states to control what they are actually doing. Third, IOs can facilitate the access of non-principals to decision-making processes, which Hawking and Jacoby (2006: 209) refer to as agents increasing their permeability: “increasing permeability is likely to influence agent preferences as non-principals use incentive and persuasion to push agents in their preferred direction.” When the preferences of both the IO and other non-principals align, it becomes harder for principal to monitor the work of IOs.

Taken together, the mechanisms identified by P-A theory provide several explanations to account for why IOs can be understood as being autonomous actors. The principal-agent characterization helps in investigating decision-making processes taking place within IOs by providing what we would like to call the baseline: IOs and member states are caught up in a structural relationship of mutual dependency (Reinalda & Verbeek, 2004). As such, P-A theory provides a plausible, yet not complete explanation for why, how and when IOs use their autonomy. The next section describes how constructivism can complement P-A explanations.

2.3.1 Complementing P-A theory with constructivist insights

Constructivist accounts of preferences help to explain an international organization’s preferred policy and thus its behaviour during the decision-making process. Constructivists generally recognize in P-A theory a powerful tool for understanding the distinction between state actors and IOs, and for finding insights into why IOs are structured as they are; nevertheless, they then move beyond the rationalist approach to examining actions and interests, by incorporating insights into bureaucratic behavior, socialization, and organizational culture, among other factors. This type of theorizing on IOs draws heavily on organizational studies, a subfield of sociology. Constructivists assume that actors are engaged in a constant process of learning and interacting and focus on explaining distinct process and structure variables that influence IO behavior beyond delegation and rationalization (Oestreich et. al, 2012). Organizational culture shapes what IOs do by influencing the understandings of those engaged in the organization about what the aim of the IO should be and how this mission should be achieved. Organizational culture includes a wide range of formal and informal practices within organizations that shape the identities of those involved in these organizations. An organization's mandate or mission might be its initial raison d'être, but organizations are able to evolve and develop an identity that can be fundamentally different from its functional origins (Barnett & Finnemore, 2004; Nielson et al., 2006; Park & Vetterlein, 2010).

Moreover, the seminal work of Barnett and Finnemore (2004) suggests that together, the autonomy, authority, and power of IOs explain why IOs, despite their lack of material resources and their dependency on states as their creators, matter in world politics. Autonomy explains why IOs are more than structures through which others act in world politics. The mutually reinforcing sources of the authority of IOs explain why states and other actors in world politics tend to accept what they do and say. The power resources of IOs explain through which mechanisms IOs affect change in the behaviour of other actors (Barnett & Finnemore, 2004). The power resources of IOs are 'soft' because in general IOs lack the material resources to coerce. What has been identified as the power of IOs might be best understood as 'constitutive' forms of power (Barnett & Duvall, 2005). IOs shape the way in which other actors perceive problems and through which they define their interests, form their preferences and choose their courses of action (Barnett & Duvall, 2005).

2.4 Limits of existing theoretical explanations

Available empirical research has shown that IOs possess organizational agency and that both P-A and sociological approaches have ways to empirically confirm theoretical assumptions. IOs and member states are caught up in a structural relationship of mutual dependency. IOs such as CAF act every day in a thousand different ways, whilst states give them specific direction on a few big goals or strategies. But by necessity, states defer to them on exactly how those goals will be reached or those strategies carried out (Oestreich, 2012). Both ideational and material interests play a role within multilateral agencies. In regard to international financial institutions, scholars' attention has focused on a few "usual suspects" when analyzing IO behaviour, including the IMF (Abdelal, 2007; Chwieroth, 2009; Gould, 2003; Lombardi & Woods, 2008; Park & Vetterlein, 2010) and the World Bank (Nielson & Tierney, 2003; Nielson, Tierney & Weaver, 2006, Park & Vetterlein, 2010, Park & Weaver, 2012; Weaver, 2010). In addition, there is an emerging body of research focused on better understanding the IADB and the Asian Development Bank (Bull & Bøas, 2003; Babb, 2009 and Kilby, 2011).

The studies mentioned above contribute to our understanding of how IOs develop and use their autonomy and some of their findings will be employed for helping answer the research question of this dissertation. However, as Haftel and Thompson (2006) remark, larger institutions are by no means representative of the universe of international financiers; in particular, they have unusually large staffs and substantial resources at their disposal. This promotes a limited picture of the sense of the degree and nature of independent behavior and potential overall strategies for survival at the disposal of other financial institutions. Despite the important contributions of existing literature then, there are important limitations that this thesis seeks to address and that can contribute to a more complete picture on IO behaviour, particularly regarding financial institutions. Some recent analyses (Humphrey, 2012, 2014; Oestreich et al 2012; Schroeder, 2014; Weller & Xi Chong; 2010) have begun to analyze IO behaviour by enhancing P-A explanations through providing more comprehensive analyses of the P-A relationship. This work builds on this emerging literature, while providing some novel insights.

First, although the autonomy of IOs has been widely recognized within P-A literature, scholars have commonly treated the "agent" exercising discretion as a unitary actor, even when the focus has been complemented by examining organizational cultures. However, as Weller and Xi Chong (2010) suggests, we need to bring the people and the processes back into the analysis of IOs; "the agent is never a single actor but consists of people acting both as principals and agents at various levels, indifferent circumstances, and with their own distinct cultures" (p.202). Weller and Xi Chong (2010) seek to understand the operations of the World Bank by examining one particular group of players – the country directors. This dissertation argues that scholars also need to pay closer attention to the role of leadership in IOs and that P-A explanations can benefit from a better understanding of executive presidents' role in exercising IO autonomy. In turn, the fields of IPE and IO could provide a more complete picture of the processes by which international financial institutions actually draft and execute their agenda and budgets, while balancing relationships with diverse stakeholders. As Oestreich (2012) claims, "the 'black box' must be opened up and down to the individual level" (p.14) to explain the contributions of some of those in key positions. The following chapters in this work will show that certain internal and external conditions permit entrepreneurial agents to influence IO change.

Second, in regard to principal-agent dynamics in IFIs and RFIs, there is room to further unpack the impact of institutional design on IO performance. At their creation, IOs are equipped with certain features; some of them may be subject to change over time, while others may frame

IO actions for years to come. In regard to RFIs, as previously mentioned, Humphrey (2012; 2014) has recently focused on the issue of shareholding arrangements and how it impacts IOs' autonomy and agency. Moreover, Humphrey (2012) demonstrates how the self-financing model embedded within RFIs, is a source of considerable source of strength and autonomy:

> MDBs—unlike many other international organizations such as the United Nations—do not depend on budgetary handouts. As country shareholders do not have the "power of the purse" in an absolute sense, MDBs have more room to maneuver on their own terms, opening the door perhaps wider to principal-agent dynamics and more constructivist-oriented bureaucratic self-motivation than in other organizations controlled more directly through annual budget allocations like, for example, the United Nations (p.212).

Consequently, in order to have a more complete analysis of an IO's continuity, empirical analyses need to take into account institutional dynamics to attract funds in the global capital markets and how institutions engage with credit rating agencies (CRAs) in order to outline and act upon their financial strategies and balancing of budget. This dissertation takes into account these important scholarly contributions, while also highlighting other aspects of institutional design that matter such as an IO's constitutional agreement and its preferred creditor status.

Third, part of understanding IO behaviour, especially of smaller institutions like CAF which have survived various regional and economic crises, lies in explaining how principals manifest and act on their national and regional interests and how an IO responds to those actions. This work examines how members' preferences—some of them which have been constant throughout CAF's existence and others which have changed due to ideational motives and economic factors—can shape the P-A relationship. Moreover, the rise of certain states as regional leaders can also influence an IO's strategy and require a more frequent engagement with that state regarding the regional agenda. This dissertation examines the actions that CAF, through its executive leadership, has needed to take in order to ensure members' support through changing national and regional preferences. The following paragraphs develop the theoretical arguments needed to account for CAF's survival and growth and outline four main explanations.

2.4.1 The role of executive leadership

Despite existing literature that engages with the effects of leadership on IOs, leadership has been so far one of the less studied features when analyzing the continuity of MDB. The empirics of IO studies frequently credit IOs' executive heads with important changes, but these studies seldom consider these individuals separate from the rest of the bureaucracy and thus make few theoretical claims about them (Schroeder, 2014). As Gardini (2010) suggests, too often IR as a discipline has privileged systemic constraints and structures, downplaying the role of individuals and their actual ability to impact systemic interactions. The study of leadership has largely faded away from explanations of how IOs have gotten autonomy from principals, but there is a role for leadership in P-A explanations.

In a pivotal study examining the growth in scope and authority of international organization, Cox (1969) identifies executive leadership as perhaps "the most critical single determinant" (p. 206). Cox, Jacobson and Curzon (1973) extend this line of enquiry as it relates to decision-making within IOs. Other authors have reiterated Cox's point, but the connection between executive heads' characteristics and their efforts to advocate a higher level of authority within their respective IOs has not been considered in depth by most available RFI literature. There are however some recent exceptions (Kille & Scully, 2003; Weller & Xi Chong, 2010; Weaver, 2010; Park & Weaver, 2012; and Schroeder, 2014) that show how P-A models can delve further down the delegation chain to examine the P-A dynamics within IOs and assert to what extent executive heads may realize their preferences. For instance, Park and Weaver (2012) examine the opportunities and constraints on the autonomy and agency of two World Bank executive heads vis-à-vis both the external environment of the IO and the internal bureaucracy, during distinct time periods. Park and Weaver's (2012) study portrays how at times effective leadership could overcome the problems imposed by issue salience: the work of the World Bank certainly seems important to states, but good leadership can still carve a niche for an institution.

Further, Schroeder (2014), by studying World Bank President Robert McNamara and United Nations Secretary-General Dag Hammarskjold, shows how these executive heads use their leadership by not just channeling state and bureaucratic demands but by actually making political choices that contributed to organizational adaptation. To make this argument, Schroeder (2014) draws on sociological institutionalist and constructivist scholarship on IO and leadership to develop an analytical framework where IO adaptation is linked to the executive heads' performance of two tasks commonly associated with executive leadership: defining a strategic plan and mobilizing support to implement that plan. Similarly, Kille and Scully (2003) suggest that a central issue for IO leaders is whether they pursue an expanded role for their organization; the level of effort put forth to shape a more important and independent organization is the key behavioral variable that these authors specify in their study of leadership within the United Nations and European Union.

Various legal factors and personality characteristics can impact how executive heads influence the mandate and actions of their organizations. Cox (1969) ultimately suggests that an executive head must have great political skill, while maintaining a personal confidential intelligence network reaching into domestic politics of key countries. Cox's views on leadership have been greatly impacted by Haas'(1964) perspective on executive leadership and these insights remain useful for understanding the impact of Garcia in interpreting CAF's mission and subsequent actions. Schroeder (2014) provides similar arguments for highlighting the importance of a leader's strategic plan and execution to explain IO adaptation. Haas (1964) distinguishes three critical variables in the executive head's strategy for maximizing opportunities for task expansion. First, the executive head must define an ideology that gives clear goals to the organization and prescribes a method for attaining these goals. Second, they must build a bureaucracy committed to this ideology and having a sense of its own independent international role. Third, they must make coalitions and alliances to ensure support from a sufficient proportion of the constituents (Haas, 1964).

Haas's approach provides key foundations to account for what took place at CAF after Garcia came to power. First, Garcia identified an ideology that outlined clear goals and methods to reach them. This thesis explains how Garcia refocused CAF's actions around the goals of increasing credit, infrastructure funding and membership. He also centered infrastructure financing as an important niche and opportunity, while ensuring the development of technical expertise about it. Second, CAF's leadership built a successful bureaucracy and internal culture that supported the core goals. Although Garcia took a central role in promoting the institution within and beyond the region, he increasingly ensured that staff that shared his vision committed themselves to advance the goals he outlined for the entity. CAF's staff, guided by Garcia, began conceiving infrastructure as a window of opportunity for the institution, an area through which CAF could transcend and become more attractive to more countries beyond the Andean nations. CAF's culture was framed in a way that its staff worked together towards the regional and international recognition of the institution. CAF's staff has developed a similar "logic of appropriateness" (March & Olsen, 1998) as their professional identities have become the lenses through which they view CAF's mission. Ultimately, Garcia has acted as a norm entrepreneur by couching change goals in ways that did not appear "counter-hegemonic," but instead he has shown and convinced staff that the change would be culturally compatible. Changing CAF thus became at least in part a matter of reengineering the organizational culture.

Third, CAF leadership built coalitions and alliances to ensure adequate support; this involved managing relations with both CRAs and member governments. CAF's management realized that, according to the strategy devised by Garcia, it needed the agencies' ratings if it wanted to expand its portfolio and presence in the region. Ultimately, to explain CAF's growth it is vital to understand, as Barnett and Coleman (2005) discuss, how the drive to secure external resources can strongly shape the strategies and activities taken by an IO as well as individuals within it. Garcia's efforts to secure funding are also related to the financial character of the institution; CAF needed to expand its horizons and conduct roadshows within and beyond South America in order to raise funds in the international markets in order to expand its loan portfolio. Thus, it needed to increase its level of "international personality." As such, CAF's management felt that it needed to comply and accept many of CRAs' criteria if it wanted to survive and grow; Garcia was key in promoting an approach that aimed at progressively incrementing the amount of money raised in the global markets, while keeping shareholders identified with the institution. This required the ability to balance and nurture simultaneously the entity's relationships with both the CRAs (by strengthening financial indicators, diversifying risk and showing consistent profitability) and its members (by ensuring speedy loan approval, low conditionality and non-prescriptive agendas).

2.4.2. Institutional design

At their foundation, IOs are set up and equipped with certain features which are subject to change over time since an organization is not a stable entity but, as P-A and sociological theories suggest, it depends on how agents use the discretion granted by the principals. For example, in regard to the IMF, Park & Vetterlein (2010) identify four main features that help determine how an IO acts and interacts: 1) its original mandate; 2) an organizational structure with a set of rules, regulations and operational procedures, specific units and departments; 3) informal regulations emerging in the daily interaction of staff and 4) the organization's autonomy from its principals. In the case of CAF, its institutional design has provided solid foundations for its leadership to carry out Garcia's vision for the institution, including an enhancing mandate in terms of mission and membership. CAF was established through a very solid and formal constitutive agreement that envisioned the preferences for integration of the founding members in the late 1960s. The agreement was approved one year before the Cartagena Agreement, which in practice made CAF parallel to, and independent of, the system of Andean institutions established under this agreement—although expected to cooperate closely.

P-A theorists suggest that a key dimension of institutional design relates to *flexibility*, as it conveys the way institutional rules and procedures accommodate new circumstances. Koremonos, Lipson and Snidal (2001) distinguish between two kinds of institutional flexibility: adaptive and transformative. When it comes to adaptability and flexibility, a fundamental factor in CAF's growth has been its constitutive agreement. CAF's agreement has been flexible enough that it has accommodated arrangements while changing the institution in ways that are profound—what Koremonos et.al. (2001) refer to as transformative flexibility. This agreement was established under an international treaty giving CAF unique characteristics such as: a non-resident board, defined membership and preferred creditor status. The agreement was key in setting the stage for its later institutional growth, since it has given CAF structural foundations to respond and adjust to a variety of geopolitical and economic conditions within and beyond the region. Chapter 3 demonstrates how CAF's constitutive agreement set the foundations for allowing CAF to balance in its own terms the distinct demands of two types of stakeholders (principals and credit rating agencies) since the mid-1990s, while partaking in regional discussions and actions related to infrastructure development. Moreover, the agreement has been fundamental in ensuring CAF's survival and can be considered robust since it stands as an international treaty that grants CAF several privileges and immunities including exemption from debt moratoria and restrictions on asset transfers. These characteristics have been crucial when raising awareness within the finance community, since they serve to emphasize how CAF has avoided loan default, while highlighting the institution's stability within and beyond the region.

Humphrey (2012, 2014) and Humphrey and Michaelowa (2014) successfully demonstrate how some of CAF's institutional characteristics—in particular, its shareholders' dominance structure and the self-financing character of the entity—have shaped the operational characteristics and strategic actions of the institution. These characteristics have contributed to expand its staff's agency, while giving member countries a sense of responsibility to preserve the entity since it has helped them with financing during tumultuous times. While acknowledging the important contributions of these authors to the study of institutional design, this thesis also presents a different lens by exploring the ways CAF's institutional design has contributed to two key aspects of its institutional growth. First, the institutional design was pivotal in Garcia's strategy of consolidating infrastructure as an area of focus for the entity and second, it was also important for successfully balancing both members' needs and CRA's requirements.

Moreover, through P-A theories, this work shows how CAF's growth can be explained by how the agents have use the discretion granted to the institution through the act of delegation. CAF officials have acted at times outside a delegated range of discretion in a way that has not necessarily been foreseen by states, but is importantly innovative. CAF—by using its institutional autonomy and relying on its organizational characteristics—has been able to expand beyond its original mandate and outline and interpret distinctive priorities from those of at least some of its country members.

A key element in CAF's story is the fact that it has a non-resident board, as opposed to a permanent one. This element has permitted management to increase its autonomy in the everyday functioning of the institution, including crucial decisions regarding loan and technical assistance approvals. CAF's autonomy and subsequent growth also conform to P-A theory that suggests that IOs in which a ministerial council (or other body of representatives) is the most important decision-making body are more independent than IOs in which heads of state are the key decision makers. CAF's status is that of a preferred lender with high-level political representation on its board of directors; usually finance ministers or central bank governors. But rather than a full-time sitting board, as with the IADB and World Bank, CAF's Board meets only three or four times per year as outlined in the introductory chapter. Moreover, the vast majority of policy and lending decisions are taken by an Executive Committee presided over by Enrique Garcia, CAF's Executive President (CAF, 2012a). CAF's organizational features, as Humphrey and Michaelowa (2013) emphasize in their study, are then much more streamlined than either the IADB or World Bank, and this allows much more autonomy to CAF's administration vis-à-vis its shareholders.

In addition, CAF has proven to states through past successes—including steady increases of its investment grade, alliances with other institutions, and responsiveness in regards to loan approvals— that it can carry out tasks that are important for the region, such as the promotion and financing of large infrastructure projects. CAF has a unique shareholders' composition that impacts its internal structure and as such, CAF's autonomy, while shaping its culture and strategic management decisions. The institution has always been governed by the countries to which it lends and so the interests of the principals and the agent are aligned. The unique owner-recipient structure, as scholars like Humphrey (2012, 2014) and Prada (2012) remark, has given members a strong sense of ownership, while increased trust has been the result of speedy approval of loans and lesser conditionality. These key points will be further discussed in this study, in particular in Chapter 4 in which CAF's relationships with CRAs and members are explored—including the tensions and the fine line CAF has to walk between those two types of stakeholders.

Therefore, CAF, as scholars such as Hawkins et al. (2006) suggest, has demonstrated that it could seek to increase the degree of autonomy that it possessed by convincing states to delegate more authority to the institution. CAF, especially since the mid-1990s, has been granted considerable discretion by its shareholders because of its specialized knowledge in infrastructure, its proven catalytic role as a financier and its ability to engage with distinct stakeholders involved in the financing of long-term development. Hawkins & Jacoby (2006) indicate instances when IOs may be more likely to openly reinterpret their mandate and other rules in ways that are at odds with principal preferences. They distinguish between interpretive strategies that precede delegation and reinterpretive strategies that follow it, sometimes many years later. Reinterpretations occur as circumstances or agent preferences change. CAF, in reinterpreting its mandate and making infrastructure financing a priority, also framed important links between infrastructure and regional integration that were facilitated, once again, by its constitutional agreement. Besides, since the mid-1990s, CAF's commitment to regional integration, an objective outlined in its constitutive agreement, has been interpreted by the institution as a way to promote related regional events and specific intergovernmental initiatives (e.g. IIRSA).

According to Oestrich (2012), states exert more control over issues they consider most important politically. Issue salience is then a central concept in understanding institutions' actions. In regard to CAF, the key issue that has clearly driven its institutional mission since the mid-1990s has been the perception that infrastructure and development in the region are intimately connected. But cooperation on infrastructure, as opposed to cooperation on trade issues for example, is not dominated by international regimes that establish stringent norms (e.g. WTO). As such, even if member states consider infrastructure as a salient issue, they may be more willing to let an institution like CAF take initiative or contribute with other agencies in pursuing particular agendas in this area due to their own lack of resources and expertise.

2.4.3 Member government preferences

Dabene (2012) argues that regionalism in Latin America has shown a remarkable endurance that pinpoints one of the mysteries any inquiry about regional cooperation should try to unveil: consistency despite instability, resilience despite crisis. To understand the way CAF interprets its day-to-day functioning while defining its role as regional financing agent, it is crucial to recognize prevalent regional dynamics throughout CAF's existence, how principals have responded to them and how this consequently impacts CAF. This work suggests that member governments, in their quest and engagement with regional initiatives, have directly and indirectly framed their support towards CAF's mission and actions since its creation.

Although Enrique Garcia has been a fundamental driver of change in the entity, CAF's members as principals have endorsed the institution through their actions and their regional preferences. Some of the principals' preferences have remained constant throughout the years. For example, member governments paid CAF's loans in a timely way and have continued borrowing from the entity (despite increased financing options in the last decade), while developing a sense of ownership and responsibility in the survival of the institution. As Humphrey (2012) demonstrates, member governments feel "a proprietary interest, or even a certain obligation" that drives them to borrow from the entity; there are also considerations that go beyond rates of interest (p.176-177). First, due to the membership on the board which is composed by high level authorities—central bank directors and finance ministers—principals feel they are owners of the institution (especially when compared to the WB or the IADB). Second, CAF members know by now that the entity is one of the few sources that may lend them funds during bad economic times (Humphrey, 2012; Prada, 2012).

Further, since the early 2000s, there has been a redesign of national interests amongst some of CAF's members that has resulted in increased ideological and material support of the institution. Members have showed an increased interest in national and regional infrastructure financing (discussed in Chapters 5 and 6) due to an improved fiscal situation in their economies, as well as a changing ideological context that has marked a shift away from the neoliberal growth strategies of the 1990s. As Best (1991) demonstrates, after the failure, or stagnation, of the first wave of economic associations, the multiple crises of the early 1980s seemed only to strengthen a "disintegration" of regional integration. Yet, by the turn of the decade, there was a surge of neoclassical integrationist activity in Latin America, even as new circumstances only heightened old questions not only as to the objectives and instruments of integration, but also as to the membership of regional groupings. In the early 1990s, "the debates in the political economy of development were dominated by indebtedness, the challenges of growth and welfare in times of austerity and the absence of any apparent margin for policy choice" (Grugel & Riggirozzi, 2012, p.1).

The end of communism, the debt crisis of the 1980s combined with new economic crises in Mexico, Argentina, Brazil and Ecuador, and the internationalization of finance during the 1980s and 1990s contributed then to the rise of linking development with free markets and retrenchment of the state in international circles. This vision of development was largely adopted through Latin America and carried out through the "Washington Consensus," which set out to transform economic practices across the region through the implementation of policies linked to the privatization of public assets and cuts in public expenditure. In regard to MDBs, the World Bank and the IADB implemented structural adjustment policies tied to lending in line with the Consensus. Meanwhile, their renewed institutional agenda by the mid-1990s gave emphasis to poverty reduction and social inclusion. As a result, the focus on infrastructure projects in these IFIs decreased in relative terms, under the exaggerated assumption that the private sector would fill that gap. CAF had then a unique opportunity and under Garcia's leadership, it began engaging more actively in a sector that was previously the dedicated area of focus of other institutions (*see* Chapter 3).

Meanwhile, during the 1990s, CAF members embarked on extensive structural adjustment programs intended to promote deregulation and privatization. This step coincided with the phase of "open regionalism," a regional rapprochement that, in line with the Washington Consensus, focused on trade liberalization (including tariff reduction and the elimination of subsidies) and deeper integration of the Latin American countries into the world economy. The U.S. administration was at the time actively engaged in the changing regional landscape. Public and private actors in the region felt particularly challenged by the multitude of pressures including the North American Free Trade Agreement (NAFTA)—which set a precedent for the Free Trade of the Americas (FTAA)— and the intense competition for foreign investment flows (Tussie, 2009; Gomez-Mera, 2015). Open regionalism emerged as one such response to these pressures and as a building block to economic globalization; regional cooperation aimed at the promotion of exports and market competitiveness, while enhancing the potential for countries to attract foreign direct investment.

There is some evidence to suggest that prevalent economic and trade policies implemented in the 1990s reduced state corruption, controlled inflation, and benefitted consumers through cheaper imports, more competitive pricing structures and improved access to new technologies (Gwynne & Kay, 2000). But as Grugel and Riggorizzi remark (2012), these policies also increased unemployment and poverty to levels that sometimes exceeded those of the so-called 'lost decade' of the 1980s in the region. As such, a slow down in growth following currency difficulties, rising indebtedness (especially pronounced in Argentina) and a growing awareness of a failing model changed attitudes in the region towards pro-market reforms and elite politics (Riggirozzi, 2012). Ultimately, the contested nature of the neoliberal project led it down a winding road and the idea of creating a single economic market in the Americas—which depended on the successful consolidation of U.S. hegemony through its multinational and structural adjustment-led policies—was abandoned and the U.S. turned to a number of bilateral trade deals. Regional economic cooperation in the 2000s was affected then by a combination of factors including the collapse of the FTAA, the deadlock in multilateral trade negotiations and the growing discontent with neoliberal reforms throughout Latin America (Gomez-Mera, 2015).

Beginning with the election of Hugo Chávez in 1999, a wave of left, or left of center, governments took office in South America—within CAF original shareholders, for example in Ecuador, Venezuela and Bolivia. These governments pressed from within for the end of liberal economic policies and the assertion of economic and political autonomy vis-à-vis the U.S. (Legler, 2013). The year 2005 concluded with the collapse of the US-supported FTAA at the Summit of the Americas, which is generally taken as the symbolic end of the U.S.-led brand of hemispheric and open regionalism. That year also marks the harbinger of new South American governments' regional projects later materialized in the Bolivarian Alliance for the Peoples of Our America (Alba, in Spanish) and the Union of South American Nations (Unasur, in Spanish). These projects were at least partially conceived as a way to strengthen countries' external sovereignty vis-à-vis the U.S., while focusing on reaffirming closing intraregional relations.

Therefore, various authors consider that South America began experiencing the rise of "post-hegemonic" or "post-liberal" regionalism characterized by hybrid practices as a result of a partial displacement of dominant forms of U.S.-led neoliberal governance in the acknowledgement of other political forms of economic management of regional issues (Riggirozzi & Tussie, 2012; Sanahuja, 2012). Despite the various academic denominations at play of new forms of regionalism in South America, a common thread runs through these analyses: these initiatives are portrayed as moving from an exclusive focus on free trade and economics to cooperation in a wide range of areas, from macroeconomic and industrial cooperation— especially in infrastructure—to energy, monetary, social and development cooperation. In terms of actors, presidents and presidential diplomacy are taken as the most relevant drivers of regional cooperation in the region (Malamud, 2014; Merke, 2010). Further, in contrast to open regionalism's liberalization impulses, regional initiatives since the 2000s have been accompanied by the reaffirmation of national sovereignty (Serbin, 2011; Malamud & Gardini, 2012). This reassertion has to do with "redefining state-market relations in favour of the state as sovereign with restored state authority after neo-liberalism, and with it, strengthening the ability to return to new developmentalist policies and strategies" (Legler, 2013, p.334). Efforts to promote regionalism in South America have also at times been interpreted as a defensive attempt by states to balance U.S. power and influence in the region (Tussie, 2009; Merke, 2010).

However, it is vital to recognize that "post-hegemonic" or "post-liberal" initiatives like those advanced in Unasur and Alba, have been made possible—especially before the latest global crisis— by several factors, including Chinese economic growth and the rising global demand for primary commodities, which include the main exports of Latin American economies. Although not necessarily spectacular by East Asian standards, since the early 2000s until the global crisis, Latin America experienced the most remarkable period of economic growth since the long post-WW II boom that ended in the mid-1970s. This growth took place after almost a quarter of a century of unsatisfactory performance (Ocampo, 2009). Between 2000 and 2008 the volume of regional exports rose by a remarkable 42.4 per cent (ECLAC, 2009), allowing countries in Latin America to accumulate sufficient resources for advancing a variety of socioeconomic projects, including infrastructure initiatives. And although the global crisis affected remittances and trade volumes in Latin America, commodity prices suffered less and by 2011 they had rebounded strongly (Chinese demand was crucial for this outcome), in such a way that the major problem for commodity exporters was volatility rather than depressed prices (Ocampo, 2011).

This economic boom—grounded in the sale of commodities, windfall profits and higher fiscal revenues— was key in allowing the elected governments in the mid-2000s in South America to reopen the infrastructure agenda. South American countries increased both consumption and income tax collection. Rosales (2013) further suggests that "South America's 'revolutionary' left turn can be best explained by its assertion of state property over natural resource extraction" (p.1443). In the case of Ecuador, Venezuela and Bolivia, the governance of hydrocarbon extraction and the control of subsoil rents, combined with the expansion of state action in the economy, has been crucial to promote national and regional socio-political projects (Rosales, 2013). This reliance on primary commodities also suggests the likelihood of the current and near-future approach to development within various countries in South America, a situation made possible due to the demand for primary commodities from East Asia. It also points to a full acceptance of the global economy on the part of these governments— and the political and economic risks associated with development based on commodity dependence (Grugel & Riggirozzi, 2012).

Meanwhile, theoretical advancements outside South America can be helpful in explaining how CAF members have shown broad enthusiasm for regional cooperation in infrastructure and how this has ensured the survival and growth of the institution. For instance, Yoshimatsu (2008) advances a "pragmatic functional approach" in order to explain how non-political functional areas in East Asia are selected for cooperation, because these areas easily produce practical outcomes. According to Yoshimatsu (2008), the key ideas of pragmatic functionalism have similarities with those of the neofunctionalist theory. Both approaches share the common view that commitments in technical areas generate the process that leads to closer inter-governmental cooperation in high politics. Yet, neofunctionalism posits that the cooperative process should be sponsored by formal organisms, while in pragmatic functionalism, states find little interest in developing formal organisms that would exert binding power on them, but rather enhance mutual benefits through cooperation that does not affect state sovereignty (Yoshimatsu, 2008). Yoshimatsu's insights are useful in the context of South America's financial cooperation. Initiatives like IIRSA, in which CAF has extensively participated throughout the years, showcase how, when it comes to South American integration, there exists the drive to preserve policy space within states. This situation creates resistance throughout South America to sharing economic sovereignty in areas where doing so would be required to further integrationist objectives (da MottaVeiga & Rios, 2007; Cason, 2011).

Consequently, CAF, as an agent, has benefited from these regional dynamics since member countries that are interested in infrastructure matters may be more willing to let the entity drive the agenda on this topic due to limited (economic and expertise-related) resources. This is also related to the fact that physical integration is not dominated by an international regime—which is the case of trade at the WTO—and as such members may perceive it as a more practical and feasible area to promote cooperation. A related consequence of prevalent regional dynamics has been the increasing participation of state agencies beyond economic and finance ministries. States' agencies dedicated to the advance of infrastructure, energy and investment have been more actively involved in regional discussions in the last decade and interact with RFIs' staff more often than in formal and informal settings than in previous decades. Moreover, as this study will demonstrate, cooperation on infrastructure matters has been possible since states are not bound to deliver on improved regional interconnections. The distinctiveness about cooperation on infrastructure is that CAF member states can take advantage of the rhetoric about cooperation at the regional level, while advancing projects that are mainly national.

Finally, in order to gain a comprehensive understanding of the factors that have been crucial in ensuring CAF's continuity and growth, we also have to take into account a crucial (but often ignored) feature of international politics: the gap between what states declare and what states actually do to solve a problem. Krasner (1999) offers an explanation for this pattern by adapting the concept of organized hypocrisy—initially developed to explain the behaviour of organizations—to make it a useful tool for the analysis of international politics. Organized hypocrisy is about the gap between what actors say and what they do. This is especially important when trying to understand for example how regional commitments and actions such as the creation of the Bank of South took place around the same time that CAF was able to secure a commitment from member states to increase capital. Consequently, this study will show that cooperation between CAF and related states' actions tends to occur "under the radar" compared to the emergence of alternative financing arrangements like the Bank of the South, which has been widely covered both in academic literature and press releases. While some countries in South America proclaim their support for alternative finance arrangements and their commitment to decrease their use of multilateral agencies as financing sources, they have not sidelined CAF and instead their support has been constant and even more prominent in the last decade.

2.4.4. Brazilian renewed interests in regional cooperation including IIRSA

Throughout the years, CAF has focused more and more on becoming an active agent in regional venues. In particular, since the 1990s, CAF has been able to leverage regional leadership and engage with related discussions on infrastructure financing. Chapters 4 and 5 of this thesis discuss how Brazilian regional leadership has played a key role in formulating ideas and policy proposals that have made certain state preferences converge towards regional cooperation and allowed CAF to further its institutional agenda. Starting with the Cardoso administration in

1995—and followed with great enthusiasm by Lula in 2003, but with less eagerness by Dilma since 2011— Brazil has actively promoted cooperation beyond trade in regional fora, especially regarding infrastructure matters, which was materialized through the establishment of IIRSA. This is because this area serves as a focal point for Brazil in the coordination of regional rules and regulations, while opening doors for its own national agenda on this issue.

CAF's management promptly recognized the regional changes at the beginning of the 2000s and began to decisively pay more attention to Brazilian leadership and to the country's infrastructure agenda. CAF also needed to gradually speak to Brazil not only as a CAF full member, but also as a regional leader. In the last fifteen years, Brazil has acted as a regional leader, employing its foreign policy representatives and development banks to promote regional cooperation discourses and actions that embody its national interests and preferences. CAF has benefited from Brazilian foreign policy, since the country has put infrastructure as a key topic in the regional agenda and has to an extent reframed South America as the new geopolitical reference of regionalism (instead of Latin America).

According to Sorj and Fausto (2011), for Brazil, "the concept of 'South America' has less to do with notions of collective governance or a presumption of a common regional identity, than with an instrumental calculation based on considerations of autonomy and power" (p.3). The development of this notion of "South America" coincided with the years when CAF was trying to expand from an Andean into a South American entity. In addition, Brazil's regional foreign policy preferences have managed to appear pragmatic and moderate to some of CAF members much of the time, assisted by the implicit comparison with the more ideologically polarized alternative regional organization schemes promoted by the U.S. and Venezuela. According to Armijo (2013), "Brazil's national economic ideology is procapitalist, yet unapologetic about the need for state planning, public ownership, and promotion of priority economic sectors. Within South America, Brazil attempts to bridge left and right" (p.100).

One of the greatest points of consensus among realist IPE scholars is that cooperation among states is difficult except when there is a preponderant power or hegemon (Mattli, 1999; Grimes, 2009). The hegemon acts to promote regional cooperation because it serves as a focal point in the coordination of rules, regulations and policies. Although Brazil has not acted necessarily as a hegemon when it comes to physical integration—the Brazilian government has for the most part not paid the cost of infrastructure financing—Brazilian political leadership has become a facilitator and catalyst in promoting the need to integrate the region and enhance the construction of highways and dams. Facilitators get other countries to follow by influencing and shaping their preferences through persuasive policy ideas (Ikenberry & Kupchan, 1990).

Burges (2009) proposes a sophisticated interpretation of the "low cost" type of regional leadership that Brazil exerted during the Cardoso's administration and the first Lula's term, which he calls "consensual hegemony," building on neo-Gramscian political economy. Imposed on policy makers by Brazil's lack of the means to realize its regional leadership ambitions, consensual hegemony works through the "teacher-student" dialectic originally advanced by Antonio Gramsci. Brazilian officials sought to lead South America in the early 2000s despite its lack of hard power resources and an unwillingness to overtly claim leadership (Burges, 2008). Brazil's own national development goals have been fundamental in the consolidation (and later advancement) of IIRSA (Burges, 2009; Carvahlo, 2010). For the Cardoso administration, which championed IIRSA, South American regionalism had to be built through the physical integration of transport and energy infrastructure. During the Lula years, the U.S. largely ignored South America in practical terms even if there did appear to be clear engagement through hemispheric multilateralism and military cooperation (Burges, 2009). As such, consensual hegemony offered a temporarily attractive scheme for collaboratively preserving regional autonomy. Brazil's leadership in the consolidation of IIRSA and its commitment to Unasur, have become the most well known examples of the country's new stance towards South America.

Although IIRSA was presented as a response to revive the regional movement in South America, it represented to a great extent a pragmatic alternative to expanding the Avança Brasil program (a large national infrastructure program, since replaced by the Programa de Aceleração do Crescimento—Growth Acceleration Program— in 2007 and the Brasil Maior program in 2011). Yet, Brazil stepped quite cautiously in promoting IIRSA, taking into account that the region has traditionally associated foreign policy leadership with coercion and domination (Burges, 2009). CAF followed this cautious approach in terms of infrastructure development and was invited to join IIRSA's technical committee, which opened several doors to financing opportunities within and beyond the initiative. An important aspect of CAF's management strategy has been then to ensure that the institution navigates successfully the regional landscape, not only as a 'tool' for members to materialize their agendas, but also in ways that have allowed CAF to strengthen its position as an infrastructure financier and technical advisor to member governments. Meanwhile, Brazil's renewed interest and ability to promote the expansion of roads and dams within and outside its borders and to promote development within municipalities were important elements in the country's decision to join CAF as a full member in 2005.

For Brazil, endorsing international development finance through its national bank, BNDES, has also become a vehicle for enhancing its foreign policy stature: even if the scale of regional lending from BNDES is not as large as either the bank's promoters or critics have claimed, the bank has helped to establish Brazil as a stronger international actor in the 2000s

(Hochstetler, 2014). Moreover, the participation of Brazil's largest firms in the construction sector—such as Odebrecht and Camargo Correa—was an additional factor for the Brazilian state to gain participation within and beyond IIRSA through for instance, enhanced private-public contracts with South American governments. The Brazilian state has diffused its participation and contribution in regional entities that are dedicated to infrastructure financing, which go beyond BNDES' regional projects. At present, Brazil is the second largest contributor to the IADB (10.75 per cent of voting power) as well as to CAF, where it holds 6.2 per cent of shares (Houtari & Hanemaan, 2014).

Nevertheless, in spite of its regional prominence, Brazil has been unable to translate its structural and instrumental resources into effective leadership and regional hegemony (Malamud, 2011; Merke, 2015). For example, its potential followers in the region have not aligned with Brazil's foreign policy goals, such as its pursuit of a permanent seat on the United Nations Security Council, of the WTO Directorship-General, or of the IADB presidency, and some have even challenged its regional influence (Malamud, 2011). In terms of regional cooperation, although the consensual hegemony approach allowed Brazil to establish an ideational project and a leading position in South America (and further benefited the RFIs involved in infrastructure matters), it failed to provide concrete "regional goods" and, therefore, eventually weakened Brazil's regional position.

As Merke (2015) suggests, Brazil has been reluctant to become the regional paymaster providing collective publics goods such as credit, aid or security. Spektor (2010) suggests that Brazilian regional leadership is atypical and dependent on governing elites:

> Brazilian foreign policy and Brazilian power in international relations from the perspective of the region remains 'a study in ambivalence'... Even after several years of

> sustained economic growth and an expanding foreign-policy agenda, Brazil is not your typical regional power…It has sought to anchor and embed its power in a new network of regional institutions, and it has become the major institution builder in the region, but the institutional architecture that results is thin and weak (to a significant extent because Brazil pushes in that direction). Its governing elites are wedded to traditional understandings of national autonomy and do not consider pooling regional sovereignties into supranational bodies. They are equally reluctant to pay the costs of regional prominence, preferring to deal with smaller neighbours on an individual, ad hoc basis (p.192).

Ultimately, institutions like CAF have been brought to join Brazilian regional efforts and continue to require to response to changing regional dynamics. The Brazilian government's interest in infrastructure has directly and indirectly facilitated CAF's participation and role in regional venues, while allowing the institution to gain more visibility as an entity that promotes cooperation, technical assistance and lending opportunities. At the same, it has allowed CAF to interact with member countries individually and as a group. Various CAF members continue to redefine participation in regional venues as a strategy to support the ideal of a "developmental state" and this continues to reinforce the role of institutions like CAF that are eager to help countries deliver on their national priorities.

2.5. Conclusion: Contributions to IPE, IR and regionalist literature

The post-2008 global crisis has highlighted once again the role of RFIs, since these entities can play several countercyclical, technical and political roles due to their specialization vis-à-vis the economic and socio-political realities of the regions in which they operate. The study of CAF contributes not only to ongoing academic interest in further understanding the roles of RFIs in the global political economy, but also in outlining factors that have been vital for the survival of a RFI. Explaining these factors also provides an opportunity for scholars to reexamine empirically and theoretically how a development bank trying to protect its role as regional lender needs to balance the demands of both its members and the international financial markets. This dissertation invites scholars to employ P-A theoretical underpinnings in order to address empirical and theoretical limitations in existing literature regarding CAF, and more broadly vis-à-vis the role of RFIs. This work argues that a P-A analytical framework can account for when and under what conditions CAF has been able to use its discretion and gain principals' trust in order to carve its own institutional agenda without political interference, which ultimately ensured its growth and success.

In regard to empirical contributions, this chapter has discussed how literature on CAF remains limited. Some available studies on the entity have been presented as chapter discussions in United Nations' publications focusing on regional cooperation. Although these publications have accounted for CAF's main events and economic figures, they have not really engaged with theoretical explanations that may account for CAF's success. During the 2008 global crisis, some articles were published on the localized role of RFIs during economic downturns and some brief articles emerged discussing CAF's institutional features and how they have helped the entity in responding promptly to member governments' financing priorities. Only recently, CAF has been studied in a comparative theoretical and empirical RFI examination (between CAF, the IADB and the World Bank) focusing on the balance of power amongst shareholders in RFIs, the financial character of RFIs and the role of agency in these institutions. This dissertation seeks to build on these recent efforts to study CAF in a more detailed way by providing a comprehensive study of CAF's historical evolution since the 1990s as well as a broader framework to account for CAF's behaviour and actions. This study also shifts the focus of study of regional cooperation from trade to physical integration, showing how CAF became actively involved in infrastructure matters through internal institutional developments and external regional dynamics.

This dissertation reveals that a comprehensive study of CAF, and possibly of other financial institutions acting in tumultuous regions, requires the adoption of a more integrative theoretical approach. This dissertation works towards this aim by addressing the limitations of existing literature and showing—through the development of the framework in Chapter 1—that both principals and agents possess a variety of strategies and mechanisms that have not been successfully incorporated into existing approaches, but that can substantially influence an IO's survival and growth. This work also addresses how the principal-agent relationship for institutions like CAF is also impacted by the regional context and both constant and changing principals' preferences.

The study of CAF also means a renewed academic focus on institutional leadership literature and institutional design. There are good reasons why IO and IPE theories need to take seriously the influence of executive leadership on the evolution of RFIs. Theories that make room for the role of leadership fill the gap between empirical claims crediting an IO executive president with key developments and the tendency in academic literature to avoid separating analytically the role of the executive leader from the rest of the bureaucracy. Ultimately, an agent's leadership has the potential to build or destroy an institution and this has been particularly experienced in regional entities and fora in Latin America. Only recently, Fonplata, another RFI in South America briefly described in Chapter 1, inaugurated the executive position of president, in its efforts to promote institutional growth and solidify long-term goals and institutional accountability. Leadership has been key in CAF's story. Garcia outlined CAF's ideology by identifying specific goals and ways to reach them, established a successful bureaucracy that supported those goals, built coalitions with both members and the credit rating agencies and through it all continued to demonstrate that cultivating charisma in relations with different stakeholders can bring harmony and growth to a RFI.

This work also emphasizes the importance for IOs to understand regional dynamics in order to identify when ongoing mechanisms for cooperation (or lack thereof) become an opportunity or an obstacle for institutional growth. Moreover, this study suggests that RFIs may not be able to ignore prevalent practices in global credit markets if they want to strengthen their economic position. Capital is now sought through structuring debt on capital markets. As such, the traditional intermediary role of a bank to decide creditworthiness has been weakened, which results in the disintermediation of finance (Sinclair, 2005). CAF has engaged since the mid-1990s with these dynamics and become, in a way, a bridge between its member states and capital markets. Without this engagement, CAF would have probably remained a RFI with very limited impact in its region and with less commitment from its members to preserve the institution.

Further, the theoretical framework developed in this chapter to explain CAF's evolution makes a contribution to broader literature seeking to explain the ongoing mechanisms involved in recent regional financial cooperation, while framing principals' actions and their effects on the survival and growth of a regional institution. The study of CAF provides an entry point for theoretical academic discussions that engage in the examination of regional development governance from an angle that has been so far understudied: the distinctiveness of cooperation on infrastructure matters. Infrastructure services are now seen as fundamental to various governments' development agendas in a context where economic incentives in the region are largely based on sustained demand and rising commodity prices in world markets.

Consequently, it is necessary to pay attention to the emerging tensions—and how they are managed by the pertinent government authorities (principals) and institutions (agents)—regarding the ways cooperation is perceived in these cases by South American governments. On one hand, cooperation on finance is perceived as a way to foster integration by enabling retention and distribution of the benefits of trade within the region. But on the other hand, cooperation may be advancing on mere grounds of facilitating the promotion of national agendas. As such, cooperation on infrastructure matters is not necessarily a tale of regional hegemony; Brazil is not paying most of the costs of regional physical integration but instead—though its actions and continuous calls and foreign policies promoting cooperation—is affecting the structural environment and acting as a facilitator.

This work also suggests that principals have not been passive observers of CAF's agenda. Their support and their own national development agendas have facilitated the work of the institution throughout the years. Moreover, the need and desire at the national government level for better infrastructure has always been present within South American states. What has changed since the early 2000s is the actual capability of those countries to request financing due to a better economic position, combined with a renewed interest in fostering the regional agenda. In regard to regionalist considerations, cooperation on infrastructure, as this work will show throughout its chapters, now embodies the notion of states using the regional arena to deliver on national projects, while drawing upon diverse sources of multilateral and bilateral financing. RFIs like CAF need then to constantly think about and refine their financial structure, their methods to secure resources, and ways they can solidify their relationships with their members.

Finally, in the current regional, political and economic context, it is important to understand whether the kind of opportunities and dilemmas that CAF faces when dealing with country members and credit rating agencies may be relevant for other international and regional financial institutions and also for other types of long-term financing arrangements. The study of CAF and its involvement in IIRSA remain fundamental for understanding both the changes and continuities in financial cooperation within and beyond regional mechanisms and agendas. The combination of CAF's leadership, its management's ability to manoeuvre the institution within the regional space, and the entity's institutional features which have served to strengthen its catalytic and adaptable role in financing infrastructure have all contributed to its continuity and expansion. This cooperation has persevered despite the economic crises and financial difficulties within its shareholder countries, which have experienced several devaluations and radical shifts in economic policies throughout the years.

Chapter 3: CAF's first two decades and the arrival of Enrique Garcia

3.1 Introduction

CAF is a multilateral development bank that, after two decades of surviving the ebb and flow of Latin American integration and economic conditions, had to reengineer its strategy to solidify its position as a reliable financial institution with an increasing scope and capability for financing large projects for long-term development. CAF's story intertwines the opportunities and challenges of regional integration, the benefits of institutional leadership, a unique organizational structure and the support of member governments. More than forty years after its creation, it is possible to reconstruct the process that led CAF to become a key lender within Andean countries and an increasingly important institution within Latin America.

This chapter examines the context that prompted CAF's creation, the institutional design that was envisioned by its creators, and the most relevant changes that the institution underwent in order to survive and become a relevant lender for the Andean countries by the 1990s. It also outlines CAF's successive relations with shareholders and key formal and informal policies introduced by Enrique Garcia, CAF's president since 1991. Under Garcia's leadership, CAF has evolved from being a sub-regional lending institution into an increasingly important regional one. This chapter predominantly highlights how a particular institutional design conceived within a period in which countries were seeking comprehensive regional integration solutions gave Garcia the foundation to exercise his leadership when he assumed the CAF's presidency.

This chapter first introduces CAF's creation, which took place during an era when regional arrangements and promises were flourishing and reflected country members' preferences. CAF was created through a very solid and formal constitutive agreement, the kind of agreement that we see less and less in Latin America— a region in which sharing sovereignty and binding commitments are not popular amongst recent regional initiatives. CAF's constitutive agreement was conceived and approved at a time when designated lawyers (as opposed to heads of state or the private sector, which is more common at the present time) played a prominent role in setting up the rules of the game. The composition of shareholders and the decision to have a non-resident board have been some of the key institutional features in CAF's original operational structure that have helped the entity differentiate its mandate and operating model from other existing international financial institutions. In addition, as is the case with other RFIs, CAF holds preferred creditor status within member governments. This status has contributed to its history of very strong loan performance—despite fluctuating economic conditions within member countries—because it ensures that debt owed to the institution is excluded from debt restructurings carried out by official debtors.

Further, this chapter outlines CAF's operations within its first two decades, in which the institution as an agent early in a delegation relationship was more likely to mirror shareholders' interpretation of its mandate according to their national and regional preferences. CAF also confronted a difficult regional environment during its first two decades. Despite initial vitality, the Andean integration goals quickly began to encounter serious difficulties and became completely deadlocked in the 1970s for a number of reasons including: changing government preference (especially in the case of Chile which ultimately withdrew from CAF as a result of its drastic restructuration of economic policies), regional and external economic and political crises, inefficient mechanisms of negotiation, and institutional flaws. CAF's lending scope and goals were limited by this environment and by the fact that the promotion of industrial programs—a key aspect of its mandate at the time— did not succeed. The 1980s were also a difficult decade for CAF not only because of the debt crisis that deeply affected Latin America, but also because

Andean countries themselves were dissatisfied and frustrated with the integration scheme they had outlined. From this low point, CAF began reorienting its strategic goals and actions. It began using its discretion to gradually sideline the political interests of country members, while building an operational model that focused more on serving the sectors that the staff thought most contributed to countries' economic development such as agriculture, physical integration, and other areas previously not emphasized by CAF.

CAF survived the 1980s, but it was not until the arrival of Enrique Garcia that the entity redefined its goals and isolated itself to a great extent from the dilemmas and disagreements that member countries experienced with the prevailing Andean integration goals and schemes. Garcia's familiarity with the region from a RFI perspective helped him to set up an unprecedented strategy when he arrived at CAF. Garcia wanted to make the entity a relevant source of long-term financing for the region. This strategy consisted of developing the required resources to have an impact in three main areas: gaining access to capital markets, developing a niche in financing physical infrastructure and expanding CAF's membership while strengthening the relationships with all country members. In order to do so, Garcia had to bring CAF's senior management on board with his strategy. In later years (discussed later in Chapter 4), Garcia also had to focus extensively on cultivating coalitions and alliances within member states and credit rating agencies. He had to ensure support from both groups to successfully deliver on CAF's portfolio and financial performance.

3.2 Context for CAF creation

The creation of CAF reflected the ongoing regional integration efforts of the 1960s and early 1970s. During this period, regional integration constituted a fundamental element in the broader development strategy in Latin America. This strategy focused on deepening intraregional trade and adopting the import substitution industrialization (ISI) model. Various reasons converged to propel regional integration at the beginning of the decade including the fact that both U.S. and Latin American leaders wanted to strengthen regional integration.

First, several prominent statesmen in South America considered regional integration a noble political quest, including Arturo Frondizi (Argentina), Juscelino Kubitschek (Brazil), Romulo Betancourt (Venezuela) and Alberto Lleras Camargo (Colombia). Second, American resistance to integration in the region softened: while the U.S. administration refused a Chilean project to create a development bank in 1954, or paid little attention to a Brazilian proposal of a Pan-American Operation in 1958, they finally agreed in April 1959 to create the Inter-American Development Bank (IADB). The Cuban revolution triggered this policy change, epitomized by Kennedy's 1961 Alliance for Progress, which strongly supported regional integration (Dabene, 2012). During these years, integration organizations flourished in the region including the Central American Bank for Economic Integration (CABEI), the Intergovernmental Coordinating Committee of Countries of the Plata Basin (CIC), the Caribbean Development Bank (CDB) and the Latin American Association of Financial Institutions (ALIDE).

The Latin American Free Trade Association (LAFTA) was created in February 1960, with the signature of the Montevideo treaty. LAFTA responded to the developmentalism and economic nationalism propounded by the Economic Commission for Latin America of the United Nations (ECLA), in a context where difficulties in the external sectors of Latin American economies prevailed while the U.S. was perceived not to be responding (Best, 1991). However, LAFTA never achieved its fundamental objective to eliminate intraregional tariffs. The issue of distribution of gains was central for less developed countries—in particular for Ecuador and

Bolivia.[2] Preferential treatment for those countries was the objective of a declaration initially signed in Bogota in 1966 by the presidents of Colombia, Chile and Venezuela. The Cartagena agreement (adopted on May 26, 1969) ultimately included a clause stating that Bolivia and Ecuador would receive preferential treatment, within, for example, industrial integration programs. This preferential treatment was a means for helping these nations narrow the economic gap that separated them from their more advanced neighbours by taking advantage (through exclusive benefits) of the sub-regional market.

Moreover, the idea that the integration process in the Andean region should have its own financing organism was primarily promoted by the presidents Carlos Lleras Restrepo (of Colombia) and Eduardo Frei Montalva (of Chile). A Mixed Commission of special presidential representatives, called by the Bogota Declaration, was formed in 1967 and included specialists (mainly lawyers) from Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. During the several meetings that it held between 1967 and 1969, the Mixed Commission prepared two important documents: CAF's constitutive agreement and the Andean sub-regional integration agreement. The constitutive agreement was concluded first and signed in early 1968, at the fifth session of the Mixed Commission, by the five countries which had participated in the 1966 Bogota conference plus Bolivia which joined the Andean movement after the conference ended (Fontaine, 1977). CAF's treaty was signed then one year before the Cartagena Agreement formally created the Andean Pact, founded by Bolivia, Chile, Colombia, Ecuador, and Peru with the objective of creating a Customs Union and a Common Market. The fact that CAF was created before the establishment of formal regional commitments gave it room to maneuver through its separate constitutive agreement from its very early days.

2 For further discussions on the motives behind LAFTA failure, see Best (1991) and Bulmer-Thomas (2003).

During the Mixed Commission's sixth session held in Cartagena, Colombia, in August 1968, a final draft was presented regarding the Andean Sub-regional Integration Agreement. The delegated specialists took only four months to produce this agreement (referred to as the Cartagena Agreement, the founding document of the Andean Pact). This rapidity was in part the result of their method: they wrote it behind closed doors, allowing the private sector to take a look only after the project had been submitted to the Mixed Commission (Fontaine, 1977). Another factor that affected this and subsequent phases of the integration process was the monopoly by the executive power (the presidency, planning department, and specialized ministries) of all political and legal initiatives in relation to the Andean Group. Where national parliaments existed, they were effectively bypassed, whatever the general degree of participation in the political process (Puyana, 1982). The fact was that, as far as the Andean Group was concerned, all governments excluded political and trade union groups from the debate and appeared to seek the participation of the private sector more to establish an alibi for their own conduct than as a principle in itself (Puyana, 1982).

The final round of negotiations of the Andean Pact proved more difficult: for the first time a basic pattern of conflicting national interests emerged. The two countries with the most advanced industries, Colombia and Chile, pressed for the quick acceptance of the treaty as drafted by the technicians. The least developed Bolivia and Ecuador, agreed since the proposed accord included generous provisions for them (referred to as preferential treatment). But Peru and Venezuela—the countries in the middle of the development spectrum—argued against too rapid a rate of trade liberalization on the grounds that this rapidity would strangle infant industries (Fontaine, 1977). Therefore, almost a year of additional negotiations and concessions was necessary before the treaty was accepted. Venezuela remained outside the Pact for another four years while the other five signed the accord in May 1969.

The Andean Pact set out a model for integrated economic development in which industrial planning—and not the freeing of trade— was to be the central mechanism for the advance of import substitution. The predominant concern of the Andean Pact was to influence the course of industrial development in the sub-region: what was to be manufactured, where and with how much competition (Puyana 1982). The Andean Group's goals were very ambitious, targeting a customs union and aiming at harmonizing economic and social policies. The integrated industrial programs and the foreign investment codes were centerpieces of their import substitution industrialization (ISI) inspired project (Parkinson, 1973). The Andean Group was also granted a supranational institutional arrangement, with a Commission making majority decisions, and a Secretary (Junta) composed of three members representing the regional interests (Dabene, 2012).

CAF was envisioned by its creators to be a MDB that would undertake a different type of development activity than the existing World Bank or the IADB. The specific role intended for CAF was to promote economic integration among the six South American original shareholders: Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. The orientation of CAF's financial services was also intended to be distinct from the World Bank and IADB, focusing on industrial development (and to a lesser extent agribusiness and trade support), which was an area that neither of these two MDBs really addressed (Fresard, 1968). Financial support could be supplied in a broader range of ways than other IFIs, including to "emit bonds or debentures, act as a guarantor of any type, provide collateral for obligations, and grant guarantees in share issues" (CAF, 1974, Art. 4).

Despite initial vitality, however, the integration scheme quickly began to encounter serious difficulties and became completely deadlocked in the 1970s for a number of reasons involving the way regional integration was conceived in the first place, with inefficient mechanisms of negotiation, weak attention paid to the distribution of gains, and institutional flaws (Dabene, 2012). Other factors that affected the integration process can be traced to domestic issues, with some countries experiencing profound changes, such as Chile, which underwent a coup d'état in 1973 and subsequent rapid market liberalization (Dabene, 2012). In the international arena, the difficulties encountered by the Bretton Woods monetary system in 1971 and the oil crisis of the 1970s deeply impacted Latin American countries' macroeconomic priorities. Moreover, military coups and ensuing juntas soon froze the Andean Pact, while Chile's military regime left the Pact in 1976.

3.3 Design, legal framework and operational structure

From its beginnings, there have been a number of characteristics that have helped CAF set itself apart from other multilateral financial institutions active in the region. These features are embedded in its legal structure, which has contributed to the institution's steady operation throughout the years. As Serbin (2011) suggests, when it comes to consensus and policy coordination, most multilateral organisms and agreements in Latin America have had a very limited predisposition towards establishing and developing a structured multilateral framework based on a clearly defined set of rules and values. In the last two decades, informal and non-binding guidelines have become the rule when it comes to fostering integration in Latin America. But CAF differs from most organizations because it has a very structured constitutive agreement.

Most notably, when CAF was created, lawyers (instead of countries' presidents) played a key role in setting up the rules of the game.

For example, Fresard (1968), a Chilean lawyer who participated in framing CAF's constitutive agreement, remarked that initially there were prominent discussions suggesting that CAF was to be created under Venezuelan law since Caracas had been designated as the headquarters. Yet, CAF would be recognized as a separate legal entity, independent of the local legal system. Member countries were expected to follow the process and to recognize it as a separate entity under their national laws. Nevertheless, there was harsh criticism—starting with the Venezuelan delegation—regarding the appropriateness of national legislation in providing all the immunities, privileges and delegated functions that CAF required for its daily operations (Vendrell, 1976). With the intention of speeding up the establishment and actual working of the institution, the participating lawyers decided to create CAF under an international treaty. Shortly after its creation, Fresard (1968) highlighted that "the entity is agile regarding its direction and operation and it was conceived in the most simple way, prioritizing the speed of its operations' [approval]" (p.29, author's translation[3]). In later years, the speed of approval would become a differentiating factor amongst RFIs, especially for governments eager to fulfill their infrastructure agendas.

As an international treaty organization, CAF is a legal entity under public international law. Having its own legal personality, CAF can enter into contracts, acquire and dispose of property and take legal action. The constitutive agreement has been ratified by the legislatures in each of the full member shareholder countries. Historically, some of the governments of CAF's member countries have taken actions such as nationalizations and exchange controls that have

3 All translations of Spanish documents were done by the author of this dissertation, unless otherwise indicated.

affected ordinary commercial lenders. In light of the immunities and privileges discussed below, conferred by the institution's preferred creditor status, CAF has not been adversely affected by these actions and has indeed built a stable financial structure throughout the years. To date, CAF (2013a) has been granted the following immunities and privileges in each full member shareholder country:

1. Immunity from expropriation, search, requisition, confiscation, seizure, sequestration, attachment, retention or any other form of forceful seizure by reason of executive or administrative action by any of the full member shareholder countries and immunity from enforcement of judicial proceedings by any party prior to final judgment;
2. Free convertibility and transferability of CAF's assets;
3. Exemption from all taxes and tariffs on income, properties or assets, and from any liability involving payment, withholding or collection of any taxes; and
4. Exemption from any restrictions, regulations, controls or moratoria with respect to the entity's property or assets.

The operational structure of CAF mirrored the examples of the World Bank and IADB in some key areas. It followed the model of a corporation, owned by shareholder governments that contributed the initial capital and were the final negotiators of its policies. CAF was designed to use its capital and other public or private resources it might raise to make loans, which would be paid back with sufficient interest to ensure the sustainability of the entity (Humphrey, 2012). CAF also enjoyed preferred creditor status in relation to private lenders. According to Sagasti and Prada (2006), this status combined with MDBs' low gearing ratios in comparison with those of private financial institutions, helps MDBs to raise funds on favorable terms in international capital markets for their regular windows, while enjoying a high standing in the eyes of CRAs.

Within this broad model, however, CAF differed from the World Bank and IADB in a number of crucial aspects. Perhaps the most significant unique feature relates to the entity's composition: when CAF was established, shareholders were all developing countries expecting to borrow from the CAF, with no non-borrowing developed countries involved. Countries would also have equitable control over the CAF, while still taking into account differences in wealth among the six members, through the creation of different types of shares (Humphrey, 2012). The initial US$ 25 million in capital was divided into six Series A shares worth US$ 1 million, with all member countries purchasing one share each. The remaining US$ 19 million would be in Series B shares, of which Chile, Colombia, Peru and Venezuela purchased 22%, while Bolivia and Ecuador purchased 6% (Humphrey, 2012).

The design of CAF's Board is also very different from major RFIs. Under CAF's constitutive agreement, the major decision-making forum is the shareholders' annual regular meeting. At this meeting, the shareholders review CAF's financial statements, allocate net income, elect the board of directors, determine members' compensation, and appoint external auditors, among other matters (Standard&Poors, 2013). The Board of Directors, which is a non-resident board, establishes CAF's credit and economic policies, approves its budget, approves loans in excess of a specified amount, and appoints the executive president. The Board of Directors usually meets four times a year and delegates certain responsibilities, including credit approvals within specified limits, to an executive committee of the board. The Executive President chairs this committee, which comprises one director from each of the Series A countries and one director representing the collective Series C members. Chapter 4 further explains how these arrangements, in particular the fact that Garcia chairs the loan approval committee, result in a decision making process that is faster than that at the WB and the IADB, which have permanent sitting boards and heavy oversight by donor nations.

Moreover, before Garcia joined the institution in 1991, CAF had already gone through four previous administrations led by Ecuadorian or Bolivian nationals. Nationals from these nations were selected to reflect the institution's commitment to include less developed nations prominently within the institutions of the Andean Pact. CAF's previous presidents include: Adolfo Linares (1970-1976), Julio Sanjines (1976-1981), Jose Corsino (1981-1986) and Galo Montaño (1986 - 1991). Their administrations are briefly described in Table 3.

Table 3. CAF's administrations (1970-1991)

CAF's administration	Highlights during presidency
Adolfo Linares Arraya (1970 - 1976) Engineer, Bolivian	• In addition to financing the initial operations of CAF, the Linares administration also took the first steps to raise funds in Latin America and from multilateral agencies. Especially noteworthy was the creation of the Andean Trade Financing System (Safico), to promote Andean intra-regional trade. • During this period, CAF increased its authorized capital from US$ 100 million to US$ 400 million.
Julio Sajinés Goytia (1976 – 1981) Engineer, Bolivian	• During his administration, CAF had to face many difficult situations: Chile's decision to withdraw from the Andean Pact in 1976 and from CAF in 1977, and the stagnation of industrial programming and trade liberalization, as had been agreed in the Andean integration framework. However, CAF continued the process of institutional and administrative consolidation. • In 1978, as part of the activities for attracting new resources, CAF obtained the first syndicated loan in the international banking system, led by Bank of America. • In addition to continuing to strengthen its usual

	operations, CAF ventured into priority sectors for the development of its shareholder countries, such as oil and agricultural related businesses.
José Corsino Cárdenas (1981 - 1986) Economist, Ecuadorian	• During his administration, Latin America was plunged into a crisis caused by foreign debt, the falling prices of their export products, and the slowdown of growth in world trade. This situation affected operational development. • Meanwhile, CAF was able to adopt new policies enabling the expansion of its activities and the consolidation of the institution as the financial arm of the Andean integration process. During this period, the authorized capital increased from US$ 400 million to US$ 1 billion. In this stage, CAF adopted the strategic guideline of participating in co-financing projects with other RFIs.
Galo Montaño Perez (1986 - 1991) Engineer, Ecuadorian	• At the beginning of this administration, the economic and political crisis in the region was far from over. However, CAF had the strong support of shareholders, while they were decisively promoting the regional integration plans. In fact, the decision was made to double the authorized capital of CAF to US$ 2.05 billion (Galapagos Summit, 1989) and it was agreed to invite other Latin American countries to participate as associate members (Minute of Caracas, 1991). • In addition, CAF began incorporating the private sector through the subscription B shares by various commercial banks in the Andean region. • During this period, the increased activity resulted in a portfolio that expanded from US$ 192 million to US$ 853 million. • As for fundraising, CAF received new medium and long-term credit lines, mainly from the IADB and official agencies of industrialized countries. In this period, CAF also received its first syndicated loan from several European banks and placed its first private bond issue in Japan.

Source: Data from CAF (2014b), compiled by the author.

3.4. CAF's first decade

When CAF opened its doors in 1970, it had to confront the issue that all multilateral banks face: how to raise funds to actually be able to finance relevant projects. The six founding countries had committed US$ 25 million in capital, but this would only be paid in over the course of several years (Humphrey, 2012). Therefore, the entity needed to quickly find other sources of capital. CAF's founding members and early administrators expected that this capital would mainly be raised outside the region. Fresard (1968) who served as the Chilean negotiator suggested that CAF would strive to access sources outside the region that supported socioeconomic development. These sources could be soft loans from bilateral aid agencies of developed countries or other, larger IFIs. In addition, CAF's management—considering that the entity could somewhat emulate the financial operations of the IADB and World Bank—intended to issue debt on private capital markets in Europe and North America, as envisioned in its constitutive agreement (Humphrey, 2012). Initial impressions were indeed positive: U.S. AID provided a US$15 million soft loan in 1971, and Canada soon followed suit with another US$5 million (Humphrey, 2012, p.64).

Additional contributions were expected from the WB and, especially, from the IADB. In 1971, CAF's Annual Report states that an initial participation of the IADB was expected with a loan on the order of US$ 12 million, which would not preclude further loans (CAF AR, 1971). That same year, CAF sent out a financial mission to Europe, Japan and North America to investigate the prospects of obtaining credit lines, bond issues, bank loans and technical assistance. Moreover, one of the mission's goals was to get some insights on the conditions under which the CAF could in the near future access the international capital markets to secure external funding (CAF AR, 1971). In terms of projects, with the exception of those in Bolivia and Ecuador (countries considered to be relatively less developed economically), CAF financed projects that were essentially integrationist (CAF, 2010a). In 1972, CAF granted the first loan to finance a physical integration project between two of its shareholder countries (CAF AR, 2010). But despite initial contributions from outside the region, CAF did not receive substantial contributions during its first decade, which was both disappointing and worrisome for CAF's management. Efforts to raise money within European and Arab countries were not very successful. Moreover, there was eventually only a single U.S.-AID loan despite hopes for further loans (Humphrey, 2012).

The World Bank did not offer any financial assistance either despite initial conversations in the 1970s in regards to opportunities for technical and financial cooperation (CAF AR, 1974). CAF also developed a tense relationship with the IADB in its search for funds. After an initial IADB loan of US$ 750,000 for technical assistance purposes, the IADB did not offer more monetary assistance. Various formal loan applications and "lengthy negotiations" with the IADB are discussed throughout annual reports until 1978, after which the topic is no longer mentioned (Humphrey, 2012). Humphrey (2012: 65) argues that "with U.S. enthusiasm for development aid dwindling, and the lack of any shareholding influence by the U.S. or European nations, developed country governments apparently saw little incentive to supply resources to the CAF." Meanwhile, in 1974, CAF held its first shareholders' extraordinary assembly in which members expressed their solidarity and willingness to strengthen CAF in operational and financial terms, by raising its authorized capital to US$ 400 million (CAF AR, 2005). Similarly, at CAF's plenary meeting of November 1975, its Board of Directors urged an expansion of another $600 in authorized capital (Fontaine, 1977, p.26).

But despite members' support in terms of authorized capital, what CAF really needed was a breakthrough in the private markets. Yet neither U.S. nor European markets showed any inclination to invest in CAF bonds. Following a 1974 mission to New York investment banks, CAF concluded that it could raise up to US$ 25 million in a private placement (CAF AR, 1974), but that did not happen. Private financial participation was also limited. Bank of America provided a series of loans, but these were at a high interest rate and directly tied in with a US Ex-Im Bank loan for specific American export purchases (Humphrey, 2012, p.65). Despite the oil boom that some Andean countries were experiencing, it was not until 1977 that the institution finally got a loan of US$ 50 million from a syndicate of European, Japanese and U.S. banks (Humphrey, 2012, p.66).

Credit lines and loans tied to exports were the only significant financing offered by countries outside the Andean region: US$ 6 million each from Brazil and Mexico in 1973, US$ 10 million from Japan's Ex-Im Bank in 1974, various project purchases funded jointly by the US Ex-Im Bank and Bank of America, and US$ 10 million by the Spanish Export Bank in 1977 (Humphrey, 2012, p.66). CAF sought to avoid credit lines tied to exports, as they limited both the financial flexibility of the CAF and the procurement options facing borrowing projects (Humphrey, 2012; CAF AR, 1973). Therefore, even though CAF had defined its mandate, it was having a hard time due to its limited funds to take on large regional integration projects. CAF's staff also found that private lenders were not easily convinced about its prospects and mission in a region in which oil was creating economic differences amongst countries and increasing contrasts in their development paths. CAF depended much more heavily then than it had originally planned on the prospect of raising funds within its member nations.

Despite the urgent need for funds, CAF's staff was keen on restricting full membership to its original founders since the entity was still trying to differentiate itself from other RFIs. For example, in November 1973, CAF's first president Adolfo Linares visited Argentina and suggested that he felt Argentina could not join CAF because "Argentina's level of development and its economic characteristics are too superior to those of other member countries...It would be practical and desirable for Argentina to have closer relationship with the group, but not as full member." (Linares quoted in U.S. Embassy Cable, 1973). Venezuela's changing policies regarding the use of its oil revenues also presented problems at the time when CAF was trying to obtain external funds: Enrique Vial, a former vice-president at CAF, suggested that Germany was about to sign a 15 million mark concessionary loan, but decided to back off due to Venezuelan oil-related policies (U.S. Embassy Cable, 1974).

In 1974, CAF contracted a group of financial experts (one expert per country member) to assess the effectiveness of CAF and make respective recommendations. These efforts resulted in the creation of a mechanism— the Andean Trade Financing System (Safico, in Spanish)—for promoting and financing trade in shareholder countries, and to increase sub-regional integration through export growth and diversification (CAF, 2010a). But according to a cable from the U.S. Embassy in Caracas, Adolfo Linares, CAF's president, felt frustrated with the difficulties encountered in promoting cooperation within the Andean Group:

> Linares complained bitterly that government decisions involving CAF are affected too much by national politics rather than purely economic development considerations. He was particularly upset concerning negotiations for a US$ 60 million loan from Venezuelan Investment Fund, which has been undergoing change in management. (U.S. Embassy Cable, 1975).

At the same time, by the mid-1970s, the regional and external environment had changed and several events had an impact on the development agendas and policies of Andean countries. Detente and the crisis in U.S. international economic leadership, an increasing interest in relations with Europe and other regions, the new climate of "Third-Worldist" activism and demands for a new international economic order, all prompted a belief in more far-reaching diversification of external relationships and new forms of collective action in pursuit of distinct paths towards development. At the institutional level, an important result for Latin America of this new regional environment was the creation in 1975 of the Latin American Economic System (SELA), which included Cuba and excluded the United States. At the sub-regional level, in 1976, Andean countries signed an agreement to harmonize their financial, monetary, and exchange policies. This led to the establishment, in 1978, of the Andean Reserve Fund, which would later become the Latin American Reserve Fund (CAF AR, 2010).

Meanwhile, by 1975, CAF had entered a new stage of administrative and institutional consolidation in which it established new goals for its operations, and focused on obtaining financial and technical resources and on promoting new projects (CAF AR, 2010). The administration decided to partially relax the institutional standards in the interests of making loans. In an article, CAF's second president, Julio Sajines, recalled that "pressured by the need to survive, CAF had to move ahead with projects that were not strictly in accord with the restrictive parameters of its mandate" (Sanjines quoted in CAF, 1990, p. 28). By partially relaxing its lending requirements and initiating short-term trade finance lending through Safico, CAF began to build lending, with annual commitments rising from US$ 33 million in 1973 to US$ 107 million in 1976—of which USD $17 million was trade financing (CAF AR 1970-1980).

However, lending reversed sharply in 1977, as a result of Chile's withdrawal from the Andean Group—now under a different approach towards development and integration focused on free market policies under Pinochet's leadership— as well as changing development strategies of member countries. Chile's withdrawal affected CAF's activities, disturbing their normal development to the point that for more than ten months, CAF's directors were unable to meet, which delayed loans' approval as well as administrative measures (CAF AR, 1976). CAF experienced three years of net losses in this decade (1975, 1977 and 1978) reflecting not only difficulties in finding feasible projects but also CAF's high cost of capital, which made it hard to offer loans at terms that were both acceptable to borrowers and profitable for the entity (Humphrey 2012; CAF, 1990). By 1979, in its efforts to survive, CAF's management had changed its credit policy to give priority to development projects that were national priorities for its shareholder countries (CAF AR, 2010).

3.4.1. Failure of industrial programs and impact on the institution

To further understand CAF's limitations during this decade and how it would shape CAF's future, it is necessary to explore the failure of the Andean Region's industrial programs. These programs were a key aspect of the integration goals and agenda. CAF's original task was to provide capital for investment projects designed to have regional impact. Otherwise, it was felt CAF would merely duplicate efforts of existing development banks. CAF was assigned a role in the regional creation of manufacturing or service companies and in the expansion, modernization or conversion of existing ones. By the very nature of the economic policies of member countries, it was implicit that there would be a preference for public enterprises in this role.

At the time, the private sector had little involvement in the development of so-called strategic sectors, which were those that should benefit according to sub-regional agreements (Sorensen, 1994). CAF began operating within this framework, which limited its scope of activity to finance operations. It began to finance investment projects directly linked to integration programs established by the Cartagena Agreement, particularly those arising from the industrial programs. In fact, the efforts of CAF's early years were largely dependent on the pace of the Andean integration process, which began with a lot of momentum but was deadlocked by the mid-1970s. In later decades, CAF's management would continue to closely monitor integration processes, but would focus on building its own agenda separate from the pace of regional initiatives.

It was hoped then that CAF would primarily pay attention to assisting the sectoral programs' schemes (SPIDs) that would improve the woefully inadequate intraregional transportation and communications systems (Fontaine, 1977). The establishment of the SPIDs was an initiative taken by the Andean Pact to spread industrial growth throughout the Andean region (Fontaine, 1977). It was distributional in nature in that specific Andean nations would be assigned the rights to certain industries that could then export to the others behind a common external tariff, giving them a large enough market for successful ISI. It has been described as the "most ambitious attempt at central direction ever attempted by any transnational community"(Fontaine, 1977, p. 16). The SPIDs focused on four main industries: the light engineering program, the petrochemical program, the automobile program, and the iron and steel program. The automobile and iron and steel programs were agreed upon later, but never fully materialized in action. Nevertheless, defenders of the prevailing integration scheme could argue that all was not lost, since the petrochemical program had been approved in April 1975.

However, numerous and substantial reforms had been introduced into the original proposal, completely subverting the principle of specialization, and the program approved left every member country much as it had been before, with the option of developing an integrated petrochemical industry if it so desired (Puyana, 1982). Among the problems the Pact faced were the diverse and often contrasting economic policies of its members. This problem has been a constant throughout integration efforts in the region. For example, Colombia, Peru, and Venezuela already had well-established state-owned petrochemical industries (Fontaine, 1977). These countries were not comfortable with allowing other states access to technology without themselves also possessing that technology. In addition, Fontaine (1977, p.17) notes: “Delays also provided an incentive for member countries to rush into plant construction and thus create faits accomplis, or slipshod industrial development”.

Fontaine (1977) highlights two reasons for the apparent lack of success in financing the sectoral programs. First, only two SPIDs had been approved by then. Second, and of greater importance, the disagreements within the Andean Group over fear of losing one’s fair share made acceptable projects difficult to find and politically dangerous to promote (Fontaine, 1977). There were also technical aspects that complicated the preparation, negotiation and execution of the SPIDs. The negotiation could have been more successful if all or a large part of the programs were negotiated together, according to some observers (Salgado, 2009). Since more SPIDs were discussed individually, that meant that in each negotiation members had to come to an agreement. Finally, this industrial planning effort coincided with a turbulent period in the global economy. When the energy crisis took place in 1973, the preparation and negotiation of certain SPIDs such as petrochemical and automotive were immediately affected. In short, for many political (national viewpoints) and technical reasons, the industrial program aspects of the Cartagena Agreement did not work properly and eventually were reduced to impotence.

In this context, it became difficult for CAF authorities to promote SPIDs since the institution was still very dependent on national contributions for much of its working capital (in later decades the insertion in global capital markets would provide more discretion to the entity). As such, the two main instruments of integration, the common external tariff and regional industrialization programs often conflicted with national development plans. By 1977, CAF had not done much in relation to assisting SPIDs, allocating a total of US$ 4.7 million to them. In contrast, US$ 18 million had been committed to strictly national projects and regional transportation improvement as well (Fontaine, 1977). Therefore, since its creation, CAF has run up often against the tensions between its mandate to promote and finance regional integration and the desires of individual member governments.

During CAF's first decade, countries had difficulty agreeing on the rules of the integration process. For example, Chile's and Venezuela's needs for foreign investments were very different and each country looked for different regulations. In fact, during the 1970-1975 period, Chile experienced a profound political and economic crisis, while in that same period Venezuela was enjoying the economic advantages of being an oil exporting country. In this context, it was difficult to outline and promote projects with integrationist content. By 1979, as previously mentioned, CAF changed its credit policy to give priority to development projects that were national priorities for its shareholder countries (CAF, 2010a). By focusing on national priorities, CAF was trying to find common ground amongst its members so they could take notice that the institution could still be a timely financing agent, despite regional disagreements.

3.5 CAF and the regional environment during the 1980s – 1990s

By 1980, the CAF had raised a total of US$ 260 million within its member countries, but only USD $137 million from outside the sub-region (CAF AR, 1970-1980). By 1981, CAF's financial situation was not good, with only US$ 15 million in loan approvals that year. Moreover, in the sub-regional arena, 1981 brought with it a legacy of dissatisfactions and frustrations. This was a very hard year with the Peru-Ecuador armed conflict seriously aggravating the situation. From this low point, CAF began reframing its strategy and rebuilding itself as a multilateral financing agent. Leaving behind an operational model with a focus more on the political interests of its members than in its own bottom line, and constrained by a mandate to promote a sub-regional integration process that was at best stagnating, CAF began the painful process of reinventing itself as a RFI much closer, in terms of financial management, to the model of the IADB and World Bank (Humphrey, 2012).

CAF officials began to consider ways for CAF to revamp its operational activities in order to enhance its attractiveness as a potential lender. In the early 1980s, CAF's Board approved a new operational policy, which enabled it to expand its field of action, while consolidating its position as the financial arm of Andean countries (CAF, 2010a). The new policy was perceived as a significant tool since it took into account the urgent needs and priorities of the countries and incorporated sectors perceived by CAF as immediate priorities such as infrastructure and agricultural development (CAF AR, 1983; CAF AR, 1985). By 1985, CAF also embraced rural development as a priority (CAF AR, 1985). At the same time, during this decade, CAF took its first steps in the social arena by signing cooperation agreements with the International Fund for Agricultural Development (IFAD), the OPEC Fund, and the World

Food Program. These steps gave rise to a new role, as fund manager, for the execution of projects financed by other institutions (CAF AR, 2010).

During this time, RFIs were looking for ways to cooperate with each other, in their efforts to support their members, which were going through a difficult economic period. At this time, CAF signed a cooperation agreement with the IADB, World Bank, and the authorities of the Andean Group, forming the joint Group for physical integration (CAF AR, 1982-1984). CAF began co-financing several operations in the 1980s with the IADB, which provided more opportunities to CAF for lending larger amounts for projects assessed and overseen by the IADB. CAF loans increasingly went as well directly to governments or state companies and development banks, rather than the private sector. As Humphrey (2012: 69) suggests, “this provided a higher degree of security to the CAF in troubled economic times and allowed for larger loan amounts, and would have been welcome to borrowing governments in the extremely difficult panorama of the early 1980s.” Meanwhile, in this decade, CAF’s administration began to systematically accumulate reserves, while convincing shareholders to allow CAF to keep unallocated net income on its books, rather than redistributing it to shareholders (which was permitted by its constitutive agreement) (Humphrey, 2012, p.70).

The 1980s debt crisis was indeed a test for CAF’s continuity and its preferred creditor status was ultimately fundamental in ensuring the survival of the institution. As Hugo Sarmiento, who has worked at CAF since 1993 and is currently its Chief Financial Officer, recalls: “We’ve been stress tested in the [1980s] debt crisis when four of our countries were in default. Colombia never defaulted, but four out of five members were D-rated yet we were always paid on time” (Sarmiento quoted in Barham, 2003). Against all odds, CAF lending began growing again in the 1980s, while the entity evidently began selecting projects much more carefully; cancelled projects went from 43% of total value during 1971-1980 to 10.6% in 1982-1986 (Humphrey, 2012, p.69).

The regional environment in which CAF operated during this decade was not very promising. In 1983, trade broke down within the Andean Group. But the second half of the 1980s witnessed a renewed integration spirit in the region. The recently democratized countries were keen to work together to deliver some regional goods (Dabene, 2012). The economic crisis, particularly the external debt, prompted the launch of a Latin American Economic Conference at the highest level among SELA member states in Quito in January 1984. This event was followed in June by a conference specifically on the debt issue among the eleven most indebted Latin American countries, which produced the “Consensus of Cartagena.” At the same time, new regional efforts were being made to find peaceful regional solutions in Central America, through the activity of the Contadora Group (Colombia, Mexico, Panama and Venezuela) formed in 1983, and the Contadora Support Group set up in 1985 (Argentina, Brazil, Peru, Uruguay). This increasing trend towards international cooperation together led to a transformation of the eight countries belonging to the Contadora and the Contadora Support Groups, at a meeting in Rio de Janeiro in December 1986, into the Rio Group (Best, 1991).

In 1987, the Andean Group signed a protocol in Quito providing for a less ambitious and more discretionary process of integration. Soon after, CAF approved the entry of banks and other private organizations of full member countries as Series B shareholders, with limited participation on the Board. In 1989, the private sector started to participate in CAF’s paid-in capital, by increasing to US$50 billion the capital accounted by Series B shares. These shares were undersigned by banks and private financial institutions of Andean countries. In addition, one private sector representative was incorporated into CAF’s Board of Directors (CAF AR, 2005). CAF's shareholders also approved a fund for promoting multinational Andean enterprises, to which they assigned US$ 1.5 billion dollars; another fund for biotechnical development was assigned US$1 billion dollars. CAF's responsibilities during this new stage of integrationist activity included the promotion of integration by encouraging the private sector to assume a crucial role (CAF AR, 1988). However, whether for lack of projects or by design, CAF's portfolio at the time was notably lacking in regional infrastructure projects (Bywater, 1990). At the end of 1987, only US$ 37 million of the US$ 1.5 billion set aside for the Andean enterprises initiative had been used. This US$37 million was in fact money that CAF had already invested in two companies under its ordinary mandate (Bywater, 1990).

Meanwhile, within the regional context, there was some rivalry and overlap in terms of activities between CAF and the Junta of the Cartagena Agreement, despite their obligation under the agreement to remain in close contact and coordinate the activities between the two organizations (Bywater, 1990). Both were competing for funds from regional major banks for technical assistance projects, organizing seminars and studies on similar topics, while trying to involve the private sector more in integration. However, CAF had more resources and could afford to be more generous in the funding it offered industry for studies or attendance at seminars Moreover, CAF was also perceived as being less bureaucratic (Bywater, 1990, p.139). This perception of increasingly low levels of bureaucracy at CAF became a key attraction for South American countries considering multilateral loans throughout the years.

In 1989, the presidents of the Andean Pact announced new bold efforts to boost integration mechanisms, such as their decision to work toward a common market – together with intensified cooperation in a broad range of areas (Best, 1991). Following this announcement, CAF adopted a number of strategies to increase its resources and extend its field of action. In

December 1989, the entity doubled its authorized capital and decided to invite other Latin American countries to become Series C members (CAF, 2010a) within a regional environment that increasingly supported opening borders and reaching for capital outside the sub-region. As outlined in the introduction of this work, Series C members have less borrowing capacity and representation in CAF's Board than the original shareholders. Initially, only Mexico was interested and was incorporated as a Series C shareholder in 1990.

By the late 1980s, CAF had not devised yet a clear strategy to raise funds in the financial markets. However, by that year, CAF had almost two decades of showing the international community that it could survive in tumultuous times. CAF had an excellent repayment record, even though four of CAF's five founding members were in default to international markets at some point. These countries suspended international debt payments and fell into arrears with the World Bank, IMF and/or the IADB in the mid-1980s, but continued servicing all obligations to CAF. Some private lenders began noticing CAF and in 1989, the first placement of a private bond (albeit only for US$ 2.5 million) took place with First Interstate Bank, followed the next year by a three-year, USD $15 million bond placed privately in Japan at Libor +1% (Humphrey, 2012, p.72). In 1990, CAF also received untied credit lines from European banks, and further untied loans from First Interstate Bank (CAF AR, 1990). Meanwhile, authorized capital was increased by US$1 billion in 1990, to a total of US$2.05 billion as shareholders perceived the institution as an useful and reliable source of financing (CAF AR, 1990). Despite this track record, CAF's scope of action remained limited and it had to reinvent itself during the next decade in order to go beyond surviving in a turbulent region.

3.6 The arrival of Enrique Garcia and the beginning of a new era

Enrique Garcia became CAF's executive president in 1991. Garcia is a Bolivian economist who served as an officer of the IADB for 17 years until 1989, where he was Treasurer of the institution after holding other positions such as Division Head in the Project Analysis and Finance Departments and Representative in Argentina. As a Division Head in the Finance Departments' unit, he became familiar with the relationships of countries' industries and public sectors with other development banks, including CAF. Between 1989 and 1991, Garcia was Bolivia's minister of Planning and Coordination and Head of the Economic and Social Cabinet. In this capacity, he represented his country in the Board of Governors at the World Bank, the IADB and CAF, as well as acted as a member of the IMF-IBRD Development Committee representing Bolivia, Chile, Argentina, Peru, Uruguay and Paraguay. During his tenure as CAF's president, Jose Cardenas (1981-1986) had asked Garcia to advise CAF on financing matters and even invited him to join the institution. Garcia declined the invitation, although he provided Cardenas with advice and even suggested he would help him find CAF's next president (Enrique Garcia, personal interview, November 19, 2012).

During his role as a Minister of Planning and Coordination and head of the Economic and Social Cabinet of Bolivia, Garcia became the president of CAF's Board of Directors representing his native Bolivia. It was at this time that Garcia became better acquainted with CAF. Meanwhile, the Minister of Foreign Relations in Colombia, who was Garcia's former boss at the IADB, talked to Garcia and let him know that his country would support him if he ever wanted to assume the role of CAF's president (Enrique Garcia, personal interview, November 19, 2012). During his interview for this study, Garcia mentioned that once he got to know CAF better he decided to accept the presidency because he saw an institution with potential that could be strengthened from the inside out. Garcia had already had a successful career in his country and at the IADB and was ready for a new professional challenge[4] that would let him apply all the knowledge and relational abilities he possessed regarding development financing:

> I said yes, because I saw an entity that had potential, but needed to change in some ways. CAF had a constitutive agreement that gave it the foundations to adapt itself to changing times. It also had some governance mechanisms such as a non-resident board that gave the institution some advantages over the IADB and WB. I thought that well-managed, those features gave the institution the basis to have a solid entity that could be more significant in the region (Enrique Garcia, personal interview, November 19, 2012).

Garcia had thus been very well acquainted with RFIs and had vast knowledge of multilateral agencies and processes in South America before joining CAF. He drew upon his previous experiences to redefine CAF's overall vision and strategy to support long-term financing for development. To grow its operations, Garcia believed that CAF should focus on three key areas: credit expansion, membership, and funding, all of which were intertwined. Garcia was clear about his goals right from the start and believed that it was time for CAF to become more active in international capital markets and rely less on funds raised within members or short-term loans (Latin Finance, 1998). Moreover, Garcia perceived that although the bank's original role was in trade finance, it was important to broaden that: "We [CAF's management] saw that there was a need for development finance, especially in infrastructure" (Garcia quoted in Wilson, 2012).

4 As CAF's president, Garcia has contributed to academic institutions and thinktanks. Currently, he is Vice- President of Canning House, member of the Board of Directors of the Inter-American Dialogue and of the Dialogue's Advisory Group on Membership, the Council on American Politics of George Washington University, the Florida International University's Latin American and Caribbean Center. He was formerly a member of the Advisory Board of the Center for International Development (CID) at Harvard University.

A key feature in CAF's survival has been how Garcia has engaged with the prevailing regional and institutional dynamics while selecting those elements that could be useful in carrying out his vision for the institution. To be successful at those engagements, Garcia has employed his previous institutional experience and his charisma to establish and strengthen cordial relationships with political leaders throughout the region. Garcia's actions support Cox's (1969) analysis regarding how an executive head requires excellent political skills, while nurturing a personal network reaching into domestic politics of relevant countries. In the early1990s, Garcia identified that some operational and financing policies of large MDBs could be adapted to CAF. For example, in 1992, CAF hired consultants from Coopers and Lybrand and a former World Bank Vice-president to make an independent review of CAF's operations, financial mechanisms and processes. The study was the basis to update CAF's organizational structures in 1993. Similarly, CAF's management reviewed the entity's operative and financial policies "for the purpose of expanding its financial sources and to adapt them to the new world dynamics" (CAF AR, 1992, p.57). Moreover, during that year, CAF put particular emphasis on investment co-financing. Hence CAF's contribution of about US$ 401 million allowed for the channeling of external funds to the sub-region that totaled almost US$1.2 billion from loans granted for projects co-financed by different multilateral organizations and international bilateral financing agencies (CAF AR, 1992).

By 1992, there was also greater concentration in long-term credit operations compared to medium and short-term credit (CAF AR, 1992). Operational activities during that year placed greater emphasis on the private sector, representing a significant change in CAF's activities.
To a great extent, this was due to the prevalent institutional paradigms regarding the importance of privatization and governance programs within the region. During this period, as outlined in the

previous chapter, regional institutions like ECLA and the Andean Community of Nations (CAN) also experienced the paradigm shift, embracing “open regionalism.” This shift was a response to the demands of the increasingly noticeable dynamics of economic regionalization and globalization, while aligning regional economic integration with the liberal policies of the Washington Consensus. Open regionalism emphasized regional trade agreements with low external tariffs and trade barriers and broad intra-group liberalization, aimed at giving the private sector a bigger role in promoting efficiency and international competitiveness (Burki, Perry & Calvo, 1998).

By 1993, CAF had become the largest medium and long term lender to the private sector in the Andean Group—more than 60% of CAF’s loan approvals in 1993 were in this category (CAF AR, 1993). CAF’s focus on trade financing had disappeared for both ideological and practical reasons. As such, the last mention of Safico, the short-term trade finance lending program, was in 1993. CAF also updated its mission statement in 1993, giving emphasis to regional integration, which became later an element of attraction that resulted in the eventual incorporation of new countries The turnabout in fundraising strategy that took place starting in 1993 proved to be crucial in CAF’s history, allowing it to diversify its sources of financing and cut costs (CAF AR, 2000). CAF also authorized a group of Andean commercial banks to sign up for a portion of B Shares, as permitted in its constitutive agreement since 1989, in order to further diversify capital ownership.

In 1993, CAF also adopted a new organizational structure and management process, “leading to increased levels of professionalism, greater development support for its staff, and increased use of technology” (CAF AR, 1993). An important aspect of this structure was related to the hiring of staff, since before Garcia’s arrival it was noted that there was some political interference related to staff appointment (former World Bank and CAF official, personal interview, January 26, 2013). During his interview, Garcia himself recounted two instances when ministers or central bankers talked to him trying to convince him to appoint one of their nationals to the Executive Vice-Presidency. Garcia resisted these appeals and had to work with all the members of the Board in explaining how independence in the appointment of staff was beneficial for the institution's credibility in international circles (Garcia, personal interview, November 19, 2012). A CAF official who has worked for the institution since the early 1990s observed: "Garcia has had to use his charisma and political skills to develop and maintain a balanced relationship amongst leaders of distinct governments, not only to reaffirm CAF's support but also to prevent political interference" (CAF senior official, Infrastructure Division, personal interview, November 19, 2012).

After the 1993 reform, Garcia's position was established as the only political role; for other staff members, a competitive process (which includes outsourcing the hiring of senior positions) was established in order to avoid political interference as much as possible. In securing these organizational changes, Garcia demonstrated—as Schroeder (2014) and Kille and Scully (2003) have shown in their studies about the role of leadership in IOs— how an executive head could make political choices in order to contribute to organizational adaption and progress, and put in place a strategic agenda while mobilizing support. Some of the early hires after this reform have become long-term trusted confidants of Garcia. These (now senior) officials have embraced Garcia's vision and helped execute it since the mid-1990s and continue to have strategic roles in the institution. For example, Luis Enrique Berrizbetia, has been CAF's Executive Vice-president since 1996, Hugo Sarmiento has worked in the institution since 1993 and is now its Chief Financial Officer and Antonio Juan Sosa, VP of Infrastructure since 2000s was hired by CAF in 1996 as Director of Public Financing Projects.

Garcia' strategy to make CAF a relevant source of long-term financing for the region consisted of developing human and capital resources in order to achieve three main objectives: gaining access to capital markets, developing a niche in financing physical infrastructure and expanding its membership while strengthening the relationships with all country members in the prevalent regional environment. The next subsections describe the development of this strategy in detail, while showing how IOs are able to evolve and develop a distinct identity beyond their original mandates.

3.6.1 Gaining access to capital markets

In CAF's story, the management of relations between the entity and the credit rating agencies (CRAs) can be explained to a great extent through an exploration of the role of leadership within the entity. Garcia's top priority for the institution was to obtain an investment grade rating, in order to raise significant resources on the markets at a price that permitted CAF to offer countries long-term loans at attractive rates (Garcia, personal interview, November 19, 2012). Garcia knew the CRAs' staff well from his previous positions at the IADB. Immediately after taking charge in 1991, Garcia traveled to the U.S. to obtain a rating from Standard & Poor's and Moody's. Nevertheless, as Humphrey (2012: 73) suggests, this was an ambitious request, considering that not a single borrower in Latin America had investment grade, and that four of the five founding members were among the most notorious debtors during the previous decade.

A former CAF official, who worked at the time in the area of raising funds, recalled that one of the strategies that CAF used to engage effectively with credit rating agencies was to differentiate the institution from the countries themselves. CAF officials (following Garcia's strategy) emphasized, first, that the institution had a separate constitutive agreement from the Andean Pact and was therefore a supranational entity and, second, that countries had respected CAF's guidelines and had not stopped paying their loans (former CAF official, personal interview November 15, 2012). As such, CAF advertised itself as a "solid" and "healthy" institution with a very good financial situation, despite its size. This interviewee also attributed CAF's success in obtaining investment grade to the technical and communication abilities of CAF's staff, under the direction of Garcia, who were committed to establishing long-term relationships with the CRAs and to gain international exposure. At the same time, it is noteworthy that CAF was promoting itself internationally in the middle of a sub-regional crisis: in 1992, the Andean Pact suffered a severe blow when Peru unilaterally decided to suspend the preferential treatment granted to imports from countries within the Pact. This action was part of a general Peruvian policy aimed at forcing a lower common external tariff on the Pact.

Ultimately, the financial health of the institution combined with its ongoing support from shareholder countries—reflected in the constant increase of its share capital, loan repayment rates and a Board of Directors who trusted the staff—were fundamental for CAF in obtaining an investment grade rating. It was also important that there was a considerable amount of previous work done by CAF that was closely linked with that goal. Shortly after Garcia's arrival, the institution began sending signals to investors regarding CAF's capability to participate in capital market activities in the region (former CAF official, personal interview, November 15, 2012). For instance, since 1991, CAF had participated in limited recourse lending activities, particularly under its two varieties, BOT (Build, Operate, and Transfer) and BOO (Build, Operate and Own). Other areas of financing that CAF had cautiously expanded into by then were equity investments and financial leasing (CAF AR, 1994).

Standard & Poor's issued CAF an investment grade rating in 1993, soon followed by Moody's and IBCA (CAF AR, 1993). During the same year, CAF issued three public bonds for a total of US$ 289 million, US$ 200 million on the Eurobond market and US$ 89 million Japanese "samurai" bonds (CAF AR, 1993). In one year, CAF raised more freely usable resources from outside the sub-region than it had in its entire previous two decades combined. Using data from annual reports, Humphrey (2012:74) remarks that project lending commitments increased by more than a factor of 10 in the five years between 1989 (US$ 103 million) and 1994 (US$ 1.4 billion), a truly remarkable growth rate. A crucial aspect during this phase was that the investor road shows were handled by Enrique Garcia, with Juan Posada—CAF's Vice-president of Finance at the time— in the apprentice's role (House, 1994). When asked what CAF's objectives were in terms of returns, Garcia replied:

> In recent years we have put a lot of effort into running our shop with a private sector approach. We have introduced sound criteria for asset liability management and although high returns are not the main priority of the institution, we expect to continue having satisfactory returns on assets and equities. The fact that we have a high equity base is both good and bad. It makes for a very solid institution, but it is that much harder to achieve a high return on equity (Garcia quoted in *Institutional Investor*, 1995).

As Garcia courted the ratings agencies and prepared for road shows, he simultaneously began taking advantage of disbursement rules that were considerably more liberal than those of the World Bank or the IADB. That is the strategy he decided to employ for trying to balance shareholders' needs with international markets' requirements. In Garcia's words: "We can do [finance] operations that are public or private, short or long term...We can provide loans or equity guarantees. We can offer clients an integral package— not only to sovereigns but to municipalities, private companies and public and private financial institutions" (Garcia quoted in *Institutional Investor*, 1997). CAF was also focusing its efforts on securing medium-term funding in its member countries. In the process, it was slowly educating the market about how a small bank could actually raise funds internationally. Posada (quoted in House, 1994) described the strategy as follows: "We've chosen the approach of issuing no more than US$ 150 million, but several times a year…Little and often is the policy, and that sends out the signal, 'These guys are serious, and they need money on a regular basis.'" During the mid-1990s, CAF sharply increased loans to the private sector to nearly 40% of outstanding loans at year-end 1997.[5]

3.6.2 Physical infrastructure as a "niche"

During CAF's first two decades of existence, infrastructure accounted for a marginal percentage of its operations and financing, and it was mainly related to the entity's financing of support equipment imports and not necessarily to the direct infrastructure projects (CAF AR, 2005). Twenty years later, CAF's administration made it clear that supporting the infrastructure sector had become an institutional priority. Enrique Garcia strongly believed that CAF had to go beyond its mission and actually begin actively participating in physical infrastructure and border integration projects in the sub-region.

During the 1990s, major multilateral lending agencies substantially lowered the amount of resources devoted to financing infrastructure projects in Latin America, even though loans for improving sectorial policies and governmental institutions increased significantly (Rozas, P., Bonifaz, J.L. & Guerra-Garcia, G., 2011). Overall, the decline in loans for infrastructure matters

[5] CAF subsequently refocused on the public sector. Public-sector loans increased to more than 90% of outstanding loans as of year-end 2004. Since then, they have trended downward, and they stood at 79% as of year-end 2009. For more details see CAF's Annual Reports.

was, according to institutional viewpoints, the result of several discussions within international multilateral lending agencies in the mid-1990s, which decided to favour assistance to sectoral authorities of each country in the region. This assistance was concentrated on the design of policies and instruments whose objectives were the multiplication of private investment flows in the sector (Rozas et al., 2011). Moreover, another reason why financing infrastructure went out of fashion in the 1990s was because, in line with strategies that embraced free market approaches, there was an exaggerated belief that the private sector would finance infrastructure. As a result, many felt that MDBs had better find something else to justify their continued existence. For example, in the case of the World Bank:

> Infrastructure was now lumped in with private sector development and finance, the whole package being merely one of five "networks." The shift away from infrastructure was also because there was growing pressure to spend aid on the photogenic social priorities—health and education—and on the increasingly sacred environmental goals (both of which got networks all to themselves at the World Bank). So agencies shifted their budgets away from infrastructure to make room for increased spending on the new priorities (Collier, 2007, p.108).

In addition, a former WB and CAF official who worked at the World Bank until 2001, remarked that by the mid-1990s, the WB was focusing on rebranding the institution by moving away from conditional lending (at least to be less associated with it) and concentrating on poverty issues and guidelines (former World Bank and CAF official, personal interview, January 26, 2013). "Voices of the Poor: Reports " were published by the World Bank in 2000, as the result of strategic discussions within the World Bank in the mid-1990s led by its Executive

President, James Wolfensohn. The three reports analyzed different aspects of the interviews that the WB conducted with 60,000 poor men and women around the world (World Bank, 2013).

Garcia felt then that CAF could find a niche alongside existing IFIs in the region by focusing on infrastructure matters. That niche would also serve as a "window of opportunity" and as a "vehicle" to make CAF attractive for countries beyond the Andean region. In addition to the shift of institutional focus at the WB and the IADB, Garcia (2006) emphasized that there had been insufficient public investment in the region:

> After the adjustment and reform process initiated in the late 1980s and early 1990s, fiscal restraint mainly reduced public investment in Latin America. This negatively affected the stock and quality of infrastructure in the region. In this context, CAF viewed the financing of infrastructure projects as an area neglected by the market and consequently specialized in this sector (Garcia, 2006, p.185-186).

At the time, according to Juan Antonio Sosa— current VP of Infrastructure and working for CAF since the early 1990s—various CAF employees did not agree with the idea, suggesting that infrastructure was a task for "big" development banks. However, to reinforce his position, Garcia began the hiring process of experts who were enthusiastic about physical integration, had experience in the area and consequently believed infrastructure was a feasible goal (Antonio Juan Sosa, personal interview, October 18, 2012; senior CAF official, Infrastructure Division, personal interview, November 19, 2012).

According to a current official who was hired at the time, Garcia's mandate also indicated that CAF could not take longer than nine months to analyze the feasibility and funding of an operation: "that was ok for the IADB but CAF needed to start responding faster to its clients' needs…CAF could not compete in terms of lower interest rates or better financing terms, but it could provide a competitive advantage in understanding better client needs" (senior CAF Official, Infrastructure Division, personal interview, November 19, 2012). This official also remarked that Garcia was keen on reminding the staff that country members' officials who requested financing from CAF needed it as soon as possible, since in about three years they would probably be gone (due to electoral cycles). Therefore, CAF needed to provide an agile response to financing requests if they were deemed feasible (senior CAF Official, Infrastructure Division, personal interview, November 19, 2012).

Garcia also hired international consultants for drafting an ambitious infrastructure plan. One of these people was Guillermo Vega Alvear, a Peruvian engineer and consultant who was also a well-known businessman in South America in the area of infrastructure. Garcia met Vega Alvear in Bolivia before he joined CAF and hired him as the lead consultant of a team of experts. Their task was to identify the sub-region's most important projects, which could contribute to strengthening the integration process. The objective was that CAF would begin to actively promote the provision of the adequate physical infrastructure deemed essential for integration, the increase in productive and export capacity of enterprises, and the creation of the competitive advantages demanded by the global market. This plan assigned priority to the areas of road construction, energy and communications.

The task force concluded by identifying ninety integration projects in the energy, transportation and communication sectors. The ministers of transportation, communication and public works of the member countries also met in Caracas in October 1992, where they selected the twenty top priority projects. By 1994, CAF had published three books— "Road Integration," "Energy Integration," and "Telematics" in the Andean Region—that gave diagnostic analyses of the actual integration situation. While carrying out some of the initial projects, CAF also began to promote border integration, of importance not only to the Andean countries, “but also to partners such as Brazil and Chile, for there are many projects to be carried out jointly that will increase trade by means of a broad common frontier” (CAF AR, 1995, p. 16).

The three books published by CAF, especially the one about road integration, were key in attracting attention from the other governments, such as Brazil. These publications shared the view of Eliezer Batista, a well-known businessman in Brazil and the president of Vale do Rio Doce company (a mining company and one of the largest logistics operators in Brazil, which was privatized in 1997 and is now known as Vale S.A.). Batista led the Strategic Affairs Secretariat at the end of the Collor government in Brazil. During this period, he published a comprehensive work called “Development Axes,” which analyzed integration alternatives in Latin America. This work went beyond traditional infrastructure analyses since it created development regions in seven areas of the continent. It soon became the “bible” of regional planning. According to various authors, through his work, Batista promoted linking commodities production centers to global markets and as such making substantial infrastructure investments along the export axes (Goncalves, Brandao, & Galvao, 2003). Although Batista’s work was temporarily forgotten after Collor’s impeachment, it was revived at the beginning of the Fernando Henrique Cardoso presidency and became an integral component of the Multiyear Plan (PPA) from 1996 to 1999 as well of the programs “Brasil em Ação” (Brazil in Action) “Avança Brasil” (Advance Brazil) and later, of course, of the IIRSA initiative.

Garcia met Batista while the latter was a government official and shortly after, he helped Garcia coordinate a meeting with Cardoso in August 1993, who at the time was Minister of Foreign Affairs under President Itamar Franco (Garcia, personal interview, November 19, 2012). According to Garcia, the minister told him that Brazilian officials at the time were not interested in joining CAF because they saw it as an institution that could mainly work on trade financing matters. He asked Garcia whether CAF could finance a highway between Brazil and Venezuela for example and Garcia replied that at the time they could not do it necessarily, but they were working on that (Garcia, personal interview, November 19, 2012).

The meeting between Cardoso and Garcia is emblematic: it served as a first direct encounter between Brazilian authorities and CAF, while providing Garcia substantial arguments to present to CAF's Board of Directors regarding the necessity of modifying the constitutive agreement. By extending CAF's membership to other countries as associate members (Series C shareholders), Garcia hoped that the institution could expand its scope and become more relevant in the region. While attending a World Bank meeting in 1994, Garcia had a brief encounter with Cardoso (who at the time was a presidential candidate) and he mentioned to him that CAF had modified its constitutive agreement (Garcia, personal interview, November 19, 2012). After several discussions between Brazilian officials and CAF officials under Garcia's direction, Brazil eventually joined CAF as a Series C member in 1995 after Cardoso became president. As such, CAF's management engaged with the Brazilian and member states' geopolitics in order to understand and deliver on strategies to strengthen the institution and make it attractive for several actors in South America.

CAF's actions and shareholders' support in the area of infrastructure were possible due to various factors including the expansion of the institution's sphere of operations with the accession of new shareholders. Meanwhile, it was also helpful that CAF began using financial instruments that fostered private-sector participation in the development of physical infrastructure, while increasing investment. Two examples were limited recourse lending, in which CAF had been participating since 1991, and the A/B loans, which were introduced in 1997

(CAF AR, 1997). Under this program, which remains in place at the present time, CAF offers the "A" portion of the loan from its own resources. CAF then partners with other financial institutions to provide the "B" loan. Under this structure, CAF is the lender of record in the transaction and acts as lead lender and administrative agent for the entire "A" plus "B" loan facility. This structure is promoted as benefitting both the borrowers and the financial institutions partnering with CAF because it reduces the risk of the operation. Another relevant factor was that in 1997 CAF started to provide direct financial support to subnational governments, without national state intervention, out of the conviction that many programs were beginning to be managed directly by municipalities, in keeping with the decentralization processes being pursued by shareholder countries (CAF AR, 1997). Direct loans to municipalities became important for engaging CAF as a financier for some countries like Brazil in the 2000s.

From 1992-1997, CAF financed more than eighty physical infrastructure and border integration projects, for a total of close to US$3.5 billion, roughly one fourth of which was lent to the private sector (CAF AR, 1997). This figure, combined with the amounts co-financed and contributions by the local borrowers, meant that some US$ 10 billion had been mobilized for investments in infrastructure. The largest loan in this sector (US$ 215 million) was approved during 1997 for Petroleo Brasileiro S.A (Petrobras), to finance the construction of a gas pipeline between Bolivia and Brazil, followed by one of US$131 million to Ecuador in 1994 for the integration of a highway program, which aimed to improve communications along the principal internal road systems and in the border areas with Colombia and Peru (CAF AR, 1997).

In 1995, CAF introduced the concept of sustainable development into all its management policies by adopting the criterion in the economic, social and environmental fields, while creating the Fund for Human Development (Fondeshu), designed to promote sustainable human capital development among the poorest members of the Andean countries. Recipients could include private sector companies, cooperatives, small municipal governments, and other entities that have traditionally had limited access to conventional sources of credit. As such, during the mid-1990s, CAF began participating in the process of planning sustainable regional development; its involvement was focused on designing intermodal corridors and the integration of power networks and interconnections of gas and oil pipelines. During 1997, 63% of the investment projects approved by CAF were geared toward the construction of road and energy infrastructure, at both national and regional levels (CAF AR, 1997).

3.6.3 Garcia's first decade balancing shareholders' goals and CRAs' requirements

The 1990s were characterized by an unprecedented upsurge of arrangements in the region. Mercosur was established in 1991 under Brazilian leadership, initially aiming to include Brazil, Argentina, Uruguay and Paraguay in a customs union but with aspirations for deeper integration on the model of the European Union. Brazil also launched the idea of a South American Free Trade Area in 1993, immediately before the establishment of NAFTA. Other sub-regional arrangements also gained momentum in the 1990s and a series of bilateral and trilateral agreements were signed between various countries in the region (Bull & Boas, 2003). The Andean Group was also revitalized and became the Andean Community in 1996, consolidating and relaunching the idea of a common external tariff for the region. However, in the 1990s, an important challenge for Latin American regionalizing actors was to develop a Latin (or South) American identity for regional integration without challenging the new orthodoxies of economic policy (Bull & Boas, 2003).

Taking into account the prevailing regional schemes, Garcia's ambitions in the mid-

1990s included raising the regional and international profile of CAF, while redefining and clarifying the institution's role within the global lending community and contributing to regional initiatives. Garcia focused then extensively on explaining internationally CAF's unique structure and identity. In an interview, Garcia suggested: "CAF should not be seen as a competitor, but as working to complement the work done by the World Bank, IADB, and other supranational institutions" (Garcia quoted in *Institutional Investor*, 1995). In another interview, Garcia remarked that CAF did not compare itself to the WB or the IADB, since CAF was different: "We definitely have a lot of respect for the World Bank, the IADB and the IFC—they have a lot to offer. But we are different and we cannot try and copy them. That would be a very serious mistake. The success of CAF has been to have its own identity" (Garcia quoted in *Latin Finance*, 1997).

By the mid-1990s, CAF was well known in the Andean region for its catalyst role. The institution had often supported long-term financing in countries that had previously had difficulties in securing loans and also lent during major regional and international economic crises. Garcia described this role in a 1997 interview:

> Through the years, CAF has been very effective in supporting development in countries that previously had difficulties in securing financing. In the case of Peru, even though there was a time when it did not have access to capital markets, CAF continued its very good relationship with the country as a supplier of trade finance, and Peru was punctual in its payments to the Corporation. In Venezuela, when access to funds was shut off two or three years ago, we continued to do business as usual for the most part. CAF's role now is not so much to supply funds *as to provide an umbrella to other lenders, thanks to our preferred status* (Garcia in Burns & Sedelnik, 1997, emphasis added).

CAF saw its institutional role as a bridge between the global financial markets and the Andean region (CAF AR, 1994). CAF had also helped finance trade between the Andean members when early in the decade, commercial banks were not lending to these countries and demand for financing investment projects had declined substantially. With these actions, according to Garcia (2014), the institution took a first step to becoming not only the funding arm of the Andean integration process, but also a major supporter of a more comprehensive economic development agenda within its shareholder countries. As Biancarelli (2008) remarks, access to private financial markets can become limited and costly for some nations, since the insertion of developing countries in international financial structure is asymmetric. In this context, CAF acquired an important role within the region, as it began to show that it has the ability to provide financing conditions with less cyclical variation. Supporting the national efforts of its shareholders, CAF tried to fill the gap between the demand and supply of finance, at least to a certain extent.

Garcia wanted, however, to invite more Latin American countries to join the institution; countries that would be interested in contributing capital in return for loans to support their development priorities. Since Garcia had joined CAF, he believed that the organization could no longer remain an institution made up of five full member countries because this limited CAF's financing scope, its role and risk diversification (Garcia, personal interview, November 19, 2012). Moreover, due to ongoing identity and political crises that the Andean Community was going through during this decade, Garcia promoted the notion that CAF had to "look for its own identity" beyond its relation with the Andean Group – but within Latin America (Garcia, personal interview, November 19, 2012).

Garcia mentioned that when he told other CAF officials about attracting new members and redefining its identity, various officials suggested that they had tried this approach before but were unsuccessful. For Garcia, the key was to achieve the possibility to finance (or co-finance) "relevant" projects such as those in the area of infrastructure, which could be of interest to countries like Brazil and Argentina (Garcia, personal interview, November 19, 2012). As outlined in the previous chapter then, to understand the way CAF interprets its mandate and actions while defining its identity and role in infrastructure financing, it is crucial to take into account prevalent regional dynamics and how the entity has responded to them.

As such, CAF found the need to set aside its distinctiveness as an Andean organization and accept members outside the Andean region with the goal of facilitating its access to capital markets. Although Mexico had joined in the 1990s when shareholders approved the inclusion of other Latin American countries, other countries did not show much interest until later in the decade. By that time, CAF staff, under Garcia's direction, had engaged more actively in promoting itself within the region. Various countries joined the institution as associate members. Trinidad and Tobago joined CAF in 1994, and Jamaica, Panama, and Paraguay in 1997. During this period, it became very important for CAF to begin selling itself as a Latin American entity, not Andean but not global. In a 1997 interview, Garcia manifested:

> At present, we are not considering having OECD countries as stockholders. We aren't closing the door, but we have held discussions with some of these countries and most have a general policy of not participating in multilaterals except institutions like the World Bank, the ADB or the IADB. Having triple-A countries as members would improve CAF's ratings but might mean a change in terms of CAF's objectives and policies. Not having OECD countries as members has made us adopt more conservative credit and financial policies than we might otherwise have done. We are proud to

consider ourselves a self-sustained institution (Garcia in Chang & Maxfield, 1997).

Meanwhile, by the mid-1990s, integration was at the center of CAF's concerns. Garcia suggested that CAF's ideal was to be "an effective catalyst of ideas and initiative between the Andean Pact countries, the Mercosur countries and the G-3 countries, and that pragmatism could be reflected in the financing of projects in such areas as energy, telecommunications or highways/roads" (Garcia quoted in Burns & Sedelnik, 1997). In the same interview, Garcia explained how CAF was transitioning from an Andean to a Latin American institution. Garcia based his explanation on the prevailing economic paradigm of the decade but grounded within regional boundaries. For Garcia, this was "a reflection of the change in the Latin American development model…. the new environment is different. We have open markets, lower tariffs, as well as a very positive attitude towards private investment" (ibid). For Garcia, the essence of CAF was "the ownership, the policy, the vision, the mission, the responsibility. Essentially the commitment is to the region, a region that has great potential" (ibid). It is noteworthy that the 1998 Annual Report is one of the first documents where CAF began referring to itself as an institution with a mission for "Latin American integration," as opposed to "Andean."

By 1997, even some Andean private sector enterprises had recognized the advantages of getting a loan from CAF. For some companies, these were related to CAF's competitive rates and lending terms. But in others, such as Colombia—where enterprises could get lower funding costs—the advantages were seen in CAF's speedy approval of transactions (Burns & Sedelnik, 1997). In November 1998, CAF organized the "Third Conference on Private Participation in Infrastructure Projects of Multilateral Financing Institutions," which was attended by most international development banks to discuss issues of great importance in the private financing of infrastructure projects. These issues included instruments for mitigating political risks in developing countries, options for allowing access by low-income sectors to the services offered by private concessions, and the main actions that could be taken to improve the scope for private sector participation in infrastructure projects in countries beset by macroeconomic crises (CAF AR, 1998). Finally, in the late 1990s, CAF participated in the design of equity profiles for investment funds aimed at promoting infrastructure development for private productive activities in general (CAF AR, 1998). CAF obtained the renewed commitment of its member countries by securing an increase of its authorized capital to USD $3 billion and an increase of its subscribed capital up to US$ 606 million, thus paving the way for continued expansion (CAF AR, 1998).

3.7 Conclusion

This chapter outlined CAF's actions and policies during its first two decades. Although Andean countries began enthusiastically to jointly promote integration in the late 1960s and early 1970s, there were radical changes by the late 1990s in the economic policies of some member states, particularly regarding the openness of their economies to foreign interests. The integration process also experienced several challenges, including the failures of the industrial programs and the political and territorial disputes between members. Despite CAF's survival within a difficult regional environment, the entity had to start looking soon for new strategies to ensure continuous availability of loans.

The way CAF was established in the early 1970s proved an advantage in subsequent decades: various features of its institutional design provided CAF officials with a foundation to build upon a strong constitutive agreement including its preferred creditor status, a non-resident board that gave its management more independence to draw policies, and a unique shareholder-borrower position that resulted in member continuous support for the institution. CAF shareholder structure has meant that full member countries have had strong interests in ensuring harmonization between the institution's activities and the countries' requirements. One of the results is the respected preferred creditor status of the institution vis-à-vis member countries and an excellent recovery rate for its loan portfolio. The flexibility that the constitutive agreement embodies allowed Garcia, for example, to gain the Board's approval among the founding members in the early 1990s to further the inclusion of other Latin American countries as Series C shareholders, while emphasizing physical integration.

This chapter has highlighted Garcia's early leadership in terms of the framework for explaining CAF's growth, outlined in Chapter 1. CAF underwent extraordinary changes during the 1990s: the institution was resized both internally and externally. CAF changed from being an institution funded mainly with capital contributed by member countries to one acting as a catalyst for attracting resources from outside the region. Attracting these resources was not an easy task. It required Garcia's leadership, charisma, his knowledge of CRAs and several road shows to promote the institution, while raising funds—whether they were going to be large or small quantities. Moreover, Garcia had to build a successful bureaucracy that supported the core goals: he promoted a new policy for hiring staff in 1993 in order to prevent political interference and ensured that CAF officials were enthusiastic about the potential of the institution. Garcia also used his knowledge of capital markets to train CAF staff in regard to the promotion of the institution outside the region and within member countries. For CAF, it was important to balance the ongoing regional dynamics, while demonstrating to the international lending community that the institution was determined to survive and keep the support of its shareholders. As Humphrey (2012) suggests, CAF's limitations in accessing capital markets were to a degree offset—after the reforms of the 1980s and early 1990s— by greater flexibility and agility in lending as well as the 100% repayment record that came with being a more egalitarian and cooperative RFI.

Similarly, CAF's actions and country members' support in the area of infrastructure were possible because the institution carefully expanded its sphere of operations with the accession of new shareholders and by framing the institution as an "agile" partner in supporting long-term development. Garcia facilitated the transition from an "Andean" to an increasingly Latin American development bank, by first inviting non-Andean countries to join as associate members. He also focused on ensuring that larger countries like Brazil became eventually interested in CAF's lending propositions. Andean countries did not oppose this transition, which was framed as a way to capture more funds in order to finance larger projects in an environment that favoured open regionalism, while strengthening relationships in the region beyond the Andean Community but within Latin America. CAF did not want to be left out of regional fora, such as Mercosur, in which non-Andean countries began to participate and voice their regional priorities. In addition, an element of attraction that resulted in the eventual incorporation of new countries was the emphasis given to regional integration (and to a lesser degree to sustainable integration) in CAF's mission statement, which was updated in 1993. This focus on physical infrastructure eventually became an attractive factor to non-founding member countries that have subsequently joined the institution.

CAF's operational and ideational changes promoted by Garcia were successful in gaining some international exposure and recognition. In 1995, CAF became the first Latin American issuer to access the international capital markets after the Mexican crisis and was recognized as "Best Latin American Issuer" by the British publication *Euromoney* (CAF AR, 1995).

Chapter 4: CAF as a financial bridge between shareholders and the international financial markets

4.1 Introduction

This chapter analyzes how CAF has been able to survive and expand its lending portfolio by nurturing and balancing two key relationships: the relationship that the institution has with its principals (member states) and the one it has developed with the credit rating agencies (CRAs) since the mid-1990s. Examining both of these relationships is important to understand how a development bank like CAF has had to often walk a fine line between the requirements and goals of two different sets of stakeholders. As the previous chapter outlined, Garcia has been a crucial agent in building coalitions and alliances to ensure institutional support. Meanwhile, member governments have endorsed the institution throughout the years through their actions—such as increasing their capital commitments, supporting the inclusion of new Latin American members and paying their CAF loans on time—according to their national and regional priorities

The chapter first examines CAF management's strategies for raising funds in the international markets, through gaining investors' confidence and situating the institution as an attractive investment option. The chapter then explores CAF's outreach to the global financial community and how its management has conducted extensive work in order to raise funds in the global financial markets, while developing and maintaining a solid relationship with the CRAs. The institution's leadership took advantage of CAF's institutional design and features to build a convincing narrative in order to promote CAF to global investors. CAF's self-promotion as an institution with solid financial results and technical knowledge and expertise on infrastructure lending —as opposed to an entity that results from the mere combination of various nations in the region—have been important elements in this narrative.

Credit rating agencies have gained a prominent role in the global financial architecture and RFIs in Latin America and other regions have formally and informally internalized the need to constantly improve the numbers and classifications issued by these agencies. CAF has employed a mix of strategies to balance both members' and CRAs' needs. This chapter discusses the following strategies: ongoing and sustained increases in its paid-in capital (to later raise more funds globally) and a cautious expansion of membership within the region (to also reduce the concentration of loans in individual countries). At the same time, in order to preserve its South American (and nowadays its Latin American) essence, the institution has had to forgo its capability and/or willingness to improve its callable capital, part of its capital structure. Callable capital is a financial provision considered as high quality for the CRAs only when it is provided by industrialized country members of a RFI. This chapter also discusses how members' support of CAF is based on the notion that it is an institution that provides financing options during both good and bad times. This runs against the rationale of CRAs, which implicitly encourage investors to stay away from nations during recessions and economic crises.

Although Enrique Garcia has been a fundamental driver of change in the entity, CAF's members as principals have endorsed the institution throughout the years and helped ensured its success. Some of the principals' preferences have remained constant throughout the years. For example, member governments have paid CAF's loans on time and have continued borrowing from the entity (despite increased financing options in the last decade), while developing a sense of ownership and responsibility in the survival of the institution. Shareholders appreciate CAF because it has played a catalytic role in its member states, raising funds from various global sources to channel them, along with its own funds, to finance projects in sectors considered as a priority by national governments. Additional key factors that have contributed to ensure that country members continue to participate and invest in CAF are also examined here including: the speed of loan approval, the ways CAF has tried to stay away from conditions linked to loan approvals and its development of specialized knowledge according to national governments' priorities.

To put this chapter in the context of international political economy, it is fundamental to understand the relationship of countries in the region with the global capital markets in the last three decades. Bond financing in South America today is very different from what it was in the 1980s and 1990s and access to external bond financing has become more widespread and less costly. Debt in the region has come full circle since the 1982 debt crisis. In 2012, there were several firsts in debt markets for the region, including: the first wind energy project bonds, the first covered bond (a security backed by a separate group of assets), Bolivia's first foray into international bond markets since the 1920s, and the first issuances in Chinese offshore renminbi and Australian dollars (Bustillo & Velloso, 2013). These events highlight the significant evolution and expansion of the region's access to global bond markets in the past three decades.

From 1982 to 2012, several countries moved from facing a shortage of funds to learning how best to manage available financing options, and even in some cases lending funds amongst themselves (e.g. Venezuela and Argentina) (Bustillo & Velloso, 2013). In 2005, CAF's only members with investment grade ratings were Chile, Mexico and Spain. It now has ten member countries with investment grade ratings: Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, Peru, Spain, Trinidad and Tobago, and Uruguay (Moody's, 2013). Individual countries in Latin America still have different access to global finance and it is more difficult for those countries that are not in the group of ten nations mentioned above. As such, access to external debt financing in Latin America is still not comprehensive and despite increased resilience, vulnerability to external financial shocks can still be a threat (Bustillo & Velloso, 2013). CAF has then the following balancing dilemma: it needs to lend to all its member governments, but only some of them are favoured by the CRAs.

Nevertheless, the increased access to private capital markets has provided various countries in the region with more funding options, impacting the landscape for development financing. RFIs like CAF continue, however, to play an important role as suppliers of financing. Reviewing CAF's history as it relates to its entry and main activities in the international markets is critical for understanding why the institution has been able to survive in a region that has been constantly affected by national, regional and international financial and economic crises. CAF has issued bonds in international capital markets under increasingly competitive conditions. To a great extent, CAF owes its now recognized credit quality to its status—enshrined in international treaties—as a preferred creditor. As mentioned in the previous chapter, CAF has collected on loans throughout Latin America's successive debt crises when other lenders were forced to reschedule loan payments. The final section of the chapter highlights the contemporary relevance of CAF's story by discussing how the founders of newer institutions like the New Development Bank (NDB) have approached CAF officials to better understand the institution's dynamics and its potential as a model in multilateral development financing.

4.2 Overview of CAF's strategy for raising funds

CAF now raises funds for operations primarily in the international financial markets, although a small part is raised within its shareholder countries. CAF's strategy with respect to funding (to the extent possible under prevailing market conditions) is to match the maturities of CAF's liabilities to the maturities of its loan portfolio. CAF also takes deposits and obtains loans and credit lines from central banks, commercial banks and (for imports related to projects funded by CAF) export credit agencies. Within the shareholder countries, CAF raises funds from central banks and financial institutions and by means of regional bond issues. Outside Latin America, CAF obtains funding from public sector development and credit agencies, from development banks, from various North American, European and Asian commercial banks, from capital markets and from the U.S. and European commercial paper markets (CAF, 2013a). The breakdown of CAF's outstanding funded debt, both within and outside the shareholder countries, at each of the dates indicated below is as follows:

Table 4. CAF's sources of outstanding funding debt

	At 31 December		
	2012	**2011**	**2010**
	(in U.S.$ millions)		
Within the shareholder countries:			
Term deposits	3,121.8	3,672.1	2,739.5
Loans and lines of credit	23.1	10.8	12.0
Bonds	450.6	641.1	709.2
	3,595.5	**4,324.0**	**3,460.7**
Outside the shareholder countries:			
Deposits, acceptances and advances, commercial paper and repurchase agreements	3,174.9	1,977.1	1,524.3
Loans and lines of credit	1,349.7	1,110.8	978.8
Bonds	8,601.7	6,842.1	6,116.6
	13,126.3	**9,930.1**	**8,619.7**
	16,721.8	**14,254.0**	**12,080.4**
Variation effect between spot and original FX rate	111.6	18.9	30.4
Fair value adjustments on hedging activities	597.4	587.0	363.9
Total	**17,430.7**	**14,859.9**	**12,474.7**

Source: CAF 2013a.

CAF's borrowings are primarily U.S. dollar-based: 80.6% of CAF's total borrowings, or 98.3% of borrowings after swaps, were denominated in U.S. dollars on December 31, 2012. The principal amount of non-U.S. dollar borrowings outstanding included 892 million Euros, 50,400 million Yen, 1,365 million Swiss Francs, 1.4 million Canadian Dollars, 484,930 million Colombian Pesos, 798 million Hong Kong Dollars, 1,317.1 million Mexican Pesos, 331.6 million Peruvian Nuevos Soles and 600 million Chinese Yuan; all of these non-U.S. dollar borrowings are swapped or otherwise hedged into U.S. dollars (CAF, 2013a). CAF has never defaulted on the payment of principal of, or interest on, any debt security it has issued, and CAF has always met all of its debt obligations on a timely basis. At present, less than 60% percent of CAF's bonds are currently denominated in U.S. dollars. CAF's management has highlighted, however, that it is mainly interested in diversifying its investor base while minimizing its borrowing costs, as opposed to pursuing currency diversification (Moody's, 2013).

CAF now has an established and recognized presence in the international capital markets and has shown the ability to raise funds in difficult market conditions. For CRAs such as Moody's (2013), this presence has resulted in favorable funding costs and attests to investor appetite for a range of medium and long-term loans, as well as good secondary market trading for its debt issuances. For the CRAs, it has also been important that CAF benefits from market diversification. For example, it raised US$ 2.7 billion in 2012 with 12 bond issues in six distinct markets, after raising US$ 3.4 billion with 18 bond issues the previous two years, and in the first six months of 2013 it issued another US$ 750 million. In addition to its issuances in the United States, the European Union, Switzerland, Japan, and Hong Kong, CAF issues bonds and notes in the local markets of several of its member countries—Colombia, Mexico, Peru, Uruguay and Venezuela— in order to help develop their capital markets (Moody's, 2013). In 2012, CAF placed bonds in renminbi for the first time, which also shows the bank's efforts to strengthen Latin America-China relationships, as many of its member countries have tried to do in the last couple of years. While bonds comprise the majority of CAF's financial liabilities, CAF also relies heavily on short-term funding and term deposits, each of which accounted for about 18% of total liabilities as of December 2012 (Moody's, 2013).

CAF's funding strategy has contributed to CAF's growth rate, which has increased 12% annually for the past seven years. CAF's loan portfolio totaled US$ 16.4 billion by the end of 2012, double its size from 2006 (Moody's, 2013). By the end of 2012, the public sector was the recipient of 85% of the loans—96% of which had a sovereign guarantee. Of the 15% to the private sector, half was loaned to financial institutions. The majority of the private sector lending is now concentrated in just three countries—Brazil, Colombia, and Peru (Moody's, 2013). Within compliance and risk, CAF's officials pay particular attention to the loans granted to the private sector, since public sector loans are mostly covered by a sovereign guarantee. CAF's organizational structure has strengthened its focus on risk management capabilities over the past several years by establishing fully integrated risk control systems (while adopting ISO certifications) and creating a dedicated Treasury Risk Management Unit in addition to the general risk management functions handled by an independent Controller's office (CAF senior official, Compliance and Risk Division, personal interview, December 1, 2012; Moody's, 2012b).

4.3 Outreach and relationship with CRAs

To explain CAF's growth, it is also vital to understand, as Barnett and Coleman (2005) discuss, how the drive to secure external resources can strongly shape the strategies and activities taken by an IO as well as individuals within it. The drive to secure funding is also related to the financial character of the institution. Borrowing on international capital markets has been a fundamental pillar for major MDBs. As Humphrey (2014) explains,

> Unlike most other international organizations, the vast majority of MDB resources come from borrowing on international capital markets. The fact that MDBs can access international bond markets, use those resources to make loans and cover the bulk of their administrative costs on the margin between borrowing and lending costs—and, hence, do not require regular budgetary allocations from member governments—has unquestionably been key to the spectacular success of this particular model of international organization. Thus, understanding the relationship between MDBs and capital markets is important for a broader understanding of how MDBs function and why they may differ from one another (p.617).

At the global level, a unique confluence of events has helped the CRAs gain prominence in global governance, particularly with IOs. Factors such as the growth in the importance of credit in the current international financial system, the interconnectedness of that system across borders, disintermediation of finance, and distinct stakeholders' demand for recognized knowledge related to creditworthiness and investment decisions, have combined to empower CRAs. In particular, CRAs now perform a crucial function in the 'international creditor economy' by creating access to capital, which circumvents the traditional role of banks in lending practices, as well as in conditioning the practices of states (Seabrooke, 2006). Moreover,

> the political power that CRAs wield in governance of the global economy is increasingly being understood as a particular form of authority whose effects, despite suggesting economic stability and prosperity, can constrain not only corporations, but also municipal governments and ultimately states themselves (Mühlen-Schulte, 2012, p.481).

Therefore, in the international economy—at least amongst major financial institutions—there is a consensus (or at least acceptance) of the importance of securing a strong rating from the CRAs. Most RFIs within and beyond Latin America started raising funds in the international markets long before CAF did; consequently, the institution began following this practice at least a decade late, once Garcia began emphasizing the need to access international capital markets to grow its portfolio. In CAF's particular situation, it is not then that CRAs wanted to particularly influence CAF's lending terms, but that CAF's management realized that, according to the strategy devised by Garcia, it needed the agencies' ratings if it wanted to expand its lending impact and presence in the region. CAF's management felt that it needed to gain CRAs' favourable attention and recognition if it wanted to increase its relevance in the region.

For CAF, raising awareness of the institution amongst investors and improving its credit rating has required a considerable amount of work from the institution's staff throughout the years. CAF's management has had to constantly stress the institutional features that are the foundation it used to build a reputation as a solid financial entity. For example, an official involved in managing external relationships highlighted this point: "we [CAF's staff] emphasize that CAF is a supranational entity—that is commonly used within the finance community. We also always mention that CAF has immunities and privileges and that it was created under an international treaty" (CAF official, personal interview, October 19, 2012). Further, when CAF issued a US$ 350 million euro, seven-year bond in Europe in 2002, Dan Vallimarescu—Head of Latin America Debt Capital Markets at Merrill Lynch at the time— remarked: "Newcomers to the credit had some questions on CAF's preferred creditor status and CAF was able to demonstrate that through good and bad, its preferred creditor status has been respected. It is the first to get paid and foreign currency is always made available for payment to CAF"

(Vallimarescu quoted in O'Brien, 2002). In 2002, CAF went on a road show to six European cities to meet with investors, which helped further spread CAF's story outside Latin America.

To convince investors of its creditworthiness, CAF has had to go beyond financial ratings and to actually use its staff's ability to tell investors all the non-financial milestones and institutional features within CAF in order to develop an effective narrative to account for CAF's big and small successes during its first twenty-five years. According to CAF's Hugo Sarmiento: "There is nothing like talking to investors face to face and explaining CAF's structure and how it is designed to withstand volatility in the region" (Sarmiento quoted in O'Brien, 2002). Talking face to face with investors has been key in carrying out CAF's funding strategy. That strategy has gradually opened doors for CAF. For example, in 2002, CAF successfully placed a 350 million euro, seven-year bond with European institutional investors, led by Dresdner Kleinwort Wasserstein and Merrill Lynch International (O'Brien, 2002). Forty investors from insurance companies, pension funds and banks from six countries placed 440 million euro in orders for this bond and CAF upsized the issue from 300 to 350 million euros. Twelve of the forty accounts, mainly from France and Germany, bought CAF for the first time (O'Brien, 2002).

According to Latin Finance (2003), persuading European investors with the support of book runners Merrill Lynch and Dresdner Kleinwort Wasserstein was remarkable, considering that the 2002 bond was placed at a time when the euro market was still suffering a vicious hangover from the Argentine default in January 2002. A similar article, regarding a sterling bond placed in the United Kingdom, also highlighted the importance of CAF's marketing efforts: "To get the deal done, however, CAF had to spend time explaining to U.K. institutional investors its strong credit story and also that its ratings have remained stable throughout the crises afflicting Latin America in recent years" (Euroweek, 2002). In recognition, CAF received in 2003 and

2004 three prizes for its performance in the most demanding financial markets of the world "Issuing Agency of the Year", "Best Bond Issue for Financing Development" and "Best Multilateral Institution" from the specialized magazines *Euromoney, Emerging Markets* and *LatinFinance*, respectively.

Global investment bankers have recognized CAF's unique situation regarding its strategic actions to raise funds. In 2005, Chris Canavan, Head of Latin American Debt Capital Markets at Goldman Sachs remarked: "CAF doesn't fit any conventional model, therefore people needed to be open-minded when looking at the credit. Its portfolio is made up entirely of loans to the Andean region, but it has an A2/A rating. That is testimony to the Board's very sound financial management" (Canavan quoted in *Emerging Markets*, 2005). Therefore, CAF's strategy even until now puts a lot of emphasis in its personnel being effective in telling investors "CAF's story," which may seem difficult at the beginning. But after discussing with investors the institution's past successes— solid financial results, constant growth and zero default on loans— CAF's staff has been able to convince several investors around the world to place their funds in the bonds issued by the institution.

At the same time, CAF officers need to simultaneously emphasize the institution's favourable relationship with its members, cautiously trying to stay away from commenting on a member's particular domestic policies. For example, CAF officials have to often be ready to answer question about member governments' actions that may affect the institution. For example, when asked about why CAF continues to be headquartered in Caracas despite tense political situations in the last decade, officials have explained that the relationship with the Venezuelan government is optimal and that Caracas was established as the headquarters through an international treaty in 1968 (CAF official, personal interview, October 19, 2012). A senior official in the Treasury Division also explains:

> It is hard for the [international] investor to understand why are we in Caracas and why this eighteen-members institution, where not all countries are "investment grade" quality, has an AA rating. Then you tell the investor, my members have never stopped paying me. That is the beautiful part of this story…We tell investors about CAF's track record with all governments, how well they have behaved with us, how well we have behaved with them. We strive to make the investor understand that kind of dynamics (CAF senior official, Treasury Division, personal interview, November 26, 2012).

Moreover, Garcia exhibits a long record working on enhancing the level of "international personality" of CAF, which has greatly added to disseminating CAF's story and successes within the global investment and IFIs' communities. Garcia has contributed extensively as well to the discussion of the role of regional development financial institutions in the global economy. Enrique Garcia was described by several interviewees as the "public relations person par excellence" because of his extensive knowledge about the region and his good relationships with senior government officials of all member countries. He has been a key figure in developing and strengthening relationships with CRAs. In the last decade, CAF's growth has been also sustained by training personnel in various areas related to public relations to support Garcia's "diplomatic" role: "before the work [of raising funds] was really heavy on Garcia, but now I see that there is a better balance and various senior officials and operations' specialists support Garcia in CAF's public relations and marketing functions (CAF official, personal interview, October 19, 2012).

Another official working also in the public relations division remarked that CAF's Executive Vice-president has become more active when it comes to planning and attending finance-related meetings (which Garcia used to attend in the past). The official mentioned: "Garcia is not going to international finance meetings that often anymore. Now he attends more high-level political meetings. He is sort of an ambassador for Latin American issues" (CAF official No. 2, personal interview, October 19, 2012). Indeed, there are not many people in Latin America like Enrique Garcia who have dealt with governments in the region from a wide political spectrum, while trying to generate consensus at least at the diplomatic—and often at the action—level.

Moreover, CAF has co-organized events periodically to keep different stakeholders informed about the entity's work in the region, as well as its perspective on regional cooperation matters. For instance, CAF has co-organized with the Inter-American Dialogue and the Organization of American States (OAS) an international event—"Conferencia CAF"— that has taken place in Washington, D.C. since 1997. The objective of this event is to highlight the importance of global economic and political relations with Latin America, and also to provide a detailed review of hemispheric economic affairs. This event now has an attendance of approximately 400 U.S. and Latin American government officials, international economists, journalists, lawmakers, leading policy analysts and corporate leaders.

This conference has also served as a platform for CAF to disseminate information about its mission, lending policies and programs. In recent years, CAF has gone beyond hosting events in the U.S. An official involved in managing external relationships highlighted that CAF has gradually hosted other events in different regions for the following reasons:

> First, to be known and be present in all regions; second, to support the process of knowledge creation and sharing through partnerships with universities and think tanks and; third, to support the process of raising funds in the international markets…through investors' forums, contacting the media, analysts, etc. (CAF official, personal interview, October 19, 2012).

Consequently, CAF has strengthened its Latin American dimension, but at the same time, it is building bridges of cooperation with the rest of the world in ways that do not affect its distinctive characteristics or its Latin American identity and that actually strengthen its presence in global financial markets. In addition, CAF has signed cooperation agreements with countries outside the region and around the world, including RFIs, export agencies, and research and technical cooperation centers of various countries from the Southern hemisphere, and in Europe and Asia (Garcia, 2014).

A key goal for CAF since the early 1990s has been to build and maintain a good relationship with the main CRAs in order to increase its rating and prospects for raising funds in the international markets. To do so, CAF has employed a mix of strategies such as: carefully expanding its membership since the mid-2000s, increasing its paid-in capital, and reducing the country concentration in its loan portfolio. These strategies have contributed to improved credit ratings throughout the years. CAF has moved to address the issue of capitalization through constant increases especially in the last decade, which has been boosted by an expanding membership base as the corporation evolves into a regional—from sub-regional— development lending entity.

Meanwhile, CAF's management has committed to preserve the entity's Latin identity (*see* Section 4.4.3) and as such CAF has had to forgo the ability to strengthen certain financial indicators such as callable capital, which it is only considered as high quality for the CRAs, when it comes from industrialized countries. Nevertheless, CAF's credit rating evolution since the 1990s is remarkable. It has been upgraded twelve times by the CRAs since it obtained its first rating (BBB) in 1993, which has allowed CAF to sell itself in the international markets as an institution with a good financial profile and as an alternative for those looking to invest in Latin America with limited risks (CAF, 2013b). Between 2012 and 2013, Standard and Poor's, Moody's, and Fitch raised CAF's credit rating to AA- or equivalent, while the Japan Ratings Agency upgraded CAF to AA. These ratings are substantially higher than those of its country members and they give CAF a competitive edge in capital markets (Garcia, 2014).

Further, as a strategic decision, CAF has tried to maintain a presence in international markets, regardless of the amount of money it can raise. Factors such as diversification and prestige remain important points of the institution's overall strategy. For example, in 2010, CAF raised US$ 74 million from what it called the first ever retail-only placement in the Japanese market by a Latin American issuer. It was also the first sub-AAA rated name to tap that market (*LatinFinance*, 2010). As Gabriel Felpeto—CAF's Director of Financial Policies and International Issues—suggested, the Japanese placement was not that big in terms of its size, but for CAF it was very important given that this market is very exclusive and reserved for AAA rated issuers (Felpeto quoted in Latin Finance, 2010). In addition, CAF is also trying to consolidate its position as an important bridge to strengthen the regional integration between Latin America and Europe and Asia (CAF AR, 2011).

Credit rating agencies closely follow member countries' economic performance and credit quality. For example, when CAF's long-term debt rating was lifted in 2012 to Aa3 from A1 with a stable outlook by Moody's, the agency justified this decision by highlighting how the member countries' credit quality had improved steadily since CAF's last upgrade, in 2005. However, for the CRAs, factors setting CAF apart from more highly rated RFIs include its heavy dependence on short-term funding and relatively weak liquidity ratios, as well as its high exposure to countries like Argentina and Venezuela. By 2013 for example, all of CAF's new full members except Argentina had their credit rating upgraded since 2005. According to Moody's (2013), generally speaking, the upward trend for higher credit ratings is continuing for most of CAF's members—Bolivia, Ecuador, Panama, Paraguay, Peru, and Uruguay were all upgraded since the beginning of 2012, and Brazil, Colombia, and Peru all have positive outlooks. However, Argentina and Venezuela have negative outlooks.

CAF has limits on lending to individual borrowers that vary depending on the class of borrower. According to CAF's new credit manual, loans to the original Andean shareholders are limited to 25% of the bank's total loan portfolio and the new Series A shareholders[6] are limited to just 15% (Moody's, 2012a). While these new limits are considerably more restrictive than those in CAF's board-approved policies, which cap exposure to a single country at 35% of the loan portfolio and 100% of net equity, they remain very liberal compared to the IADB and IMF. In practice, however, CAF's exposures to its founding members are below even the new lower limits. CRAs continue to emphasize, however, that CAF's lower ratings compared to the WB and the IADB derive from its development mandate: "the mandate exposes the loan portfolio to a high degree of regional concentration and results in narrow profitability as the institution seeks to provide its members with the lowest possible cost of funds" (Moody's, 2013, p.1). The next section discusses key factors in building and sustaining CAF's relationship with the CRAs.

[6] Brazil, Panama, Paraguay, Argentina and Uruguay

4.3.1. Paid-in capital and callable capital

The higher credit rating of CAF compared to that of its member countries is also helped by the high ratio of paid-in to subscribed capital. CRAs' framework suggests that this is an efficient use of countries' reserves, as it allows the CAF to borrow at terms lower than their own. Paid-in capital shows shareholders' willingness to support the institution "here and now" in a complementary way to CAF's ongoing efforts to continuously raise money in the international markets. Member countries have witnessed how CAF could quickly leverage their contributions, while providing governments an alternative source to take out loans for top projects on their development agendas. As such, countries in the region have not hesitated to display their support for CAF's work, since any capital contributions would be increased in the capital markets and consequently return as larger and more influential loans. Moody's (2013) has remarked:

> CAF's greatest credit weakness, the absence of highly rated non-borrowing members from outside the region and significant levels of callable capital, is arguably also the root of one of its key strengths. CAF is a development institution of its borrowers, for its borrowers, and by its borrowers, free from outside interference. As a result, while its lending rates are relatively high due to its lower credit rating, CAF is more flexible than other MDBs in terms of environmental requirements and other restrictions attached to its loans. Furthermore, CAF serves as a lender of last resort to its members, providing them access to funding when markets are closed to them. This role results in a very high level of member support for the institution. The Bank's very high level of paid-in capital reflects the support, as do the significant capital increases that have been subscribed to over the last few years and the growth in the Bank's membership (p.4).

Since 2005, when total paid-in capital equaled less than US$ 2 billion, CAF's shareholder countries have approved a series of capital increases for both original and new members totaling US$ 6 billion. At 31 December 2012, the full member shareholder countries of CAF collectively accounted for 91.4% of the nominal value of CAF's paid-in capital and the associated shareholder countries collectively accounted for 8.5%. CAF's shares are also held by 14 financial institutions based in the full member shareholder countries, which collectively accounted for 0.1% (CAF, 2013a). At 31 December 2012, CAF's subscribed paid-in and un-paid capital was USD $4.7 billion, of which USD $3.6 billion was paid-in capital and USD $1.1 billion was un-paid capital, which is receivable in installments according to the agreements subscribed with the shareholder countries. Over the years, CAF has had several increases of subscribed capital (*See* Appendix C).

In addition to CAF's subscribed paid-in and un-paid capital, CAF's shareholders have subscribed to callable capital totaling USD $1.5 billion (CAF, 2013a). CRAs value callable capital, since to a certain extent it demonstrates countries' support of a RFI and it brings peace of mind to creditors in the private markets. This thinking has been a key feature since the establishment of the World Bank, when founding countries were required to pay 20% of their capital commitment in cash, with the remaining 80% committed as a guarantee that would be called upon should the institution ever require it to pay off its creditors (Humphrey, 2012). The "Big Three" credit rating agencies— Standard & Poor's (S&P), Moody's, and Fitch Group— only consider callable capital from industrialized non-borrowing countries to be of any real worth (Humphrey, 2012). Callable capital for developing nations is not taken into account because in the CRAs' pervasive model, in difficult financial times when RFIs may need to access this capital, it is not certain that these nations would be able to comply.

CAF, as a late player to the global markets when compared to other RFIs, has come to terms with the fact that callable capital will never be one of its competitive advantages. The initial incorporation of Spain as a series C shareholder in 2002 was consequently well-received by the CRAs since it improved the quality of CAF's callable capital, given the AAA rating of Spain at the time. For example, Moody's (2003) suggested that:

> The most important financial development at CAF, from Moody's perspective, during the past 18 months has been the February 2002 entry of Spain as a shareholder… Spain's entry as a shareholder ensures that at least one member country (with a AAA rating) would quite likely be able to fulfill its callable-capital obligation with minimal delay" (p.1).

Nevertheless, by 2012, ten years after its incorporation, Spain accounted for just 4% of CAF's member capital and its rating was downgraded (to A-) as a result of the difficult economic situation that some European countries (including Spain) had been experiencing (Moody's, 2013). The downgrade of Spain's rating did not affect CAF's usable required capital ratio since Spain remains an investment grade non-borrowing shareholder. Initially invited partly to provide higher rating to CAF, Spain has now a lower rating than CAF itself. Meanwhile, while CAF's only members in 2005 with investment grade ratings were Chile, Mexico and Spain, by 2012, it had, as previously indicated, ten member countries with investment grade ratings. However, CAF's only current AA shareholder is Chile, which has less than a 1% share. At present, over half of CAF's callable capital now derives from members with investment grade ratings, up from just 4% in 2005 (Moody's, 2013).

The concept of callable capital is then somewhat antagonistic to CAF's South

American/Latin identity. Improving this indicator would perhaps require that the institution would be willing to invite advanced economies to join as Series A shareholders, which neither member governments nor CAF's management are interested in doing. As such, callable capital is a financial indicator that the institution's senior management is willing to sacrifice in its search for higher credit ratings. This is despite CRAs' recommendations that future upgrades in its ratings would partially depend on attaining more creditworthy shareholders. For example, Moody's (2013) states: "CAF is distinguished from more highly rated MDBs by its lack of AAA and AA-rated members. As a result, its capital adequacy levels (which include callable capital from highly rated members) remain relatively weak despite recent improvements" (p.1).

4.3.2. Balancing membership and concentration risk

Despite the credit rating upgrades to many of its members and the addition of new shareholders, the weighted median rating of CAF's loan portfolio is the same now as it was in 2005, at BA3. This rating is another indicator that CAF has sacrificed due to its shareholder structure. However, the institution has tried to find a midpoint between members and CRAs by diversifying its portfolio—by growing its full membership within Latin America and by allowing Spain and Portugal to join as Series C shareholders (with limited representation within the Board). This decision has also benefited from the fact that the original shareholders—the Andean nations—themselves have experienced considerable growth in recent years, which has put a spotlight on infrastructure needs, while opening the possibility to diversify their financing sources.

Although the Andean countries continue to eagerly apply for and obtain CAF loans, new avenues for funding infrastructures have emerged for these nations including loans from Chinese governmental agencies and infrastructure facilities created by private pension funds (AFPs).

Therefore, in recent years, some of these countries have not entirely relied on CAF to carry out a considerable portion of their infrastructure agenda, as they did in previous decades. This development has ultimately contributed to CAF being able to expand its membership—without original members' opposing this action— while reducing its concentration risk.

CAF's loan portfolio has also become more diverse. Whereas its original five members accounted for 95% of its loan portfolio in 2005, this number has been declining steadily. In 2012, they represented less than 50% of loans approved for the first time (Moody's 2013). As a result, by the end of 2012, they accounted for 58.4% of the total portfolio, and this percentage is likely to drop further. CAF's five largest borrowers account for a slightly higher 63.5% of its total loan portfolio, as Argentina surpassed Bolivia as the fourth largest borrower in 2010 (*see* Table 5). CAF's largest single exposure has also fallen from 25.5% in 2005 (Colombia) to 17.2% in 2012 (Venezuela) (Moody's, 2013; CAF, 2013a).

Table 5. CAF's ten largest borrowers

Borrower	**Amount**	**As a Percentage of Total Loan Portfolio**
	(in U.S.$ millions)	
Bolivarian Republic of Venezuela	2,816.1	17.2%
Republic of Ecuador	2,327.7	14.2%
Republic of Peru	1,894.6	11.6%
Republic of Argentina	1,851.0	11.3%
Plurinational State of Bolivia	1,511.0	9.2%
Republic of Colombia	1,022.0	6.2%
Republic of Panama	430.7	2.6%
Centrais Eletricas Brasieiras	277.7	1.7%
Estado de Rio de Janeiro	209.0	1.3%
Banco de Comercio Exterior S.A. (Colombia)[1]	156.8	1.0%
Total	**12,496.7**	**76.4%**

(1) Privately owned financial intermediary.

Source: CAF 2013a.

However, CAF's exposure to countries rated B2 and below has not diminished. In 2005, there were six such borrowers, whose combined loans equaled 47% of the total loan portfolio. Bolivia, Ecuador and Venezuela alone accounted for 97% of this exposure. In 2012, there were just four borrowers rated B2 or lower (of which exposure to Argentina, Ecuador, and Venezuela accounted for 99.9%), but their combined borrowings again totaled over 45% of the total loan portfolio (Moody's, 2013). Yet, CAF's credit exposure to countries with very low ratings does not reflect the benefit of its preferred credit status. As a CAF senior official in the Compliance and Risk Division manifested while explaining her work within the division, in regard to assessing loans with sovereign guarantees:

> All sovereign clients have the same risk for me, in four decades there has not been default by CAF, then I cannot apply the CRA criteria and evaluate them in different ways from each other. Member countries are *my own shareholders* and CAF's credits have always been honoured. What I do during the credit review for these [public sector] loans is checking on them during the process of disbursement by verifying that certain conditions are being met...including liquidity limits, exchange arrangements, special clauses, etc. (CAF senior official, Compliance and Risk Division, personal interview, December 1, 2012, emphasis added).

As previously stated, member countries have not defaulted on CAF's debt obligations. For example, when Ecuador faced a financial crisis in the late 1990s, it continued servicing its debt to CAF, even though it was not doing so to other creditors; similarly when Peru limited debt service payments to 10 per cent of all creditors during the 1980s debt crisis, CAF debt continued to be serviced in full (Griffith-Jones et al., 2008). A more recent example of this scenario is also provided by Ecuador, which defaulted on debt obligations in December 2008, but did not default on its debt to CAF. The bank is arguably a preferred creditor among RFIs. According to management, both Ecuador and Peru remained current on their obligations to CAF even while they defaulted or were in arrears on their obligation to other RFIs, including the World Bank and the IADB (Moody's, 2013).

4.4 Key factors in sustaining the relationship with member countries

As previously mentioned, shareholders' support towards CAF relies on the notion that it is an institution that can provide financing options during both good and bad times. As Garcia has remarked: "We have an umbrella up for members when it rains and we're the taxi that is always at hand in the wet. More than that, as a member you can get into our taxi and say I am an hour late. I am in a vast hurry and I have got to get there as fast as possible. Well, we'll get you there" (Garcia quoted in O'Shaughnessy, 2009). Several factors— including speed of loan approval, lack of dogmatic agenda, and an ability to understand local governments' current needs— which will be discussed below have ensured that members continue to support CAF's strategic and institutional goals throughout distinct economic conditions and diverse preferences for regional integration.

4.4.1. Speed of loan approval

CAF is often praised for its agility, not a typical feature of RFIs. At the IADB and World Bank, for example, the financial strength of OECD members as shareholders may support their credit rating, but it creates the need for more elaborate institutional mechanisms to approve loans and transactions. The speed of approval of CAF loans is linked to the fact that formal conditionality does not exist at the institution (Griffith-Jones et al., 2008). According to German Jaramillo—CAF's Director for European Affairs—: "We [CAF] are proud of the speed of loan approval. A major project can be approved within six months, which is not easy to accomplish in these institutions…"(Jaramillo quoted in Madrid Network, 2011).

CAF's constitutive agreement limits the total amount of disbursed and outstanding loans, guarantees and equity investments to 4 times stockholders' equity. CAF's actual ratio on 31 December 2012 was 2.4 times stockholders' equity (CAF, 2013a). The modality employed for approving loans is linked to strict economic evaluations of projects: CAF applies commercial banking standards for credit approvals and maintains policies and procedures regarding risk assessment and credit policy. Matrices of agreed actions are then designed; reportedly, not meeting these agreed actions does not stop disbursement of loans, but may trigger additional technical assistance to ensure these conditions are met (Griffith-Jones et al., 2008).

Another institutional feature that helps accelerate approval of its loans is that, unlike the IADB or the World Bank, CAF does not have a permanent resident board. Consequently, loans and technical assistance are generally approved by senior management of the institution, which facilitates the approval process. Garcia has often acknowledged CAF's speedy approval: "The organization of CAF is such that the Board doesn't deal with loans. Most things are approved by management. It's very easy to move quickly" (Garcia quoted in Arnold, 2008). Without a clear leadership with a commitment to the success of the institution, this situation could be very dangerous since it could lead to approvals that might damage the financial health of the institution in the long run. But in the hands of Garcia and with senior management's support, the speed of approval has become a comparative advantage. According to its credit policy, CAF's

Executive President, upon the recommendation of the Loans and Investments Committee, may approve the following:

> (a) loans of up to $75 million for sovereign credits, (b) loans of up to $50.0 million for private credits, (c) investments of up to $25 million in the case of equity investments, (d) investment of up to 1% of total liquid assets of any issuer... The Executive Committee of CAF's Board of Directors or the Board of Directors itself may approve (a) loans of up to $150 million for sovereign credits, (b) loans of up to $80.0 million for private credits, (c) investments of up to $50.0 million for equity investments, (d) investments of up to 2.5% of the total liquid assets for any issuer...Loans and investments in excess of the aforementioned Executive Committee's limits require the approval of CAF's Board of Directors (CAF, 2013a).

The structure above has also helped in limiting political interference. CAF is subject to fewer disclosure requirements than other RFIs and has had fewer regional and national committees with which to negotiate. According to Arnold (2008), "Garcia – who is also able to take decision more like a CEO – maintains that it's been possible to keep political interference at bay." This structure stands in contrast to the IADB, owned by its 48 member countries from around the world, with the U.S. taking the largest share at 30%, while the countries of Latin America and the Caribbean combined hold 50%. With another 20% from Europe, the U.S. can veto decisions. Moreover, at CAF, since donor and creditor countries are two sides of the same coin, no national government wants to interfere with the lending processes. As Humphrey (2012) has remarked,

> With the "principals" unified in their goals for the MDB, the "agent" has considerably less incentive to develop or pursue interests that do not coincide with those shareholder goals. Hence the administration is much more vertical with far fewer bureaucratic layers, and management is given much greater freedom and trust by the shareholders. As well, borrowing shareholders have no incentive to impose any extra rules or procedures that go beyond their own national laws, such as the environmental, social and financial safeguards at the other two MDBs [the WB and the IADB] (p.136).

As such, CAF's model of governance allows a high level of delegated authority to management and the relevant committees on issues related to lending, operations and administration, which allows for flexibility and speed when making decisions.

4.4.2. Staying away from dogmatic economic growth recipes

For its 35th anniversary, CAF published a special issue of its magazine "Sinergia" with the headline: "A place where everybody feels at home" (CAF, 2005). In this issue, Garcia suggested that CAF was not a dogmatic institution and it welcomed different ways of thinking: "Here [at CAF] leaders or senior officials with very different ways of thinking see each other and everyone feels very comfortable" (Garcia quoted in CAF, 2005, p. 22). In a more recent interview for this dissertation, Garcia remarked that CAF does not tell countries whether they should pursue an open market or state-based economy (Garcia, personal interview, November 12, 2012). Other RFIs may be more upfront in their prescriptive recipes for economic growth but at CAF respecting a shareholder's model for growth is what prevails and what has worked for keeping countries close to the institution.

It is not surprising then that governments with very different ideologies have kept a close relationship with CAF because of its catalytic role (attracting other funds for financing within and beyond the region) and its anti-cyclical role (lending resources even during the bad times), which has been fundamental for financing large public sector projects. For Enrique Garcia, "the philosophy of CAF is not to impose things—we give members what they ask for…It's about a sense of ownership" (Garcia quoted in Arnold, 2008). According to CAF's Antonio Juan Sosa, at other RFIs, countries have to adapt to specific financing "products," while at CAF the priority is to serve the client's unique needs:

> If we had followed a more "wholesale" approach like the IADB and the WB, we would not have gone very far, because we would have been repeating what they have being doing with less resources…Instead, especially since the early 1990s, we have tried to serve each client and try to look for tailored ways to fulfill their [financing] needs…Presidents liked what they saw: less bureaucracy…With a seventy million dollar loan for example we were not trying to change the economic practices of countries, neither asking for compromises or attached conditionalities (Antonio Juan Sosa, Vice-President of Infrastructure, personal interview, October 18, 2012).

In 2013, during a conference in the U.K., Garcia was asked how governments such as Argentina and Venezuela reacted to CAF programs since they may not be compatible with these countries' policies. Garcia first highlighted how loans for both countries were concentrated in the public sector. Then, his reply was centered on how CAF tries to work and adapt itself to the reality of the member countries:

> We [CAF] do not have a recipe that is applied to all countries, because not all countries are the same. They decide the course of action they want to take. We try to select however, our projects from projects we establish that are feasible, good, etc. In the case of Venezuela, we are by far the first multilateral lender, of course the first non-multilateral lender is China…in other countries what you see in Latin America is a combination of public and private sector investment (Garcia, 2013, presentation at the Canning House).

Further, the Vice-Presidency of Country Programs was created in 2000 and since then, it has had the mandate to get to know the development agenda of CAF's members and to deepen the strategic alignment with its partners' goals. At the beginning of each presidential term, CAF conducts programming missions. With the participation of a multidisciplinary technical team headed by Enrique Garcia, these missions establish an agenda for dialogue to bring its institutional capacity for technical and financial support into line with national priorities (CAF, 2005). In that initial mission, CAF officials meet with senior national officials in order to exchange views while trying to establish what are the ongoing and upcoming projects considered at that time as a priority for those governments: "for example, in the specific case of Bolivia, the areas of priority are gas and electricity. CAF outlines projects that it can support in that area and then reviews [those projects with Bolivia]" (Senior CAF official of the VP of Development Strategies and Public Policies, personal interview, November 26, 2012). Moreover, CAF then establishes a formal mid-term working commitment by issuing a joint statement endorsed by the presidents, which is updated on a regular basis.

CAF also prepares on a yearly basis an internal document for each country called "Documento Estrategia Pais" (Country Strategy Document) which intends to be operational and strategic. For example, according to Colombia's Presidential Agency of International Cooperation in Colombia (APC, in Spanish):

> CAF does not have a public strategic document to follow for the medium term with Colombia. The "Documento Estrategia Pais" that CAF manages is an internal working document, in which the medium term guidelines are compiled combining the general objectives of the corporation [CAF] with government goals raised in the National Development Plan (APC, 2013, p. 3).

Finally, even the CRAs have acknowledged the institution's outstanding channels of communication and networking with member countries. Fitch (2003) affirmed that CAF was held in high regard within the region and the bank's directors maintain good relationships with local politicians: "This contributes to have a flow of information regarding priority sectors of the economy and enables CAF to remain well informed of political changes that could impinge on the development of major projects" (p. 5).

4.4.3 Sense of ownership and compromise

Garcia recounted how when he accepted CAF's presidency, he also had drafted an informal plan B for the institution (in case his original strategy would not work). His plan B consisted of having a model closer to the IADB if he did not see much progress with his strategy in the first 3-5 years:

> According to my plan B, I would have had to invite European countries to have a large participation in CAF, but fortunately things have worked. In the early 2000s, we [CAF's management] took the decision to let Spain and later Portugal have a minor participation in CAF because we wanted to strengthen Iberoamerican relations (Enrique Garcia, personal interview, November 19, 2012).

As previously mentioned, the incorporation of Spain and Portugal contributed to initially strengthening financial standards in the eyes of the CRAs, in terms of guaranteed capital (and not necessarily paid-in capital). Both countries have joined as Series C members. As of 2011, only Spain was represented on the Board with 3.1% voting power, sharing representation with Trinidad and Tobago (Humphrey, 2012). Ultimately, Spain's incorporation to the institution (and the inauguration of an office in the country in 2007) has contributed to an extent to promote the strategic presence and globalization of CAF's business in Europe by consolidating institutional links through academic and thought networks and business groups with the objective of serving as a bridge between Europe and Latin America (CAF, 2014c).

During fieldwork for this dissertation, officials confirmed that OECD countries would not be allowed to have more than 10% of shareholding power at least in the next decade (CAF official, personal interview, October 19, 2012; Senior CAF official, Infrastructure Division, personal interview November 19, 2012**;** CAF official, Public Policy and Competitiveness Unit, personal interview, November 21, 2012). Although none of CAF's documents mentioned this fact, in a recent policy brief for the Global South Unit at the London School of Economic, Garcia (2014) reaffirmed that CAF has made the geopolitical decision to keep more than 90% of its equity in the hands of countries in the region (Garcia, 2014). This primary participation of non-

OECD countries has generated an authentic sense of shared responsibility among member countries, leading to a high level of commitment to the success of the institution. Thus, the absence of countries with "donor" status turns an apparent weakness into strength by generating a sense of mutual loyalty. As previously discussed, no country has defaulted on any financial, statutory, or other obligation. CAF's members feel they have vested interests—and even a sense of obligation—in the success of CAF's performance.

At times, this situation has resulted in higher rated countries such as Colombia continuing to get loans from CAF, despite the higher cost of their loans and limited technical assistance when compared to other RFIs (Humphrey, 2012). According to a Colombian official, when thinking about getting loans from CAF, "there are considerations that go beyond just the finances. The finance minister, the head of the central bank, they sit on the board of the CAF so they feel they are owners, so they don't treat it like the World Bank or the IADB" (Agudelo quoted in Humphrey, 2012, p.177).

CAF members have also been ready to assist with capital contributions, which have then enhanced the institution's ability to secure intermediate funds from global financial markets for the countries of the region. This has allowed CAF to play a key role in difficult situations, such as the recent global crisis. The post-2008 crisis clearly showcases CAF's ability to raise funds within its members. Raising funds during an ongoing crisis was to a great extent possible because members have come to an understanding that the institution plays a counter-cyclical and catalytic role when international sources become scarce. When the crisis began in 2008, CAF's members knew that sooner or later they would be affected because private and multilateral lenders would begin withdrawing from non-core markets.

Officials around the region continue to approach CAF— despite the higher cost of its loans compared to other MDBs—since it allows them to diversify their sources of financing for areas such as infrastructure where there are more projects than resources available. A Colombian public official puts it this way: "When all goes well we have access to resources, but when the markets close, we have to open doors, so we can't turn our backs on the CAF knowing that when we need them they can throw us a lifeline" (Bargans quoted in Humphrey, 2012, p.176). Similarly, a Venezuelan minister commented: "this institution has been always there with us, in large infrastructure projects and in other that are smaller. In this sense, CAF has been with us in the good times, but above all during bad times" (Giordani quoted in CAF, 2005, p. 7). CAF now remains the main source of multilateral financing for the five founding member countries and has become a well-known source throughout Latin America. Indeed, while CAF accounted for less than 5% of multilateral financing in the region in the 1980s, today it provides about 30% of that funding (Garcia, 2014).

CAF also went beyond infrastructure lending during the global crisis. During 2008, CAF acted rapidly to mitigate some of the effects of the global crisis over the region. CAF offered a contingent credit line of US$ 1.5 billion to support the governments' financing strategies through a preventive financing instrument (CAF AR, 2008). Further, as an additional and timely strategy to confront the crisis, Unasur member countries agreed on strengthening the sources of financing within the region, such as CAF. In August 2009, CAF's Board of Directors approved an extraordinary capital increase of US$ 2.5 billion. The increase, which had been proposed by several member countries at the previous meeting, responded to the need to strengthen the CAF's capital in order to cover the substantial demand for loans it had been receiving in the wake of the global economic crisis, and to strengthen its ability to further support the long-term development of the region (CAF News, 2009). Commenting on the general feeling of the Board, Alexandre

Meira da Rosa—Director for Brazil—said the unanimous decision reflected "a political expression of support for CAF's uniqueness, its democratic decision-making, its capacity for rapid and effective response to the crisis, and the fact that it has become a truly Latin American institution, key to the region's integration" (Meira da Rosa quoted in CAF News, 2009).

In addition, Oscar Zuluaga—minister of Finance and Public Credit and Director for Colombia—said that the Board's meeting was historic because of "the transcendence of the decision to increase the capital, which will strengthen the Latin American region, while conveying a message of confidence to the markets" (Zuluaga quoted in CAF News, 2009). Moreover, at that time, Garcia stated the following:

> This backing from CAF members reflects their confidence in the institution's capacity, based on its financial strength and increasing activity, which is possible thanks to the important capital contributions made by shareholders, reinvestment of profits, and permanent presence in the international financial markets. The latter is made possible thanks to the high credit ratings granted by the leading international agencies (Garcia quoted in CAF News, 2009).

In November 2011, CAF's Board of Directors approved another extraordinary capital increase, this time of US$ 2.5 billion, in anticipation of possible adverse effects of the European sovereign debt crisis on the Latin American region. This increase decided by the Board was in fact proposed by Unasur's South American Council of Economy and Finance in view of the outlook of a worsening global crisis (CAF News, 2011). Extraordinary capital increases directly improve CAF's readiness to provide support and thus mitigate possible short-term negative impacts, which may occur in the region, without affecting its capacity to continue providing long-term financing for investment projects. Capital increases also send a positive message to the CRAs and the international markets. In addition, even though the recent financial crisis and global economic recession have affected CAF's business, they have not had a material adverse effect on CAF's results of operations or financial position. This is because, based on CAF's investment strategy and given its investment guidelines, CAF's liquid investment portfolio is of short duration and has no material exposure to structured products such as mortgage-backed or asset-backed securities (CAF, 2013a).

4.4.4 Getting to know clients beyond the Andean region, while responding to targeted needs

Another important factor in CAF's survival and growth relates to the ways the institution has been able to build knowledge that is relevant for all of its shareholders, while understanding each country's unique financing needs. Over the past decades, CAF has developed a fundamental locally grounded capacity. According to Santiso and Whitehead (2006), CAF's technical and cognitive capacity, which is totally grounded in Latin America, contributes more directly to the policy-making debates and regional agenda discussions between and within the countries on issues as different as fiscal sustainability and pension reforms or growth strategies in Latin America. Since the mid-2005, CAF has also hosted an in-house research program (further discussed in Chapter 5) that has helped to attract and maintain technocratic capacities in the countries, be it directly (through financing technicians in government offices) or indirectly (through providing research resources to local think tanks or academic centers) (Santiso & Whitehead, 2006).

In his interview, Garcia highlighted how top central bankers and ministers of finance in the region—which are members of CAF's Board—enthusiastically attend CAF's meetings because it gives them a forum of discussion and it is also seen as very informative, giving members a better sense of what is going on in the region, in particular in respect to financing for key projects or best practices for project finance (Enrique Garcia, personal interview, November 19, 2012). This knowledge in technical and regional matters has resulted—particularly since the mid 1990s—in shareholders granting a considerable amount of discretion to the institution since they see both positive financial management and formal and informal knowledge management opportunities. Garcia has strived to promote an internal culture of cohesiveness, enhancing specialized knowledge and pride in the institution's work.

But CAF's survival and relevance have also been possible due to the efforts of senior officials to go beyond research agendas and to actually establish meaningful cooperation and financing links between the institution and the individual members. For example, in the case of Brazil, even though the country has its own national development bank and several bilateral agreements with other nations, the infrastructure needs of the country are enormous and, consequently, CAF has been able to finance various strategic projects in specialized geopolitical sectors. For instance, CAF has been able to work with Brazilian municipalities since the country's Foreign Financing Commission (COFIEX) has enabled municipal governments to request direct financing from multilateral organizations. In 2006, CAF presented its Program in Support of Municipal Governments in Brazil (PRAM) and COFIEX authorized the implementation of the program in three states (CAF, 2010a).

In April 2007, CAF approved the first loan to the municipalities of Canoas and Florianopolis. In 2009, the PRAM's success resulted in a request from the Brazilian government for the preparation of a CAF program to assist the governments of municipalities and states that would be venues for the 2014 Soccer World Cup (CAF, 2010a). CAF's support of this program for Brazilian municipalities amounts to US$1 billion and the funds that have been granted serve to partially finance projects in the fields of urban transportation, economic and social infrastructure, basic services, the environment, and sustainable tourism, through individual loans to each host city or state in Brazil (CAF, 2010a). In this way, CAF has supported the Brazilian state with one of the government's priorities—the development of local infrastructure through administrative decentralization. In regard to municipalities and states, Brazil has an annual demand of over US$ 600 million with CAF, and it could be even more if it were not for the limits set up by the institution (Senior CAF official of the VP of Country Programs, personal interview, November 26, 2012). By the end of 2012, the state of Rio de Janeiro had become CAF's 9th largest borrower, with 1.3% of the total loan portfolio (US$ 209 million) (CAF, 2013a).

Loans to municipalities are by and large sovereign sector operations, but CAF has also been involved in supporting the private sector in Brazil. Even before Brazil became a Series A shareholder, national officials had already identified that one of the greatest advantage of increasing its membership in CAF would be to obtain guarantees for national institutions and companies. During his presidency at BNDES, Guido Mantega remarked: "the biggest problem for trade creditors of [Brazilian] goods and services abroad are the guarantees" (Mantega quoted in *Business News Americas*, 2005). Once Brazil became a full member, CAF has been able to allocate, for example, US$ 200 million through a line of credit to Odebrecht, S.A. to issue partial credit guarantees and finance short-term working capital operations. With this facility, CAF plays an important role in meeting the need for new guarantors to continue the execution of relevant projects in the region, particularly in the infrastructure sector (CAF AR, 2011). When

CAF can act a guarantor for a BNDES project, the national development bank does not need to draw upon its own resources (e.g. the Workers' Assistance Fund[7]) for that kind of activity.

Brazil also became interested in full participation in CAF as a consequence of its international strategic policy promoted by the current and former governments. For Brazil, cooperation on infrastructure matters has been at the center of its regional engagement agenda (*see* Chapters 5 and 6), not only for the public sector but also for private conglomerates. Several Brazilian enterprises have been involved in the construction of highways throughout South America in recent years within and beyond IIRSA's scope, while CAF has accumulated knowledge (both technical, political and public policy related) on road infrastructure like no other RFIs. Consequently, as a CAF official mentioned during an interview, Brazil's interests in joining CAF as a full member are a 'no brainer':

> It makes sense as a 'signaling' mechanism that is very consistent with its foreign policy on regional matters. Brazil also didn't have to contribute with an onerous capital…and considering the flow of Brazilian investments to Latin America, which are, to a great extent, linked to infrastructure services…it just made sense to join an institution like CAF (CAF official, Public Policy and Competitiveness Unit, personal interview, November 21, 2012).

Moreover, as a Series C shareholder, Brazil could borrow from CAF up to four times its capital invested in the Andean entity, but as a full-member (Series A) the limit is eight times.

For the original CAF shareholders, the relationship with the institution is truly based on the combination of the factors discussed above—sense of ownership, speed of loans, lack of

[7] The Workers' Assistance Fund (FAT, in Portuguese) is a government-established fund composed of compulsory contributions deducted from net operating revenues. At least 40% of annual revenues of FAT are transferred to the BNDES (Constitutional FAT). Because these funds are meant to support employment in Brazil, BNDES usually requires that other actors provide guarantees for international projects.

dogmatic recipes and access to local and regional expertise—but at the same time, CAF also continues to look for ways to strengthen its relationship with founding members through new avenues. For example, in 2012, CAF assisted Bolivia in issuing the first sovereign bonds in nearly a century. The Bolivian government sold US$ 500 million worth of 10-year bonds and earmarked the funds for investment in infrastructure and industrialization projects in energy and mining (Reuters, 2012). The issuing of sovereign bonds was preceded by approximately a year of work with CAF, which accompanied the process at the New York Stock Exchange. The selection of the international investment banks Goldman Sachs and Bank of America Merrill Lynch—banks that have experience working with CAF—was another important step in the process (Bolivia's Ministry of Economy and Public Finance, 2012). According to Enrique Garcia, CAF worked with Bolivian officials first by discussing the current role of CRAs in opening doors for infrastructure financing and second, by formally advising them through internal units (e.g. on how to set up a road show and recommending external consultants) (Garcia, personal interview, November 12, 2012).

4.5 CAF and members' increasing avenues for funding infrastructure

The growth that several countries in the region have experienced in recent years has put the spotlight on infrastructure needs, generating opportunities for new lenders. As mentioned throughout this thesis, the combination of various elements—the need for better infrastructure, the willingness of governments in the region to take on projects and the improved financial situation due to the favourable export of commodities— has resulted in an increased *demand f*or infrastructure financing throughout the region. Most member countries, for example, would like to receive more loans from CAF, but due to *supply* restrictions, this wish has not been possible. As Humphrey (2012) has remarked: "this supply restriction comes mainly from the danger of over-exposing the CAF's loan portfolio to a country seen as unstable by financial markets, which could impact its own credit rating" (p.193). CAF aims to limit exposure to a single member to less than 25% of the total portfolio. Meanwhile, various member countries have been able to diversify their financing sources because of political motivations and/or due to more favourable terms from other lenders—whether it is speed, fewer conditions or lower interest rates.

The traditional method for infrastructure financing in the region has been loans from RFIs or international tenders to attract capital for large projects, but it has never been easy. For example, in Colombia, while capital has flowed into certain infrastructure sectors—primarily oil/gas and electricity— administrations for the past decade have identified the massive gap in transportation infrastructure as a major bottleneck for economic growth, including the country's capacity to take better advantage in the export sector due to recent FTAs with the U.S. and the European Union (Chauvin, 2014).

New avenues for funding infrastructure projects have included public-private partnerships, private pension funds, and funds from the Chinese government. For instance, infrastructure facilities created by private pension funds (AFPs) are a growing source of financing in a number of countries, particularly in the Andean region. Peru's AFPs have invested in energy, transportation and sanitation projects and are looking for more projects (Chauvin, 2014). Peru, including projects within the IIRSA initiative, has also benefited from public-private partnerships (PPP) and a plan that allows companies to invest in public works in lieu of taxes. PPPs accounted for US$ 5 billion in infrastructure investment commitments in 2013, up four times from 2012, and more than US$100 million was secured from ten companies that will invest a percentage of their tax payments directly in infrastructure projects (Chauvin, 2014).

The Chinese government has become an increasing source of capital for infrastructure projects in Latin America. According to data gathered by the Inter-American Dialogue, China provided loan commitments upwards of US$98 billion between 2005 and 2013 (Garcia-Guerrero & Casanova-Allende, 2014). The bulk comes from China's policy banks, such as the China Development Bank (CDB) and China Ex-Im Bank. However, Chinese lending in the region is highly concentrated by country. Over half of these loans went to Venezuela, followed by Argentina and Brazil, with the rest of Latin America accounting for slightly over 20% (Garcia-Guerrero & Casanova-Allende, 2014). Chinese and Western banks barely overlap when it comes to their borrowers. Only Brazil and Argentina have received significant shares of lending from both. In both cases, the vast majority of the Chinese funds came from a single loan (Gallagher, Koleski & Irwin, 2012).

Chinese loans do not come with the policy conditionalities that are tied to MDBs such as the WB and IADB. Therefore, China is a growing source of finance in parts of South America, especially for those countries having certain difficulties gaining access to global capital markets. For instance, Argentina and Ecuador have alienated themselves from the traditional sources after defaulting on their sovereign debt in 2001 and 2008-2009, respectively (Gallagher et. al. 2012). In the case of Venezuela, foreign investors have been scared off by its domestic political turmoil. For Ecuador and Venezuela, loans from China have been added to IADB and CAF lending, while replacing sources such as the World Bank. The WB has had almost no lending presence in these countries in the last decade. In regard to the IADB's lending to these countries:

> [It] was higher in both absolute and relative terms in 2009-2010 than it was in 2006-2008. The increase in lending in 2009-2010 is significant, since Chinese lending over the same period exploded from zero to over 20 times IADB lending. IADB lending had been

> higher in 2005, but it fell years before China began lending to these countries. Viewed in this context, Chinese lending is adding to, rather than replacing, IADB lending (Gallagher et. al. 2012, p.7.).

According to Gallagher et al. (2012), with Chinese loans, nations in the region can get more financing for infrastructure and industrial projects to enhance long-run development rather than to support the latest Western development fads. Chinese banks have become major development financiers in the region, but their lack of transparency has left many observers and policy makers understandably uneasy about the size and nature of their loans (Brautigam & Gallagher, 2014). For example, the composition and volume of Chinese loans are potentially more environmentally degrading than Western banks' loan portfolios in the region (Gallagher et al. 2012). In a recent study, however, Brautigam and Gallagher (2014) find that Chinese finance is generally not out of line with interest rates found in global capital markets, does not bring windfall commodity profits to China, and does not mandate the use of Chinese workers.

Garcia-Herrero & Casanova-Allende (2014) suggest that China's efforts in the region greatly resemble the United States' decision to pivot its foreign policy towards the Asia Pacific. Not surprisingly, Chinese lending seems to favour those countries that are aligned with its strategy in Latin America, a claim that is reinforced by Chinese outward direct investment in the region. In this context, the proposed BRICS New Development Bank, which includes Chinese foreign reserves' contributions, may serve to further enhance bilateral lending agreements between China and some South American countries (Garcia-Herrero & Casanova, 2014). As such, for some CAF members, China has already formalized its role as an alternative partner for development, representing a shift away from US-dominated financial institutions.

CAF has not opposed the entry of China as a new partner for infrastructure lending and in 2010 it actually signed a memorandum of understanding with the Export-Import Bank of China (China Ex-Im Bank) to jointly advance activities related to the economic, financial and social development of CAF's shareholder countries. CAF also signed a cooperation agreement with the China Development Bank (CDB). The agreement calls for the cooperation between the banks in joint financing, trading of financial products, and exchange of human resources and information (Business News Americas, 2010). CAF has also so far hosted four academic conferences with the Institute of Latin American Studies (ILAS) at the Chinese Academy of Social Sciences. In these conferences, Garcia has also enhanced CAF's networking activities by meeting with high authorities of the political, financial, business, and education world in Beijing and Shanghai during work visits in the framework of the conferences.

In regard to other possible entrants such as the Bank of the South (BOS), CAF's management has been very careful in staying away from political commentary and instead, focusing on the main principles that have worked for CAF to survive and growth in the current multilateral lending environment. When asked if the Bank of the South would compete with multilateral institutions in the region, Garcia replied:

> We see no other problems with the birth of new multilateral institutions, especially considering the financing needs of the Latin American countries… When the Bank of the South begins operations, if it has appropriate policies, we can even co-finance and share projects. The philosophy of the CAF, and I think that will be the Bank of the South, is to act with respect for differences that may exist between countries in approach, ideology, and to be not paternalistic but active partners…(Garcia quoted in Figueroa, 2008).

Further, when asked about the political objectives of the Bank of the South, Garcia diplomatically replied that is not advisable to have an opinion in that matter. However, for any agency such as the Bank of the South to succeed, Garcia remarked that “it must have three fundamental principles: having a paid and appropriate capital to leverage projects, to have sustainable policies and finally to have a legal instrument that qualifies the agency as a multilateral” (Garcia quoted in Figueroa, 2008, author’s translation).

4.6 CAF as a model for other development banks?

As Desai and Vreeland (2014) have suggested, long-standing dissatisfaction with the Bretton Woods institutions has to a great extent motivated BRICS countries to envision their own alternative to global development finance, the New Development Bank (NDB). What is interesting in the context of this chapter is that BRICS countries have decided to study CAF to guide the creation of their own institution. According to Stuenkel (2013) who interviewed various policymakers from South Africa, India and Brazil involved in the creation of the BRICS bank, CAF is frequently referred to as a model (Stuenkel, 2013). After the BRICS summit in Durban in March 2013, the countries set up an implementation committee to discuss the details of the bank. They have selected to study CAF carefully, because of its particular characteristics such as its unique shareholders’ structure and its progressive growth over the years.

CAF’s Executive Vice-President remarked that Enrique Garcia was approached by senior officials from BRICS countries first at a meeting at the Asian Development Bank and then more formally in Brazil to discuss the technical aspects of the institution (CAF’s Executive Vice-President, personal interview, November 6, 2012). Garcia thought that when he was first approached, it was because perhaps BRICS countries wanted to discuss enhancing bilateral relationships between them and CAF. Instead, national officials involved in BRICS told him that they wanted Garcia to tell them CAF's story and invited CAF officials to speak at one of their forums. Later, Garcia sent one of CAF's financial officers to Brazil to discuss the topics that most interested them: "[BRICS countries] were very interested in knowing more about CAF's financial structure, governance practices and how we have been able to obtain our current rating by the credit rating agencies" (Enrique Garcia, personal interview, November 19, 2012). As such, CAF's story of how it has obtained its current credit rating (despite being composed of some members that were not investment grade until recently) seemed instructive for officials dealing with BRICS bank. Further, when discussing the secretariat structure of the BRICS bank, Brazilian officials for example, have suggested the bank should have a lean structure, like CAF (Stuenkel, 2013). In a recent paper for UNCTAD, Griffith-Jones (2014: 7) suggests that:

> Naturally, the ultimate decisions on the BRICS development bank will be made by the BRICS Governments themselves, but discussions of the technical options, and of related relevant experiences (for example of the Development Bank of Latin America (CAF) and the EIB) may provide helpful insights for those decisions.

Similarly, in a report produced by the Indian Council for Research on International Economic Relations (ICRIER) and Oxfam, the authors point out various lessons that BRICS official could draw on based on CAF's experiences, including how the bank allows a far greater voice to its regional borrowers (Preet, Sapra & Mehdi, 2014). The authors also suggests that studying CAF's financing instruments may be useful, as well as how CAF has managed to expand and create loans with smaller amounts than other RFIs. What is more, the report even highlights how the New Development Bank could learn from CAF in framing its HR policy, by not using country quota criteria to appoint staff, but going by professional merit (ibid. p. 13).

Further, Humphrey (2015) considers a number of options for the NDB to increase its operational impact and indicates a number of directions where the NDB may follow the direction of CAF such as developing a leaner and more vertical administrative structure, which would also keep down staff costs (p.20). Another area where the NDB may follow CAF's steps could be regarding project approval and disbursement, which might be considerably less bureaucratic and faster than at the major existing RFIs: the NDB is likely to rely heavily on national systems rather than imposing external requirements related to environmental, social and procurement issues (Humphrey, 2015, p.26). Finally, Humphrey (2015) suggests that "the NDB could improve its rating above that of its member countries by demonstrating an outstanding repayment record and technical excellence, but this will only occur after at least a decade of operations, as the example of CAF illustrates" (p.18).

4.7 Conclusion

As this chapter has discussed, since the mid-1990s, CAF has continuously tried to find a balance between strengthening its financial position in the eyes of the CRAs, making its operations more complex, keeping up good relationships with member countries and increasing resources to provide loans in key sectors such as infrastructure. Finding a balance is not an easy task, since it requires combining a mandate for serving members that do not carry the most "optimal" credit ratings and constantly engaging with CRAs that worry about risk and portfolio diversification. By now, CAF has the advantage of being a development bank with a long and very positive track record, including the fact that members have unconditionally respected the institution's preferred creditor status and not defaulted on any of its loans.

Therefore, shareholders' trust and support have been fundamental in this process: they have a clear self-interest in maintaining and increasing CAF's institutional credibility and have opted to keep their obligations to CAF in full despite numerous crises. Throughout the years, shareholders have developed a strong interest in preserving CAF: it is an institution that has proven that it can grow their governments' capital contributions (without interference from industrialized non-borrower countries) by using its staff to secure funds from international capital markets. CAF has also acted as catalyst of funds for all its members, despite the fact that some of them may seem more "creditworthy" than others to international investors. Various senior staff interviewed for this project separately commented (when asked how is CAF differentiated from other RFIs) that it is a bank that "has an umbrella even on sunny days when it is not needed, and opens it when it rains" (CAF senior official, Vice-presidency of Development Strategies and Public Policies, personal interview, November 26, 2012; Enrique Garcia, CAF's Executive President, personal interview, November 19, 2012; Antonio Juan Sosa, VP of Infrastructure, personal interview, October 18, 2012; Luis Enrique Berrizbeitia. CAF's Executive Vice-President, personal interview, November 6, 2012).

CAF members believe that the institution has the capacity to provide them with timely financing based on its financial strength and growing activity made possible by the solid and ongoing contributions from shareholders, reinvestment of their profits and constant presence on international financial markets. Ultimately, the fact that CAF is essentially a Latin American-owned institution—which at first glance might seem to be a limiting factor for success given the absence of AAA/AA rated countries as is the case of the IADB and WB—has been a determining factor in CAF's survival. Member countries share a sense of ownership and responsibility and this has a very positive impact on CAF's credit rating and cost of funding, which in turn lowers costs to members seeking a loan—a successful cycle, with governance as a crucial component (Humphrey, 2015, p. 27). Moreover, as Humphrey (2012) remarks, when CAF began to work in earnest on winning the trust of international markets, it did so through its constant operations, not callable capital. Callable capital and portfolio risk due to concentration in certain low rated countries have been the main factors that CAF has had to “sacrifice” to maintain its Latin identity and the backing from CAF’s members throughout the years.

CAF’s story is now serving as a case study for newer institutions like the NDB. Some of its features—anti-cyclical and catalytic roles, financing mechanisms, lean organizational structure, image as a non-dogmatic institution and hiring practices—may be worth studying since these features continue to contribute to the growth of its lending portfolio despite the appearance of new alternatives such as Chinese loans and increasing PPP options in some countries. CAF has also had an excellent repayment history and consistent profitability. All these factors, combined with the support of its shareholders, have led international markets (and increasingly academic and development institutions’ studies) to gradually recognize CAF as an issuer of attractive options and a model for emerging development banks.

Chapter 5: CAF, the regional environment and cooperation on infrastructure

5.1 Introduction

This chapter highlights the main developments within CAF in the area of infrastructure since the early 2000s and provides a brief introduction to IIRSA, which will be further explored in Chapter 6. As examined in previous chapters, CAF has dedicated extensive internal resources to the financing of infrastructure since the mid-1990s. In the last decade, CAF has renewed its focus on promoting infrastructure projects for regional physical integration, which remains one of the strategic pillars of its corporate mission and serves the purpose of making CAF more attractive and relevant for member countries. Over the last decade, CAF reportedly provided more financing for infrastructure in Latin America than any other RFI (Moody's, 2013). The biggest share of CAF's loan portfolio currently goes towards funding infrastructure projects (transportation, telecommunications, electricity, gas and water). At the end of 2012, infrastructure accounted for about 70% of CAF's total portfolio, followed by social development (19%) and financial intermediation (10%) (Moody's, 2013).

For national governments and RFIs alike, infrastructure is a major ingredient for economic growth and development. Improvements in connectivity and mobility have the potential to enable access to economic benefits and basic services, such as education and health care. Promoting infrastructure financing has been one of the key pillars in Garcia's strategy and has carried more weight in terms of impact than getting involved in other areas of regional cooperation such as trade and finance. CAF's focus on infrastructure has allowed the institution to survive and grow, while facilitating its principals' development agendas. This chapter analyzes how infrastructure, as a key component for development, has been understood and promoted by CAF's leadership. It examines how CAF, from a theoretical and operational perspective, has engaged with the financing of infrastructure in the region. In South America, infrastructure reentered the agenda of regional cooperation in the 2000s. CAF's work in this area since Garcia's arrival provided the basis to update a mandate that now increasingly needed to take into account and respond to regional developments, emerging cooperation and financial alternatives, and a favourable economic environment that lasted until the 2008 global crisis. Garcia's leadership during the last decade has covered various fronts. First, Garcia and CAF's senior officials needed to highlight the role of MDBs like CAF in promoting regional cooperation in infrastructure with member countries and the international community, following CAF's mandate and goals to enhance its portfolio in this area. Second, they had to ensure that despite emerging alternatives for financing and cooperation (Alba, Unasur, IIRSA, Bank of the South and bilateral initiatives with countries like China), CAF would find a way to either participate in these alternatives or frame itself as an entity that could co-exist with newer ones.

CAF's involvement in infrastructure financing and technical cooperation has also been facilitated due to changes in the regional environment, particularly Brazil's involvement and leadership in promoting cooperation on infrastructure. Moreover, within member countries, the fiscal scenario has improved in the last decade, which combined with ideational motives in regard to national development, has helped in that various governments began perceiving infrastructure as an attractive channel to prompt regional cooperation. This chapter also examines CAF's parallel agenda to infrastructure, which consists of supporting knowledge transfer related activities. This agenda also consists of accepting existing environmental practices within countries where projects are funded. In regard to its activities for supporting the creation of knowledge in this area, CAF is locally grounded and interacts on a regular basis with the main technocratic and political circles in the region, which has facilitated knowledge transfer.

However, its activities regarding the environmental components of the projects the entity supports lag behind other RFIs, despite improvements since the mid-2000s.

Countries in South America have always been interested in infrastructure development (especially in transportation) but what has changed at the present time is that, first, they have more mechanisms and alternatives for financing projects and second, as explained in Chapter 2, there has been an erosion in the 1990s model that suggested that the private sector had to be the force behind infrastructure development. While discussions of trade and to a lesser degree financial cooperation were prominent until the 2000s, it is now the physical infrastructure agenda that has a more prominent role in regional fora—particularly in Unasur. Development models in various Latin American nations now have the state at the center of infrastructure planning and execution at the national and regional levels. Meanwhile, the economic integration and trade dimension have lost ground due to a lack of consensus between countries and to the redrafting of the priorities in cooperation at the regional level. In fact, to a great extent, the trade dimension was put aside in the 2008 Unasur Treaty that includes only a general reference to the Andean Community of Nations (CAN, in Spanish) and Mercosur (Sanahuja, 2012).

5.2 The status of infrastructure in Latin America and CAF's approach to the subject

Diverse international and regional organizations agree that Latin America's economic development is seriously hampered by the lag in building necessary infrastructure. Despite increased private-sector participation in the last two decades the region is still behind Asia and other emerging economies. According to Perrotti and Sanchez (2011)—ECLAC researchers— to satisfy firms' and households' new demand for infrastructure between 2006 and 2020, Latin America would have to invest around 5.0% of regional GDP, assuming an average annual real growth rate of 3.9%. The effort needed is considerable given that infrastructure investment in 2007-08 was only 2% of GDP. From an economic viewpoint, increasing the availability and quality of infrastructure reduces logistics costs and increases countries' productivity and competitiveness. Moreover, development banks and multilateral institutions often claim that improved access to transport infrastructure contributes to reducing inequality and social exclusion. For ECLAC and OECD (2011), access to roads, railways and waterways facilitates the connection between agricultural centers and the main internal urban markets. The challenge for the region is to supply infrastructure that strengthens the economy and fosters equality in a sustainable manner.

After the debt and fiscal crises of the 1980s, the 1990s saw a reduction in capital investment as part of fiscal consolidation programs. Fiscal consolidation limited the levels of debt that states were able to assume, which together with low levels of taxation seriously limited public financing capabilities. Moreover, leaving aside the long lasting effects of the balance of payment crisis in the 1980s, Latin American state officials prioritized fiscal discipline to restore macro and financial stability. Improvements in fiscal balances achieved in the late 1980s and early 1990s did not come from retrenching current expenditure, but rather from revenue hikes and sharp declines in public infrastructure investment (Carranza, L., Daude, C., & Melguizo, 2014).

In addition, ECLAC figures show that while in 1980-85 public investment hovered around 4% of GDP, in 2007-08 it was only 2% (ECLAC & OECD, 2011). This decrease in public investment was not compensated by a proportional increase in private investment. Although there was an increase in private sector involvement through diverse schemes, this was not enough to compensate for the decline in public investment compared to economic growth in the 2000s. Private investment was less than the contraction of public investment in most sectors, except in telecommunications and, to a lesser extent, energy (ECLAC & OECD, 2011). Moreover, in some cases, public policies were not adequately designed to involve the private sector, resulting in insufficient supply and sometimes causing delays and cost overruns.

Infrastructure shortfalls differ considerably across sectors and states in Latin America. At the regional level, gaps tend to be concentrated in transport and energy, but even in telecommunications, where the aggregate gap is smaller, there are important challenges in specific segments such as broadband Internet access (OECD, 2012). Like most regional cooperation endeavours, infrastructure projects must also struggle with the challenges posed by the diverse priorities and interests of the different countries involved. Clearly, projects are often of greater interest to one country than another. Conflicting opinions may exist then as to the appropriateness of certain infrastructure projects. Indeed, among the different players involved in these integration processes, there are distinct views that tend to reflect contrasting interests and preferences when it comes to supporting or opposing projects. Countries have distinct regulations and laws when it comes to the approval and materialization of infrastructure projects, which creates significant challenges in the development of regionally integrated projects. Amongst the factors that present a challenge in furthering regional physical integration, it is possible to highlight: conflict of interest between governments, between service providers from various countries (fearing competition from other entrepreneurial initiatives) and between segments of the private sector itself (service providers and users).

Several countries in the region, however, have identified infrastructure as a priority in the public policy agenda. For example, in the case of Brazil, the Plan to Accelerate Growth (PAC, in Portuguese)— launched in 2007 and continued by the Rousseff administration under the name

PAC-2— is the backbone of the productive development policies in the country. The PAC contemplates large infrastructure projects in the energy, transportation, and sanitation sectors, as well as the development of airports and railroads (CAF AR, 2008). Smaller countries also show this emphasis on buttressing their infrastructure agenda; for example in Bolivia, investment in infrastructure represents 50% of total public investment and the National Development Plan includes critical investments in water projects and basic sanitation, as well as in transportation and telecommunications infrastructure (CAF AR, 2008).

For RFIs like CAF, the advancement of infrastructure has often been justified as having an impact on the rate of economic and socially sustainable growth and thereby upon poverty alleviation. In the late 1990s, discussions within CAF Annual Reports also highlighted the need for shareholders to attract direct private investment for infrastructure development. CAF's Annual Report in 1997 suggested that "the most important requirement, however, is that the state should guarantee the provision of essential infrastructure and services (potable water, power, high-speed communications and transportation systems) needed to make the environment conducive to private productive activity"(CAF AR, 1997, p.27). Since the early 2000s, CAF began promoting the importance of infrastructure and continental integration as a way to link countries together, creating networks for transportation and telecommunication, and erecting power grids to take advantage of the region's energy resources. In a recent presentation in the U.K., Antonio Sosa (2012)—CAF's VP of Infrastructure—also highlighted that doing infrastructure is not enough, that people should "beware of white elephant projects" since the infrastructure itself does not necessarily generate development. Sosa (2012) stated that it is the innovation, resourcefulness, business vision and productivity of its people, which generates markets, sales, jobs and development. As such, "infrastructure must be proportional to the economic activity and potential for development" (Sosa, 2012). CAF summarizes its view on why infrastructure is a key variable for development as follows:

> Beyond all the academic knowledge that supports this view, it is believed that infrastructure may contribute to the consolidation of the comprehensive development process in the region through four key dimensions: i) by favouring the improvement in the quality of life, social inclusion, and opportunities for isolated communities; ii) by supporting economic growth and the competitiveness of enterprises; iii) by facilitating integration within the national boundaries and regionally, decentralization, and internal mobility; and iv) by contributing to the diversification of the productive fabric by promoting the development and internationalization of national or regional companies specialized in the production of goods and services linked to infrastructure (CAF IDeAL, 2011, p. 13).

In 2012, CAF and ECLAC published a report "CAF IDeAL 2012," intended as a joint effort to begin measuring the levels of infrastructure investment in the region. This initial report covers ten countries (see figures below) and highlights countries' investment preferences and actions in infrastructure. For these countries, CAF IDeAL (2012) reports that total (public and private) infrastructure investment has grown by 17% between 2008 and 2010 in current values and it fluctuates around 3% of GDP. The sector with the highest share in investments is transportation (54%) and its relevance is growing. It is followed by telecommunications (20%), energy (18%), and drinking water and sanitation (8%). Moreover, private participation represented half of the investment in 2008 and 2009, and reached 34% in 2010. In the three-year period analyzed, private participation reached 8.5% in drinking water and sanitation, 20.7% in transportation, 65.8% in energy, and 93.4% in telecommunications. The sector that promotes public participation the most is transportation (more than 90% of public investment in 2010). When analyzing individual countries, we can observe that Bolivia and Peru have the highest investment in infrastructure as a percentage of their GDP.

Figure 2. Infrastructure Investment in Latin America by year and sector - % of GDP, 2008-2010[8]

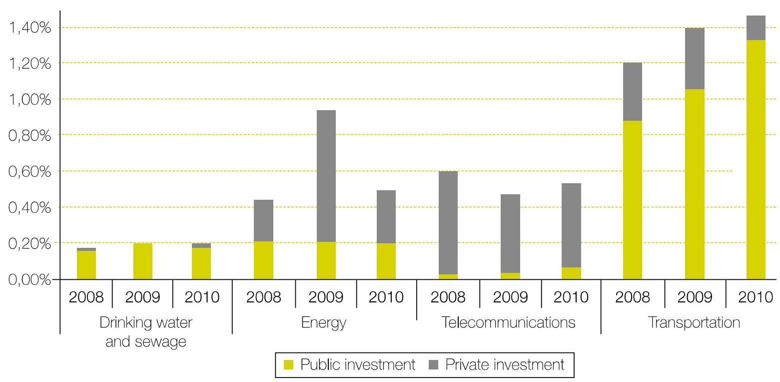
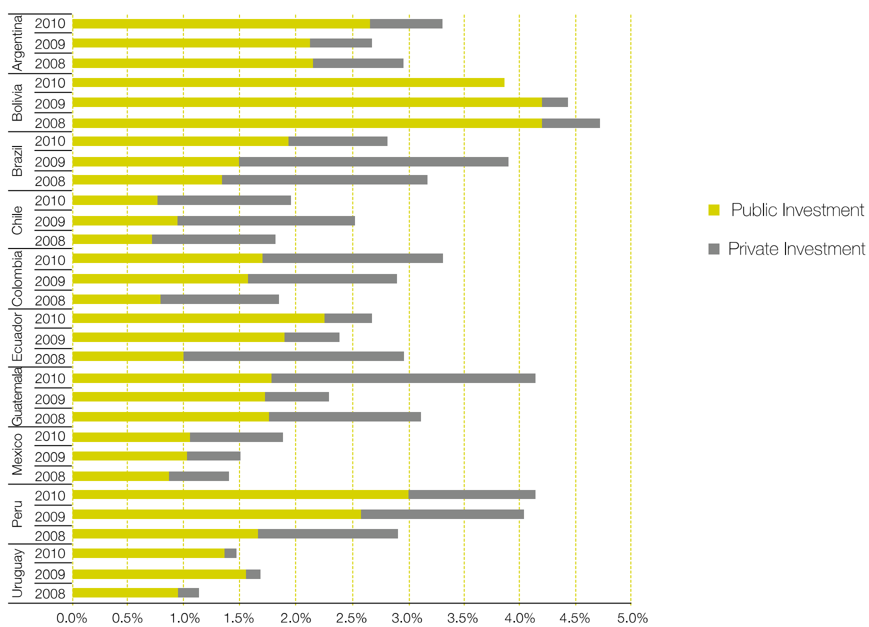


Figure 3. Investment in infrastructure by country (all sectors) - % of GDP, 2008-2010



[8] The countries included in this preliminary study by CAF and ECLAC are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Peru and Ecuador.

Source: CAF IDeAL 2012.

CAF's actions in infrastructure have two main dimensions according to its institutional policies: i) financing investment projects, and ii) establishing a dialogue with country members related to sectoral policies and technical assistance programs (CAF, 2010). Pre-investment studies conducted by the institution is a common first step for members looking to obtain CAF's financial support, followed by technical assistance resources for the design and preparation of the projects. These resources include advice to match the financing mechanisms with the characteristics of each project, with or without sovereign guarantees. The dialogue on sectoral policies and technical assistance programs enables the institution to strengthen its work with shareholder countries, while providing a closer look at the financing priorities of a government at a specific point in time. Moreover, CAF, as mentioned in the previous chapter, can also provide direct loans to subnational entities (cities and states) and support the structuring of PPPs. Throughout the years, CAF has also implemented co-financing with other RFIs and agencies and A/B Loans (with the participation of private financiers) in trying to attract more resources towards the sector.

In 2012, CAF officials presented the institution's current approach to infrastructure in London at the Foreign & Commonwealth Office Conference. CAF's current approach is based on three elements: finance, knowledge and networks (*see* Table 6), according to a recent presentation by the VP of Infrastructure in the U.K. The next sections emphasize the core of CAF's approach, the financing function, while discussing its links to the broader goal of regional integration of CAF's principals.

Table 6. CAF approach to support infrastructure (as presented in London)

Finance – Knowledge – Networks

Financing of infrastructure projects

- CAF: $10 billion a year in new approvals
- 67% in infrastructure: transport & logistics, energy, water & sewage, telecom & ICT including sovereign and corporate loans, structured finance, guarantees and capital investments

Knowledge generation of infrastructure

- We have a department for the generation of knowledge with 15 specialists in different sectors of infrastructure
- Studies & publications on infrastructure sectors, markets, financing, public policy and good practices
- IDeAL Report 2011, 2012

Network of authorities and experts

- Authorities and experts networks for sharing strategic vision and practical sector knowledge
- OMU 15, an Urban Mobility Observatory for the largest cities in Latin America www.omu.caf.com
- GeoSUR, network of geographical institutes and NGOs producing digital maps with geo-referenced information in a variety of themes www.geosur.info

- GeoPOLIS, an Observatory to improve adaptation of cities to the effects of earthquakes and climate change (glacier melting, coastal erosion, flooding)

Networks for knowledge

- IIRSA, regional authorities and expert network to study, promote and build trans-Latinamerican roads, railroads, waterways, energy and telecom lines
- Cities with a future, an observatory for Latin America cities where CAF has a strong presence, with the purpose of enhancing our support and add value
- Road safety, sustainable transport, CAF participates in IWG/ICC, SLoCat, International Transport Forum

Source: Sosa 2013.

5.3 How infrastructure initially reentered the regional agenda

CAF encountered a new regional environment in the early 2000s, which marked a new era in regional integration. By then, regional opposition to neoliberalism had strengthened significantly in some countries and regional projects began reflecting both a continuation of the neoliberal model and opposition to it. Meanwhile, Mercosur continued to face the difficulties resulting from the international situation of the late 1990s, including the Brazilian devaluation and numerous currency crises in emerging economies. Two forces combined to produce a shift from the open regionalism of the 1990s to the post-liberal regionalism of the 2000s. Already in the late 1990s, the Free Trade Area of the Americas (FTAA) project elicited opposition in both the United States and Latin America. The U.S. Congress proved unwilling to extend fast-track negotiating authority to the White House, which would have allowed it to move quickly on proposed trade agreements. And in the region, Brazil started to articulate its own alternative to the FTAA, which eventually emerged as the South American Community of Nations in 2004. The latter brought together Mercosur, CAN, Chile, Guyana, and Suriname, and by 2008, it had morphed into the Union of South American Nations (Unasur) (Serbin, 2011).

By 2000, CAF had become the leading source of external financing for the countries of the Andean Community (CAF AR, 2000). From 1995-2000, from a total of US$ 27 billion approved for the Andean countries by the IADB, World Bank and CAF, CAF approved 51% of that total amount (Titelman, 2004). Meanwhile, while trade negotiations advanced slowly at the regional level during the late 1990s, the Cardoso Government in Brazil attempted to strengthen the process' political profile and broaden its agenda. In August 2000, Cardoso invited the twelve heads of state of South America to attend the Brasilia Summit. The event was of great significance and unique in the history of the sub-region because it included only South American nations (and was not framed as a "Latin American" event). The attendants discussed in detail topics such as the consolidation of democracy, the expansion of regional trade, and the commitment to expand the physical infrastructure for integration, taking greater advantage of South American complementarities. While democracy and trade had been on the regional agenda since the 1990s, physical infrastructure was an underexplored area with a lack of shared understandings or commitments at the regional level. Integration amongst countries was given then a powerful momentum, particularly in relation to the development of large infrastructure projects and logistics endeavours. Integration was also presented as an avenue for countries to reexamine and position "regional" integration as a South American issue, with its own agenda—distinct from U.S. trade-led projects that were popular in previous decades and especially linked to Mexico and Central American nations.

As a product of this meeting and at the request of the governments, the IADB, CAF and Fonplata drafted a “Plan of Action for Integrating South America’s Regional Infrastructure”—the IIRSA initiative— which set out the mechanisms for the initiative’s implementation and monitoring. Through the Brasilia Communiqué, the South American Heads of State asked directly for these three institutions to support them and to use their experiences from the last decade and their knowledge to assist the states in promoting and executing physical infrastructure. By the end of 2000, the IADB published the document “A New Impetus for Regional Infrastructure Integration in South America.” CAF conducted and published studies on each country in South America to identify the main axes for integration and development with its neighbours; these were presented to the presidents gathered at the Summit and at subsequent meetings to the ministers of infrastructure (CAF AR, 2000). Meanwhile, the presidents of three multilaterals—IADB, CAF and Fonplata— combined their efforts to create a Technical Coordinating Committee (CCT) within IIRSA in coordination with the infrastructure ministers.

The next year, 2001, proved to be a difficult year within and beyond the region. Most countries were adversely affected by a series of external events which included the collapse of the stock markets around the world, the financial volatility generated by the crisis in Argentina, Brazil and Ecuador, the terrorist attacks of September 11, and the deepening process of economic slowdown in the United Sates, Europe and Japan. These events had an adverse effect upon financial markets, narrowing and making more expensive the access of countries in the region to international capital markets, thereby reducing financing options for both public and private sector investments, for the management of public sector finances, and for the region’s external indebtedness (CAF AR, 2001). The main uncertainties at that time resulted in a set of factors that countries needed to take into account for pursuing development, both in terms of progress in the competitiveness of the private sector, as well as in the opportunities to advance regional integration. As such, there was the need to draft a regional perspective on common development issues. This was the context that influenced how South American countries would create and develop plans for physical integration at the regional level for the next couple of years, including the IIRSA initiative.

CAF, which by that time had ample experience supporting countries during financial crises (e.g. the oil shock in the 1970s and the debt crisis in the 1980s), framed ongoing cooperation opportunities and challenges in terms of countries needing to actively respond to economic liberalization. Similarly, the IADB justified the resurgence of regional integration in a book published in 2002, linking it to the search for additional policy tools to manage insertion into an increasingly globalized and competitive world economy:

> There is substantial evidence that successful countries deploy policies that can proactively harness the forces of globalization for economic growth and development, while those countries that distance themselves from these same forces lag behind. In effect, regional integration initiatives represent a third tier of trade policy reform, which aims to complement and reinforce the unilateral and multilateral liberalization undertaken as part of the structural reform process that has been underway since the mid- 1980s. Seen in this light, regional integration is an integral part of the structural reform process itself (IADB, 2002, p.2).

However, by 2005, the regional political landscape in South America looked very different from that of the 1990s. A range of elected presidents became not only critical of neoliberalism, but also were willing to push for the adoption of alternative models of governance (Tussie, 2009). Although difficult to classify—due to various countries' preferences to actively participate in various schemes at different times— Table 7 summarizes perspectives on market ideologies and preferred venues for regional cooperation. There are three main positions in the sub-region; two of them are led by individual countries (Brazil and Venezuela) while the third one can be referred to as a continuation of economic and regional practices favouring open regionalism. Consequently, as Tussie (2009) suggests, a patchy picture has emerged of many coexisting and competing projects with fuzzy boundaries. Although Brazil has assumed an undeniable leadership in pursuing regional cooperation through initiatives like IIRSA, some countries have, for the most part *simultaneously,* also favoured Venezuela's search for an alternative to neoliberalism, while maintaining a high level of 'presidentialism' and reliance on the leaders, often referred to as popular socialism. This has been the case for nations like Bolivia, Ecuador and to a lesser extent, Argentina and Uruguay.

Nevertheless, among the greatest challenges that initiatives like the South American Community of Nations (and later Unasur) have faced is the conflicting vision between Brazil, Venezuela and other countries relating to the organization's scope and nature. For example, although both Brazil and Venezuela wanted to give the process a more prominent political profile and use it as an instrument to produce more inclusive development policies, they disagree on how this idea should be carried out (Sanahuja, 2012). Additionally, the countries that remain committed to open regionalism and closer economic links with the U.S. (Colombia, Peru and Chile) favour a flexible institutional design able to encompass different international strategies in economic matters (Sanahuja, 2012).

Table 7. Regional cooperation and underlying market ideologies

Ideology	***Countries Involved***	***Preferred Institutions and Visions for Regional Cooperation***
Capitalist Developmentalism	• Promoted by Brazil; the national economic ideology is procapitalist, yet unapologetic about the need for state planning, public ownership, and promotion of priority economic sectors • Regular supporters include Southern Cone countries • Issue oriented. At times supporters include countries which have benefited from Brazilian-led initiatives (e.g. Peru in IIRSA)	• Initially, the South American Community of Nations (CSN) and since 2008, Unasur • Mercosur (as a tool for Brazil to manage relationships with its neighbours) • Brazilian leadership established the CSN to realize its vision of South – as opposed to Latin – America as a region in its own right, coinciding with what Brasilia has defined as its sphere of interest
Popular Socialism	• Promoted by Venezuela; emphasizes political and social aspects of integration, with new economic and welfare commitments, reclaiming the principles of socialism in direct opposition to neoliberal globalization • Key partners include Bolivia and Ecuador • Other countries that participate at times include Argentina and Uruguay	• Alba • CSN and Unasur, to a lesser degree
Supportive of open regionalism	• No leader but mostly identified with Chile, Colombia and Peru • Refrains from participating in projects with socio-political content: for	• Countries usually prefer to cooperate on projects with a strong emphasis on commercial integration as a transit to broader

	example, these countries have declined to participate in initiatives like the Bank of the South	multilateralism

Sources: Author's elaboration based on Armijo (2013), Malamud and Gardini (2012), Riggirozzi (2012), Sanahuja (2012), Tussie (2009) and Tussie and Riggirozzi (2012).

Furthermore, by 2005, at a broad level, regional cooperation on infrastructure matters became a manifestation of renewed efforts reasserting control over infrastructure and energy for the remapping of the regional political economy around natural resources. Rosales (2013), for example, argues that the revival in national ownership over natural resource sectors has been central to the dismantling of neoliberalism in countries like Venezuela, Ecuador and Bolivia. Coordination over natural resources is key in a context where the global incentives structure is based on sustained demand and rising commodity prices in world markets (Tussie & Riggirozzi, 2012). Further, cooperation on infrastructure has represented, at large, a move away from neoliberalism in the regional context; it gave more space (when compared, for example, to issues surrounding trade cooperation) for countries to coordinate their economic activity without requiring them to coordinate national development models. Cooperation on infrastructure, as such, could be positioned within any development model and preferred market ideology. The following section discusses how CAF navigated the changing regional environment in the context of infrastructure financing.

5.4 CAF's growth and institutional approach through the financing of infrastructure works

While many countries continued to try negotiating free trade agreements with the U.S. in the early 2000s, larger regional integration initiatives gained considerable strength— in particular with the launching of the South American Community of Nations during the Presidential Summit in Cusco, Peru in December 2004. CAF, in its official documents, began to often emphasize infrastructure and not trade as an area of opportunities for integration. Trade in the region has always been perceived as a more dogmatic and prescriptive area in which larger RFIs have had considerable missteps. CAF took advantage during these years of the fact that multilateral and intergovernmental organizations showed willingness to cooperate in physical integration initiatives, also prompted by the increasing frustration of CAF's principals in the trade area.

Overall, the international landscape of trade agreements was not very promising. In September 2003, trade ministers around the world returned empty-handed to their respective countries after the breakdown of the World Trade Organization (WTO) negotiations at Cancun. During this time, a series of core negotiating groups gained prominence centered on the U.S., E.U., Brazil and India, which have been at the heart of the negotiations since then (Hopewell, 2014). The rise of Brazil and India as significant players at the WTO was intertwined with a broader revolt on the part of developing countries. As Hopewell (2014) suggests:

> Brazil and India worked to position themselves as leaders of the developing world and assumed a confrontational stance in relation to the U.S. and E.U., as a means to elevate their status and influence. Highly vocal and assertive, Brazil and India have been a major source of initiative and played a central role in shaping the agenda of the Doha negotiations (p.332).

The Cancun meeting left developed countries frustrated and unsatisfied, while underdeveloped countries forged new alliances. The aftermath of Cancun was one of standstill and stocktaking. Negotiations were suspended for the remainder of 2003. In early 2004, then-U.S. Trade Representative (USTR) Robert Zoellick offered proposals on how to move the round forward. The USTR called for a focus on market access, including an elimination of agricultural export subsidies (Fergusson, 2011). After intense negotiations in late July 2004, WTO members reached what has become known as the Framework Agreement, which provided broad guidelines for completing the Doha Round negotiations, which has collapsed since 2008. By this time, Brazil, India (joined by China) had become key players whose assent is considered essential to securing a Doha agreement—though the nature of their behaviour and impact differ (Hopewell, 2014). With the traditional and emerging powers unable to reach agreement, the Doha Round negotiations were officially declared at an impasse in 2011 (Hopewell, 2014).

By the time the South American Community of Nations (which would later become Unasur) was established in late 2004, the FTAA initiative had lost importance. The Summit of the Americas held in Mar del Plata, Argentina in 2005 evidenced strong differences of positions in the region: on the one hand, the U.S., Mexico, Central America and most Andean countries agreed to advance in the negotiations and, on the other, Mercosur member countries and Venezuela decided to postpone these negotiations. As such, faced with the delays of the multilateral liberalization process and the reduction of scope of the FTAA, various Latin American countries continued to negotiate FTAs with the U.S. Unlike FTAs negotiated in past decades, these agreements included not only trade obligations, but also commitments in areas of domestic reform. Chile and the Central American countries signed agreements of this type. In 2005, Colombia, Ecuador, Panama and Peru were also negotiating a FTA with the U.S., with Bolivia participating as an observer.[9] In general, U.S.-Andean agreements caused major

[9] Peru concluded the FTA in 2007, while Panama and Colombia did it in 2011. Ecuador and Bolivia never entered a FTA with the U.S. at the end.

divisions among the members of the Andean Community in this period. Three countries, Colombia, Ecuador and Peru (although Ecuador backtracked afterwards), pushed for a decision to delay an Andean customs union and later discarded the goal of the custom union altogether, making possible the bilateral FTAs with the U.S. These agreements provided the immediate excuse for the Venezuelan government to abandon the Andean Community in 2006 and to ask for membership in Mercosur (Sanahuja, 2012).

Further, taking advantage of soaring oil prices in the mid-2005, Venezuelan President Hugo Chavez began to more vocally diverge from the Brazilian-led South American regionalist strategy. The result was Venezuela's establishment of Alba in 2004. Chavez established Alba as a tool to promote Venezuela's influence in the region by making oil available at discount rates, being especially attractive for smaller Caribbean economies in the region (Briceño-Ruiz, 2010), but without a larger economic impact or political interest as a sub-regional initiative. Alba emphasized popular sovereignty, collective (state) ownership of natural resource wealth and public utilities, and regional mutual aid. Alba's core members include Venezuela, Cuba, Bolivia, Ecuador, Nicaragua, and six small Anglophone Caribbean states (Armijo, 2013). Ultimately, Venezuela has acted mostly as a financier for concrete initiatives within Alba such as Petrocaribe—looking to sell oil under a concessionary financial agreement to fourteen member nations situated in the Caribbean.

During the mid-2000s, the stagnation of trade negotiations, combined with the dissatisfaction of various governments with neoliberal reforms in Latin America affected patterns of regional economic cooperation in the Western hemisphere in the 2000s (Gomez-Mera, 2015). Two new patterns of trade and economic agreements in the region have since materialized: (i) the expansion of preferential trading agreements with intra- and extra-regional partners; and (ii) the rise of the larger projects of post-neoliberal regionalism that seek to go beyond trade cooperation (Gomez-Mera, 2015). CAF has continued its work side by side with these two patterns, and also within the ongoing trade dilemmas. Understanding the ongoing regional environment is vital then for having a more complete picture of how CAF has taken advantage of prevailing circumstances to expand its infrastructure agenda and impact in the region. At the time, recently elected left and center-left governments were trying to consolidate their participation within the CSN (later to become Unasur) and/or Alba with the purpose of increasing cooperation between countries to move toward a more inclusive regional agenda.

In regard to CAF's presence in regional and international events, Enrique Garcia participated actively in various regional presidential summits in the mid-2005. For example, he attended (amongst others) the Monterrey Hemispheric Summit, the two Andean Presidential Summits, the two Mercosur Presidential Summits, and the deliberations of the Group of Rio (CAF AR, 2004). Attending these meetings gave Garcia the necessary facts to assess CAF's next steps regarding regional cooperation and its role in the process in upcoming years. For the heads of state, these meetings were crucial for the definition of a new agenda of regional integration, which included greater stimulus to projects of physical and energy infrastructure, while continuing—although less enthusiastically—to promote trade agreements

Within this regional framework, CAF also continued offering technical and financial assistance in areas complementary to trade, but focusing primarily on infrastructure matters during the mid-2000s. For example, CAF offered the Andean countries various programs aimed at improving the quality of technical assistance in areas of competitiveness, financing and associative capabilities of small and medium enterprises, and improvement of logistics and infrastructure (CAF AR, 2005). By 2005, infrastructure accounted for 37.1% of total loan approvals at CAF and 34.8% of disbursements (CAF AR, 2005). During the mid-2000s, Garcia attended several regional meetings to enhance the institution's presence and get a closer look at shifting regional preferences. In its 2005 Annual Report, CAF asserted this vision:

> CAF is advancing toward a deeper integration viewed in an integral way. Although this focus has emphasized the promotion, structuring and financing of physical infrastructure projects, it also includes other objectives like the promotion of macroeconomic convergence, competitiveness, capital market development, social, cultural, political, and commercial integration, governance and corporate government, among others…In this context, during 2005 CAF has consolidated its support to the strengthening of the hemispheric and Latin American and Caribbean integration processes. The presence of its Executive President, Enrique Garcia, in the main regional forums held this year, enabled CAF to actively participate in the regional dialogue on the fundamental issues confronting each one of the different integration schemes (CAF AR 2005, p.21).

The year 2005 was also emblematic for CAF because the entity took a very significant step that year within its mission to enhance and support regional integration by having the shareholders' assembly approve a reform of its constitutive agreement in October, in order to allow non-Andean shareholders in the region (Series C shareholders) such as Brazil to attain full membership. This reform was unanimously approved at the shareholders' Extraordinary Assembly. It was ratified by the congresses of all countries that were then full members of CAF, and took effect on July 9, 2008. This decision was put into place with CAF's goal of strengthening the presence of Latin American countries in the organization and of enhancing the implementation of CAF's agenda on infrastructure financing, within a favourable regional environment. Moreover, this decision, as explained in the previous chapter, was a step toward taking into consideration the CRAs' rating criteria, which include the extent of diversification of a RFI's portfolio as a measure to reduce risk. For CAF, it was also seen as a strategic decision to invite Brazil to join the institution during an era in which the country was leading cooperation on infrastructure matters.

Further, within the regional environment, economic integration and trade have all but disappeared before a number of objectives in other fields in the final design of Unasur. The shift in Unasur's focus could be seen in the adoption of a "priority agenda" in the First Summit (Brasilia, September 29-20, 2005) and the definition of Unasur's goals (13 in total) in the Second Summit (Cochabamba, Bolivia, December 8-9, 2006). Both meetings show that Unasur, in the shift from open regionalism to post-liberal regionalism has given preference to the political, social, defense and security agendas (Sanahuja, 2012). Ultimately, Unasur is a vehicle for Brazilian leadership to materialize its vision of South (as opposed to Latin) America as a region in its own right. To countries like Venezuela, Bolivia and Ecuador, Unasur is a political forum to increase autonomy from the U.S. and promote their agenda without significant economic or trade commitments (Sanahuja, 2012). Therefore, for most South American countries, key factors in their support of Unasur have included its low demands and flexibility concerning trade and development—probably some of the most contentious issues in the regional agenda in previous decades—and consequently its ability to accept the different strategies pursued by its members in those areas.

For CAF, the regional momentum convened by the establishment of Unasur, gave impetus to its infrastructure financing goals. By 2007, CAF had financed forty-six physical infrastructure projects that represented around US$ 4.5 billion of a total investment of approximately US$ 13 billion. This was due to a combination of the high profile of the IIRSA initiative (discussed in detail in Chapter 6) and its own efforts to support countries with their infrastructure plans. CAF, for instance, advanced its plans for cooperating on border integration by promoting more than 12 bilateral and multilateral initiatives through its "Cross–Border Integration and Development Program" in 2007. At the same time, Enrique Garcia continued to be an active participant that year in regional meetings, promoting CAF's participation within cooperation schemes agreed with regional integration organizations and secretariats, including projects within traditional and newer organizations such as the Organization of American States (OAS), the General Secretariat of the Andean Community, the Andean Parliament, the Mercosur Permanent Representatives Commission, the Pro-Tempore Secretariats of the Summit of the Americas, Mercosur, Unasur, and the Latin American Integration Association (Aladi), amongst others (CAF AR, 2007).

Even though Latin America was experiencing an economic boom during these years, Garcia emphatically reminded the international community that multilateral lending was more urgent than ever. For him, a generally benign macroeconomic picture could easily obscure the deeper economic needs of the region: "The idea that on a sunny day you don't need an umbrella is misguided…On good days, infrastructure financing is needed because there are more projects to finance" (Garcia quoted in Verna, 2007). In an economic bulletin published by the Ministry of Economics and Competitiveness in Spain, Garcia (2009) highlighted the role of regional banks for supporting physical integration:

> Promoting regional cooperation in infrastructure projects is complex, because countries tend to prioritize national benefits valued differently and regional public goods. In this sense, regional development banks and other institutions play an important role in

> regional cooperation in infrastructure. First, they provide equity directly and help to mobilize resources from other sources such as the private sector, by providing guarantees or other instruments of risk mitigation, helping to reduce the risk premium of an investment project. Second, MDBs provide technical support and advice from experts … to attract private investment and assist in the formulation of a project to attract more participation from capital markets as a source of funding. Finally, multilateral agencies serve as a catalyst for collective action in cross-border projects, facilitating the interaction of multiple entities involved in the planning and implementation stages…Regional cooperation is also required to collect and channel financial resources towards infrastructure projects of high quality (p.34).

For countries interested in becoming full members, it was especially attractive that CAF could act as a bridge between public and private sectors. For Southern Cone nations, RFIs like CAF can be crucial in ensuring that riskier projects (in terms of securing financing) become commercially viable. For those projects, it can be beneficial for countries to go through an intermediary like CAF, rather than going through the global capital markets: these can significantly improve the investor profile and secure additional benefits such as lower premiums. It is not surprising then that during 2007, Argentina, Brazil and Uruguay began the process of becoming full-fledged members of the corporation. At the same time, CAF received US$ 206 million in new capital contributions from its shareholders in 2008. From this total, US$ 199 million (97%) were contributions received from non-core countries, "which underscores the growing importance of these shareholders in CAF's capital structure as well as their unquestionable role in the transition from a mainly Andean-focused lending institution to a multilateral bank with a scope covering most of Latin America and the Caribbean" (CAF AR 2008, p.184).

In 2008, the financial crisis that began in the U.S. was already manifesting itself in Latin America, although the region had better tools this time around to respond to a global crisis. In its 2008 Annual Report, CAF highlighted how the considerable accumulation of international reserves (more than US$ 460 billion throughout Latin America), the lower levels and improved profile of external debt, greater fiscal discipline, consolidation and strengthening of domestic financial systems, and the almost non-existent exposure to high-risk mortgage assets contributed to mitigate the impact of the deterioration of the external environment (CAF AR, 2008). The improved fiscal standing allowed various governments greater degrees of freedom to apply counter cyclical policies and to take actions to defend the financial systems, if necessary. However, the region did not escape the effects of the collapse of the financial markets. The financial panic led to a widespread movement of capital toward low risk assets, which in a few weeks led to the collapse of the region's stock markets, currency depreciations, and liquidity problems in banks that ultimately affected commercial activity and resulted in higher costs and restrictions on credit. The beginning or deepening of recession in the main industrial economies added to the financial problems, leading to a deceleration of exports in the region through a reduction in trade volumes and/or commodity prices.

CAF, in line with other RFIs, put in place a plan to mitigate the effects of this financial crisis over the region. To this end, it offered a contingent credit line of US$ 1.5 billion to support governments' financing strategy, through a preventive financing instrument that grants resources to shareholder countries in the event of difficulties accessing financing in capital markets. In this way, as seen in Chapter 4, the institution demonstrated its adaptability, foreseeing the possible needs of shareholder countries, given the deterioration of the international financial situation and the potential effect it might have over its performance in the short term. In 2009, despite the ongoing financial crisis, CAF achieved record approvals for US$ 9.2 billion, a 15.4% increase over the previous year. This indicates the counter-cyclical role played by CAF in the context of the international crisis.

In 2009, the Bank of the South (BOS) was created with the aim of becoming an ambitious alternative to the IMF, the WB, and other "neoliberal" development banks that work throughout South America (including CAF). However, these initial proposals regarding the BOS were watered down by Brazil and other countries in the region that had no desire to break from the Bretton Woods institutions.[10] What has been remarkable in the case of CAF, in the middle of emerging regional alternatives, is that the institution has been a constant presence within its country members amongst all kinds of regional initiatives since its creation. In 2009, CAF approved US$ 2.9 billion for infrastructure sectors, particularly for energy and roads; these approvals represented 32% of the total, of which 25.3% was directed to national economic infrastructure activities, and the remaining 6.5% targeted infrastructure integration projects between countries. Some significant project approvals included the Federal Energy Transportation Plan in Argentina; the La Paz-Oruro Divided Highway; the Zudáñez-Padilla and the Monteagudo-Ipati Highways in Bolivia; the II Centenario-La Línea Tunnel in Colombia; the Program to Support Public Investment in the Electricity Sector in Ecuador; the Urban Electric Train Project for Lima, in Peru; the Public Investment Program for Road Infrastructure in Uruguay; and the Termozulia III Thermoelectric Project in Venezuela. It is worth noting that

[10] At the end of 2014 five countries out of seven had ratified the Treaty, with Brazil and Paraguay being the two still awaiting approval. The BOS is not operational at the present time.

amongst those approvals were some of the strongest supporters of the BOS, including Venezuela, Bolivia and Ecuador.

In 2010, CAF approved US$ 4.8 billion for the infrastructure sector, especially in the energy and road areas. These approvals represented 45.5% of the total, of which 34.9% was directed to support economic infrastructure projects, and the remaining 10.5% was aimed at financing integration infrastructure projects among countries. These numbers reaffirm CAF's commitment to financing infrastructure at the *national level but under a framework that embraces regional integration*. CAF's work at the regional level also goes beyond financing and includes the involvement of the institution in cooperation programs' organizations and secretariats that jointly promote regional integration. These programs included projects undertaken with Unasur, the OAS, CAN's General Secretariat, the Andean Parliament, and the Common Market Group of Mercosur amongst others (CAF AR, 2010-2012).

During this last decade, the continuous participation of Enrique Garcia in all regional presidential summits, as well as his presence and permanent technical support in monitoring the region's multilateral agenda, allowed CAF to be an active participant in the consolidation of priority projects in the integration objectives of its shareholder countries. Meanwhile, governments have recognized CAF's relevance at the regional level within and beyond the dominant discussion on how to carry out regional cooperation. For example, although the infrastructure committee (Cosiplan) of Unasur took some distance from RFIs' input in this area (see Chapter 6), the financial committee of Unasur agreed unanimously to strengthen CAF. During the first meeting of the financial committee—which comprised the central bank governors of the region who for the most part also attend CAF's high-level meetings and assemblies—it was agreed to push CAF forward as an instrument of South American political and economic integration (Business News Americas, 2011). Moreover, during 2011, Paraguay fulfilled the requirements to become a full member, bringing in the final Mercosur member state.

In the last years and especially since the post-2008 crisis, CAF has also tried to strengthen its relationship with East Asian countries. For instance, in 2012, CAF and the Japanese Bank for International Co-operation (JBIC) signed an agreement to finance Latin American projects in the energy, mining, railway and transport sectors, as well as environmental sustainability. The alliance comes shortly after CAF announced a partnership with German development bank KfW to support projects working to mitigate the effects of climate change. In addition, Garcia was in Beijing in 2012 and met with economic, financial, regional, business and academic authorities such as the vice president of the Central Bank, Yi Gang and the Vice-President of the Export-Import Bank of China (Eximbank), Liu Liange, amongst others (CAF News, 2012). CAF also signed an Agreement of Understanding with the Institute of Latin American Studies (ILAS) of the Chinese Academy of Social Sciences. Moreover, Garcia was invited as a special guest to the annual assembly of the Asian Development Bank in 2012.

Therefore, infrastructure, with its tangible results and high demand during the last decade, has been of great importance to country members. The projects that the entity supports in this area have been previously identified and assigned strategic importance by the countries. Table 8 shows the infrastructure portfolio by country from 1997-2012. Taking a look at the portfolio— which indicates materialization of projects as opposed to approvals which show credit agreements that do not always materialize— it is possible to appreciate which country members have actually accessed CAF's infrastructure funding more often. Countries with different ideological positions towards integration and distinct development paths have been equally eager to obtain CAF's funds. Venezuela is the country with the largest share of infrastructure portfolio (US$ 8 billion between 2009-2012 or 24% during that period) and it has doubled the dollar amount from 2005-2008 to 2009-2012. Other countries with large increases in the 2009-2012 period include Peru, Brazil and Bolivia, countries that as previously mentioned, have put infrastructure as a national priority within their development agenda.

Table 8: Infrastructure portfolio by country

USD Millions – Transportation, Telecommunications & Electricity

	BOLIVIA	COLOMBIA	ECUADOR	PERU	VENEZUELA	ARGENTINA	BRAZIL	URUGUAY	PARAGUAY	OTHER	% of Total Portfolio
97-00	733	713	1497	412	1756	0	795	0	0	36	37.3%
01-04	1214	2245	2101	1276	2362	0	1201	40	121	132	41.6%
05-08	2373	2021	2197	1590	3967	1281	787	325	154	359	42.4%
09-12	4109	2865	2689	5554	8058	5039	2165	1169	199	1779	58.7%

Source: Data provided by the CAF's Country Programs VP in November 2012, compiled by the author.

5.5. Infrastructure's parallel agenda: knowledge components and environmental management

5.5.1. CAF as knowledge broker

CAF's work in the region has not been limited to financing projects. It also is reflected in the development of a distinct framework carried out to identify and structure the infrastructure agenda of a region from an institutional point of view, while providing a platform for countries' and multilateral agencies' discussions. As infrastructure was reentering the regional agenda—and in many cases becoming a priority in various countries' national programs—CAF began framing its role as a knowledge broker in this area. This role has been briefly explored by Santiso and Whitehead (2006), emphasizing how CAF is locally grounded and continuously interacts within the technocratic and political figures of the region.

Since its creation, CAF has published reports on the status of physical integration in South America, but it was in 2004 when it formally created a unit promoting a technical dialogue with its shareholder countries on infrastructure at a sectoral level. As such, CAF strengthened its efforts regarding the dissemination of best practices in relevant management and investment areas. Besides sponsoring workshops and seminars, CAF began publishing a series of bulletins on the status of this sector in each country, while launching programs to improve performance in specific areas (CAF AR, 2004). The sectoral reports present an analysis of the regulatory frameworks, institutional arrangements and indicators of the evolution of diverse sectors, as well as tendencies and proposals being considered in the industry. For example, among the topics published during its inaugural year were: Analysis of the Electrical Sector (Bolivia and Venezuela), Analysis of the Telecommunications Sector (Colombia and Venezuela), Analysis of the Transportation Sector (Bolivia and Peru), and Analysis of the Waterworks Sector (Ecuador and Venezuela). Moreover, CAF carries out and compiles technical studies in different areas that are usually required by member countries. In 2012, 67% of these technical studies were in the area of transportation and 22% in the area of social development (Terrazas, 2012).

CAF’s research agenda has been conceived within the framework of regional cooperation and with a global perspective to study the requirements of shareholder countries. Throughout the years, CAF has sustained discussions on a wide range of topics with public figures and experts from the region and from abroad. At the same time, it has begun to increase its presence in the many forums that deal with debates surrounding long-term development (CAF, 2010a). CAF plays a visible role in the region as a channel of communication and networking among country members, while trying to promote interaction between several government actors on specific policy issues relevant for the infrastructure matters of the member countries. This takes place through interactive conferences or more focused meetings between the top management of the institution and its shareholders' board.

Further, in order to reinforce and strengthen its participation in the different areas of sustainable development and integration, CAF counts on a series of strategic programs that complement its business activities and which provide both financial and non-financial services. These programs—mainly created by CAF, but at times complemented or managed by other IOs–have a regional scope and range from strengthening integration, developing physical infrastructure and increasing competitiveness, to promoting more equitable, humane and participative societies in a context of democratic governance. Starting in the mid-2000s, CAF's activities have been aimed at the following fields of action with specific initiatives listed below:

- **Sustainable physical and logistic integration**
  - IIRSA – Initiative for Regional Infrastructure Integration in South America
  - Plan Puebla Panama
- **Competitiveness, productivity and international insertion**
  - PAC – Andean Competitiveness Program
  - Kemmerer Program for the Development and Integration of Financial Markets
  - Research Program in Development Topics
- **Governance, human development and equity**
  - Governance Program
  - SMEs and Microfinance
  - Cultural and Community Development Program
  - PDHS – Sustainable Human Development Program
- **Sustainable environmental agenda**

- PLAC – Latin American Carbon Program
- BioCAF – Biodiversity Program
- Sustainable Development Program in Financial Institutions
- PREANDINO – Andean Program for Disaster Risk Prevention and Mitigation

In 2011, CAF began publishing a new report called "IDeAL." Initially, this report was prepared at the request of the Ibero-American General Secretariat (ESGIB, in Spanish) to be presented in the XXI Ibero-American Summit of Chiefs of State and Government held in Asunción, Paraguay. The goal of this first report, called "Infrastructure in the Comprehensive Development of Latin America," was to provide a strategic diagnosis of infrastructure in the region, by analyzing the main components and by taking into account the strong disparities between countries, infrastructure sectors, and even regions within the same country. It was expected that this diagnosis would contribute to "recognize the current situation, identify and determine the scope of the needs for its development, and propose a strategic agenda for coming years" (CAF IDeAL, 2011).

According to Antonio Sosa, CAF's VP of Infrastructure, the IDeAL report was the result of simultaneous events. First, the more CAF's portfolio expanded in the area of infrastructure, the more CAF staff realized that it had to enter the debates on the creation of knowledge (and later its dissemination) in some infrastructure sectors that it was financing. Moreover, CAF had begun to hire and retain specialists in infrastructure, especially in the area of urban transportation, since roads constituted a large component of CAF's approvals. As such, CAF had identified the need to "research more systematically the state of infrastructure in the region and to see how things are developing and what is being improved or not" (Antonio Juan Sosa, personal interview, October 18, 2012).

In 2012, CAF introduced another IDeAL report (discussed briefly at the beginning of this chapter) in collaboration with ECLAC. This report represented a joint effort to begin measuring the levels of infrastructure investment in the region. Although some economic studies published in the first half of the 2000s began studying investment behaviour in infrastructure in Latin America, there has been a striking absence of detailed analysis and mapping regarding the status of infrastructure as previously mentioned in this chapter. CAF and ECLAC have carried out a preliminary detailed study with staff from ten countries in order to delineate an overall perspective on the investment effort in the region. CAF and ECLAC suggested that countries in the region are increasing their investment and that public sectors are making a great effort, while the private sector participates in only some infrastructure sectors. The first results are presented in the fourth chapter of the IDeAL 2012 and it is the first installment of an effort that would try to cover all the countries in the region in upcoming years. To achieve this objective, the available information in the official data sources of the countries was compiled and systematized (starting with those which offered the greatest facility to obtain information) and interviews in the different ministries were carried out (CAF IDeAL, 2012).

5.5.2 Environmental agenda

Despite the existence of an environmental agenda—and of the institution's substantive improvements to its own procedures for evaluation and supervision of environmental aspects in loan operations since the mid-2000s— CAF's environmental policy and actions lag behind other RFIs. Its institutional environmental principles are fairly general and do not usually include formal obligations for borrower countries, which is very different from the detailed policies and guidelines at the WB and IADB. A key CAF environmental principle states that the bank “respects, cooperates and coordinates the national policies, strategies and standards of its shareholder countries, as determinant elements that guide its institutional environmental management practices” (CAF, 2013c).

Therefore, for CAF, the priority and main objective is to ensure that a borrowing country follows its national environmental standards during the project duration. Yet, according to its environmental strategic policy, CAF (2010b) calls for the application of additional precautions or selects internationally accepted technical standards where necessary. Moreover, only eleven private banks in Latin America have signed the Equator Principles. These are a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects. As such, there are not many chances that CAF would end up co-financing a project with a bank that has committed to providing a minimum standard for due diligence. Furthermore, throughout the years, CAF has been emphatic in distancing itself from any potential environmental damages during a project’s execution:

> As a result of the review of the environmental and social assessment for operations, CAF is seeking to internalize in its operations’ budgets any environmental and social management costs needed to tackle environmental and social development impacts and opportunities. It is *down to the client* to adopt the necessary measures to avoid, control, mitigate, and offset any environmental and social impacts and risks (CAF 2010b, emphasis added).

In 2008, CAF established a one-time dialogue with the Bank Information Center (BIC), an international NGO monitoring RFIs’ activities, and provided the BIC a variety of documents with regard to CAF’s environmental and social policy. The BIC also conducted twelve interviews with current and former CAF officials. After analyzing a variety of documents, Hamerschlag (2008)—the BIC's report author—concluded amongst other things that:

- [There was] a weak and inadequate implementation of CAF's policies…
- The environmental and social studies are often concluded in a later stage of the process or after the project has been approved, limiting their impact on the design of the project
- [There was] failure to condition funding on compliance with specific parameters of social plans and environmental management that would reduce and mitigate the damage caused by the project…
- [CAF] does not follow its peers' safeguards, at least in a very highly sensitive project…
- The weak [national] institutional capacity is overlooked when evaluating projects, which leads to disregarding and potentially solving this important project risk…
- [CAF has] lax environmental standards (Hamerschlag, 2008, p.viii).

Various CAF officials, including Enrique Garcia, said during 2012 interviews for this project that they thought that several of the BIC's criticisms in 2008 were valid. Nevertheless, Garcia argued that:

> The criticism is valid, but I go back to the point that many of the required disclosures that the IADB and the WB have are because the donor countries ask for that, while in CAF that is not the case...in any case now we are improving to have better [environmental] information, because we are now obsessed with improving that (Enrique Garcia, personal interview, November 19, 2012).

Similarly, another official emphasized that adopting environmental standards at CAF has been a slower process because other RFIs have had to deal with both pressure from different interest groups in Washington and from donor country members, who are significantly represented on the boards. This official remarked that that kind of motivation does not exist in CAF: “Within CAF, countries do not control each other; they do not get in the way of each other’s projects. It has been CAF that has put in place stricter environmental standards, not the countries. At the same time, countries have begun to improve these standards themselves” (CAF official, personal interview, October 19, 2012).

Moreover, Humphrey (2012), based on 2007-8 documents, suggests that while CAF’s environmental strategy refers to numerous documents involved in the approval process, none of those documents are publicly available (nor, indeed, does the CAF have any transparency policy regarding public access to information, unlike the IADB and the World Bank). In recent years, CAF has made some improvements to its Environmental Unit (DMA, in Spanish) and within its departmental policies. From November 2012, the DMA became part of the Vice-presidency of Development Strategies and Public Policies (previously they were part of the Vice-presidency of Social Development) as part as a process of strategic revision. This process also includes a revised and updated “Manual of Environmental and Social Monitoring and Assessment for Credit Operations, Infrastructure and Social and Environmental Development”[11] which seems more extensive and detailed than any previous document. Although the extent to which this document has been put in practice could not be confirmed, in theory—according to one of the latest versions of the Manual:

> The DMA…is *responsible* for the direction and execution of the EIA process and environmental and social monitoring credit operations and in this context it should work to ensure the proper application of the criteria, tools and procedures in the manual. Also, the

[11] During an interview with a senior official of the VP of Development Strategies and Public Policies, the author was given access to various ongoing drafts of the manual.

> DMA must issue timely technical reviews of the conditions and recommendations to which the financing of credit operations, and, in general, all other related environmental and social issues, will be subject to in instances where it is required (CAF, 2012b, p.9. author's translation, emphasis added).

However, the DMA is still a small unit and therefore limited for assessing all the environmental complexities that projects within and outside IIRSA projects demand, especially when taking into account its large loan and equity investments portfolio of US$ 16.5 billion in 2012. With a team of about 20 people[12] (although CAF often supports the unit with staff advisors), it is still debatable how a team of this size can ensure a comprehensive integration and ongoing monitoring of social and environmental concerns. Nevertheless, some national country officials have started to notice CAF's changes regarding its environmental policies. According to an Ecuadorian public official, CAF has been lately trying to enforce a similar mandate as that of the IADB when it comes to environmental safeguards. This official mentioned a specific case when CAF did not grant the Ecuadorian government a loan after three months of evaluating an infrastructure project because one of the main roads was planned to be built very close to a national park. Ultimately, that project was financed with loans from the Chinese government (senior official, Ecuadorian Ministry or Transportation and Public Works, personal interview, November 14, 2012). Moreover, this official mentioned that the dynamics with the IADB and also with CAF lately resemble the following analogy:

> It is like if an individual wants to get a loan for buying a car, and she wants to get a Toyota but the agency (in this case the IADB and CAF) declines the loan application

[12] A senior official of the VP of Development Strategies and Public Policies mentioned that the DMA is composed by a team of about 20 people during an interview on November 26, 2012.

> because it thinks the client should get a Mercedes instead. The RFIs are trying to often tell us how projects should be built and they add too many components and restrictions. CAF didn't use to be like that but it is increasingly acting like the IADB. We [the governments] already have our own national standards and comply with them (senior official, Ecuadorian Ministry or Transportation and Public Works, personal interview, November 14, 2012).

Ultimately, it seems that CAF is becoming more demanding than in previous years when it comes to environmental policies, at least in the eyes of member countries. Nevertheless, the institution's policies are still not comparable to the standards of other RFIs operating in the region. Recently, in May 2015, CAF introduced an environmental manual, as a result of a partnership with the Global Environment Facility (GEF): "Policy guidelines for environmental and social safeguards for GEF projects[13]" to comply with the minimum standards of GEF's environmental and social safeguard policies. The institution aims to implement CAF/GEF-funded projects and the goal of the guidelines is to protect people and their environment from potential adverse impacts. Key safeguard areas include: environmental and social evaluation, natural habitats, involuntary resettlements, indigenous peoples, pest control, cultural and physical resources, dam security, accountability and address of complaint and gender equity.

5.6 Conclusion

The 1990s was the decade that CAF decided to focus on infrastructure as its niche. Making infrastructure a priority in its mission has also meant that the institution has had to pay closer

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13 GEF is a partnership for international cooperation where 183 countries work together with international institutions, civil society organizations and the private sector, to address global environmental issues. See http://www.caf.com/en/about-caf/what-we-do/access-to-information/caf-gef-projects/ for more information.

attention to the regional environment and to a certain extent, reflect the “discourse” on regional integration of the era. In the early 2000s, as Palestini and Agostinis (2014) suggest, Brazil politically constructed the “demand” for regionalism through its leadership’s persuasive ideas about cooperation in South America, which ultimately made state preferences converge towards cooperation initiatives like IIRSA in spite of low regional policy interdependencies and weak private sector demand for economic integration.

Since the 2000s then, CAF has participated in regional fora beyond the Andean Community (which usually covered trade integration discussions). The involvement in infrastructure has also meant that CAF promptly joined initiatives like IIRSA, while attending a variety of regional meetings that ultimately contributed to the establishment of Unasur. Ideational motives—the idea of a South American identity or the perception that infrastructure was a practical channel to further integration—during the last decade have been crucial in supporting CAF’s activities, not only the ones related to the financing, but also those that have helped the institution to create and manage knowledge in infrastructure matters. CAF has also learnt more about its members and the different infrastructure needs that the institution can actually finance when taking into account governments’ priorities and demands—e.g. hydro-electrical plants in Venezuela and municipalities’ loans in Brazil. As such, these activities are in line with the general idea behind the creation of regional and sub-regional institutions: they play specific and localized roles, which are not always covered adequately by global or even by larger regional institutions (Ocampo, 2006).

CAF’s survival can also be attributed to the institution’s commitment to country members, despite their different views on paths towards development and integration. Moreover, beyond the regional environment, CAF’s management has made sure that members feel supported and that there is an ongoing flow of loans in South America, despite changing macroeconomic conditions in the last decade. CAF continued to lend through the global crisis and showed again its counter-cyclical role to the international lending community. Finally, compared to other RFIs, CAF still receives less scrutiny from its shareholders when it comes to infrastructure financing and, as such, it has less pressure to implement environmental safeguards. However, this is already changing as country members have experienced stricter supervision when it comes to environmental practices in the last few years.

Chapter 6. Infrastructure financing: The IIRSA experience

6.1 Introduction

This chapter analyzes the IIRSA initiative and its members' participation throughout the years. It dedicates particular attention to its first decade (2000-2010), an interesting era for integration with the rise of new regional commitments led by Brazil. Chapter 5 examined the ways CAF has engaged with the financing of infrastructure in the region and Garcia's efforts to position this area at the core of its mission and actions in ensuring CAF's growth. Conversely, this chapter focuses on the dynamics of CAF shareholders within a particular regional initiative, IIRSA. This initiative has served as a platform by which principals' actions can be observed in more detail, as they relate to a changing regional environment in which Brazil led initial cooperation efforts, while other members consolidated their own views on infrastructure. During IIRSA's initial years, the Southern Cone countries remained associate members of CAF. Yet, by mid-2000s, CAF updated its constitutive agreement so these countries could become full members, reflecting how IIRSA, a Brazilian-led project, was deemed an important element within CAF senior management's agenda for infrastructure financing.

Further, through the examination of IIRSA, this chapter demonstrates CAF's ability to navigate and respond to its principals' (both converging and diverging) interests in regard to their national and regional agendas for development. This has been vital for CAF's growth and has been accompanied by periods in which CAF was very immersed in IIRSA's dynamics (early years) and others in which the entity has taken some distance, reflecting regional preferences for integration (later years). As such, in recent years, CAF has referred to its involvement in IIRSA, more discretely; describing the initiative as one of the "networks of knowledge" the institution belongs to. At the same time, CAF has become a more detached advocate for the initiative, especially since IIRSA became part of Unasur under the South American Council on Infrastructure and Planning (Cosiplan, in Spanish) in the late 2000s. But a decade ago, at the time IIRSA was created, CAF's management was at the forefront of its establishment. CAF's officials were energetic advocates who saw in IIRSA an opportunity to enhance CAF's infrastructure agenda under a single forum that could bring South American countries together.

IIRSA was created within the framework of open regionalism with the goal of providing its members a space to strengthen their economic relationships to foster intraregional trade, while increasing their capacity to compete in global markets. The IIRSA initiative was crafted at a time when multilateral debt and IMF outstanding loans were the norm in South America. By the time Unasur was created in 2008, however, IIRSA had formally adopted the new orientation to regionalism described by various academics as post-liberal (Riggirozzi & Tussie, 2012). This chapter analyzes then the main elements and developments of the IIRSA initiative as they relate to development governance in the region since 2000. This chapter first introduces a chronological analysis of IIRSA and its Agenda Based on Consensus (AIC, in Spanish), which focused on 31 strategic integration projects. Previous physical integration agendas in the region have been short-lived. As such, IIRSA's first decade of work is notable, considering it has relied on a minimal institutional structure. However, this structure has resulted in a "non-ownership model" in which financing sources have become at times difficult to track and environmental standards, difficult to enforce. This is to a great extent due to the fact that RFIs continue to emphasize that the ultimate socioenvironmental responsibility of a project lies with the participating government(s),

This chapter also provides an examination of what IIRSA has meant for its participants and critics. A detailed examination of IIRSA is needed for this work to better understand CAF's adaptability to the changing political dynamics of the region—especially in regards to Brazil's role in promoting physical integration and also as it relates to the role of RFIs in providing financing mechanisms for its members. This chapter also shows how IIRSA got away from CAF in the later years, since the initiative encountered key challenges in mainly two areas. First, some countries wanted to limit RFI participation within the Unasur framework. Second, IIRSA encountered several criticisms due to the lack of clear environmental safeguards: CAF was not willing to take a strong stance in advocating for specific environmental guidelines, since, as seen in the previous chapter, the institution's focus is limited to ensuring that a principal follows its own national environments legislation, without placing additional obligations on the borrower.

IIRSA is currently supported by at least half a dozen governments that came to power openly holding an ideological critique of neoliberalism and multilateral institutions (See Table 7 on Chapter 5). Many of these governments have distanced themselves by now from the IMF by paying off the majority of their outstanding debts while looking for new sources of financing such as treasury funds (ideally in national currencies) or foreign governments, in particular China.[14]As such, the changing political landscape has played a major role in shaping infrastructure agendas at the national and regional levels while presenting CAF with new opportunities and challenges for framing and demonstrating its relevance in the region.

6.2 IIRSA 2000-2010: A decade reflecting South America's changing political economy

6.2.1 Origins

[14] In December 2005, Argentina and Brazil announced that they would pay off $9.8 billion and $15.5 billion respectively. Uruguay, Panama, Ecuador and Venezuela followed suit. In 2007 President Rafael Correa in Ecuador ordered the expulsion of the World Bank's representative in the country. The rejection of external oversight was coupled with social mobilization, a new focus on empowerment of indigenous people, and the call to enact solidarity on a regional scale. See Tussie (2014) for more information.

As previously mentioned, IIRSA has its origins in the Cardoso government in Brazil, which brought forward the concept of territorial integration and development hubs for integration. With the intent to improve inter-regional interconnection within the Brazilian territory, the Cardoso government launched the idea of planning investment and certain public expenditure items in terms of territorial integration and development hubs. In the words of the main promoter and executor of the idea, José Silveira, who served as Strategic Planning and Investment Secretary of the Ministry of Planning during Cardoso's administration:

> An integration and development hub is not a transport corridor, but rather a geo-economic space sharing common features, where there are demands and opportunities that must be met via integrated actions. Such actions must be carried out in the fields of economic infrastructure (transport, energy, telecommunications, water resources), social development (education, health, sanitation, housing), information and knowledge (professional qualification, technological development, information access and dissemination) and environmental management (Silveira quoted in Iglesias 2008, p. 151).

In 1997, in order to advance towards the definition of the idea, the Brazilian government commissioned several studies to identify integration and development hubs in Brazil. These studies surveyed the country's economic infrastructure network in order to detect the areas where there were imbalances between demand for and supply of the different components of such infrastructure. The analysis of the mechanisms to meet those demands, from the conceptual perspective of the hubs, resulted in a portfolio of private and public investment opportunities. The national government included in its Pluriannual 2000-2003 Investment Plan some of the projects and actions identified in the studies on hubs. That investment plan eventually became *Avança Brasil* (Iglesias, 2008).

Yet, the Brazilian government determined that it not only had an inter-regional connection problem within its territory; its transport infrastructure did not favour trade within the sub-region. This was certainly not just a Brazilian problem, but a general issue throughout South America. In the late 1990s, within the prevalent context of democratization, conflict resolution, intra-regional trade growth, and initial FTAA negotiations in the region, the Brazilian government launched IIRSA in an attempt to enhance the connectivity of its domestic hubs with its neighbours' transport and infrastructure systems. In the view of the Brazilian designers of IIRSA's proposal, the South American integration hubs pursued two objectives: first, overcoming border connection problems with neighbouring countries, and second, taking the Brazilian integration and development hubs as exemplary, building a shared prosperity space in the region from a sustainable development perspective (Iglesias, 2008). Brazil saw in IIRSA an opportunity to bring countries together to discuss a common but important problem: the advancement of infrastructure as a region.

IIRSA was also the result of a more active Brazilian policy in the region, as a response to U.S. efforts to establish the FTAA. These efforts represented a challenge to Brazil's geopolitical and economic preferences within and outside South America and vis-à-vis the U.S (Burges, 2009). The American government's goals to establish the FTAA gathered immediate interest within South American nations, which were led at the time (the 1990s) by governments aligned to strengthen trade liberalization and foreign investment attraction. According to Palestini and Agostinis (2014), in fact, already in 1994, the Argentinean government of President Carlos Menem expressed a strong interest in a trade agreement with the U.S. in spite of its commitment to Mercosur (Palestini & Agostinis, 2014). Facing the risk of regional polarization, the Cardoso administration understood that in order to protect and advance the country's economic interests in the FTAA negotiations it was necessary to gather support within the region, preventing the U.S. from carrying out bilateral negotiations with each country and promoting instead inter-bloc negotiations (Palestini & Agostinis, 2014).

At the same time, within a complex and changing regional environment, IIRSA seemed like an attractive initiative for participating countries: its first novel concept was to conceive South America as a region with its *own* identity. Until then, the integration processes had been focused on one hand in Latin America, and on the other hand in very limited sub-regional schemes (Nerys Fernandez, 2010). In the 2000 Brasilia Communiqué, the concept of South America was launched as a way for CAN and Mercosur to converge (and to a certain extent for Guyana and Surinam to join a regional initiative of this magnitude for the first time). This type of convergence would allow for South America to be seen as a united subcontinent with its own identity. As such, the Community of South American Nations was born, and together with IIRSA, they would become fundamental for the creation of Unasur.

The Community of South American Nations was Brazil's first attempt to articulate a geopolitical response, based on the idea of a South American bloc, to the U.S. hemispheric hegemonic projection (Palestini & Agostinis, 2014). An additional strategic element was represented by the fact that IIRSA situated the physical territory as the focal action point for regionalism and as such, as a priority for regional cooperation. Brazil drove, then, the IIRSA initiative not only at the coordination level, but also at the ideational level surrounding the initiative with speeches on identity, physical integration and pragmatic development. It is here where Burges' (2008) conceptualization of "consensual hegemony" is more clearly appreciated.

Brazilian officials played a key role in formulating ideas and policy proposals that attracted other South American nations' attention and eventually made state preferences converge towards regional cooperation.

Before IIRSA, even though countries held some internal plans to improve physical connectivity, this was mainly at the bilateral level or through Mercosur and CAN—but neither of these initiatives had promoted linking the entire continent. According to a former IADB consultant who has vast experience in trade logistics and transport facilitation issues in South America, governments were very used to the same discourses from Mercosur and CAN about physical integration without much novelty in the projects these initiative promoted:

> [Governments were used to listen to] the same border integration projects. But in IIRSA, the countries thought that since three multilateral institutions were involved there would be financing opportunities. When there are financing opportunities, the officials begin to listen…IIRSA began first as an initiative to solve a technical problem of how to carry out tangible physical integration with the tacit understanding that multilateral institutions were going to facilitate somehow the financing of identified projects (former IADB and IIRSA consultant, personal interview, September 12, 2012).

IIRSA offered the opportunity then to set up a more ambitious plan that encompassed transportation, energy and telecommunications—all of them viewed as key elements of the territory for both governments and RFIs like CAF alike—and subsequently to further the development policy of the involved nations. IIRSA's transportation projects would meet long-standing regional hopes for better market access, reducing transportation costs and providing a financing mechanism for needed road building and future maintenance.

6.2.2 Institutional structure and initial dynamics: 2000-2004

IIRSA's founding document is the 2000-2010 Montevideo Action Plan (MAP), developed by the IADB, CAF and Fonplata at the request of the South American presidents. That blueprint set out the core components of the IIRSA intervention strategy and organizational arrangements to integrate multiple sectors of the region's economy. The MAP set forth three guiding principles for the initiative's action: (i) strengthening national investment planning and coordination among countries, (ii) standardizing and harmonizing regulatory and institutional aspects and (iii) developing a portfolio of projects that encourages private sector participation and innovative financing schemes. Despite a pragmatic approach that framed IIRSA within a ten-year Action Plan (2000-2010) and the extensive groundwork that had already been laid—especially for overland transport links, the MAP did not spell out a set of specific objectives or targets as quantitative benchmarks against which to assess IIRSA's advances (OVE, 2008).

IIRSA structured its work at three levels. First, its directorate level is based around the Executive Direction Committee (CDE, in Spanish), formed by the infrastructure or planning ministers of South American countries. Their role is that of deciding the strategic lines of work and approving action plans. Second, the executive level is structured around Executive Technical Groups (GTEs, in Spanish), which are integrated by senior officials and experts named by the countries. There is one GTE for each Integration and Development Axis (EID, in Spanish), with the purpose of analyzing specific topics among countries and carrying out concrete actions at the multinational level. A third level is integrated by representatives from the IADB, CAF and Fonplata, the Technical Coordination Committee (CCT, in Spanish).

The mandate of the RFIs involved was to coordinate joint activities and provide technical support to countries. The decision originally was that the Technical Coordination Committee would have a collegial secretariat (all the participating RFIs) permanently based at the IADB's Institute for the Integration of Latin America and the Caribbean (INTAL) headquarters in Buenos Aires. The most operational level would contain the GTEs, IIRSA's most technical level, responsible for ensuring that Technical Coordination Committee's guidance (and ultimately, CDE's) is heeded. A further subsequent decision made INTAL itself the Technical Coordination Committee's secretariat, with a mandate to perform all the logistical tasks needed for the programming and delivery of activities within IIRSA's work plan. The decision to officially bring in national coordinators came later in 2005 and coincided with a new phase of institutional innovation, characterized primarily by the training of governmental technical staff members and an agenda of meetings of the national coordinators and GTEs in order to move further toward IIRSA's goals. According to IIRSA's website,[15] the national coordinator is: "...responsible for articulating the participation of the different ministries and government institutions involved in IIRSA and, eventually, that of other relevant sectors of society (private sector, sub-national governments, academia, NGOs, etc)."

The challenge for IIRSA was (and continues to be) then to create an executive level equipped to manage this multi-sectoral, multidisciplinary enterprise which would assemble representatives of the three infrastructure sector ministries as well as senior finance and integration policy officials. The proposed organizational structure was envisaged as a way to address the complex range of issues on the IIRSA agenda. Accordingly, both representatives of the Executive Technical Groups and of the Executive Direction Committee were to be selected on the basis of the expertise needed for the issues in question. Conspicuously absent from the approved IIRSA organizational apparatus were participation avenues for agencies and

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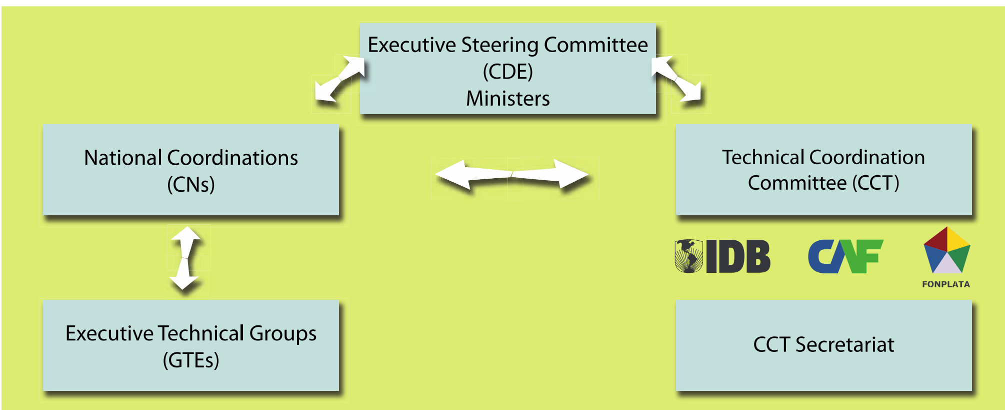
[15] See the document "Anexo 10" of IIRSA's 7th meeting of the CDE, held in Asunción, Paraguay on December 1st-2nd 2005, about the establishment of National Coordination in IIRSA.

institutions that had been very prominent in integration infrastructure consensus building, notably the Latin American Integration Association (Aladi, in Spanish), the Latin American Energy Organization (Olade, in Spanish), and ECLAC (OVE, 2008). Nor were any formal coordination mechanisms devised for IIRSA dealings with regional integration schemes such as CAN and Mercosur. And, lastly, when IIRSA was launched there was no provision in its structure for formal avenues for civil society organization or private sector input (OVE, 2008).

Figure 4. IIRSA's institutional structure



Source: IIRSA 2011. "IIRSA Ten Years Later: Achievement and Challenges."

Furthermore, during the first years of the initiative, South America was divided into Integration and Development Axes, with each axis discussing and evaluating infrastructure integration projects. There are currently ten Integration and Development Axes being implemented within the scope of the IIRSA: the Amazon Axis; the Andean Axis; the Southern Andean Axis; the Capricorn Axis; the Guyanese Axis; the Paraguay-Paraná Waterway Axis; the Central Interoceanic Axis; the Mercosur-Chile Axis; the Peru-Brazil-Bolivia Axis, and; the Southern Axis. A GTE was appointed for each of the identified Integration and Development

Hubs, to deal with sector-specific issues such as regional energy markets, air, maritime, and multimodal transport, and border crossings, and for financing matters. The goal was that IIRSA would contribute towards greater regional approximation by discussing concrete aspects of physical integration, which could be used to support the anticipated increases in intraregional trade, particularly due to approximation efforts between Mercosur and the CAN. IIRSA would also address the issue of regional trade, taking into account all of the potential of promising Asian markets by allowing, for example, grains produced in Brazil to go through ports in the Pacific by building roads through the middle of the continent (Freitas Cuoto, 2007).

During the first three years of IIRSA, there was an abundance of meetings and discourses trying to define the projects that would be under its umbrella. The fact that three RFIs were supporting the initiative generated high expectations about the ability to implement infrastructure projects that were already part of each South American country's agenda. The use of an "IIRSA seal", ensuring that differentiated treatment would be given to projects that were part of the initiative, was also discussed. In fact, during this period, country officials used to often remark that because a project was part of IIRSA, it was often prioritized in the local infrastructure agenda as it related to planning and possible expeditious financing (former IADB and IIRSA consultant, personal interview, September 17, 2012). In this sense, states were enthusiastic to embrace IIRSA since it was presented as a "pragmatic alternative" to consolidate cooperation, while also materializing their national agendas. As examined by Yoshimatsu (2008, 2010) in the context of East Asia, states that adopt the pragmatic approach in diplomatic regional initiatives generally seek to avoid the political tension that derives from abstract values and principles. The idea that infrastructure was a technical and functional area for cooperation in which practical outcomes could be carried out was enticing and it was attractive to support the Brazilian leadership's desire to deepen physical integration.

During the first years of IIRSA, CAF participated in helping the initiative compile an up-to-date inventory of infrastructure projects. In terms of financing, CAF had some opportunities to finance some projects, while enhancing its links with countries like Bolivia and Brazil. CAF's own financing within IIRSA (in terms of approvals), from June 2001 through December 2002, amounted to $517.8 million for nine projects in Bolivia (3), Brazil (1), Colombia (1), Ecuador (3) and Uruguay (1). These projects had an estimated total cost of US$ 1.22 billion; therefore, CAF was providing about 42% of the total financing (CAF AR, 2002). The two largest projects that were approved at the time were in Bolivia and aimed at improving Bolivia-Brazil connections and gas pipelines. CAF approved a US$ 100 million loan for the Regional Integration Highway Corridor Santa Cruz-Puerto Suarez. For Garcia, this project represented a key link in IIRSA's interoceanic corridor to which CAF was committed (CAF News, 2002). CAF saw this project as strategic for the institution since its focus could be framed in terms of enhancing connectivity within the region. This was also a very visible project in terms of both national and regional impact and, through it, CAF was assisting an original shareholder (Bolivia), while helping improve transportation with the regional leader. According to CAF:

> With this loan, the CAF is making a decisive contribution to realizing the old dream of connecting eastern Bolivia with Brazil, while building the backbone of the Brazil-Bolivia-Paraguay-Peru-Chile inter-oceanic corridor under the IIRSA initiative. In the recent past, CAF has contributed to the financing of another old dream of Bolivia: the Bolivia-Brazil gas pipeline, which is now becoming a reality on a route near and parallel to the Santa Cruz- Puerto Suárez road corridor (CAF News, 2002).

Besides loan approvals, CAF began supporting countries that were interested in enhancing their participation in IIRSA. For example, CAF launched an intensive effort to liaise with the Peruvian public sector agencies involved with the IIRSA initiative to push ahead with the cross-sector integration projects in infrastructure (CAF AR, 2001; CAF AR, 2012). In addition, CAF approved $2.5 million in technical cooperation grants for South American integration, in support of planning, the preparation of studies, and institutional strengthening activities related to IIRSA.

6.2.3 The Agenda Based on Consensus (AIC), reform and challenges: 2004—2008

By 2004, after three years of activities heavily focused on the development of inventories, projects, studies, diagnostic and planning exercises, there was a clear perception among participants that IIRSA needed a change of agenda. It was imperative to move to a phase of stronger and faster implementation, especially of those projects with high integration components. The opportunity was deemed to be the right time to mark a watershed between planning and implementation, thus allowing IIRSA to move on to an execution stage with a full picture perspective, building upon the planning effort based on consensus that had been completed (IIRSA, 2010). According to IIRSA (2010), the fact that some countries were experiencing fiscal constraints, as well as limited private sector participation in infrastructure, meant that a clear focus on a limited set of strategic projects for integration was essential, since this enhanced the possibility of execution and prioritization by governments. This was the rationale behind the creation of the Agenda Based on Consensus (AIC, in Spanish) according to IIRSA's participants.

However, the IADB's Office of Evaluation and Oversight (OVE)'s analysis presents a different perspective on the creation of the AIC. According to the OVE (2008),

> The creation of Consensus Agenda was headed up by the IADB, backed by Fonplata, and strongly opposed by the CAF.[16] The Agenda's ascribed strategic objective was to "enhance visibility of the project implementation phase" and thereby address negative perceptions among IIRSA authorities and key stakeholders regarding the Initiative's slow implementation pace. This would suggest that the objectives behind the Consensus Agenda's construction were fundamentally *political-strategic*, as reflected in the above-cited [internal] communication…according to *which the project selection criteria were those that would assure execution of the portfolio*—mature projects, all-country participation, and project visibility (p.11, emphasis added).

According to IIRSA's official documents, the resulting agenda was the product of a combination of technical and political criteria. The 2005-2010 AIC was ultimately composed by a set of 31 integration projects. These projects required an estimated investment of US$ 14 billion and the AIC was approved by IIRSA's CDE in November 2004 and presented to the Presidents of South America Summit in Cusco on December 2004. In this regard, the AIC was perceived as instrumental in the "sealing" of national commitments to the strategic projects included in it and endorsed by a Presidential Summit (IIRSA, 2010). The first infrastructure project to be finalized was the bi-national bridge over the Acre River between Peru and Brazil, which was inaugurated in 2006. In order to support the implementation of the AIC, a decision was made to adopt intensive and specific management of results-oriented projects, the main element of which was the establishment of a special project monitoring system known as the Strategic Management Information System (SIGE). The SIGE was a tool designed for project

[16] Although CAF officials interviewed for this dissertation did not confirm this fact, some interviewees mentioned that CAF has always preferred to present itself as a "technical" institution which does not dictate agendas and also which tries to distance itself from political motivations (and possible propaganda) in the pursue of *national* infrastructure agendas.

management generating information and monitoring mechanisms for the involved government agencies contributing to overcome the obstacles that may arise during projects' execution (IIRSA, 2010).

However, key factors required for the intensive management of strategic projects to work properly were absent from the initiative (IIRSA, 2010). Even though the starting point of the AIC was the support pledged by the Executive Direction Committee's ministers and a summit attended by heads of state, the application of the results-oriented intensive management scheme at the multilateral level of the initiative failed to become consolidated and its support tool, SIGE, was progressively abandoned. A main reason why SIGE failed is because mechanisms of compliance were in place in each country on a sovereign basis, and therefore could not be enforced within the IIRSA initiative. As such, since financing was not tied to the following of SIGE, government authorities did not feel the need to use it (IIRSA, 2010). Moreover, the management of the AIC projects (and of SIGE) remained at the intermediate governmental levels of each country, and failed to reach the political decision-making level of the process, represented by the Executive Direction Committee's ministers. A visible shortcoming was then that the project monitoring and management capability of the AIC did not rely on a management team having the capacity to serve as a bridge between project execution and government decision-making levels. Although several national coordinators worked toward this aim, they did not always belong to the agencies in charge of executing the projects (IIRSA, 2010).

By 2010, 61% of the projects in the AIC were being executed, as compared to 32% in 2005, and of those, 6.5% of them were completed (IIRSA, 2010). The breakdown by number of active projects was as follows, according to IIRSA (2010): 2 projects had been completed, 15 had progressed properly (facing minor difficulties of various types, attributable to the very characteristics of the works involved), 3 had encountered financial obstacles that have been overcome, another 3 had faced bureaucracy-related problems (which had been overcome thanks to the political willingness to solve them) and 5 had been forced to extend their design time frame due to a redefinition of the technical or environmental solutions adopted. From the AIC, it became clear that the countries' integration agenda was progressing, though at different paces depending on each case (*see* Section 6.5.1*)*. As such, the goal of having the AIC projects execution completed by late 2010 was not achieved and within countries there were different viewpoints in relation to the strategic importance of the AIC and as such not all government had dedicated agencies for project execution (IIRSA, 2010). In spite of the above-mentioned difficulties, the AIC leveraged somewhat the progress already made within the initiative's larger portfolio and gave impetus to the agenda of IIRSA as a whole.

In regard to the regional situation, the mid-2000s witnessed some interesting events in South America that affected physical integration, as described in previous chapters. These events included China's increased consumption and ability to finance projects abroad, high oil prices and subsequent revenues for various nations, improved country financial ratings and the conception of the Bank of the South as an alternative and autonomous source of regional financing. These events had direct and indirect effects on the daily activities within IIRSA, including the AIC. Countries began to lose interest in broader issues within the initiative such as harmonization of regulatory issues or the focus on AIC projects. Instead, they were more preoccupied with concrete problems and potential solutions that might arise within the pre-execution and execution levels of individual projects.

Further, between 2004 and 2006, IIRSA went through a difficult phase due to growing resistance from non-state actors (*see* Section 6.3.4*)* and also because not all the recently elected center-left and left leaning governments were satisfied with the principles and actions of the initiative. These new governments were very distinct from those in power when IIRSA was created (when the institutional design and policy-making of IIRSA was delegated to participating RFIs). Although most countries in South America continued to perceive physical infrastructure as important to their national development agenda and were willing to dedicate resources from their treasuries to execute key projects, some governments—in particular, Venezuela—began to disagree more openly with the IIRSA initiative. Venezuela's disagreement was also the result of its leadership trying to promote Alba as an alternative for alternative trade integration by pursuing reciprocity and redistribution in the economic relations between member countries, in the framework of a broader socialist political project for the region (Palestini & Agostinis, 2014).

Starting from 2004 then, the Venezuelan government distanced itself from IIRSA by reducing its participation in its meeting (*see* Section 6.3.4*)*. According to a state official who attended some IIRSA meetings later in the decade, Venezuela began associating IIRSA with neoliberalism and the idea that the biggest beneficiaries may be the multinationals that wanted to export products out of the region (Venezuelan public official, Central Bank, personal interview, November 6, 2012). In 2006, during the South American Community of Nations' summit in Cochabamba, most governments explicitly expressed their support for IIRSA. Nevertheless, some national authorities expressed their concerns. Hugo Chavez openly criticized IIRSA and remarked that the initiative had exclusively taken into account economic factors and read to the other presidents a document in which civil society movements argued that IIRSA was an instrument of multinational companies to export South American natural resources to developed nations (Tautz, 2006).

Meanwhile, Rafael Correa—at the time elected president of Ecuador and therefore attending the summit as a guest—suggested that most of the 31 projects of IIRSA's AIC should be reviewed. However, he supported some plans, such as building roads and ports for the export of Brazilian goods to the Pacific through Ecuador (Tautz, 2006). Further, Evo Morales from Bolivia showed some reluctance towards IIRSA by supporting an open letter from civil society movements. However, Morales' deputy electricity minister at the time, Jerjes Mercado, told Inter Press Service that Bolivia wanted to participate in the first and so far most controversial project of the initiative: the construction of two power plants on the Madeira River in Brazil that would flood areas of Bolivia (Tautz, 2006).

The dynamics exposed at the summit in Cochabamba are reflective of governmental policies prevailing in Venezuela, Bolivia and Ecuador. These governments have often attempted to paradoxically advance a dual discourse of social inclusion—emphasizing the need to go beyond economic rationales for peoples' advancement and integration—and the need for rapid physical integration requiring large highway and dam projects. Therefore, while these countries in South America proclaim their support for alternative finance arrangements and they may criticize initiatives like IIRSA at times, they have not sidelined the initiative in their internal agendas and in fact have used it when possible to obtain financing for several large projects (*see also* Section 6.4 for projects financed*)*.

Therefore, although at the beginning of the decade, physical infrastructure was introduced to the regional agenda by the Brazilian leadership and the RFIs as the pragmatic and non-ideological alternative to pursue integration, by the mid-2000s, Venezuelan leadership's statements regarding IIRSA suggested that it was deeply political. For an institution like CAF, it became even more relevant to keep itself informed of these regional developments. Although the institution continued to express its commitment towards physical integration and IIRSA, senior officials at CAF were paying close attention to some members' changing ideological perspectives regarding the initiative and integration more generally. Senior officials have suggested during these years that CAF was careful in how it framed publicly its support for physical integration: instead of expressing its institutional preferences for physical integration in statements that could be perceived as more political or favouring one way to integrate over another, CAF focused on communicating to countries its concrete actions. These included matters such as ongoing technical support and project approvals in this area at the regional and national levels (Antonio Juan Sosa, personal interview, October 18, 2012; senior CAF official, Infrastructure Division, personal interview, November 19, 2012).

Moreover, CAF dedicated extensive resources at the national level by for example strengthening the content of its Sectoral Reports. This was done by ensuring that CAF officials understood and included in the reports the projects and ideas that members defined at the time as short and medium-term priorities in regards to infrastructure (CAF senior official, VP of Development Strategies and Public Policies, personal interview, November 26, 2012). At the same time, in a parallel institutional agenda (as seen in the previous chapter), it is during these years that CAF reformed its agreement while trying to establish closer ties with Brazilian officials, with the goal of ensuring Brazil's interest and participation in CAF. Senior officials in the entity were busy trying to better understand the country's evolving regional priorities, while ensuring that Brazil remained interested and active in CAF beyond IIRSA matters.

In regard to IIRSA, CAF published the book "The Commitment of CAF to South American Integration" in 2005, which highlighted the activities of the institution in the area of physical infrastructure, particularly in the fields of road construction and energy, as well as the scope of the projects developed within the framework of the initiative. The publication presented a selection of 31 infrastructure integration projects, from eight of the ten Integration and Development Hubs of IIRSA, which had been or were being funded by CAF and had a strategic impact on the broader regional integration process. In the book, Garcia remarked:

> The most important effort that CAF has been doing in the last fifteen years is aimed at building trans-South America infrastructure— which enhances the territory and regional integration. This is reflected in the significant and continued growth of [CAF's] its portfolio of projects related to physical infrastructure throughout the region. These projects have been strategically selected in partnership with governments and the private sector, and its implementation has allowed to gradually reducing bottlenecks…(Garcia quoted in CAF, 2005b, p. 3).

Despite different ideological views on integration by the Brazilian and Venezuelan governments, at the material level, CAF did not have any trouble finding projects to finance in regard to physical integration. IIRSA was giving CAF an opportunity to get involved in the financing and technical support of large-scale, strong-impact projects for specific countries and the region as a whole. The percentage of its portfolio earmarked for these projects continued to grow steadily on a yearly basis (CAF AR, 2005). That year, CAF led efforts to finance seven new investment projects in infrastructure prioritized by shareholder countries for a total amount of US$ 734,8 million for these newer projects. Some countries—in particular, Peru, Bolivia and Ecuador—kept active relationships between CAF and their ministries of infrastructure. These relationships were kept independently of the prevalent discourses about regional cooperation promoted by Brazil and Venezuela and of their own national positions in regional fora. For example, according to a senior public official in Ecuador (a country that has often favoured Venezuelan leadership on regional cooperation) CAF was fundamental for successfully executing transportation projects in the Amazon and Highlands regions:

> We had a credit portfolio of US$ 254 million for a sectoral transportation program and more than 50% of the credit was related to IIRSA projects that were at least to be partially financed by CAF. We were so committed to IIRSA at the ministry in the mid-2000s that the actual name of the credit proposals were "IIRSA I" and "IIRSA II"…we had constant meetings with CAF officials during that time, especially when the country had mapped a project in its development agenda and it coincided with a project within IIRSA (Senior official, Ministry of Transportation and Public Works, personal interview, November 14, 2012.

By 2006, according to its Annual Report, CAF had been involved in 41 out of 84 projects in IIRSA's portfolio either through technical or financial support (CAF AR, 2006). In addition, responding to the needs of national authorities responsible for infrastructural development projects, in 2006 CAF placed at their disposal special funds designed to finance studies and pre-investment work. By 2007, support was granted to finance pre–investment studies for more than 30 projects with non–refundable contributions for close to US$ 10 million through the Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra). By 2007, CAF had financed 46 physical infrastructure projects that represented around US$ 4.5 billion of a total investment of approximately US$ 13 billion within IIRSA (CAF, 2007).

During 2008, right before IIRSA was incorporated into the Unasur framework, CAF and ECLAC, as a complement to IIRSA's institutional strengthening activities, designed and carried out the first course on development and integration of the South American regional infrastructure. The objective of this course was to offer participating government officials a perspective on the political economy and challenges faced in the development of integration infrastructure (CAF, 2008). This was, however, the first year that CAF's Annual Report did not mention IIRSA specifically when describing the physical integration projects financed by CAF. Although most of the projects mentioned in the report belonged to IIRSA, according to Antonio Juan Sosa:

> The word IIRSA stop appearing in the title of the physical integration section of Annual Reports, because what mattered after that time is that those projects are related to overall integration and not to a specific initiative. IIRSA began to move away from RFIs: it was more a passive than active initiative in regard to RFI participation and input. So we decided to stop using the word but we continued reporting physical integration projects with the same framework as before (Antonio Juan Sosa, CAF's VP of Infrastructure, personal interview, October 18, 2012).

6.2.4 Cosiplan, Unasur and IIRSA II: 2009 - present

In 2009, under the leadership of Brazil, IIRSA became part of the recently created Unasur. The South American Council on Infrastructure and Planning (Cosiplan, in Spanish) was created at the Third Meeting of the Council of Heads of State of Unasur as a "forum for political and strategic discussion through consultation, evaluation, cooperation, planning and coordination of efforts, and articulation of programs and projects aimed at implementing the integration of regional infrastructure in the Unasur Member States" (Unasur, 2011). During this meeting, IIRSA's member states, agreed *that governments, not RFIs*, should be the coordinators of regional infrastructure projects, and Cosiplan would be the vehicle to coordinate physical integration. According to Palestini and Agostinis (2014), this change was possible because South American states still considered transport infrastructure as a strategic priority for the promotion of both national and regional agendas. Moreover, as previously highlighted, Unasur was an attractive option for countries due to its low demands and flexibility concerning trade matters. According to the 2012-2022 Action Plan, Cosiplan's role is to obtain extensive political backing for activities and projects aimed at generating sustainable economic and social development in South America (Unasur, 2011). From 2012 on, IIRSA is defined on its website as "an institutional mechanism aimed at coordinating intergovernmental actions adopted by the twelve South American countries with a view to building a common agenda to foster projects for the integration of transport, energy, and communications infrastructure."

As such, South American governments did not renew the IADB's mandate to serve as the center of coordination—the IADB also did not take the initiative to propose a renewal of its mandate, according to interviewees for this project—and instead, IIRSA became part of the Unasur's framework for carrying out regional integration. IIRSA was designated as Cosiplan's infrastructure technical forum. The 2012-2022 Action Plan also highlighted the new challenges that Cosiplan would have to confront, as the initiative was not within a specific regional initiative, independent of RFIs' planning activities and direct support. These challenges included securing political support and viable funding for the project portfolio, particularly regarding the AIC projects; reviewing and applying territorial planning methodologies; extending and enhancing existing infrastructure networks among countries; ensuring greater publicity for infrastructure integration projects in South America, within the scope of Cosiplan; strengthening the Council's role in project execution, and progressing in sectoral processes and the implementation of priority projects.

Once IIRSA fell under the Cosiplan/Unasur umbrella, the dynamics began to change between RFIs and participating governments. Many interviewees from RFIs define this new period informally as "IIRSA II." For example, it was often mentioned how the IADB promptly reduced its technical support within IIRSA; the ad hoc unit dedicated to IIRSA was dismantled and IIRSA's issues were dealt with now under the infrastructure unit with less priority (Christian Velasquez, personal interview, September 6, 2012). Meanwhile, the main IADB-IIRSA official and expert, Mauro Marcondes, returned to his native Brazil and was not replaced. At the time, the disappearance of IADB from IIRSA's center stage was barely noticed by the countries, which were occupied with framing their commitment to Unasur and the policies that would direct IIRSA under Cosiplan (Christian Velasquez, personal interview, September 6, 2012).

The integration of IIRSA to the Unasur framework can also be seen as an attempt by Brazilian leadership to reconcile divergent ideologies and bring Venezuela again on board in order to have a more unified view for cooperation on regional infrastructure matters. Ultimately, as Palestini and Agostinis (2014) have suggested, positive interactions between Brazil's and Venezuela's regional leaderships led to a renewed political consensus at the inter-presidential level that resulted in IIRSA's transition to Unasur. In June 2011, all the 12 Ministries of Planning, with Venezuela again on board, signed the Cosiplan Regulation, which specified the institutional relationship and division of work between IIRSA and Cosiplan (Palestini & Agostinis, 2014). However, this would have not been possible withot a tremendous groundwork provided by the Brazilian government. In the year of the transition (2009), Brazil held IIRSA's Executive Presidency. Although it was not its turn—it was Guyana's— Brazil was the only country member prepared to cooperate in integrating IIRSA to Unasur by offering its members once again a renewed impulse and enthusiasm towards regional integration.

Therefore, once IIRSA became a key component within Unasur's framework, the RFIs' engagement strategy changed. With regard to CAF, its institutional presence in IIRSA was pushed into the background (senior CAF official, Infrastructure Division, personal communication November 19, 2012). This change was partially an institutional decision, but it was also partially something that IIRSA's national coordinators had requested. According to the same senior CAF official, during the transition period, the national coordinators asked the multilateral banks—which had attended all the previous meetings—not to partake in some internal IIRSA meetings. During the Asuncion meeting in September 2012, this official noted that:

> Most countries did not question that the development banks would have a central role in IIRSA but they question our full participation in Cosiplan; some countries, in particular Venezuela, do not want us to be present in all the meetings. Ultimately, countries are having some private meetings but most countries' officials tell us later what is going on (CAF senior official, Infrastructure Division, personal communication November 19, 2012).

For instance, a Venezuelan public official who participated in IIRSA meetings in 2012, suggested that within IIRSA "[multilateral] institutions, to the extent possible should participate as technical support, make a presentation but they should not attend the discussions between countries, since those are sovereign matters" (Venezuelan public official, Central Bank, personal interview, November 6, 2012). In February 2013, during a conference in London, CAF's VP of

Infrastructure, Antonio Sosa made some key remarks about IIRSA which were linked to CAF's view on "IIRSA II":

> The first phase of [IIRSA's] network was very busy, very active. Now, once the continent created Unasur, which is a political institution for regional integration in South America, IIRSA has lost some of its impulse, because it is within a political body and it is trying to reorganize the agenda in the new institutional framework. But CAF and IADB are selecting new projects to finance (Antonio Juan Sosa, CAF's presentation, February 11, 2013).

Consequently, from the dynamics within "IIRSA II," we can observe that the nature of RFIs and governments' cooperation in fostering physical integration within the initiative has shifted from RFIs' explicit willingness to cooperate on financial and technical matters to the co-existence of all participants within a regional political forum devoted to coordination— and without necessarily a direct RFI mandate to provide financing or active orientation. With the end of the Lula presidency in 2010 and Chavez's death in 2013, the initiative has also lost priority within presidential circles and diplomatic activities within South America. For Garcia, although "IIRSA II" has less involvement of RFIs and less presidential and media attention, this has not affected CAF's opportunities for financing since senior officials continue looking out for financing opportunities regarding regional integration within and outside IIRSA (Enrique Garcia, personal interview, November 19, 2012). The next section explores in detail the financing dilemmas within IIRSA and how different actors have actually contributed with capital for IIRSA's projects. These issues are relevant when trying to understand how institutions like CAF engage with their principals in an environment in which resources for infrastructure financing are limited; CAF's priority has centered on those projects with a visible impact in the region.

6.3 Financing mechanisms and sources within IIRSA and CAF's contributions

A closer look at the economic effort represented in the entire portfolio of IIRSA projects for each country involved gives an initial perspective of which countries might be more willing or able to materialize the infrastructure projects promoted by IIRSA in the last decade. Investments in IIRSA projects are high in demand in the case of Bolivia, Paraguay and Guyana. SELA (2011) measured the economic efforts of the national IIRSA portfolio for each country in 2010, by comparing the value of individual countries' required investment to their GDP (measured for 2009). SELA (2011) found that the amount of the proposed required investments are equivalent to 81% of its GDP for Paraguay, between 50% and 60% for Bolivia and Guyana, 25% in Surinam, 10% for Argentina, 5% for Chile, Ecuador and Peru and around 2%, 1% and close to 0%, in that order for Brazil, Colombia and Venezuela.

The number of projects in the IIRSA portfolio increased over 50% between 2004 and 2011, while the estimated investment increased by more than 200% in the same period (FIESP, 2012). Meanwhile, public financing increased at a rate of 360%, partially prompted by the greater space created by the governments of the region in the past decade. In relation to the evolution of the type of financing arrangements, the public and public–private modes of financing overwhelmingly predominated, reaching values always set higher than 80% of the total investment. The total amounts of the private financing portfolio are well below those of the public or public- private financing and have had virtually no increase between 2009 and 2011 (FIESP, 2012).

Therefore, for the most part, the financing of IIRSA projects that have been concluded or are in the implementation stage has relied heavily on state investments. Although the RFIs have financed several projects within the portfolio, they have contributed largely with facilitating pre-investment and technical studies— the IADB created the Integration Fund (FIRII) in 2004 and CAF created the Proinfra Fund in 2006 to support the preparation of the projects that belong to the IIRSA portfolio. According to IIRSA's CDE (2009), the RFIs involved—IADB, CAF and Fonplata—have contributed approximately 24% (US$10,6 billion) of the total investment of projects completed or under execution at the time.

According to IIRSA's (2011) official documents, when taking into account the entire project portfolio for the total investment, the countries' public sectors are the main financing source (46%), followed by public-private sources (37%), and, lastly, by the private sector (17%). The fact that countries' treasuries have mainly financed most IIRSA projects that are in stages of implementation or completed has created some frustration amongst member countries. This is because despite the countries' and RFIs' efforts to jointly identify possible projects to be inserted in the IIRSA agenda, there have not been special considerations from the IADB or CAF to finance the projects once they become an official project of the initiative.

According to Christian Velazquez—Latin America's Program Manager at the Bank Information— during the period that the BIC monitored IIRSA developments, he became aware that the IADB and CAF did not take into consideration (or indeed at times rejected) several IIRSA projects. They determined that the financial and/or socio-environmental risks of various projects were too high to bear for the RFIs; as such, a country's treasury had at times to assume this risk if it really wanted to move forward carrying out a project within the IIRSA's agenda (Christian Velasquez, personal interview, September 6, 2012). Similarly, a former IADB and

IIRSA consultant stated that once the AIC was implemented in 2004, several issues arose when moving from planning to financing projects. For example, each RFI had its own separate mechanism to evaluate projects and despite IIRSA meetings where countries and RFIs agreed to work on collaborative financing mechanisms, in practice the evaluation mechanisms did not change. As such, IIRSA projects had to go through the same cycle of evaluation as other country projects:

> Many IIRSA projects at the IADB were not financed because they did not meet the minimum environmental, social and other requirements. There were several projects that were on IIRSA's portfolio due to more political reasons than anything else. Countries would come and tell us [the IADB] that they considered that A or B project was important for them. But many of those projects were not feasible when technical elements were considered. Then, of course, countries got frustrated because they argued that they had spent all this time working with the multilateral banks in defining projects and then the banks rejected the financing [of projects] (former IADB and IIRSA consultant, personal interview, September 12, 2012).

According to the same consultant, another important reason why countries got frustrated at times was the lack of internal coordination within the RFIs: the technical groups that worked with the countries defining the IIRSA portfolio were often not the same as those groups and departments that worked in the project evaluation divisions at the multilateral banks (former IADB and IIRSA consultant, personal interview, September 12, 2012). Moreover, Velasquez also suggested that since the funds for IIRSA projects have largely come from national treasuries, it has become extremely hard to track down (and break down amounts for example from bilateral cooperation, private-public agreements, amongst others) the money that is managed by a country's treasury (Christian Velasquez, personal interview, September 6, 2012).

RFIs' officials believe, however, that the initiatives' possible concrete "innovations" in the financing sphere can be linked to the guarantees designed by the RFIs, which promoted the participation of private actors. Mauro Marcondes, the IADB senior official who coordinated IIRSA matters between 2003 and 2010, argued that two concrete new mechanisms were devised for IIRSA project financing: the guarantee for the Northern Amazon project by the IADB and a similar mechanism for IIRSA Sur (for the Southern Interoceanic Road Corridor) designed by CAF. IIRSA Sur and Northern Amazon are projects located in Peru under the modes of public-private participation. According to Marcondes (2012), the guarantee was an innovation to attract private sector infrastructure project integration and allowed that the dealer to place bonds in the international market worth more than US$ 200 million.

The Southern Interoceanic Road Corridor joining Peru and Brazil is clearly one of the most important projects in South America, not only because of its required investment capacity, but also because of multiple economic and socioenvironmental considerations (discussed later in the chapter). This project is aimed at linking the Pacific and Atlantic coasts through a network of roads starting in the Peruvian coast down to the coasts of Brazil, crossing the Andes and the Amazonian rainforest in its path. This IIRSA project had two distinct new financial mechanisms: first, the co-financed concession and second, the creation of the Certificate of Recognition of Annual Payments Per Work (CRPAO, in Spanish), a financial instrument that allowed the Peruvian government to complete the financing of the IIRSA Norte and the sections 2 and 3 of the IIRSA Sur project, for amounts exceeding US$ 900 million:

The structure of these concessions enables the concessionaire to, as it moves forward

> with the construction stage, generate rights on the Annual Payments per Works (acronym in Spanish: PAO), which the State has undertaken to make in the future as part of the co-financing of the project. These rights are reflected in the CRPAO, which constitutes a financial instrument incorporating an unconditional and irrevocable obligation undertaken by the Peruvian State to pay the holder of such instrument, on the established due date, a certain amount set forth therein. The CRPAOs have been structured so that they are governed by New York Law, subject to New York jurisdiction, rank *pari passu* with other similar obligations of the Government of Peru…(Ronceros & Fernandez-Davila, 2007).

IIRSA promotes ultimately a "non-ownership" model where most direct and indirect financing are very difficult to track down. For example, although different sources (Burges, 2009; Carvahlo, 2010; Gudynas, 2008) mention BNDES as one of the main sources of financing in IIRSA, the Brazilian bank can only provide funds to foreign governments for them to pay the costs for Brazilian goods and services used in a project. As Nyko (2009) remarked, the form assumed by the regional action of BNDES in the past few years is closer to an Eximbank. Brazilian private companies gain participation in IIRSA then through private-public contracts with South American governments and, although these transactions may be reported on the BNDES website, they are difficult to track down as projects specifically linked to IIRSA's initiative. BNDES (2012) presented at one of the IIRSA's meetings in Asuncion, remarking that it has been an important provider of finance for major infrastructure projects in Latin America. But officials noted that until now that support has been only in the form of export credit from Brazil (a statutory requirement for BNDES), which sometimes has resulted in the export of construction services. Therefore, in terms of mechanisms for financing, it seems that the countries that have actually been able to benefit are those that have kept close relationships with regional and national development banks and have been able to consolidate public-private partnerships within and beyond IIRSA.

Meanwhile, CAF officials have manifested satisfaction with the institution's participation and financing within IIRSA during its initial and later stages. Table 9 lists the physical integration projects that CAF has supported during the period 2000-2010: CAF has approved operations in this area —within and outside IIRSA— for US$ 7.3 billion for the execution of 57 projects that involve a total investment in excess of US$ 23 billion. Table 9 also shows that CAF has supported IIRSA's projects for both newer and older full members. CAF's financing within IIRSA also reflects great support in terms of numbers of projects for Bolivia and in dollar amounts for Peru. Both countries, as seen in the previous chapter, have the highest investment in infrastructure in Latin America as a percentage of their GDP. So it has been the national development agendas in these countries (and not necessarily the prevalence of its market and ideological preferences for regional integration), which has driven these nations to maintain and strengthen close relationships with CAF. The institution, as seen in Chapter 4, has tried to stay away from dogmatic or prescriptive agendas regarding members' political preferences, including those related to infrastructure. It still supports the view that this area should be treated in a more pragmatic way (when compared to trade) to promote cooperation amongst members. Ultimately, Antonio Sosa, CAF's VP of Infrastructure, suggested that CAF had a positive experience in IIRSA in terms of providing financing to member countries:

> We [CAF] did very well. We financed a lot of what we wanted, what happens is that you cannot be so academic. It is different to outline all possible projects that can be included in a portfolio and then to actually prioritize amongst them. But you cannot pretend that

the technical-academic appreciation would become the political appreciation that they [governments] would prioritize…There is an "internal rate of political return" that influences what type of projects governments prioritize and it is related to what political leaders deem viable when taking into account what their communities and regional leaderships expect from them (Antonio Juan Sosa, personal interview, October 18, 2012).

Within IIRSA, CAF has supported 53 projects—a total of US$ 6.7 billion involving a total investment of US$ 17.3 billion. Considering that IIRSA's portfolio involved at the time around US$ 116 billion, CAF has contributed approximately with 5.8% of the financing (*see* Table 9*)*. Although this number may not seem impressive, CAF participated in some large projects such as the IIRSA Sur project mentioned above, which constitutes one of the first infrastructure projects executed under the scheme of an investment co-financed by the government of Peru and private companies. CAF provided 48% of the total investment in this project, about US$ 1 billion. This project also represented 15% of CAF's total contribution to IIRSA's projects.

Table 9. Physical integration projects financed by CAF (IIRSA and non-IIRSA)

	Andean Axis	CAF's Contribution (Million USDs)	Total Investment (Million USDs)
1	Colombia: Bogota-Buenaventura Road Corridor	447,0	1,116,6
2	Ecuador: Amazon Connection with Colombia and Peru	93,8	152,7

	(Eastern Amazonia Trunk Highway)		
3	Ecuador: Segmental Bridge Project over the Babahoyo River	123,0	133,9
4	Peru: Rehabilitation of the Huancayo-Huancavelica Railroad	14,9	18,8
5	Venezuela: Railroad Connection between Caracas and the National Network	360,0	1,932,0
6	Venezuela: Support for Commercial Navigation in the Orinoco-Apure River Axis	10,0	14,3
	Guyana Shield Axis		
7	Brazil: Venezuela-Brazil Road Interconnection	86,0	168,0
8	Brazil: Venezuela-Brazil Electric Grid Interconnection	86,0	210,9
9	Venezuela: Studies for a Railroad Connecting Guayana City-Maturin-Sucre State	2,6	2,6
10	Venezuela: Studies for a Highway Connecting Guayana City (Venezuela)-Georgetown (Guyana)	0,8	0,8
	Amazonian Axis		
11	Ecuador: Central Trans-Andean Connection	33,7	54,5
12	Ecuador: South Trans-Andean Corridor	70,0	110,2
13	Ecuador: International Cargo Transfer Terminal in Port of Manta, Ecuador	35,0	525,0
14	Peru: Northern Amazon Road Corridor	110,0	328,0
15	Peru: Pre-Investment in the Border Region with Ecuador	5,3	8,7
16	Peru: Central Amazon Corridor (Tingo Maria-Aguaytia-Pucallpa section)	3,5	13,6
	Peru-Brazil-Bolivia Axis		
17	Bolivia: Guayaramerin-Riberalta Highway	42,0	45,5
18	Brazil: Highway Integration Program in Rondonia State	56,4	134,2

19	Peru: Southern Inter-Oceanic Road Corridor (sections 2, 3 and 4) and Guarantees for Private Structuring	1.004,5	2.091,0
	Central Inter-Oceanic Axis		
20	Bolivia: Bolivia-Chile Integration Road Corridor	138,9	246,0
21	Bolivia: La Paz-Oruro Two-Lane Highway	250,0	265,1
22	Bolivia: Road Corridor Integrating Santa Cruz-Puerto Suarez (sections 3, 4, and 5)	280,0	585,5
23	Bolivia: Road Corridor Integrating Bolivia-Argentina	314,0	642,0
24	Bolivia: Road Corridor Integrating Bolivia-Paraguay	135,0	285,6
25	Bolivia: The “Y” Integration Road Program	97,3	141,3
26	Bolivia: La Guardia-Comarapa Highway Rehabilitation	21,0	34,7
27	Bolivia/Brazil: Bolivia-Brazil Gas Pipeline	215,0	2.055,0
28	Bolivia: Support Program for the PAST IV Transport Sector	22,4	32,3
29	Bolivia: Transredes Gas Pipeline	88,0	262,8
30	Bolivia: Complementary Road Works	70,0	73,0
31	Bolivia: Sectoral Transport Program	150,0	221,2
32	Peru: Bolivia-Peru Integration Road Corridor	48,9	176,6
	Mercosur-Chile Axis		
33	Argentina/Brazil: Paso de los Libres Uruguaiana Border Center	10,0	10,0
34	Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa Alternative roadway)	10,0	10,0
35	Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa Alternative Railroad Route)	35,0	50,0
36	Argentina: Buenos Aires-Santiago Corridor (Access to Paso Pehuenche, RN 40 and RN 145)	106,7	188,1
37	Argentina: Electric Grid Interconnection Rincon Santa Maria-	400,0	635,0

	Rodriguez		
38	Argentina: Comahue-Cuyo Electric Grid Interconnection	200,0	414,0
39	Argentina: Road Works Program Integrating Argentina and Paraguay	110,0	182,0
40	Argentina: Useful Life Extension of Embalse Nuclear Plant	240,0	1.026,7
41	Brazil: Integration Road Program- Phase One. State of Santa Catarina	32,6	65,5
42	Uruguay: Mega-Concession of the Main Road Connections to Argentina and Brazil	25,0	136,5
43	Uruguay: Road Infrastructure Programs	240,0	757,1
44	Uruguay: Program to Strengthen the National Electricity System	150,0	621,0
45	Uruguay: Punta del Tigre Thermal Power Station Project	28,0	165,4
	Capricorn Axis		
46	Argentina: Paving of RN81	90,2	126,2
47	*Argentina: Access to the Jama Pass (Argentina-Chile)*	54,0	54,0
48	Argentina: Studies for the Rehabilitation of the Jujuy- La Quiaca Railroad	1,0	1,0
49	Argentina: Recovery and Improvement of the General Belgrano Railroad	326,0	408,0
50	Bolivia: Tarija-Bermejo Road Program	74,8	200,0
51	Paraguay: Rehabilitation and Paving of the Integration Corridors RN10 and RN11 and Complementary Works	19,5	41,9
	Paraguay-Parana Waterway Axis		
52	Studies to Improve Navigation, Institutional Management and the Financial Scheme for the Operation of the Waterway	0,9	1,1

	(Argentina, Bolivia, Brazil, Paraguay, and Uruguay)		
53	Argentina: Railroad Works Program for the Integration of Argentina and Paraguay	100,0	166,0
	Total projects within IIRSA	**6.687,2**	**17.341,9**
	Integration Projects Outside IIRSA		
54	Costa Rica: Investment Program in the Atlantic Corridor	60,0	80,2
55	Panama: Highway Rehabilitation and Improvement Program	80,0	125,6
56	Panama: Binational Bridge Over the Sixaola River	5,5	13,4
57	Panama: Panama Canal Authority, Expansion Program	300,0	5.250,0
	Other integration projects outside IIRSA	**210,0**	**812,0**
	Total	**7.324,2**	**23.623,1**

Source: CAF IDeAL 2011 and IIRSA's database http://www.iirsa.org/proyectos/

Note: To validate that these projects were financed within the IIRSA framework, the projects and amounts were validated through CAF's official documents, IIRSA's database and/or external files from governments and NGOs.

The next section explores in detail the different meanings that government officials, RFIs, and NGOs have attached to the IIRSA initiative. This is vital for better framing the nature of regional cooperation in regards to infrastructure financing, while understanding how CAF has been able to grow its portfolio and navigate successfully the dilemmas and opportunities presented within the regional environment.

6.4 Internal and external perceptions of IIRSA

6.4.1 What IIRSA has meant for its participants (countries' public officials and RFIs)

IIRSA has served as a signaling process for both countries and participating RFIs to convey their opinions and possible commitment towards certain infrastructure projects or towards regional integration more generally. IIRSA meetings convey both "cheap talk" messages (when information exchange among countries is costless) and key insights allowing countries to send costly signals (via their iterative cooperation process and repeated interaction) about their willingness (political objectives and priorities) and capacity (political and financial constraints) to coordinate public expenditure in portfolio's infrastructure projects (Carcamo-Diaz & Goddard, 2007). This signaling process is also reflected to a great extent in the active (or passive) participation of country officials in IIRSA's meetings and in the implementation of projects.

Despite different political views on integrations amongst IIRSA member countries, their public officials generally agree that because of IIRSA, the concept of integration based on infrastructure development has been put on national and regional development agendas in South America. For instance, in 2010, ECLAC interviewed 52 public officials and experts linked to IIRSA. When asked what were the main achievements of the initiative were during its first ten years, the interviewees mentioned: dedicated support to regional integration, the definition of a project portfolio and integral planning, development of standard methodologies, increased bilateral and multilateral relationships, trust and joint work amongst countries (ECLAC, 2010). Without IIRSA, countries would have probably kept working at a slower pace through CAN and Mercosur in their physical integration initiatives and transfer of knowledge in infrastructure profiling and financing would have been fairly limited. IIRSA provided a channel to increase bilateral and multilateral relationships amongst interested parties (e.g. between CAF and a country like Peru, eager to enhance their infrastructure conditions).

IIRSA has focused on *hard* infrastructure (physical) rather than in *soft* infrastructure (regulatory issues). IIRSA brought countries' officials together on many occasions to discuss *hard* infrastructure matters. Julian Villalba—former CAF senior official and current owner of a consulting company—emphasized IIRSA's role in initiating dialogue around long-term infrastructure planning: "[before IIRSA] South American public officials had never come together to really explore long-term infrastructure planning. Perhaps in the diplomatic arena, but not in the technical arena." (Julian Villalba, personal interview, October 15, 2012). For both RFIs and infrastructure officials (not political leaders) of most countries, IIRSA has represented, at least to a certain extent, a pragmatic forum to conceptualize a shared infrastructure agenda by the countries with the support of multilateral banks in the areas of territorial planning and also for constructing a regional vision of infrastructure.

Furthermore, a former IADB and IIRSA consultant considers that the fact that IIRSA has enhanced dialogue amongst public officials represents a key achievement of the initiative. Due a great extent to IIRSA, South American officials began interacting with each other more often and to a certain extent developing networks when giving and receiving informal and formal advice for infrastructure projects within and beyond IIRSA:

> The dialogue was important since officials began to [somewhat] standardize concepts. At the beginning, [the dialogue] was quite superficial. As IIRSA began moving forward in time, the technical quality began improving, especially for certain projects. For example, Brazil had implemented "Exporta Facil" at home and then thanks to IIRSA that project could be replicated in Colombia and Peru. This program tried to facilitate the export

> paperwork required for small exporters. It was an interesting transfer of knowledge (former IADB and IIRSA consultant, personal interview, September 12, 2012).

Within member countries, there were some limited attempts to bring attention to the political aspects of IIRSA in its everyday activities and the need to have head of states' endorsement and participation in the initiative. For example, between 2003 and 2005, IIRSA organized a series of workshops with the goal of establishing a "Strategic Vision for the Physical Integration of South America." The final document gathers recommendations mainly from national coordinators (public officials) and demonstrates how IIRSA's most involved participants were trying to at least frame the political sustainability of the initiative at the time. Santa Gadea (2005)— author of the document gathering the recommendations from the national workshop participants— defined physical integration as a political issue, going beyond technical aspects. Santa Gadea (2005) explained: "In emerging hubs, infrastructure works tend to be non-profitable. To reverse this cycle, political decision is required. If the political framework is built, agreements with businessmen and understanding will follow. *IIRSA is a politically validated technical process. Its approach is economic, while its exercise is political*" (emphasis added).

However, one of the shortcomings of the initiative relates to the infrequent convening of enough key stakeholders (senior political figures in the sub-region) and the absence of formal relations with political decision makers and with the integration schemes already operating in the region. Although the Brazilian and Venezuelan leaderships had their own vision for physical integration at the material and ideological levels, they did not give a clear direction and did not intervene directly in buttressing IIRSA's agenda regarding broader political discussions on infrastructure matters. As such, representatives from various ministries did not have a clear mandate or the resources to collaborate vis-à-vis larger issues surrounding infrastructure, such as those related to harmonization of regulations and policies in the continent, as well as the sustainability of infrastructure initiatives (see next section). For the Office of Evaluation and Oversight (OVE) at the IADB (2008), "this has adversely affected the political economy of IIRSA and has held up integration in the sectors in question" (p.ii). Similarly, Marcondes (2012)—the former IIRSA coordinator for the IADB— has suggested that the issues in IIRSA's agenda that have shown minimal progress are those related to regulatory and policy issues in the areas of energy integration, air, maritime and transport, part of the Sectoral Integration Processes of IIRSA. Marcondes (2012) has attributed this lack of success to the absence of "greater political muscle" to coordinate within each country the different sectors involved in order to address the complexity of the IIRSA agenda.

By 2006, member countries had limited the scope related to streamlining regulatory frameworks and instead focus was given to concrete problems that were the result of specific project treatments and the integration and development axes. Ultimately, surveyed country officials believed that the main obstacles that the initiative and the national coordinators faced were related to the lack of participation, interest, resources, promotion and political support (ECLAC, 2010). Attendance at IIRSA meetings had been declining before IIRSA became part of Unasur (*see* Table 10 below). Moreover, even after Unasur, the country hosting a particular meeting has been strongly overrepresented (see green boxes in *Table 9).* As for government representation, there is a marked bias toward the transport and public works sector in most countries and virtually no energy or telecommunications sector representatives or officials from other agencies like economic affairs ministries and regional trade or integration departments.

Table 10. Attendance: IIRSA's national coordinators' meetings 2005-2013

Participants by Country	2005	2005	2006	2006	2006	2007	2008	2008	2009	2009	2010	2010	2011	2011	2012	2013
Argentina	4	3	2	3	3	2	3	3	6	3	2	2	2	2	12	3
Colombia		1	1		2	4	3	7	3	3	2	1	2	1		1
Bolivia	1	1	2	1	2	1	1		1	1	1	1	1	2	1	1
Brazil	3	6	7	3	6	8	6	5	3	6	3	3	12	12	3	6
Chile	3	4	2	2	5	3	3	2	2	2	3	2	2	4	2	2
Ecuador	5	4	2	13		4	1	1		1	4	2	2	4		1
Guyana	1	1	1	1					1					1	1	2
Paraguay	1	15	1		1	5	5	3	2	1	1	1	2	12	8	
Peru	4	2	2	1	1	1	2	1	2	1	1	8	1	2	1	13
Surinam	3	1	3			2	1			2		1	2	1	1	
Uruguay	2		2	2	9	8	2	1	1	1	2	2	1	2	2	2
Venezuela		1	1	1		1							1	2	3	7
TOTAL	27	39	26	27	29	39	27	23	21	19	23	23	28	45	34	38
Hosting Country	ARG	PAR	ARG	ECU	URU	URU	ARG	COL	ARG	ARG	ARG	PERU	BRASIL	BRASIL	ARG	PERU

Source: IIRSA's event database. Compiled by author.

Source: IIRSA's website - Event Database 2005-2013 (compiled by author).

Note: Green boxes show the host country of the meeting. Yellow boxes are displayed when a country did not attend the meeting.

Countries' participation and eagerness have fluctuated throughout the years and by examining national coordinators' attendance between 2005-2012, the following observations are noted, which reflect countries' ideologies and interests for advancing physical integration and shaping regional discussions. First, Brazil's national coordinators have attended all the meetings and delegates from Ecuador and Venezuela interviewed for this thesis project were quick to mention Brazil's leadership during these meetings and also the fact that Brazil's attendees not only included transportation experts but also people from the foreign affairs divisions. Second, Venezuela and Guyana were largely absent from IIRSA's meeting between 2006-2011. Venezuela has recently come back to the initiative due to the country's ties to Unasur and the role of Unasur in "IIRSA II." Third, countries like Peru, Bolivia and Argentina (and to a lesser extent Ecuador) have had smaller but constant delegations. In fact, CAF interviewees were able to mention various names of these countries' representatives who have attended meetings regularly since the earlier days.

Peru, in particular, has truly incorporated IIRSA as a platform to advance (in terms of projects and transfer of knowledge) its infrastructure agenda at the national and regional levels. For Peru, it is the Ministry of Foreign Relations (and not the Ministry of Transportation and Communication as in most nations), that oversees the management of IIRSA affairs. This has been key according to Arzubiaga, a senior Peruvian official who has worked in various ministries throughout the years, since it provided an external and more visible component to carry out IIRSA projects:

> Peru is the country that has taken more advantage of IIRSA and, therefore, this model has been successful. We have not tried to deal with everything within a single ministry, because there are many topics covering many aspects that are part of other public entities and the Ministry of Foreign Affairs coordinates with all sectors equally. If the topics were to be handled in isolation, each sector would claim that its scope is the most important, even sometimes at the expense of another sector. By contrast, the Ministry of Foreign Affairs does not directly manage any of the projects and achieves inter-sectoral coordination (Arzubiaga quoted in Santa Gadea, 2012, p.124).

Further, in regard to the RFIs, they have greatly benefited themselves by participating in the IIRSA initiative. For CAF, the IADB and Fonplata, joining IIRSA has given them an opportunity to enhance their relationships with South American nations, while getting a closer and deeper look at which projects were key for elected national governments and their infrastructure authorities. IIRSA gave RFIs then an inside look at internal infrastructure dynamics, credit considerations and politics within South American nations. The IADB (2006) perceived IIRSA as “agile, relying on the coordination of existing institutions, rather than creating a new bureaucracy" (p.13). The IADB also saw in IIRSA an opportunity to "influence its credit terms, while reactivating and improving its relationship with South American countries" (Pablo Heidrich, personal interview, September 17, 2012).

For CAF, in particular, riding the wave of regional enthusiasm for physical integration without criticizing states' ideologies has been key in growing its infrastructure portfolio. Ultimately, CAF officials knew that different nations would attach diverse levels of attention and resources to their infrastructure agendas. But within IIRSA there was, at least in principle, a big push for principals to start conversations with CAF about what could be financed in this area. At the end, CAF, as explained in the previous sections, was able to get involved in various large IIRSA projects in countries like Peru, Bolivia and Ecuador. Further, Antonio Juan Sosa, CAF's VP of Infrastructure explains CAF's initial enthusiasm when it was invited to join IIRSA:

> CAF had already established that it was fundamental to focus on physical infrastructure and regional connectivity [by the late 1990s]. CAF had appointed staff that would go around countries examining possible projects that would connect neighbouring countries in the future, especially as it relates to highways, electric transmission lines and gas projects…When Cardoso invited CAF to join IIRSA, that was music to our ears. That meant that IIRSA, at a larger scale, would seek the political support needed for infrastructure projects together with the IADB. We [CAF] thought it was wonderful and enthusiastically joined the initiative because it meant giving a bigger push to things we were already doing. We had also already published some books about highways and rivers. (Antonio Juan Sosa, personal interview, October 18, 2012).

Moreover, according to the IADB's OVE (2008), IIRSA's premier achievement has been to structure by consensus a portfolio of integration infrastructure projects organized around eight

Integration and Development Hubs. The portfolio makeup is reflective of consensuses forged in the region over the past fifty years: it is more robust in overland transport infrastructure, an area with a lengthy track record of consensus building (OVE, 2008). From 2003 until 2010, the IADB operated a dedicated unit to handle IIRSA matters within the institution in Washington, D.C., which enabled more detailed tracking of IIRSA-related operations and issues. However, this arrangement distanced the IADB operational units from IIRSA decision-making processes in South America, limiting the operational departments' ownership of the initiative and the presence of IIRSA projects in their pipeline (OVE, 2008).

In 2008, Mauro Marcondes (IIRSA coordinator for the IADB at the time) defined IADB's views on IIRSA during an infrastructure event at the Wilson Center. He established that IIRSA was neither a mechanism to finance "mega-infrastructure" projects, nor a process for the privatization of public assets, nor an agency that defines any of its member countries' political agendas. Rather, IIRSA was a forum *for regional dialogue of twelve South American countries that is built on consensus*, with each government responsible for the activities and projects undertaken through the initiative (Marcondes, 2008, emphasis added). Marcondes (2008) also emphasized that each country decided if it wanted to prioritize the implementation of the projects in IIRSA's portfolio (and which projects); how to finance each particular project; and if it wanted to apply IIRSA tools and methodologies.

Ultimately, RFIs involved in IIRSA have emphasized then the initiative's *coordinating role* as one of its main achievements, clarifying that the successful implementation of projects and related regulations are up to the member countries. By locating the emphasis on "dialogue" and "governments' responsibility," RFIs like the IADB and CAF have often attempted to distance themselves from IIRSA and from a possible perceived role that participating institutions were bound to finance and share socioeconomic responsibilities for the projects.

6.3.4 What IIRSA has meant for critics

Academics and organized civil society groups have raised legitimate concerns about major infrastructure works within IIRSA, emphasizing the environmental impact of the initiative, as well as how the initiative embodies the continuation of neoliberal practices. This section engages with the main criticisms and evidence by scholars, environmental and social groups. Various scholars have emphasized that even though South America experienced the rise of progressive governments in the mid-2000s in various countries, IIRSA does not represent a change towards more sustainable infrastructure initiatives. Fuser (2008) for example has argued that since the rise of these governments, the partisans of IIRSA have substituted the rhetoric of "open regionalism"—the password for the neoliberal opening up of the region's economies—with a discourse about development. Progressive governments have brought, then, an enduring developmentalist mentality of strong state presence and financing into the service of free-market expansion (Pieck, 2013b). As such, the need to improve physical integration in South America has turned into a common argument for IIRSA's participants, without any meaningful change in the content of the projects or in the methods adopted for implementation. The exchange of neoliberal authorities for other authorities that identify themselves with the forces of the left has contributed only to diluting resistance (Fuser, 2008).

Various social movements, political groups, and NGOs have denounced the strategy that permeates IIRSA as it relates to the social, economic, and environmental impact of several of its projects. One of the main arguments is that IIRSA projects— instead of contributing to the interconnecting of the regional market—add to the process of "re-primarization" being fueled by growing Asian demand for commodities as well as the windfall brought by higher commodity prices (Nerys Fernandez, 2010). One of the earliest studies by Tim Killen, director of the National Center for Atmospheric Research, evaluated the impact of the transportation, energy, and telecommunications projects and concluded that they may destroy a large part of the tropical forest in the Amazon in the next few decades. Killeen (2007) related the projects planned in IIRSA to the growth in pressures on the ecosystem in Amazonia and its traditional communities. Among these pressures are lumber industry exploitation and deforestation issues associated with the uncontrolled expansion of agriculture, with cattle raising and mineral exploration, as well as with the rapid growth in planting for biofuels. Killeen (2007) suggested that the lack of perception of the full impact of IIRSA investments, especially in the context of climate change and global markets, is capable of producing a perfect storm of environmental destruction.

According to Killeen (2007), the challenge within IIRSA is to mediate the legitimate expectations of development with the need to conserve the ecosystem in Amazonia. But this concern, which should be at the center of IIRSA's decision-making process, appears only in a superficial way. Environmental and social sustainability within IIRSA has been perceived on many occasions as a conflict management issue of how to turn around the eventual resistance of civil society or as a precondition for countries to access multilateral financing. At IIRSA, Strategic Environmental Assessment (SEA) has been mandated to ensure that the social and environmental issues are adequately addressed in the project planning process—and it is a precondition for CAF and/or IADB support—but so far only a few strategic *ex ante* assessment studies have been made related to corridors in the IIRSA agenda. And very little systemic knowledge and know-how has been developed related to the appropriate methodology and organization of such large scale *ex ante* assessments (Van Djick, 2010).

By analyzing four case studies,[17] Kis Madrid, Hickey & Bouchard (2011) identified the conditions under which the SEAs of the IIRSA projects have been undertaken and whether the Action Plans (established under IIRSA) have been (or will be) implemented. Their findings show that SEAs have not been sufficient conditions to prevent and/or mitigate environmental impacts of IIRSA projects and they also have not been effective in including civil society groups in project discussions. According to the NGOs in the region that closely followed the SEA processes conducted for the IIRSA's projects, the SEAs of three of the selected case studies did not include an appropriate public consultation process.

In regard to national capacities, in each case studied the SEAs mention that the countries need to develop their institutional, operative, coordination, and/or monitoring capacities to be able to implement the SEA's Action Plans. The problem is that there is no guarantee that the countries will be able to develop the required capacities to implement the Action Plans in an adequate way and within the required timeframes. Therefore, the environmental and social risks identified within the SEAs may not be able to be addressed (Kis Madrid et al., 2011). In addition, in three out of the four case studies there was no indication of government's political will and commitment to implement SEA recommendations. This can be related to the fact that in most cases (except the North Amazon Transport Corridor) important ministries were not involved in the planning process and therefore, *they did not appropriate the programs of the Action Plan as their own*. For example, in the case of the Northern Corridor of Bolivia, the Bolivian Highway

[17] The case studies were selected based on six criteria, as follows: (i) they had to be anchor projects of the IIRSA's transportation sector; (ii) they had to be located in the Amazon Basin; (iii) they had to include new paving or extensions of highways; (iv) they must be at the implementation stage; (v) they must have undertaken an SEA; and (vi) they had to be financed by the IDB, among other multilateral financial institutions. See Kis Madrid et al (2011) for details.

Administrator (responsible for the management and maintenance of the road network) was designated as the responsible authority to execute the Action Plan, while the Ministry of Public Works (responsible for the sectoral planning in the country) and the Ministries of the Environment and Rural Development were left aside in the planning process (BIC, 2009).

Furthermore, Redwood (2012)—an external consultant hired by the IADB— documented the experience of the IADB in managing the environmental and social impacts of road improvement and road-related projects along two major transport corridors in Peru: IIRSA Sur and IIRSA Norte. Both projects also involved CAF as a financial intermediary. According to Redwood (2012), CAF has been directly involved in financing the major road improvements in the more sensitive Amazonian portions of the road in the case of the Interoceanica highway. CAF appears to be co-financing with the IADB (although the Bank's respective Donors Memorandum does not specifically mention this) some of the activities being implemented by the Odebrecht Corporation and its partners under the Conservancy and Sustainable Development Project (that is partially and jointly co-financed by IADB's Multilateral Investment Fund and an Italian Trust Fund under IADB's management) (Redwood, 2012).

In the case of IIRSA Norte, CAF is financing the road as a whole (for which the IADB has provided a parallel Guarantee and eventual loan, if needed to the Peruvian Government). As Redwood (2012) remarks, in none of these three cases is the de facto division of labour between the IADB and the other financing entities involved well-defined. There is not a clear division of responsibilities regarding monitoring and supervision, both with respect to environmental and social safeguard compliance and more generally between the IADB and the other financing entities involved clearly in the respective IADB project and/or guarantee documents.

CAF, as part of its involvement in the financing of portions of the Interoceanica highway, funded a mitigation program hosted by the then only existing government environmental office in Peru, the National Institute of Natural Resources (Inrena, in Spanish). The original US$ 17 million mitigation loan represented a small amount relative to the highway cost. The loan was designed to address the myriad environmental challenges posed by the complexity of this project. A recent study by the NGO Derecho, Ambiente and Recurso Natural (DAR) concludes that this mitigation program, referred to as CAF/Inrena for simplicity, suffered from weak institutionalization, underfunding, and poor communication that reduced transparency and any possibility for meaningful civil society input (Enrique & Cueto, 2010). The program was highly centralized from the start and its coordinating committee was composed entirely of government agencies, and very little civil society (or regional government) input was allowed. In the late 2010, as the first impact mitigation program CAF/Inrena (CAF I) neared its end, the Peruvian government hired a consulting firm to draft a new mitigation program, building into it a more participatory process (Pieck, 2013b). This new program, called CAF/Minam (CAF II), is based on a series of workshops conducted in Cusco, Puno and Madre de Dios, that boasted the participation of regional governments, local mayors of communities affected by the highway, and grassroots organizations.

From 2006 to 2011, there was a major non-governmental platform for monitoring and conveying IIRSA projects' socio-environmental implications. The Bank Information Center (BIC) sponsored this platform (with funding from the Moore Foundation) and developed a major civil society initiative called Building Informed Civic Engagement for Conservation in the Andes-Amazon (BICECA, in Spanish). The goals of BICECA were to help ''civil society organizations to analyze and influence economic integration projects and policies in the Andes-

Amazon in order to help protect the biological and cultural diversity of the region'' and to ''promote informed engagement and effective conservation advocacy through linking civil society initiatives in the local, regional, and international arenas''(BIC quoted in Pieck, 2011). Five South American NGOs in Peru (including DAR mentioned previously in this chapter) Colombia, Brazil, Bolivia and Ecuador also formally joined BICECA.

BICECA published several newsletters and analytical articles on the impacts of infrastructure projects in the Andean Amazon region, but its main impact was perhaps the generation of a transnational activist network. BIC hosted a meeting of Northern and Southern civil society organizations in Lima, Peru in July 2005, which culminated in the "Articulacion Frente a IIRSA" (Platform against IIRSA). This platform produced the Lima Declaration, in which it defines its goals as:

> Unmasking and halting the IIRSA initiative in the way it is currently being implemented, thus contributing to the political and social construction of a critical consciousness concerning IIRSA, and building society's capacity for intervention, and to generate alternative sustainable processes in order to achieve another possible form of integration. (Lima Declaration available at BIC, 2009).

The Lima Declaration was signed by sixteen NGOs, including BIC. With time, over forty groups joined the platform and three clusters of organizations ultimately comprised this network: (1) US-based internationally active environmental and social justice NGOs (e.g., the Center for International Environmental Law and BIC, both in Washington, D.C.); (2) South American environmental and social justice NGOs located in the capital cities; and (3) indigenous federations in the Amazonian lowlands (Pieck, 2011).

The BIC wanted to ultimately influence how IIRSA operated, while promoting a more participatory process. Velasquez suggested that even before IIRSA launched its online database for tracking the projects' development, BICECA had already compiled the information on about 300 projects. In 2005, IIRSA began compiling a database of the projects and their status at INTAL. According to Velasquez, this period was very interesting from BICECA's point of view, because IADB officials working in the IIRSA unit used to phone BICECA to get information about the projects in order to support its own official database. (Christian Velasquez, personal interview, September 6, 2012). BICECA tried to engage directly with IIRSA Directors and in 2008, its NGO partners and a total of twenty civil society organizations of eight countries submitted a proposal to IIRSA for creating joint mechanisms that would assure the participation of civil society within the IIRSA framework.

The civil society group also asked to be more involved in environmental operational matters such as the SEAs. Yet, the official response from Carolina Renteria—President of IIRSA's Executive Direction Committee at the time and Colombia's National Planning Director —was not positive and IIRSA rejected the proposal, while suggesting that instead IIRSA would create a "Strategic Thinking Forum" where a lot of concerns like those in the proposal would be discussed through IIRSA's technical committees (Censat – Agua Viva, 2008). The forum took part in 2009 in Buenos Aires but it was only a two-day event that did not result in a continuous engagement between IIRSA and civil society groups. The first day of the forum was devoted to examining South American integration from different angles, and comparing it with other experiences as well and it encouraged the participation of a large number of government officials and representatives of academia and civil society. The second day, however, was reserved for the work of IIRSA National Coordinators to reflect on the issues dealt with on the previous day and identifying strategic orientations.

The BIC stopped directly monitoring IIRSA's activities in 2010 because the organization changed its institutional focus once a new director was appointed and restructured BIC's main program areas (Christian Velasquez, personal interview, September 6, 2012). The new BIC Director restructured the focus of the organization with more attention to the World Bank's activity in Latin America. Traditionally, BIC's focus had been monitoring the activities of the World Bank but during the period 2006-2010—in part due to the loss of the World Bank's influence in the region—BIC allocated resources to closely monitor regional initiatives like IIRSA and related actions by participating RFIs. At present, the national NGOs are trying to directly monitor IIRSA. Yet, according to Velasquez, they have very limited capacity and resources to do so and the "regional networking" component of civil society was weakened because the medium and long- term planning of all these NGOs activities requires a lot of time and the resources that the BIC previously provided (Christian Velasquez, personal interview, September 6, 2012).

Nevertheless, the combination of local NGOs working with the BIC was fundamental in raising awareness of IIRSA's environmental effects. The potential environmental costs of these projects have been highlighted by various protests around the region in which local NGOs have participated. For example, in 2011, one of the largest protests to date took part in Bolivia against the construction of the highway Cochabamba-Beni through the Isidoro Secure national park and indigenous territories. Ultimately, president Evo Morales announced a possible postponement or cancellation of the proposed Amazon highway. Morales passed a law through Congress that would prohibit construction of a highway through the national park (Quinones, 2011).

6.4 Conclusion: Knowledge and coordination but lack of ownership

The discontent with the prevailing neoliberal model of development of the 1990s left some room for countries like Brazil to promote initiatives like IIRSA, which was positioned as a more comprehensive strategy of regional insertion. Brazil's own national development goals and strategies were crucial in the consolidation of this initiative. Presented as a response to revive the regional movement in South America, IIRSA represented in a way a practical alternative to expand the Avança Brasil program to the sub-region. However, Brazil stepped cautiously in promoting IIRSA, without openly adopting a hegemonic position that would grate in a region that associates foreign policy leadership with coercion and domination (Burges, 2009). Within initiatives like IIRSA (including the transition to Unasur), it is possible to appreciate how Brazil's regional foreign policy preferences have managed to appear more pragmatic and moderate to many of its South American neighbours much of the time, assisted by the implicit comparison with the more ideologically polarized alternative regional organization schemes promoted by countries like Venezuela.

CAF jumped enthusiastically at the opportunity to join an initiative that could serve as a platform to broadcast its infrastructure work throughout the region. IIRSA allowed CAF to engage in relevant projects with its newest full members—the Southern Cone countries—and to continue deepening its relationship with nations like Peru, whose administration (including several ministries and foreign affairs offices) had a mandate to carry out concrete large infrastructure projects. Members' preferences—manifested through political will in countries like Brazil and Peru— have worked then to promote national projects and initiatives through the discourse of regional cooperation, the coordination of various ministries, and the idea that South America is coming together through physical integration.

Meanwhile, CAF has proven to be a flexible organization, continuing to explore and provide financing opportunities throughout a period in which several countries in the region were redefining their ideologies and distancing themselves from the ideals that the Cardoso administration envisioned for the working of IIRSA. Ultimately, CAF has benefited greatly from participating in IIRSA and has been able to expand its portfolio, knowledge and impact in the region. Through IIRSA, the institution has strengthened its relationship with older and newer members and has enhanced its understanding of members' national priorities in regard to infrastructure, despite receiving criticisms due to the lack of monitoring and enforcement of environmental standards. Further, IIRSA has kept the institution informed of ongoing geopolitical discussions in the region, while giving it a forum to broadcast its programs and lending opportunities accordingly.

This institutional involvement of the RFIs has been a considerable component of the factors that have pushed discussions on infrastructure forward during the first ten years of IIRSA. During this period, the IADB and CAF used their convening power for organizing several meetings among South American authorities, as well as providing technical cooperation, in an attempt to overcome the coordination failure of previous eras while looking for their own financing opportunities. More recently, with the establishment of Cosiplan, CAF and the IADB have left the center public stage and distanced themselves from the dynamics of countries coordinating amongst themselves which projects to pursue. For these institutions, being the technical arm—as opposed to instating specific guidelines for obtaining financing for example—is also a way to dissociate themselves from issues of responsibility on the terms of cooperation and on the degree of influence in what may be perceived as "sovereign" issues. An interesting point to highlight within IIRSA's dynamics is that the de facto division of labour between the

RFIs involved has never been well-defined; there is not a clear division of responsibilities in regard to the respective monitoring and supervision of the projects that these entities have supported.

With IIRSA, and now with Cosiplan, the concept of cooperation based on infrastructure development has been repositioned in the regional agenda. IIRSA and the RFIs' participation have helped frame in the last decade the understanding of new consensus, agendas and cooperation processes in the provision of infrastructure that ultimately shape a region. IIRSA has brought together South American leaders at least on several occasions to discuss infrastructure matters within and beyond the initiative in spite of low regulatory convergence and weak demand for trade and economic integration. A notable achievement of IIRSA relates to the identification and systematization of relevant infrastructure projects for the region. Cooperation on infrastructure, both as rhetoric and as a practical matter, has served as a common denominator amongst countries to contribute—even though sometimes at a slower pace than others—to the development of a portfolio and to various large concluded infrastructure projects. However, as previously acknowledged, the lack of financing, absence of monitoring and evaluation mechanisms, and the absent or zero binding effect of the consensus achieved, have conspired in general to lead to low levels of execution. This result is a signal that South American governments continue to move away from binding or sovereignty sharing agreements, as national projects take precedence within various governments currently in power.

Although multimodal, the centerpiece of IIRSA's agenda still is the improvement of road infrastructure, and little progress has been made in the other segments of its agenda. As such, alternative transport modes such as railways, as well as energy and telecommunications networks, are less well represented in the portfolio, project groups, and the amount of investment so far (van Djick, 2010). Also, not all infrastructure works included in the agenda have a clear focus or potential impact on deepening regional integration and improving connectivity. Finally, it needs to be acknowledged that, in many respects, insights into the socioeconomic and environmental implications of the projects are limited, which makes it difficult to assess the long-term impacts of the initiative and its contribution to sustainable development (van Djick, 2010).

Therefore, large IIRSA-sponsored projects continue to suffer from a serious accountability gap. In many ways, this problem points to the limits to the transformative capacity of new forms of regionalism embraced by projects such as Unasur. As such, the dynamics within IIRSA and “IIRSA II” reflect the broader dynamics of regional cooperation amongst governments and RFIs. At times, we could say that some of the advancements—in terms of agenda setting and concrete projects— can be attributed governments’ political support to carry out certain visible infrastructure projects (such as the construction of IIRSA Norte and IIRSA Sur in Peru) supported by a network of institutional experts (composed in great part by IADB and CAF officials, and more recently reinforced by ECLAC studies). Therefore, to a great extent, institutional knowledge and the availability of financing mechanisms like the CRPAO are employed as a way to back up political alliances and projects that otherwise would have not perhaps had a space to be discussed and disseminated at the multilateral level.

Finally, through the analysis of country members and RFIs’ participation in the initiative, this chapter has shown how the promotion of infrastructure through IIRSA has resulted in the adoption of a “non-ownership” model, where, despite agreed consensus and constant exchange of ideas between twelve South American countries and RFIs, there is a lack of effort to go beyond coordination exercises. Since no one “owns” IIRSA, financing sources have become at times hard to track and environmental standards are left to the will of the participating countries' authorities whose main concerns are often speeding up the financing or reaffirming in the international arena the existing links and willingness to cooperate at the regional level.

Chapter 7. Conclusion: Leadership, institutional design, principals' preferences and momentum in regional cooperation schemes

7.1 Introduction

This dissertation has addressed the question: What explains CAF's continuity and expansion since the 1990s? The previous chapters have examined how, in a world of powerful donor states and multilateral agencies, it was possible for an originally Andean (and now increasingly Latin) development bank to survive regional integration crises and to actually incorporate the successes and failures of regional governance into its mandate and governance model. CAF's story highlights the importance of successful agency—and building up know-how while taking into account institutional and regional factors—in the survival and growth of RFIs. CAF has been instrumental in removing financial barriers for long-term development for its members throughout the years. Sometimes CAF has lent directly for projects considered priorities for national development and regional integration; at others, it has performed a catalytic role by attracting funds from different sources in the international capital markets at the kind of competitive rates it can command by being a recognized issuer in the region.

The study of CAF contributes not only to ongoing academic interest in further understanding the roles of RFIs in the global political economy after the 2008 crisis, but also in outlining relevant factors for the survival and growth of a RFI that can be studied and benchmarked by older and newer regional institutions. Explaining these factors provides an opportunity for scholars and public officials working within regional initiatives to reexamine the ways a RFI like CAF needs to balance the demands of both its principals (country members) and the global financial markets. The first section of this chapter reviews the answers to this work's central research question. Next, this chapter identifies how the arguments and discussions advanced in this work contribute to existing global governance literature—in particular to the fields of IPE, IR and regional governance. The chapter concludes by presenting possible research agendas for future contributions to the study of international institutions and regional cooperation.

7.2 Key findings: Explaining CAF's growth

To understand CAF's survival and growth, this work put forward a framework suggesting that CAF's expansion has been possible due to the combination of four factors: 1) leadership, 2) institutional design, 3) member governments' preferences and 4) Brazil's push for regional cooperation beyond trade (*see Figure 1*). This dissertation focused on expanding traditional examinations of principal-agent dynamics by showing how sometimes individuals in leadership positions are crucial in framing an agent's mandate and scope of action. The leadership of Enrique Garcia, CAF's Executive President since 1991, has been vital in outlining a clear agenda for the bank's staff. He also successfully cultivated an internal culture and bureaucracy that supported his vision, while building coalitions and alliances to ensure adequate support from both CRAs and member governments. CAF's institutional design has also provided the necessary foundations for carrying out Garcia's vision for the institution.

Further, member countries have not been passive observers in CAF's story. They have supported the institution throughout the years with their capital contributions and by not interfering with its management. In addition, a changed ideological context in various countries, combined with an improved fiscal situation since the early 2000s, have favoured a renewed emphasis on infrastructure and consequently, greater attention to the role that CAF can play in members' long-term financing agendas. Underlying regional forces have also played a role in

CAF's growth. In particular, Brazilian foreign policy created a renewed enthusiasm for regional cooperation in the early 2000s in regard to physical integration. CAF has been able to capture Brazilian priorities, while ensuring its participation in regional infrastructure discussions and schemes such as IIRSA.

This dissertation began by analyzing the regional context that underlined CAF's creation and its policies before the arrival of Enrique Garcia because several institutional features that would sustain CAF's growth in later decades were instituted at this time. Chapter 3 showed how CAF was established in an era in which heads of state showed great enthusiasm towards regional integration and shared sovereignty. Within this environment, and guided by lawyers instead of heads of state, CAF's constitutive agreement was drafted and approved in the Andean Group. The agreement set up some key foundations that differentiated the institution from other MDBs such as the fact that shareholders are also borrowers, as well as the decision to have a non-resident board—which has ultimately increased CAF's autonomy and consequently, Garcia's discretion. CAF's institutional design has provided then the necessary foundations for carrying out Garcia's vision for the institution. Its constitutive agreement, framed in the late 1960s as an international treaty, also includes various privileges and immunities (such as the preferred creditor status) that have been respected by CAF's members throughout the years. These features embedded in CAF's agreements set the foundations for later introducing CAF to the international markets as a solid entity in which members paid on time, despite ongoing regional and global economic crises.

The first two decades of existence were difficult for CAF, however. Despite initial vitality, the Andean integration goals quickly began to encounter serious difficulties and got completely deadlocked in the 1970s. Meanwhile, CAF's lending scope and goals were limited and the institution was still very dependent on national contributions for much of its working capital. The combination of the dissatisfaction of Andean countries with the integration scheme they had outlined and both the oil and the debt crises undermined CAF's strategies. CAF survived the 1980s, but it was not until the arrival of Enrique Garcia that the entity redefined its goals and isolated itself to a great extent from the dilemmas and disagreements that country members experienced with the prevailing Andean integration goals and schemes. CAF needed to build an operational model that focused more on serving the sectors that its senior management thought most contributed to countries' economic development, rather than a model based on overall regional ambitions framed within trade goals as a priority.

With the arrival of Garcia, a new strategy was put in place, with the goal of establishing CAF as a solid source of long-term financing in the region. When Garcia assumed CAF's presidency, he drafted an agenda of three interrelated goals: gaining access to capital markets, developing a niche in financing physical infrastructure and expanding CAF's membership while strengthening the relationships with all country members. Chapter 3 showed how Garcia's early leadership was a catalyst for reinventing the institution both internally and externally. Garcia's familiarity with the region from a RFI perspective helped him in setting up an unprecedented strategy when he arrived at CAF, while taking advantage of the entity's institutional design. The flexibility the constitutive agreement embodies allowed CAF's president, for example, to gain the Board's approval among the founding members in the early 1990s to further the inclusion of other Latin American countries as associate members. Garcia focused during his first decade on ensuring that larger countries like Brazil eventually became interested in CAF's agenda.

During the first years of his mandate, Garcia also focused on building a successful bureaucracy that supported his core goals. Garcia also used his knowledge of capital markets to train CAF staff in regard to the promotion of the institution outside the region and within member countries. Senior officials learnt how to tell "CAF's story," while demonstrating that the institution was determined to survive and keep the support of its shareholders within prevailing regional dynamics. Garcia has been fundamental in giving CAF an identity beyond "the sum of all of its members" and demonstrating to the CRAs that the bank was financially more solid than its members' own economies and that it followed its own standards and goals.

Chapter 4 discussed in depth the ways Garcia and his team focused extensively on cultivating coalitions and alliances within member states and credit rating agencies; they had to ensure support from both groups to successfully deliver on CAF's portfolio and financial performance. Examining how the institution has managed relationships with both CRAs and member countries illustrates how a development bank like CAF has had to often walk a fine line between the requirements and goals of two different sets of stakeholders. CAF's commitment to maintain a Latin American identity is a fundamental part of the institution's identity that has given CAF both advantages and disadvantages within the rating system used by the Big Three CRAs. For instance, CAF has had to forgo strengthening indicators such as callable capital, which would require increased participation of developed countries. Meanwhile, CAF presents itself as an entity without outside interference that is owned by its members and works for them by trying to respond in an agile manner to their financing needs. Members' trust in the institution has contributed to its survival and commitment to launch bonds and notes in the global markets. Principals have been active in supporting CAF's institutional credibility through their actions, including progressive capital contributions, supporting the inclusion of new Latin American members and paying their loans on time despite numerous crises.

Garcia was central then in promoting an approach that aimed at progressively increasing the amount of money raised in the global markets, while keeping shareholders identified with the institution. CRAs have also noticed the leadership component within the institution, which has given CAF a stability component that has allowed the entity to accumulate expertise on long-term financing, especially around infrastructure lending. In addition, to improve its credit ratings and attractiveness of issued bonds, CAF has employed a mix of strategies, building upon its institutional features. In terms of indicators that show financial soundness, CAF has benefited from strong capitalization levels from principals, continued growth and diversification of lending operations and consistent profitability. Nevertheless, CAF has also gone beyond financial indicators and senior management has developed an effective narrative to account for how CAF has been designed—and how it is currently managed—to withstand volatility in the region. For example, during roadshows and conference presentations, CAF's management has highlighted its good relationships with governments from both the left and the right in Latin America, while emphasizing CAF's immunities and privileges. Talking face to face to investors has been key in enhancing CAF's funding strategy.

Moreover, CAF has broadened its shareholders' base since the mid-2000s. This step has been, however, a careful move that has prompted the reduction of individual countries' concentration in its loan portfolio. CAF has tried to balance the relationship between the CRAs and its members by growing its membership, but only inviting Latin American countries to become full members (Series A shareholders). Increasing the membership base at CAF opened the possibility to further capitalize the institution, while attracting more investors and consequently diversifying financing sources. But what are CAF's comparative advantages vis-à-vis other MDBs that keep members interested in the institution? Chapter 4 showed that factors such as the speed of loan approval (related to the lack of a permanent resident board), perceived lack of a dogmatic agenda, and an ability to understand local governments' current needs have been all important for governments in the region. Other MDBs may be more in the forefront in their prescriptive recipes for economic growth, but at CAF, the country's model for growth is not what prevails in lending decisions. Therefore, governments with very different ideologies have kept a close relationship with CAF. CAF's success is also related to its management's efforts to build knowledge and develop financing options for sectors that are relevant for all of its shareholders.

Explaining CAF's success also requires an understanding of how Garcia and his team pursued the strategy of making infrastructure financing a priority area that would entice South American governments and investors, while fitting nicely within ongoing regional initiatives. Making infrastructure a priority in its mission has also meant, as Chapter 5 examined, that the institution has had to pay closer attention to the regional environment and to be able to respond and engage Brazilian leadership, which has to a great extent framed the political demand for regionalism and physical integration. In addition, CAF's principals have been interested for decades in financing large infrastructure projects, but until the mid-2005, most nations did not have the fiscal room needed for large infrastructure projects. Development models within some of CAF's members now have the state at the center of infrastructure planning and execution. Moreover, before IIRSA, there was not a centralized regional venue for governments to discuss the challenges and benefits of physical integration. IIRSA made it possible to broadcast Brazilian goals for advancing physical integration throughout South America with the support of nations that wanted to explore themselves other areas to promote integration beyond trade.

CAF's work in infrastructure financing since Garcia's arrival provided the basis to respond to principals' concerns and goals which also means that the entity has had to increasingly take into account regional discussions, expanded national agendas and emerging regional cooperation and financial alternatives. Garcia's leadership during the last decade vis-à-vis infrastructure financing focused on two main elements: highlighting the role of the institution in promoting regional cooperation to increase its portfolio and ensuring that CAF remains relevant within the emergence of initiatives such as IIRSA and the Bank of the South. Meanwhile, in its official documents, CAF began to often emphasize infrastructure and not trade as areas of opportunities for integration. The continuous presence of Enrique Garcia in regional presidential summits, as well as the ongoing technical support within the region's multilateral agenda has allowed CAF to be an active participant with member countries, under an "umbrella" of regional integration. At the same time, governments continue to recognize CAF's relevance at the regional level. For example, during the 2008 global crisis, the financial committee of Unasur agreed to strengthen CAF due to its anti-cyclical role.

Ideational motives—the idea of a South American identity or the perception that infrastructure was a practical channel to further integration—during the last decade benefited Garcia's strategy for expanding CAF's impact not only in regards to its financing capabilities, but also in terms of knowledge on infrastructure matters and countries' specific needs and wants in this area. Through infrastructure involvement, CAF has been able to play a localized function in member countries, even for those that obtained full-membership in the last decade; for instance, despite having its own resources and agencies, Brazil has been able to obtain guarantees and financing from CAF for projects within municipalities. CAF's management has also worked with the premise that lending had to be available for members, despite countries' changing macroeconomic conditions. CAF continued to lend through the global and European crises, since its own investment portfolio (which is mainly short-term) was not adversely affected and thus CAF demonstrated again its counter-cyclical role to the global lending community.

In Chapter 6, CAF's shareholder dynamics were analyzed within a particular regional initiative, IIRSA. The IIRSA initiative showcases the complexities, dilemmas and advances of regional cooperation, national interests, and multilateral financing during an interesting period led by Brazilian foreign policy towards the region. By exploring CAF's participation in IIRSA, it is possible to grasp the adaptability of the institution to the changing political dynamics of the region, especially since the mid-2000s. CAF went from being an active advocate of the initiative (due to its potential to enhance CAF's infrastructure agenda under a single forum) to a more discrete supporter (due to a combination of factors including the limitations and criticisms IIRSA faced after the mid-2000s and the change of direction it experienced under Unasur).

Ultimately, cooperation on infrastructure both as rhetoric and as a practical project has served as a common denominator amongst countries to contribute—even though sometimes at a slower pace than others—to the development of a portfolio of key projects and to the execution of some large projects. However, limited financial sources beyond treasuries, the absence of monitoring and evaluation mechanisms, Venezuela's disengagement with the initiative and the absent or zero binding effect of the consensus achieved, have conspired in general toward limited levels of execution. This signals the fact that governments in the region keep moving away from sovereignty sharing agreements, as distinct national infrastructure agendas are drafted and carried out by elected governments. Meanwhile, RFIs have emphasized coordination and dialogue within IIRSA as key milestones of initiative. This emphasis was put in place by the RFIs in order to create some distance between responsibilities regarding technical pre-investment studies and financing of projects on one hand, and responsibilities regarding socioeconomic and environmental for successful implementation of a project on the other.

Within this environment, CAF has, however, achieved great benefits from its participation in IIRSA, which have contributed not only to its portfolio growth, but also to the ongoing development and maintenance of relationships with its member countries. IIRSA allowed CAF to engage in relevant projects with its newest full members and to continue deepening its relationship with Andean nations who wanted to materialize concrete large infrastructure projects. Members' preferences—manifested through political will in countries like Brazil and Peru— have worked then to create momentum for national projects through the discourse of regional cooperation. Meanwhile, CAF has proven to be a flexible organization, continuing to explore and provide financing opportunities throughout a period in which several countries in the region were redefining their ideologies and distancing themselves from neoliberal practices. Through IIRSA, CAF's management has had an important avenue to keep senior officials informed of ongoing geopolitical discussions in the region, while giving the entity a place to broadcast its programs, lending opportunities and other ways how the institution can support its members.

7.3 Contributions to the advancement of knowledge

The framework advanced in this study for explaining CAF's survival and growth, as well as the empirical evidence introduced throughout the chapters, not only shed light on the functioning of small regional institutions, but also have broader implications for the IPE literature. IPE is a discipline that has featured a diversity of approaches, through which scholars have studied a wide variety of issues surrounding the dynamics of power and transformation in international organizations. By drawing upon several schools of thought, this study reveals new and important factors that have been vital in the survival and growth of a RFI. These findings may have larger implications within IO, IR and regionalist literatures.

At the empirical level, this dissertation is the first detailed analysis of the history of CAF. It goes beyond existing literature on CAF by outlining several factors that have contributed to the institution's growth and how these factors have reinforced each other. Previous work on CAF has to a large extent focused on institutional features, and has had less to say about CAF's adaptability to the regional environment, the pivotal role of Garcia or the fine balance that the institution maintains and cultivates amongst members and the international capital markets.

Perhaps the most significant contribution of this thesis is that on the role of leadership in international financial institutions. This is not the first study to investigate this factor in RFIs.[18] However, existing literature has for the most presented a limited account of this influence in RFIs' management and mandate. This thesis has showcased how the role of the "agent" can be distilled to demonstrate the crucial role that individuals might perform within an institution. What is more, available literature on CAF[19] has explored how its institutional design has contributed to the institution's survival and growth but these works have not necessarily accounted for the fact that Garcia's leadership was actually a vital force in carving a niche for the institution by taking advantage of those available institutional features. This dissertation invites scholars to reengage with the study of leadership in IOs, especially within those research agendas that consider that P-A theory and constructivism can be complementary explanations. This study adds to literature on IOs by focusing on how the personal characteristics of a RFI's executive president, as well as his professional background and connections, influenced the entity's behaviour, thus providing insight into an undertheorized variable in constructivist accounts.

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18 See for example Weaver (2008) and Park & Weaver (2012).

19 See for example Ocampo (2006) and Humphrey (2012, 2014).

Action and reconfiguration of mandates in IOs are not necessarily bound by traditional bureaucratic considerations or rational motives. The actions of IOs can be normatively guided by their internal design through an executive's president normative leanings and subsequent vision for the institution.

The importance of leadership for the functioning of a MDB can also be explored when taking into account the geographic location of an entity and the countries it serves. CAF's scope of lending is restricted to Latin America. Here, presidentialism has prevailed in regional arrangements: Latin American presidents have in the last two decades played a prominent role in crafting and implementing foreign policy (Malamud, 2014). A solid leader within an IO working in this region is vital not only for creating an internal culture of cohesiveness, but also to keep political interference at bay (while cultivating relationships with presidents with diverse political leanings). In Latin America, institutional leadership has the potential not only to buttress or to destroy an institution, but also to make it relevant for its members. As previously noted, only recently, Fonplata (another RFIs in the Southern Cone) inaugurated an executive president position in its efforts to promote institutional growth and solidify long-term goals and institutional accountability. As such, this dissertation contributes to a better understanding of how individual actors may be just as important, if not more important, than IO bureaucratic structure or external influence in shaping the ways that an IO can respond to (and balance) the financial and non-material demands of distinct stakeholders within a specific region.

In addition, this study contributes to regional governance literature. The prominence of regionalism is a core feature of South America's international relations. The proliferation of cooperation efforts beginning in the early 2000s alongside competing economic and political rivalries represents an opportunity for academics to engage with topics beyond trade matters, which have been widely discussed in the literature. This study has focused on the distinctiveness of cooperation on infrastructure matters in a multilateral environment. This study traced the motivations and main events that triggered cooperation in this area, despite the absence of economic interdependence and strong demand for economic integration, factors which scholars like Mattli (1999) have outlined as vital factors for intergovernmental cooperation and policy coordination. Although scholars have studied topics such as Unasur as a venue for cooperation and/or Brazil's role in promoting integration and launching IIRSA,[20] this dissertation brings a different perspective since it has focused on understanding cooperation on infrastructure from a RFI's viewpoint, while engaging with how South American governments are constructing cooperation in their region and framing what it means at an ideological and material levels.

By analyzing IIRSA and the different groups involved in the initiative, this thesis traced how the concept of cooperation based on infrastructure development has been repositioned in the regional agenda. Through supporting (or at times criticizing) IIRSA, various states in the region have seized the opportunities to pursue an assertive regionalist and/or sub-regionalist agenda with the goal of promoting their own views on development. Moreover, this study has shown that cooperation on infrastructure is not necessarily a tale of regional hegemony; Brazilian leadership has impacted the structural environment, but the actions of this government are overall more reflective of a nation acting as a facilitator rather than as a financier. CAF has paid attention then to its member governments' priorities and demands and has been able to diversify and grow its infrastructure portfolio. CAF has done very well in engaging with the regional leader: the institution has banked on Brazilian ideals of a South American identity and on the fact

[20] See for example Sanahuja (2012) on Unasur, Burgues (2009) on Brazil's leadership and Carvahlo (2010) on Brazil's role in IIRSA.

that infrastructure (due to the complex geography of the region and the large scope of several projects) is an area which countries are willing to receive technical advice.

Although some scholars suggest that recent changes in regionalism are having transformative impacts on sovereignty, other scholars acknowledge that changes in regionalism have taken place, but that they have been accompanied by persistent and traditional meanings and practices of sovereignty.[21] Through qualitative empirical research, this dissertation has engaged within the regional experience and has pointed to the limits and possibilities of cooperation on infrastructure, and more generally to cooperation in the region. This contributes to our current understanding of South America's ongoing regional, institutional, and sovereignty patterns, as well as the scope for regional governance.

Through the analysis of CAF's participation in IIRSA, this study demonstrated how the promotion of infrastructure through IIRSA has resulted in what could be described as a "non-ownership" model, where despite agreed consensus and constant exchange of ideas between twelve South American countries and RFIs, there is a lack of efforts to go beyond coordination exercises. Ultimately, this study sides with the view that sovereignty is at present a distinctive feature of regional initiatives, in particular of those engaging with physical integration. While changing member governments' preferences in South America since the mid-2005 have created a space to move beyond trade and "open regionalism" discussions, governments are using this space to materialize national projects, while drawing upon diverse sources of multilateral and bilateral financing. For CAF, this has meant that the entity still has a localized role to play in financing countries' priorities, as long as its staff continues to engage with members to understand which kind of projects CAF can finance or co-finance according to its principals'

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[21] See Legler (2013) for a discussion on academics' viewpoints on sovereignty and regionalism in Latin America.

national agendas, the situation of the global financial markets, and increasing pressure to tighten projects' environmental standards.

7.4 Future research agendas

The analysis in this dissertation also suggests a number of future research agendas. First, this thesis has limited its empirical analysis to a single RFI. However, while discussing the survival and growth of CAF, several factors have been outlined that could be taken into account when studying the conditions that need to be in place for an IO to survive within a region. The opportunities and dilemmas that CAF faces when dealing with its two main stakeholders—members and CRAs—may be relevant for other institutions that are not operational yet, or that are trying to expand their operations. As such scholars, IO staff and policymakers involved in regional discussions could evaluate how the combination of one of more of the following factors—leadership, institution design, changing national government's preferences and the impact of a country's foreign policy in regionalism—may impact the functioning on an IO.

Scholars and policymakers interested in emerging institutions, such as the BRICS' New Development Bank could pull some valuable lessons from studying, for instance, how CAF obtained its current credit rating or how its lean management structure has speeded operational decisions, including loan approvals. Other aspects of study include financing mechanisms and hiring practices. For more alternative projects like the Bank of the South, the findings of this study invite scholars, for instance to explore a development bank's need for a clear *financial* mandate. This mandate needs to be fulfilled by building trust within and beyond members. In CAF's case, the entity looked at the international markets' as the way to increase funds for lending. CAF has shown that its success has depended on Garcia's ability to bring financial soundness to the institution, while combining a clear geopolitical and growth vision with an approach that limited political interference from member governments.

Moreover, the regionalism-sovereignty dynamic has opened a broad research agenda and this study of CAF represents only a small fraction of all the potential studies that need to be carried out in order to understand new regional consensus and dilemmas, such as the ones that have taken place in IIRSA. Both continuity and change seem to be present in the institutional and sociopolitical trends of ongoing regional initiatives. As Leger (2013) suggests,

> Given the seemingly limited or problematic applicability of theoretical and conceptual tools fashioned by intellectuals in other empirical contexts [e.g. Europe], Latin American scholars therefore need to move beyond describing trends and patterns in regional politics and sovereignty to theorizing much more why and how they occur, persist, or are transformed (p.344).

This study has engaged broadly with one aspect of physical integration: transport infrastructure, which has been by far the most important focus of IIRSA's agenda. However, RFIs have increasingly paid attention to energy integration, an area which fell outside the scope of this thesis (and in which CAF has been more active recently). Recent scholarship has begun to undertake comparative studies. For example, Palestini and Agostinis (2014) have engaged with the study and comparison of transport and energy integration by focusing on state preferences and regional leadership as crucial factors in explaining why regional cooperation emerged in South America at the beginning of the past decade, and why it has progressed further in some areas than in others. Future studies of CAF and of regional agendas would need to engage with energy cooperation. For instance, the growing weight of the energy sector prodded CAF's corporate decision to create a new Vice-presidency for Energy Projects in late 2012. According to its 2012 Annual Report, among this new vice-presidency's goals is fostering the development of sustainable energy systems for the region's countries, through project financing and specialized technical assistance (CAF AR, 2012). The energy sector has also already opened some doors for CAF to engage with its newest members in the Southern Cone. For example, in 2013, at the request of the governments of Uruguay, Paraguay, and Bolivia, CAF supported studies to analyze the feasibility of a gas interconnection between these countries (CAF AR, 2013).

I would like to end this dissertation by quoting a recent phrase by Enrique Garcia, reflecting upon his views (which have been discussed throughout this study) on the relevance of RFIs in the region,

> It is important to reaffirm the fundamental role played by multilateral development banks in Latin America, particularly regional banks. The question that frequently arises about the need for new regional banks, and even the question about the relevance of those that currently exist, can be answered simply: consider the investment and financing needs of the region, if it hopes to achieve high and sustained growth rates that enable it to attain similar levels of per capita income as industrialized countries within 20 years, while at the same time achieving genuine inclusion and social equity (Garcia, 2014, p.21).

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Antonio Juan Sosa, Vice-president of Infrastructure and CAF official since the 1990s, October 18, 2012.

CAF official, October 19, 2012.

CAF official No. 2, October 19, 2012.

CAF senior official, November 6, 2012.

CAF senior official, Infrastructure Division, November 19, 2012.

CAF senior official, Treasury Division, November 26, 2012.

CAF senior official, Vice-presidency of Development Strategies and Public Policies, November 26, 2012.

CAF senior official, Compliance and Risk Division, December 1, 2012.

Christian Velasquez, Bank Information Center (BIC), September 6, 2012.

Enrique Garcia, CAF’s Executive President, November 19, 2012.

Former CAF official, November 15, 2012.

Appendix A

Multilateral Development Banks Loans to Latin America (Approvals, current USD million dollars)

	WB	IADB	CAF
1971-1980	1,462	1,294	56
1981-1989	4,332	2,849	281
1990	5,965	3,881	812
1991	5,237	5,419	1,300
1992	5,662	6,023	1,773
1993	6,169	5,963	2,096
1994	4,747	5,255	2,160
1995	6,061	7,248	2,258
1996	4,438	6,766	2,314
1997	4,563	6,048	2,900
1998	6,040	10,063	2,672
1999	7,737	9,486	2,182
2000	4,064	5,266	2,323
2001	5,300	7,854	3,196
2002	4,366	4,549	3,291
2003	5,821	6,810	3,304
2004	5,320	6,020	3,504
2005	5,166	6,858	4,746
2006	5,911	6,239	5,521
2007	4,553	8,735	6,607
2008	4,660	11,226	7,947
2009	14,031	15,507	9,170
2010	13,907	12,464	10,533
2011	9,629	10,911	10,066
2007-2011	32,598	58,843	44,323

Source: Ocampo and Titelman (2012) and institutional annual reports

Appendix B

Institutions and arrangements for financing long-term development projects in South America

Institution	Members/ Beneficiaries	(Regional) Objectives/ Specific Programs	Partnerships	Financial Highlights	Other Highlights
Banco del Alba – The Bolivarian Alliance for the Peoples of our America (ALBA) **2008**	Bolivia, Nicaragua, Cuba, Saint Vincent and the Grenadines, and Venezuela	The Bank aims to boost industrial and agricultural production and to support social projects and multilateral cooperation agreements among its members.		N/A At present, the bank is mainly acting as an agent for SUCRE transactions.	Part of the ALBA strategy, jointly with the SUCRE regional currency. Although there are no specific transactions available on its website, the Bank advertises its "Intra-Alba" exchange commercial program financing directed at Venezuelan importers who want to acquire Bolivian goods.
Bank of the South **2009**	Argentina, Brazil, Paraguay, Uruguay, Ecuador, Bolivia, and Venezuela	The goal is to support social programs and infrastructure in the Latin American region.		N/A At present, the bank is not operational.	Brazil and Paraguay have not ratified its constitutive agreements at the congress level.
BNDES - The Brazilian National Development Bank **1952**	Brazil, with an internalization strategy	The international dimension of BNDES includes continuous efforts to strengthen traditional operations such as export financing of Brazilian goods and services, to projects implemented overseas and institutional fundraising through multilateral entities, and enhancing promotional activities.	Cooperation agreements signed with the development banks of China, India, Russia and South Africa as part of its continuing engagement with the BRICS countries .	The BNDES financed 27 infrastructure projects in South America from 1997 to 2013. BNDES' total support for exports of Brazilian goods and services to the region was US$3.67 billion from 2001 to 2010.	In August 2009, it opened its first branch office in South America, in Montevideo, Uruguay.
BRICS Bank - New Development Bank **2014**	Brazil, Russia, India, China and South Africa	The bank is initially expected to focus on financing infrastructure.	BNDES	N/A Bank is not operational yet. Initial subscribed capital base of USD $50 billion, with each of the five countries contributing USD $10 billion and receiving equal voting rights.	Driven by a politically expedient concept.

CAF - Development Bank of Latin America **1968**	Series A shareholders (full members): Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Trinidad & Tobago Uruguay and Venezuela. Series C shareholders: Costa Rica, Mexico, Chile, Dominican Republic, Jamaica, Spain and Portugal	CAF aims to reinforce and expand its role as an institution that promotes Latin American integration, and to strengthen the sustainability of its operations.	G-NEXID, IDFC, part of the IIRSA technical committee, several MoUs with other development banks.	In 2013, the institution approved US $12.1 billion in financing, a 31% increase over 2012.	Products & services: short-, medium-, and long-term loans; structured finance; A/B loans with int. institutions and banks; financial advisory services; bonds and guarantees; partial guarantees; equity; treasury services; technical cooperation; credit lines.
CBD - China Development Bank **1994**	Chinese public and private institutions, with an internationalization strategy	CDB has been China's leading financier for the development of national infrastructure and basic and key industries, which are its primary business.	IDFC	According to data gathered by the Inter-American Dialogue, China provided loan commitments	Responsible for raising funding for large infrastructure projects.
China's Exim Bank - Export-Import Bank of China **1994**		The Export-Import Bank of China aims to facilitate exports and imports of Chinese mechanical and technical products and complete sets of equipment; to assist Chinese companies; and to promote Sino-foreign global economic and trade cooperation. It is a key on-lending bank of foreign government loans and the only operating bank for government concessional loans.	G-NEXID, MoU with other RFIs including CAF and the IADB	upwards of USD$98 billion between 2005 and 2013). The bulk comes from the CB and the Exim Bank. Yet, Chinese lending in the region is highly concentrated by country. Over half of these loans went to Venezuela, followed by Argentina and Brazil, with the rest of Latin America accounting for slightly over 20%.	Products and services: export credit and import credit; loans to overseas construction contracts and loans to overseas investment projects; Chinese government concessional loans; international guarantees; on lending loans from foreign governments and international financial institutions; international and domestic settlement and corporate deposits under the loan facilities provided by the Bank; raising funds in domestic and international capital markets and money markets; international inter-bank loans, organizing or participating in international and domestic syndication loans; inter-bank borrowing/lending and bond repurchasing; foreign exchange transaction and approved risk-protection foreign exchange (FX) business for clients.
Fonplata - Plata Basin Financial Development Fund **1976**	Argentina, Bolivia, Brazil, Paraguay and Uruguay	To carry out studies, projects, programs and works aimed at promoting the harmonic development and physical integration of the La Plata Basin, allocating to that end its own resources and those obtained from other financial sources.	Part of IIRSA's technical committee (with IADB and CAF)	On December 31, 2013 FONPLATA loan portfolio reached US$ 664.3 million. Authorized capital reaches US$ 1,639.2 millions (subscribed capital is US$ 489.2 millions).	If the capital and operative amounts are compared with the objectives of FONPLATA and the volumes managed by other RFIs in the region, it becomes evident that FONPLATA has a small amount of resources, which has undoubtedly limited its performance and compliance with the functions that were assigned to it since its

					creation. In 2013, a new strategic vision was approved, which included the creation of the position of Executive President.
IADB - Inter-American Development Bank **1959**	48 member countries, including 26 Latin American and Caribbean borrowing members. China has joined as a member.	The IADB's priorities and actions have shifted over the years to adapt to the various prevalent integration schemes in Latin America. The IDB provides financial and non-financial resources to governments, businesses, and civil society organizations in its 26 borrowing member countries. Financial instruments include loans for public and private sector investment projects, policy reforms, and help in managing financial crisis. It also provides partial credit guarantees as well as grants for technical cooperation and recovery from natural disasters.	Several MoUs with other development banks	Approved lending and grants in 2013: USD $14 billion	The capital subscribed for and voting rights in the IADB were divided as follows: Latin American developing countries represented approximately 50% (with Brazil and Argentina around 10% each), a significant portion (30%) was held by the U.S. and the rest was divided between Canada and advanced economies outside the region.
WB - World Bank **1944**	The International Bank for Reconstruction and Development (IBRD) has 188 member countries, while the International Development Association (IDA) has 172 members. Each member state of IBRD should be also a member of the IMF. According to its voting power, Brazil ranks #14 in the IBRD, and the IDA. No other Latin American country is the top 20 list.	Its official goal is the reduction of poverty. According to its Articles of Agreement, all its decisions must be guided by a commitment to the promotion of foreign investment and international trade and to the facilitation of capital investment. The IBRD provides financial services as well as strategic coordination and information services to its borrowing member countries The Bank only finances sovereign governments directly, or projects backed by sovereign government.	Several MoUs with other development banks	In 2013 the WB approved USD $5.2 billion for 41 projects in Latin America. Support came from two groups: $435 million from the IDA and $4.8 billion from the IBRD commitments.	Although members contribute capital to the IBRD, the Bank acquires funds primarily by borrowing on international capital markets by issuing bonds. The Bank raised $29 billion USD worth of capital in 2011 from bonds issued in 26 different currencies. The IBRD has enjoyed a triple-A credit rating since 1959.

Sources: Institutions' websites, Alvarez (2013), Gallagher et al. (2012), Garcia-Guerrero et al. (2014), SELA (2010), Hochstetler (2014), Withol (2014).

Appendix C

List of all capital contributions made by shareholder countries during 2007-2012

Argentina:

- In 2007, Argentina entered into an agreement to subscribe to an additional $543.0 million in Series ‘‘C’’ shares, of which it paid $315.0 million in 2009, $105.0 million in 2010 and $123.0 million in 2011.In 2009, Argentina subscribed to an additional $190.0 million in Series ‘‘C’’ shares, to be paid in seven installments, of which it paid $10.0 million in 2011 and $150.0 million in 2012.
- In 2010, Argentina subscribed to $126.0 million in callable capital.
- In February 2011, upon completion of all requirements to become a full member shareholder country, Argentina acquired a $1.2 million Series ‘‘A’’ share and exchanged all of its Series ‘‘C’’ ordinary and callable capital shares for Series ‘‘B’’ share equivalents.
- In March 2012, Argentina subscribed to an additional $228.6 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Bolivia

- In 2009, Bolivia subscribed to an additional $105.0 million in Series ‘‘B’’ shares, to be paid in eight installments, of which it paid $5.0 million in 2010, $5.0 million in 2011 and $10.0 million in 2012.
- In January 2012, Bolivia subscribed to an additional $91.5 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Brazil

- In 2007, Brazil entered into an agreement to subscribe to an additional $467.0 million in Series ‘‘C’’ shares, which was paid in full in 2013.
- In 2009, Brazil subscribed to an additional $190.0 million in Series ‘‘C’’ shares to be paid in seven installments, of which it paid $25.1 million in 2013.
- In 2009, Brazil subscribed to $126.0 million in callable capital.
- In 2010, upon completion of all requirements to become a full member shareholder country, Brazil acquired a $1.2 million Series ‘‘A’’ share and exchanged all of its Series ‘‘C’’ ordinary and callable capital shares for Series ‘‘B’’ share equivalents. In September 2012, Brazil subscribed to an additional $228.6 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Chile

- In 2007, the Republic of Chile subscribed to an additional $50.0 million in Series ‘‘C’’ shares, which was paid in full in the same year.

Colombia

- In 2009, Colombia subscribed to an additional $20.0 million in Series ‘‘B’’ shares, which was paid in full in 2010.
- In 2010, Colombia subscribed to an additional $150 million in Series ‘‘B’’ shares to be paid in five installments of which it paid $2.0 million in 2010, $18.0 million in 2011, $30 million in 2012 and $50 million in May 2013.
- In June 2012, Colombia subscribed to an additional $210.0 million in Series ‘‘B’’ shares to be paid in three installments beginning in 2015.

- In August 2012, Colombia subscribed to an additional $228.6 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Ecuador

- In 2009, Ecuador subscribed to an additional $105.0 million in Series ‘‘B’’ shares to be paid in eight installments, of which it paid $5.0 million in 2010, $5.0 million in 2011 and $10.0 million in 2012.
- In March 2012, Ecuador subscribed to an additional $91.5 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Mexico

- In June 2012, Mexico entered into an agreement to subscribe to an additional $100.0 million in Series ‘‘C’’ shares of CAF, which was paid in full that same month.

Panama

- In 2008, Panama entered into an agreement to subscribe to an additional $170.0 million in Series ‘‘C’’ shares to be paid in five annual installments beginning in 2009. As of the date of this Offering Circular, Panama has paid $140.0 million, with the remaining balance to be paid in one instalment in 2013.
- In 2009, Panama subscribed to an additional $55.0 million in Series ‘‘C’’ shares to be paid in seven installments, of which it paid $3.0 million in 2011 and $5.0 million in 2012.
- In 2010, Panama subscribed to $36.0 million in callable capital.
- In 2010, upon completion of all requirements to become a full member shareholder country, Panama acquired a $1.2 million Series ‘‘A’’ share and exchanged all of its Series ‘‘C’’ ordinary and callable capital shares for Series ‘‘B’’ share equivalents.
- In February 2012, Panama subscribed to an additional $91.5 million in Series ‘‘B’’ shares, to be paid in five installments beginning in 2013.

Paraguay

- In 2008, Paraguay entered into an agreement to subscribe to an additional $189.0 million in Series ‘‘C’’ shares. As of the date of this Offering Circular, Paraguay has paid $100.0 million, with the balance to be paid in two annual installments ending in 2014.
- In 2009, Paraguay subscribed to an additional $55.0 million in Series ‘‘C’’ shares to be paid in seven installments, of which it paid $3.0 million in 2011 and $5.0 million in 2012.
- In December 2011, upon completion of all requirements to become a full member shareholder country, Paraguay acquired a $1.2 million Series ‘‘A’’ share and exchanged all of its Series ‘‘C’’ ordinary and callable capital shares for Series ‘‘B’’ share equivalents.
- In May 2012, Paraguay subscribed to an additional $91.5 million in Series ‘‘B’’ shares, to be paid in five installments beginning in 2013.

Peru

- In 2009, Peru subscribed to an additional $380.0 million in Series ‘‘B’’ shares to be paid in eight installments, but later this schedule was modified to seven installments. As of 31 December 2011, Peru has paid $40 million, with the balance to be paid in six annual installments ending in 2016.
- In March 2012, Peru subscribed to an additional $228.6 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Portugal

- In 2009, Portugal subscribed to EUR 15.0 million in Series ‘‘C’’ shares to be paid in four equal installments and EUR 60.0 million in callable capital. As of the date of this Offering Circular, Portugal has paid EUR 11.3 million with the balance to be paid in 2013.

Spain

- In 2010, Spain subscribed to an additional $327.0 million of paid-in capital to be paid in five installments ending in 2014. The first three payments were received for a total aggregate amount of $196.2 million.

Trinidad and Tobago

- In 2009, Trinidad and Tobago entered into an agreement to subscribe to Series ‘‘C’’ shares for a total capital contribution of $6.0 million. As of the date of this Offering Circular, Trinidad and Tobago has paid $5.0 million, with the balance to be paid in 2013.
- In April 2012, Trinidad and Tobago entered into an agreement to subscribe to an additional $323.4 million in Series ‘‘C’’ shares of CAF, to be paid in three annual installments, of which it paid $107.8 million in 2012.

Uruguay

- In 2007, Uruguay entered into an agreement to subscribe to an additional $137.0 million in Series ‘‘C’’ shares, of which it paid $81.0 million in 2009, $27.0 million in 2010 and the balance of $29.0 million in 2011.
- In 2009, Uruguay subscribed to an additional $55.0 million in Series ‘‘C’’ shares to be paid in seven annual installments ending in 2017, of which it paid $3.0 million in 2011 and $5.0 million in 2012.
- In 2009, Uruguay subscribed to $36.0 million in callable capital.
- In 2010, upon completion of all requirements to become a full member shareholder country, Uruguay acquired a $1.2 million Series ‘‘A’’ share and exchanged all of its Series ‘‘C’’ ordinary and callable capital shares for Series ‘‘B’’ share equivalents.
- In February 2012, Uruguay subscribed to an additional $91.5 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Venezuela

- In 2009, Venezuela subscribed to an additional $380.0 million in Series ‘‘B’’ shares to be paid in eight installments, of which it has paid $70.0 million as of the date of this Offering Circular. In August 2012, Venezuela subscribed to an additional $228.6 million in Series ‘‘B’’ shares, to be paid in four installments beginning in 2013.

Source: CAF (2013a). U.S.$7,000,000,000 Medium Term Note Programme.