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ACRONYMS AND ABBREVIATIONS

BOT	Build-operate-transfer
EAP	East Asia and the Pacific
GDP	Gross domestic product
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFIs	International financial institutions
LAC	Latin America and the Caribbean
MICs	Middle-income countries
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
PAHO	Pan-American Health Organization
PPI	Private Participation in infrastructure
PPP	Public-private partnerships
PCG	Partial credit guarantees
PRG	Partial risk guarantee
UNICEF	United Nations Children's Fund
USO	Universal Service Obligation
WHO	World Health Organization
WSS	Water Supply and Sanitation

ACKNOWLEDGMENTS

This report is part of a joint initiative of the Inter-American Development Bank and the World Bank to examine infrastructure issues in Latin America and the Caribbean. This has entailed commissioning a number of background papers to explore areas on which more information was needed (fiscal space, cost recovery, infrastructure finance, public discontent with private participation in infrastructure) as well as a number of country studies. It has also included a conference on June 6th and 7th on the Diagnosis and Challenges of Economic Infrastructure in Latin America.

The main authors of this report are Marianne Fay and Mary Morrison but this work has also benefited from close collaboration with Nicolas Peltier-Thiberge, as well as with Paulina Beato and Juan Benavides from the Inter-American Development Bank.

The team is grateful to the following for their comments, suggestions and inputs: Luis Alberto Andres, Antonella Bassani, Antonio Estache, Susan Goldmark, Abhas Jha, Ellis Juan, Demetrios Papathanasiou, Guillermo Perry, Tomás Serebrisky, Jordan Schwartz, Sophie Sirtaine, Manuel Schiffler, Adam Schwartzman, Rob Stevens, Carlos Velez, Eloy Vidal, and Tito Yepes; and to Julieta Abad who managed the production of this report.

The authors also wish to thank Cesar Calderón, Antonio Estache, Vivien Foster, Luis Guasch and Luis Servén on whose body of work this report draws extensively.

ABSTRACT

In the last decade, most countries in Latin America and the Caribbean have not spent enough on infrastructure. Total investment has fallen as a percentage of GDP, as public infrastructure expenditure has borne the brunt of fiscal adjustment, and private investment has failed to take up the slack.

Most infrastructure services have therefore lagged behind East Asian comparators, middle income countries in general and China, in terms of both coverage and quality, despite the generally positive impacts of private sector involvement. This lackluster performance has slowed LAC's economic growth and progress in poverty reduction.

Countries of the region therefore need to focus on upgrading their infrastructure, as this can yield great dividends in terms of growth, competitiveness and poverty reduction, as well as improving the quality of life of their citizens. Catching up requires significant new investment. But first, measures need to be taken to ensure that infrastructure spending produces higher returns, both economic and social. Both these tasks involve multiple challenges.

Public investment should be better allocated, with greater priority given to maintenance and rehabilitation against higher profile new projects. Small-scale local providers and cheaper technologies should be used for infrastructure work and services where appropriate. The considerable state resources already spent on subsidies, especially for water and electricity, need to be radically retargeted, to benefit fewer of the non-poor and more of those in need. More active policies are also needed to extend affordable coverage to rural areas and the urban poor, many of whom remain underserved.

Considerable further financing will also be necessary. There is scope in many countries for user charges to generate more funding, particularly in the water and electricity sectors. Raising tariffs to cost recovery levels would be affordable to the great majority of the population in most countries, and a more effective application of the funds currently spent on subsidies would protect low-income groups.

To reinvigorate private sector investment, governments need to find ways to make the risk-return ratio of projects more attractive. Improving contract design, making award processes more transparent and competitive and strengthening regulation will promote efficiency and better service, address investor concerns and reduce the cost of capital through lower regulatory risk. Such moves will also help reduce the renegotiation of concessions, which has been too frequent in Latin America and has damaged the credibility of contracting.

However, greater care must go into risk management, and the correct identification and allocation of risks in concessions. State guarantees can be useful for attracting the private sector, but ill-considered commitments made in the past, sometimes using unrealistic demand projections or excessive compensation schedules have exposed governments to enormous contingent liabilities.

Public opposition also represents a significant challenge to private sector involvement, politically and sometimes even operationally. Better subsidies, stronger and more transparent contract awards and regulation, as well as macroeconomic strengthening, are all likely to improve sentiment. Governments also need to improve the public perception of privatization, by making