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ACRONYMS AND ABBREVIATIONS

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