

Investing in Infrastructure in Latin America and the Caribbean

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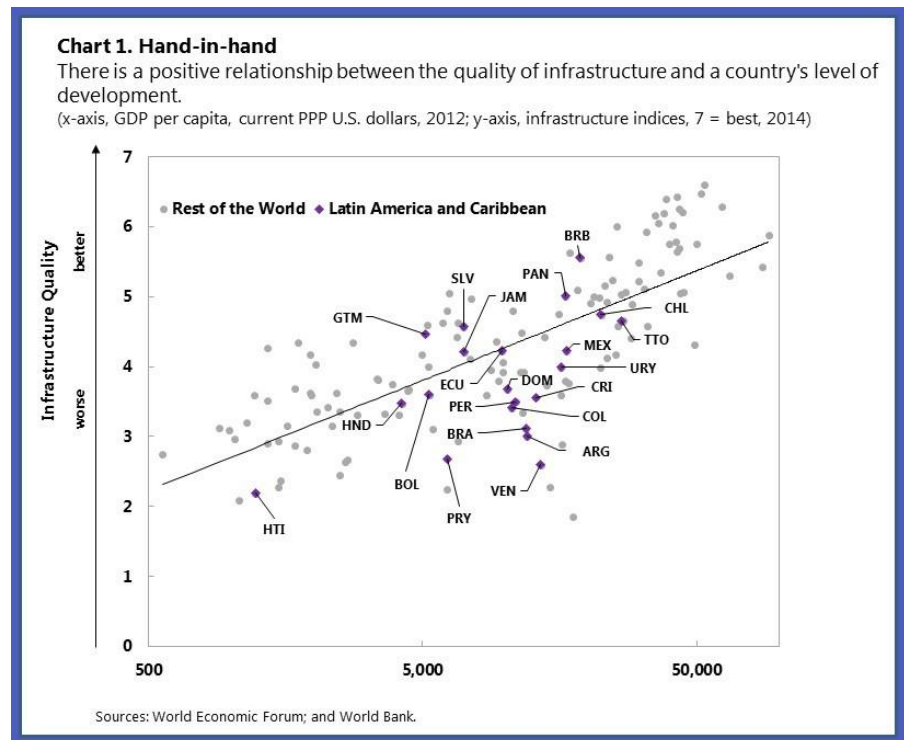
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Infrastructure is essential to a country's development and prosperity, facilitating economic activity by enhancing productivity, competitiveness, and trade, both within and across a country's borders. But in Latin America and the Caribbean, the level and quality of infrastructure is inadequate and identified as one of the principal barriers to growth and development, despite upgrades to the region's infrastructure network over the past decade.

Our latest [regional report](#) looks at the state of infrastructure in Latin America and the Caribbean and identifies key areas where infrastructure networks can be improved.

Where does the region stand?

Economic growth and infrastructure investment feed into each other. On the one hand, growth helps to produce the resources necessary to fund infrastructure investment and drives the demand for improved infrastructure services, while, on the other hand, improvements in infrastructure support economic activity and boost a country's productive potential over time. Not surprisingly, there is a positive relationship



between infrastructure quality and income levels across countries (see Chart 1). However, as the chart shows, many countries in Latin America and the Caribbean score lower on infrastructure quality than one would expect given their level of development (as measured by relative income per capita). Indeed, countries in Latin American and the Caribbean have lower-quality infrastructure relative to countries in other regions with similar income levels. This infrastructure gap is more striking when compared with advanced economies.

Our study also finds that many countries in the region have infrastructure networks that compare very poorly with their export rivals (see Chart 2). In the current context of weak

external demand, the loss of competitiveness owing to the quality of physical infrastructure has been a significant drag on growth. This highlights the need for more concerted efforts to improve infrastructure quality in the region.

Room to catch up

Governments have an important role to play in encouraging infrastructure investment. But managing public investment in infrastructure can be challenging. Economists broadly agree that a variety of factors help to determine the

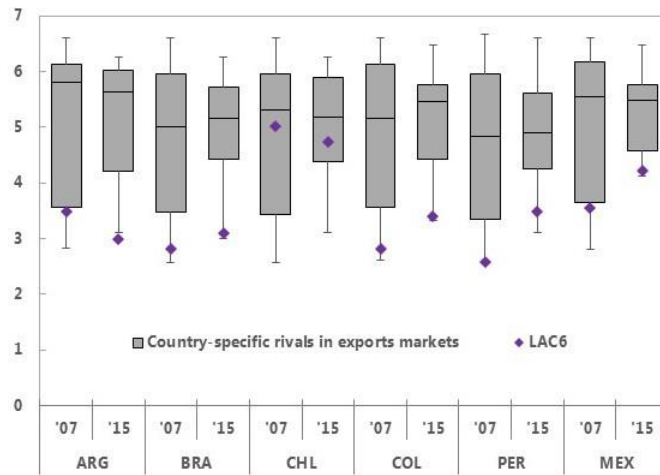
level, composition, and impact of infrastructure investment on the economy, including legal, institutional, and procedural arrangements for public investment management. As such, the IMF has developed a framework to make broad assessments of public investment management. This assessment tool considers the practices and frameworks supporting the entire investment process and helps to identify potential areas that can be improved.

In the case of Latin America and the Caribbean, the framework shows that national and sectoral planning institutions are generally in place across the region (see Chart 3). But there are key attributes pertaining to all other aspects of the public investment process that can be improved, particularly when compared to advanced economies. Interestingly, the region does better than other emerging markets in terms of the transparency of project appraisal, execution, and management.

But the region performs particularly poorly in terms of the availability of funding and the use of multiyear budgeting

Chart 2. Only one

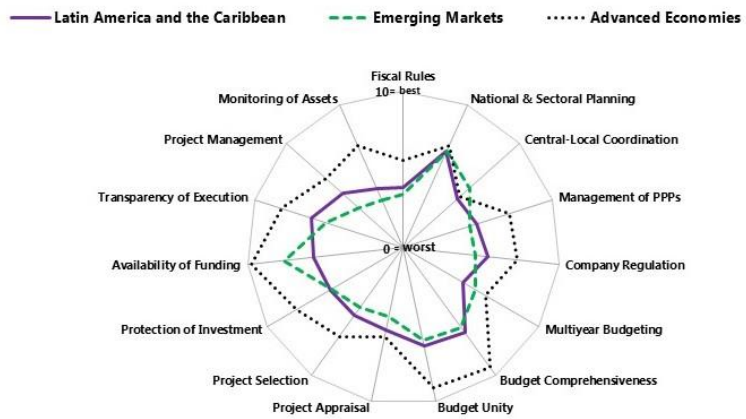
Among the region's six largest economies, Chile is the only country with infrastructure quality similar to its trading rivals. (infrastructure quality index; 0 = worst, 10 = best)



Sources: IMF staff estimates with World Economic Forum; and UN COMTRADE data.

Chart 3. Institutional strength

Although national and sectoral planning institutions are in place across Latin America, there is much to improve in all other phases of investment. (public investment management index; 0 = worst, 10 = best, 2015)



Source: IMF staff estimates.

frameworks. Infrastructure investment and maintenance of existing infrastructure capital also needs to be better protected over the economic cycle to better preserve infrastructure quality. That said, there are some countries in the region that stand out for their relatively good performance along these dimensions (for example, Mexico for its availability of funding and Colombia for its multiyear budgeting process).

Beyond public money

Closing infrastructure gaps is not just a matter of using public money. As elaborated in our report, the private sector has played an increasingly active role in the supply of infrastructure—and public policy can also aim to catalyze and support private investment in infrastructure. Private sector participation should be encouraged, for example, by improving regulatory frameworks, enabling economically sound fee structures, and ensuring adequate contract protection. Where efficiency gains can be made, public-private partnerships should also be welcomed, but it is critical to ensure that risks to governments' budgets are proactively managed and transparently recorded.

Developing deep local financial markets for infrastructure bonds and other innovative forms of finance can also help to mobilize resources for projects while containing currency risk. Several countries have made important strides in these areas (for example, Brazil), and offer useful examples for the region at large.

Unless progress on improving infrastructure networks continues across Latin America and the Caribbean, there is a risk that the infrastructure shortfalls will increasingly hamper the region's growth and development prospects. Strengthening public investment management processes and practices is important to ensure that taxpayers' money is put to effective use, and smart regulation can make the best of the private sector's ability to contribute to the effort to build infrastructure.



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