

IIRSA: Another lost opportunity?

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Summary

The Initiative for the Regional Integration of South American Infrastructure (IIRSA) provides both an opportunity and a challenge for the Peruvian academic community to engage in a crucial national debate. IIRSA carries significant environmental and social risks while not providing for the institutional capacity badly needed for their management; its economic benefits for regional development are uncertain and its planning uncoordinated. Constructive academic engagement could help prevent IIRSA from becoming a lost opportunity for inclusive and sustainable economic development in Peru.

What is IIRSA?

The Initiative for the Regional Integration of South American Infrastructure (IIRSA) is a continent-wide strategy that prioritizes and mobilizes funding for projects contributing to “the development of transport, energy and telecommunications infrastructure from a regional viewpoint, aimed at the physical integration of the twelve South American countries and the achievement of an equitable and sustainable territorial development pattern.”¹ Organized, coordinated, and funded largely by the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF) and other international and regional multilateral lenders, IIRSA has a portfolio of 335 projects totaling investments of over US \$37 billion.² Flagship projects include the extensive Hidrovía Paraguay-Paraná, the Rio Madeira hydroelectric and transportation megaproject in Brazil, and the Southern Inter-oceanic Highway between Peru and Brazil.

Peru’s main IIRSA corridors are three trans-Amazon highways and waterways that link Brazil’s industrial and agricultural sectors with Pacific ports.³ Construction is ongoing on projects within all three trans-Amazonian corridors, although not all have been given in concession. Other projects are still in conceptual stages. There is also a north-south Andean corridor, still primarily in planning stages. In total, there are 78 IIRSA projects in Peru with an expected investment cost of \$6.7 billion.

| Hub | Selected Major Projects | Projected Cost |
|-----------------------------------|-------------------------------------|-----------------------|
| Peru-Bolivia-Brasil Hub | Southern Inter-oceanic Highway | \$892 million |
| | <i>Sections:</i> | |
| | San Juan de Marcona – Urcos | |
| | Urcos – Inambari | |
| | Inambari – Iñapari | |
| | Inambari – Azangaro | |
| | Matarani – Azangaro and Ilo-Juliaca | |
| | Port of Matarani | \$18 million |
| | Port of Ilo | \$87 million |
| Northern Amazonian Multimodal Hub | Port of Paita | \$80 million |
| | Northern Amazon Highway | \$210 million |

| | | |
|----------------------------------|---|---|
| | Hidrovia Huallaga – Marañon Port of Yurimaguas Port of Iquitos | \$34 million \$6.5 million \$15 million |
| Central Amazonian Multimodal Hub | Ports of Callao Central Amazon Highway Hidrovia Ucayali Port of Pucallpa Pucallpa – Cruzeiro do Sul Highway | \$215 million \$120 million \$20 million \$12 million \$247 million |
| Andean Hub | Belaunde Highway (Tarapoto – Tingo María) Juliaca – Puno – Desaguadero Highway | \$30 million \$33 million |

IIRSA can be understood as a response to the lack of infrastructure investment during the 1980s and 1990s, seen by International Financial Institutions (IFIs) and many development economists as a major impediment to growth and competitiveness.⁴ Infrastructure investment in support of regional integration is critical to the model of “New Regionalism” as outlined by former IDB president Enrique Iglesias.⁵ At the same time, with its capital intensive projects, IIRSA is a solution to excess liquidity within the MDBs, and bank officials have admitted that liquidity concerns motivate their involvement.⁶ Brazil’s geopolitical aspirations to become a world economic and political power and a regional hegemon may contribute to its funding and promotion of IIRSA.⁷

A Risk for Sustainable Development

Though its stated goal is an “equitable and sustainable territorial development pattern,” IIRSA may become a lost opportunity to use infrastructure development to spur processes of inclusion, poverty alleviation, decentralization and sustainable regional development. Despite the obvious economic importance of improving Peru’s infrastructure, such projects are likely to negatively impact the environment and vulnerable social sectors if adequate legal and governance institutions are not put in place, and if adequate knowledge is not first generated for their design. Regional economic development is more likely to be successful if projects are prioritized and designed to integrate with and support regional development plans. In this way, IIRSA runs the risk of replicating the development failures that have characterized many internationally financed mega-projects.⁸

Social and Environmental Impacts

All three of IIRSA’s Peru corridors pass through indigenous territories and areas of sensitive biodiverse ecosystems. Moreover, these areas are characterized by minimal state presence and weak public institutions, and – in many cases – by significant social conflict. Direct impacts involve displacement and social disruption in communities, erosion, deforestation, pollution, and potential significant changes to the hydrology of rivers and floodplain ecosystems. Indirectly, IIRSA’s corridors are likely to facilitate logging, mining, and other extractive activities; encourage migration, the expansion of the agricultural frontier, and large-scale agricultural operations (agrofuels development); and likely result in more conflict over territory and resources between colonists and indigenous peoples. These conflicts include violent confrontations between illegal loggers and indigenous peoples in voluntary isolation. Finally, the projects will contribute to rapid growth in jungle cities, without funding social and environmental mitigation, or

helping cities generate the fiscal and administrative capability to plan for and provide the basic services required.⁹

In the case of the proposed Pucallpa – Cruzeiro do Sul road, which will bisect the remaining intact ecological corridor connecting the northern and southern Peruvian Amazon, the highway will pass through the Sierra del Divisor Reserved Zone and the Isconahua Territorial Reserve (for indigenous peoples in voluntary isolation) or their buffer zones, bisect Brazil's Sierra do Divisor National Park, and open largely wild portions of the Amazon to logging, mining, agricultural and cattle-raising activities. The Southern Inter-oceanic Highway and the Central Amazon Highway projects are likely to facilitate migration-driven population growth, which has increased with transportation improvements in the early 2000s.¹⁰ Since the start of construction of the Southern Inter-oceanic Highway, there has been a boom in artisanal gold mining in Madre de Dios and 80% of the “reforestation” concessions granted by INRENA -many of which are in unlogged forests- are in Madre de Dios.¹¹ The buffer zones and reserves of Manu and Tambopata are also likely to be impacted by increases in logging, mining, and road building.

No Support to Weak Institutions

The regions that will be most affected are those with the weakest track record of and capacity for environmental governance. An estimated 78% and 88% of the lumber in Ucayali and Loreto, respectively, is illegal.¹² INRENA is insufficiently staffed and funded to effectively control this logging, with reports of deadly violence from illegal loggers not uncommon. INRENA's concessioning and forest management practices themselves are questioned.¹³ These areas have either no or incomplete systems of land zoning and management, untitled indigenous communities, land title conflicts, resource extraction concessions that are superimposed on indigenous reserves and natural protected areas.¹⁴ The Region of Ucayali's Ecological and Economic Zoning process is only 10% complete.¹⁵

The Northern and Central Amazon IIRSA corridors do not include programs or financing to assist national, regional and local governments in managing in-migration and urban growth, increased demand for additional services, and greater resource extraction activity. The Southern Inter-oceanic Highway's \$17 million CAF/INRENA social and environmental mitigation fund is substantially under funded (representing less than 2% of costs), short-term in its focus, non-participatory in its design, and lacks direction.¹⁶ IIRSA is building infrastructure first, before addressing institutional arrangements, in a context of weak existing institutions. This infrastructure creates new economic incentives, formal and informal, for activities which generate substantial environmental risk. This in turn makes it harder to build institutions for environmental and social governance.

Corruption and Minimal Civil Society Participation

The environmental impact study (EIS) process in Peru's transport sector is one of the country's least rigorous. Its EISs do not address important indirect impacts, something the MTC explicitly recognized but has not addressed; only the Northern Amazonian Highway has a strategic environmental assessment.¹⁷ Opportunities for organized civil

society to participate in IIRSA at the national and international level have been minimal, while at the project level, participatory workshops have been conducted as part of the EIS process. However, these workshops take place without prior information sharing and are criticized as being informative rather than participatory; there is little transparency regarding project documents; and the fact that projects are concessioned before the final EIS consultations limits public voice. Recently, a civil society coalition was refused participation in the multisectoral commission regarding IIRSA.¹⁸ In the Amazonas Centro project, a massive road wash-out in February 2007 which left Pucallpa isolated may be due to poor construction by a private contractor; irregularities have been reported in the contracting process of both the Southern Inter-oceanic Highway and Northern Amazonian Highway.¹⁹



Road failure along a section of the soon-to-be concessioned Central Amazon Highway, part of IIRSA. Photo courtesy of the Ucayali Chamber of Commerce, Tourism and Industry. February 10, 2007

Will IIRSA be another lost opportunity for inclusive and sustainable economic development?

IIRSA explicitly focuses on linking the continent's hubs of economic activity with one another to promote trade between them and international markets. It is less clear a strategy intended for sub-national or local development, creating the risk that Peru will become a primary resource supply zone and a territory of trans-shipment. In some cases, such as the paving of the Tingo María – Pucallpa road, the project provides a prerequisite for local development (easier access to markets), but turning this into development is likely to require better economic organization among producers, value adding processing of raw materials, and sustainable management of natural resources. Without policies and programs to support local producers, capital-intensive agriculture (particularly agrofuels) enabled by the highway will likely push local agriculturalists farther into the jungle. At

the same time, it facilitates access to a variety of raw natural resources, including timber, oil, gas, and gold, while not investing in value added processing.

The disconnect between IIRSA and regional development is underlined by its lack of strategic economic planning. Both the Southern Inter-oceanic Highway and the Central Amazon Highway were not evaluated by the National System of Public Investment (SNIP), a mechanism to ensure that public funds are well-spent. There is no coordinated national development planning in Peru (as in Chile, for example), and little institutional coordination between regional and local governments' development plans and IIRSA at the national and international level.²⁰ Regional governments are placed in the position of responding and adapting to the centrally-determined infrastructure designs and concessions.

Moreover, it does not appear that realistic modeling of market demand underlies the selection of IIRSA projects or in feasibility studies. The Southern Inter-oceanic Highway was promoted to serve Brazilian soybean exports; yet only after the project was concessioned and construction started did it become clear that the route is uncompetitive for soybeans.²¹ It is unclear exactly what the corridors will transport, or if this flux will make them economically feasible. Phosphate from Piura and Amazonian timber will probably go to Brazil, but no studies are available that show that large volumes of materials or goods will move along the routes. Perhaps in recognition of this deficiency, a CAF grant to the Peru Chamber of Commerce is now involving the national business community in identifying ongoing and potential production along the IIRSA corridors, with the objective of identifying complementarities with the production of other Latin American countries.

The Need for Research and Policy-Relevant Analysis

Within Peru there is a substantial lack of information, analysis and discussion about the economic purpose and social and environmental impacts of IIRSA projects. It is the most significant infrastructure initiative Peru has undertaken in decades, and it will spur significant changes across the country. Yet IIRSA has generated little response from Peru's academic community, attention in the press is minimal, and attempts by civil society to be involved have been roundly rejected by the government so far.

The relationship between institutions and economic development has become perhaps the most fruitful and important area of inquiry in the social sciences concerned with development. This is a relationship to which all disciplines can contribute in ways that speak to larger societal questions and their own disciplinary core at the same time. The disjuncture between the attention paid to economic development and that paid to governance arrangements within IIRSA make IIRSA a remarkable terrain on which to consider this relationship – one that has the potential to be both explosive both intellectually and in policy terms. Yet IIRSA has largely fallen on deaf ears in Peru for reasons we don't really understand. Is it that the intellectual community in Peru is unaware of IIRSA; is it that IIRSA seems too big an initiative to tackle? Or perhaps that good research might step on some very big toes? Either way, this is a fast-closing window of opportunity for the social sciences in Peru to show their relevance to questions

of the highest societal order. There are many ways in which research could still make a difference. But will the lost ground be recovered before it is too late?

¹ For official information about IIRSA, see www.iirsa.org; for a civil society review of the initiative, see www.biceca.org.

² Other supporting institutions include the Financial Fund for the Development of the River Plate Basin (FONPLATA), the International Bank for Reconstruction and Development (IBRD), and the Brazilian National Development Bank (BNDES). Decisions within IIRSA are taken within a steering committee or technical groups composed of various levels of officials and experts from member governments and the BID, CAF, and FONPLATA.

³ In addition to the Inter-oceanic Highway, which connects the southern coast with Rio Branco, in Acre, Brazil, the Amazonas Centro corridor connects Lima with Manaus (via Pucallpa and Iquitos), and the IIRSA Norte corridor connects Paita with Manaus (via Yurimaguas and Iquitos). In total there are four IIRSA Hubs in Peru: the Andean, Amazon, Peru-Brazil-Bolivia, and Central Inter-oceanic hubs.

⁴ Economists such former World Bank Chief Economist Joseph E. Stiglitz, critical of MDB lending practices during the 80s and 90s, have emphasized the importance of reemphasizing public sector infrastructure investment. See also http://www.iadb.org/res/publications/pubfiles/pubB-2002E_1805.pdf for an IDB statement on the significance of infrastructure, or the World Bank's 2004 Infrastructure Action Plan, <http://www.worldbank.org/infrastructure/files/InfrastructureActionPlan.pdf>.

⁵ Iglesias, Enrique, "Twelve Lessons from Five Decades of Regional Integration in Latin America and the Caribbean," p. 2-4, Inter-American Development Bank. http://www.iadb.org/INT/Trade/1_english/2_WhatWeDo/Documents/c_OtherPubs/Speeches/e_talk%20points%20intal%2035%20years%20Eng.pdf

⁶ See <http://www.biceca.org/en/Page.About.IIRSA.aspx>. IADB President Enrique Iglesias made this statement in public at the Fifth Annual IDB - Civil Society Meeting, Panama, February 20-21, 2005. It is reinforced by comments made by IFI officials at the Social Summit for the Integration of the Peoples in December of 2006, in Cochabamba, Bolivia, that the IDB, CAF, FONPLATA, BNDES, and lending institutions were heavily competing with each other to be lenders on IIRSA projects.

⁷ See, for example, Burges, Sean W. Bounded by the Reality of Trade: Practical Limits to a South American Region. Cambridge Review of International Affairs. Volume 18, Number 3 / October 2005: 437 – 454. Brazil is among the major initiators of the IIRSA plan; see van Dijck, Pitou and Simon den Haak. "Troublesome Construction: IIRSA and Public-Private Partnerships in Road Infrastructure." Centre for Latin American Studies and Documentation, Amsterdam. October 2006. p. 78.

⁸ Some of the most notorious cases have been outlined in the World Bank Resettlement Review (World Bank, Environment Department, *Resettlement and Development: The Bankwide Review of Projects Involving Involuntary Resettlement*, Washington, D.C., 8 April 1994.). In Latin America, Brazil's Polonoroeste project is often cited (Lutzenberger, Jose. 1985. The World Bank's Polonoroeste project: A social and environmental catastrophe. *Ecologist* 15 (1-2): 69-72.); the Itaipu Dam in Paraguay, and the Pangué hydroelectric dam project in Chile which resulted in the withdrawal of the IFC (B.R. Johnston and T. Turner (1998) *The Pehuenche, the World Bank Group and ENDESA S.A.: Violations of Human Rights in the Pangué and Ralco Dam Projects on the Biobío River, Chile*. American Anthropological Association, Committee for Human Rights. <http://www.aaas.org/spp/sfrr/per/per13.htm>).

⁹ Dr. Marc Dourojeanni's recent report on the Southern Inter-oceanic Highway is perhaps the most exhaustive examination of the project.

¹⁰ Pucallpa has grown on average 9.1% annually between 2002 and 2005, which correlates with major improvements in the Pucallpa – Tingo María road; Author's calculations.

¹¹ The gold boom can also be attributed to an increase in gold prices, but conservationists counter that road improvements have facilitated access and the supply of mining process inputs. Luna Amancio, Nelly, "El Inreña anulará concesiones de reforestación en Loreto," *El Comercio*, May 16, 2007, p. a13. <http://www.elcomerciooperu.com.pe/EdicionImpresa/Html/2007-05-16/ImEcNacional0723374.html>

¹² Memoria del I Foro Nacional sobre Tala Ilegal y Comercio Ilegal de Maderas, Lima, 26 de marzo de 2004. Mesa Nacional de Diálogo y Concertación Forestal. p.18 <http://www.fondoamericas.org.pe/ALMACEN%20NOTAS%20INFORMATIVAS%20-%20DAR/BOLETIN%20DAR%20Nro%2023.doc>

¹³ A comprehensive overview of INRENA's lack of capacity to address illegal logging is provided by the notes from the CITES Standing Committee, "Interpretation and implementation of the Convention, Species trade and conservation issue: Bigleaf Mahogany." 55th meeting of the Standing Committee, June 2, 2007.

¹⁴ For example, see Necochea Flores, Carlos, "Hay 18 lotes petroleros que se superponen a áreas protegidas," December 12, 2006, El Comercio.

<http://www.elcomerciope.com.pe/EdicionImpresa/Html/2006-12-12/ImEcNacional0631357.html#>

¹⁵ Comments by the Ucayali Regional Government's Department of Natural Resources staff at the Workshop for Information Exchange about IIRSA and the Central Amazon Hub, Pucallpa, Ucayali, Peru, March 23, 2007.

¹⁶ Dourojeanni, Marc. June 2006. Estudio de caso sobre la carretera Interoceánica en la amazonía sur del Perú. <http://biceca.org/proxy/Document.135.aspx>. Civil society criticisms of the CAF/INRENA program are documented at <http://www.biceca.org/es/Project.Overview.312.aspx>

¹⁷ Naccarato, Paula, "COMENTARIOS, 'Estudio de caso sobre la Carretera Interoceánica en la amazonía sur del Perú' por Marc J. Dourojeanni" June 2006. <http://biceca.org/proxy/Document.167.aspx>

¹⁸ Patrón, Patricia, "Comisión Multisectorial IIRSA-Perú Niega la Participación de Organizaciones de la Sociedad Civil en sus Reuniones," April 24, 2007, BICECA web page, <http://biceca.org/es/Article.188.aspx> See this IIRSA web page for a description of the IIRSA National Coordinator's responsibilities:

http://www.iirsa.org/BancoConocimiento/F/fm_como_esta_organizada/fm_como_esta_organizada_ENG.asp?CodIdioma=ENG

¹⁹ According to interviews with the Ucayali Chamber of Commerce and Ucayali Regional Government in February 2007, they suspected faulty construction in the Puente Chino – Aguaytía section of the Amazonas Centro project contributed to numerous failures of the road in early February 2007. Costa la Cruz, Alejandra, "¿Corrupción en IIRSA?" Perú 21, jueves 3 de mayo de 2007.

²⁰ For example, there is no mention of IIRSA or how to take advantage of it for local economic development in Ucayali's Plan Concertado de Desarrollo. According to the Piura Chamber of Commerce, in the regions transversed by the Northern Amazon Highway, only Piura's Plan Concertado de Desarrollo considers IIRSA.

²¹ Personal interview with Otto Luna, Alpha Consult S A y Promogest S A, Lima, Peru, February 9, 2007.