



The Changing Face of Infrastructure in Latin America

**Public sector
perspectives**



January 2021

**Being an expert
transforms business.**

kpmg.com.br

Index

About the study

3

Foreword

4

Search results

5

Conclusions

11

Appendix

12





About the Survey

The Infrastructure gap in Latin America is substantial and many organizations have consistently highlighted the need for the region to increase its investments in key sectors, like sanitation, communication, logistics, housing and energy. The deficit is estimated at 2.5% of the region's GDP (*).

Aware that these gaps have been reported for years and that Latin American governments, despite many intentions and promises, have not significantly improved their efforts to find a solution for the problem, we decided to study the challenges that governments in Latin America face in developing infrastructure in order to better understand them. To that end, KPMG infrastructure professionals have conducted a detailed survey between March and May 2020 of 81 senior public sector officials involved in infrastructure policy, procurement or development in the region.

These officials are located in 15 countries across the region with Brazil (33,3%) and Colombia (22,2%) being the most represented. Of the total respondents, 59,2% work on the federal / national level while the others have a more regional or municipal focus. Most of the respondents (63%) were at the level of senior manager or above and are mostly from the public sector (72,8%) with only a few working with multilateral organizations, non-departmental public agencies, and others, including some quasi-NGOs.

(*) 2019, IADB, "Building Opportunities for Growth in a challenging world"



Fernando Faria
Partner Latin America
Head of Infrastructure



Magdalena Perutti
Director Uruguay
Head of Infrastructure



David Villalba
Partner Colombia
Head of Infrastructure



Foreword

As Latin America is still trying to respond effectively to the COVID-19 pandemic, government attention has been shifting to on economic recovery and infrastructure. This is because similarly to previous crises, implementing a development agenda strongly depends on infrastructure investments. Without such investment recovering the millions of jobs that have been lost in the region will be even more difficult.

For the last ten years, governments have been unable to increase investment in infrastructure to bridge the USD6 trillion gap by 2040 (*).

That is why we have conducted this study – to seek the views and opinions from leading Latin American public sector officials involved in infrastructure: they will help us to get an accurate picture of the situation, together with its range of implications.

This is not the first time we are conducting a study like this. Back in 2010, as the global economy was recovering from the Global Financial Crisis of 2008 (GFC), we commissioned from the Economist Intelligence Unit (EIU) a series of surveys around The Changing Face of Infrastructure: Public Sector Perspectives. The scope of the 2010 study was global, whereas the current study is focused on the LATAM region, but this report will draw some comparisons between the two to offer some valuable insights.

Executive summary

One of the areas where the results of this year's study are similar to the findings from The Changing Face of Infrastructure: Public Sector Perspectives survey conducted a decade ago is on what keeps public sector officials awake at night. In this year's study, the factors that most concern the survey respondents as major obstacles to infrastructure investments are the economic conditions, the political environment and availability of financing. In our 2010 study, the

main areas of concern were similar and included the availability of finance (a consequence of the GFC), economic conditions, government effectiveness and the political environment.

Based on this study, and with the support of the survey respondents, we have identified the following initiatives that will help increase infrastructure investment in the region:

- 1 Governments must do better in putting forward robust infrastructure plans with clear and transparent objectives and stable policies;
- 2 Create conditions for the stimulus money to be effective, by fast tracking approvals and by having well-structured projects ready to receive such incentives;
- 3 Increase private investment in infrastructure while addressing existing barriers between public and private sectors;
- 4 De-politicize decision-making on infrastructure projects where priorities are set according to a robust and consistent system;
- 5 Assess and monitor the wider impacts generated by infrastructure projects to make sure that they benefit particularly the most vulnerable;
- 6 Increase government effectiveness in infrastructure by improving the budgeting process and by gathering consensus on priorities;
- 7 Use of technology in infrastructure planning, delivery and management by improving capacity building and the integration between sectors and Ministries.

(*) (Global Infrastructure Hub, github.org, 2020).

Survey results

Governments must do better

One of the first conclusions of the survey is that although there are areas that are less controllable by governments – the most important being the lack of sufficient financial resources to minimize the effects of the crisis, there are other areas where governments have control and should allocate more effort to allow more infrastructure investment without much expense.

When public officials were asked about the main impediments for infrastructure investment in their countries, the most highlighted reason was the lack of financial resources with 23% of the responses. This is indeed difficult to address in the current pandemic scenario in Latin America where, in recent months, most of the available funds are being allocated to implement the emergency measures required to minimize the effects of COVID-19, including organizing the healthcare response and addressing the needs of the most vulnerable.

However, other impediments should be under the control of governments and therefore require immediate actions. Indeed, the second most highlighted impediment is the lack of a long-term infrastructure plan (17%), followed by the politization of infrastructure project priorities (12%), and the lack of stability in public policies (9%).

Interestingly, these responses are in line with those that we obtained 10 years ago in the aftermath of the global financial crisis.

Create conditions for the stimulus money to be effective

In response to the COVID-19 pandemic, governments across the globe, including in Latin America, are putting forward stimulus packages to restart their economies.

However, for this stimulus money to be effective, governments have to complement the allocation of funds with a number of other initiatives.

When public sector officials were asked about the major challenges to effectively apply stimulus packages, they highlighted the slow approval processes (22%), and the lack of project readiness to receive the funds (16%) as the top challenges that they are facing.

Thus, stimulus packages must be accompanied by a fast track approval process, while infrastructure units should structure projects to accommodate the new funding available.



In what Latin American country do you operate?

Total **81** respondents



Private sector has a key role to play in the economic recovery but there is work to be done on addressing the barriers that affect private sector effectiveness

An area where we see a difference in responses from our 2010 study is around the private sector role in improving the efficiency of infrastructure delivery in the region.

A clear majority of the respondents (92.5%) say that private sector can help in improving efficiency in infrastructure delivery. This percentage is significantly higher than the 65% reported in our study in 2010.

This is not surprising. Governments in Latin America are constrained in allocating more funds to infrastructure, particularly in the current environment where the limited funds available need to be allocated to the healthcare response as a result of the pandemic. Additionally, the infrastructure gap is so significant that there is an overall sentiment in the region (different from

the one we saw back in 2010 after the GFC and particularly in Europe) that the private sector brings the efficiency that is often lacking in the public sector.

Having said this, public sector officials also mentioned a number of barriers to effectively work with the private sector that need to be addressed. They include rigid or inefficient procurement legislation (14%), the cultural differences between public and private sector (13%), the lack of competitiveness and quality on the private sector market (12%), inability to meet contractual obligations during the implementation phase (11%) and lack of trust (11%).

Governments need to work on these barriers but also on making sure that private investments are not just limited to projects where funding comes directly from the user. This requires a combination of initiatives that include monetizing existing assets, allocate stimulus money when the user is not able to fund the infrastructure project and incorporate wider impact assessment in business cases and project selection.



De-politicize decision-making on infrastructure projects

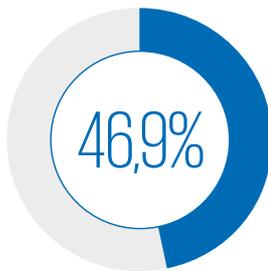
When public sector officials were asked about what would significantly improve infrastructure delivery in their country, the most mentioned initiative is the de-politicization of decision-making.

To achieve this, public sector officials highlighted a number of initiatives that would facilitate this

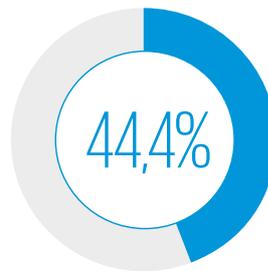
de-politicization. They include developing and implementing cost-benefit analysis methodologies (factor mentioned by 50,6% of respondents), increased transparency in project selection (46,9%), establish and apply directives to prioritize infrastructure projects (44,4%) and improve ESG assessments (40,7%).



Develop and adopt better cost-benefit methodologies



Increase the transparency in project selection



Establish and enforce guidelines for setting infrastructure priorities



Improve ESG* ratings

* Environmental, social and governance



Assess and monitor the wider impacts generated by infrastructure projects

We welcome the inclusion of ESG considerations in project selection as suggested in the responses to our survey. This topic was not raised in our 2010 study but we see it as of utmost importance for an emerging market such as Latin America where infrastructure decisions must address the needs of the most vulnerable.

Having said this, public sector officials recognize that the area where their organization is less effective is in evaluating if the project wider benefits were effectively delivered. This needs to be improved given the importance of infrastructure to the economic recovery, post-covid.

Increase government effectiveness in infrastructure by improving the budgeting process and by gathering consensus on priorities

Respondents to the survey highlighted a number of obstacles for public sector effectiveness in managing infrastructure projects.

Similarly to our study in 2010, a major concern is money: 56,7% point to the size of budgets for projects as a leading obstacle to the effectiveness of the public sector's management of infrastructure. The lack of

consensus on infrastructure priorities between policy makers and stakeholders was mentioned by 49.3% of respondents.

When survey participants were asked what restricts their organization in providing infrastructure more effectively, the majority highlighted the lack of resources (51,8%) followed by lack of political (32%) will and lack of clarity on the internal processes (29,6%).



Use of technology in infrastructure planning, delivery and management by improving capacity building and the integration between sectors and Ministries

When asked about the challenges emerging from using more technology in infrastructure planning, delivery and management, the majority of responses highlighted the lack of integration between Ministries and sectors and the need for more capacity building. This is a key issue as technology is driving much more interdependency between sectors (e.g. 5G and healthcare, or electric vehicles and energy) which in turn requires increased alignment and coordination between government departments and agencies.

Governments in Latin America should follow what their counterparts in Asia are doing (tech hubs in Malaysia and the Smart Cities of Indonesia) in terms of developing entirely new approaches to solving their infrastructure challenges – as we pointed out in our *Emerging Trends in Infrastructure 2020* report last year. The emerging markets have an opportunity, being free from legacy infrastructure, models and regulation, and should be driving the Infratech agenda.





Conclusion

In the current environment, all efforts are concentrated on the economic recovery post-COVID crisis and infrastructure has a significant role to play. But previous experiences have shown that a flood of stimulus money alone will not solve the problem.

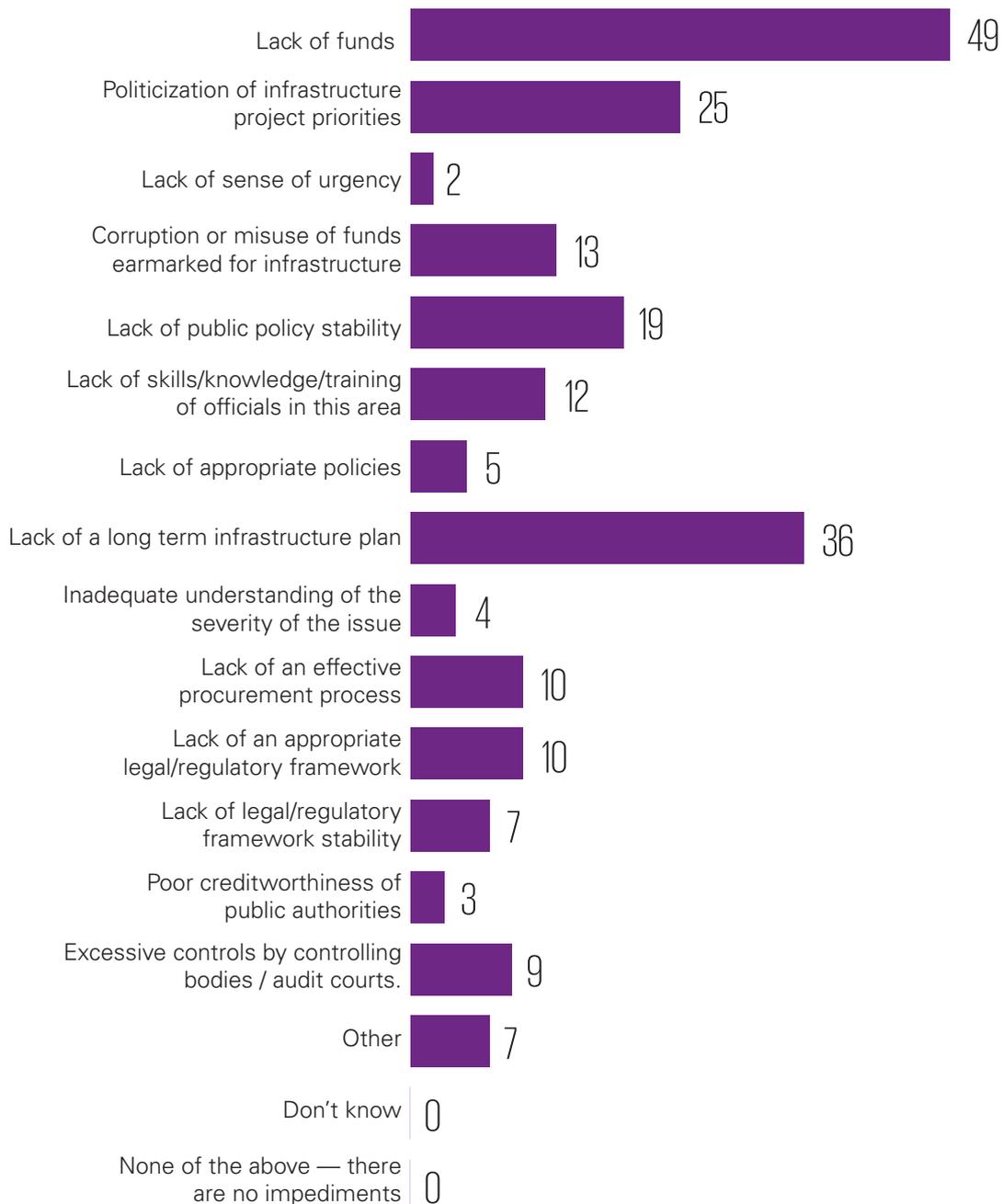
Increased transparency (for example, by setting ESG criteria that are then regularly monitored), industry de-politicization, greater public-private cooperation, better use of technology all will contribute to improved results in Latin America.

Latin America needs this. Most suggestions can be implemented if there is the political will to do so. The focus then is on getting the funding for the less viable projects (infrastructure projects with a social component whose feasibility does not depend on charging fees from users). That is where the stimulus money but also any asset monetization need to go. Infrastructure has a fundamental role to play in making sure that the most vulnerable are at the heart of the government policies and decisions.

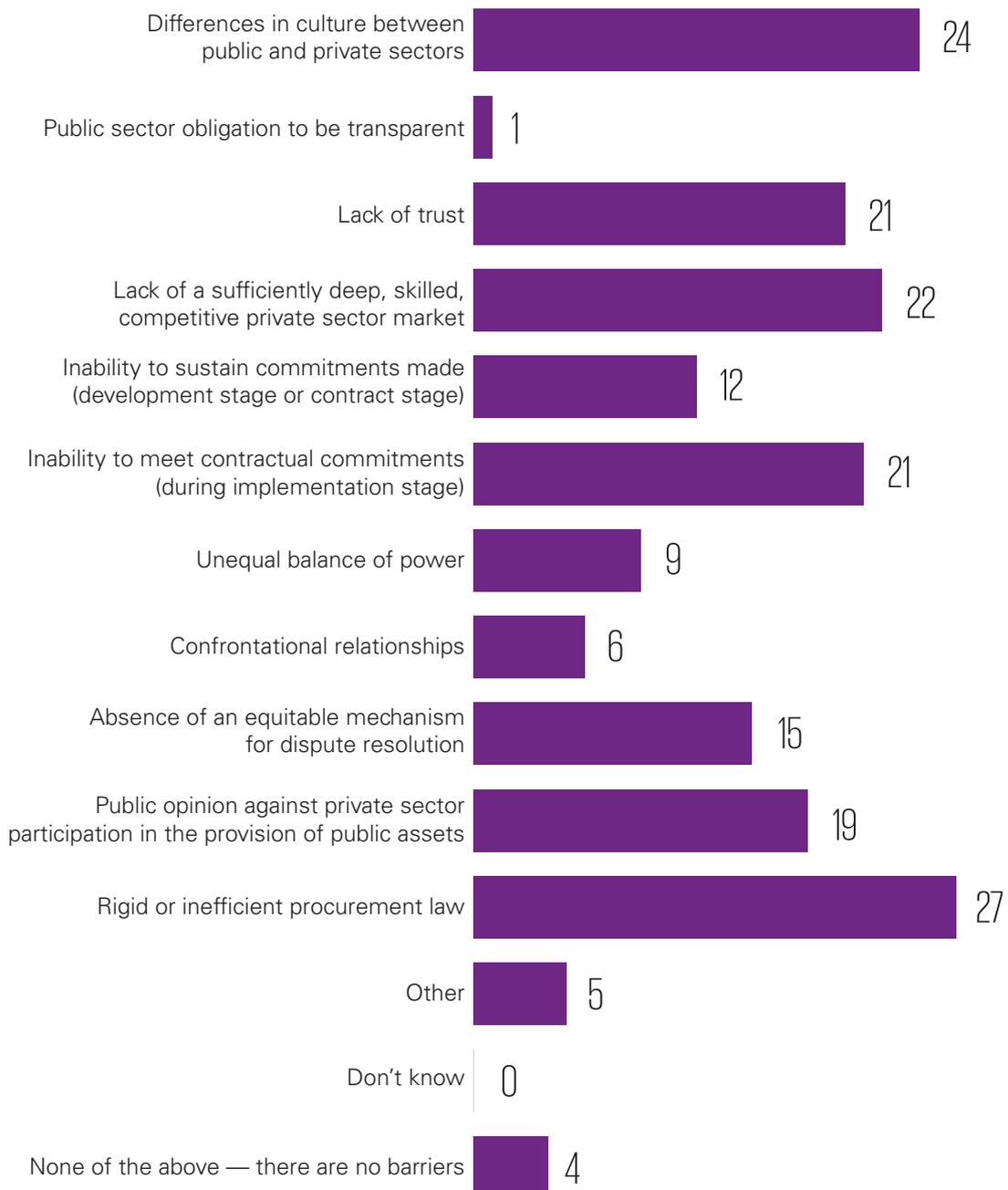


Appendix

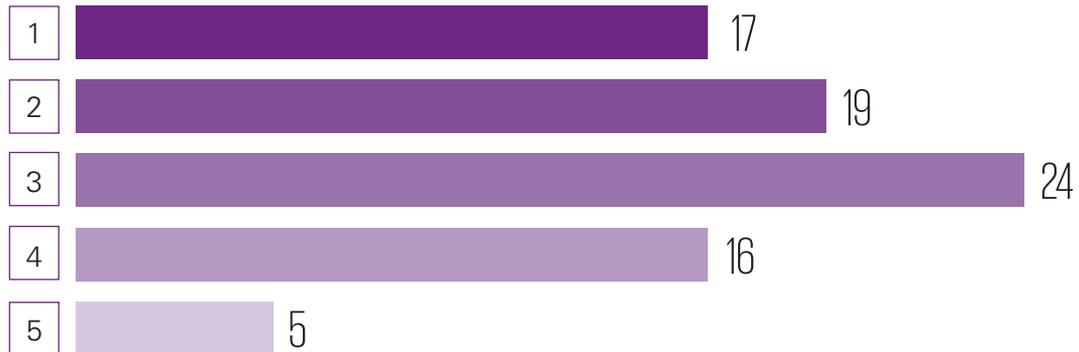
Q1. Which of the following are the greatest public sector impediments to more infrastructure investment in the country where you are based? (Select up to three)



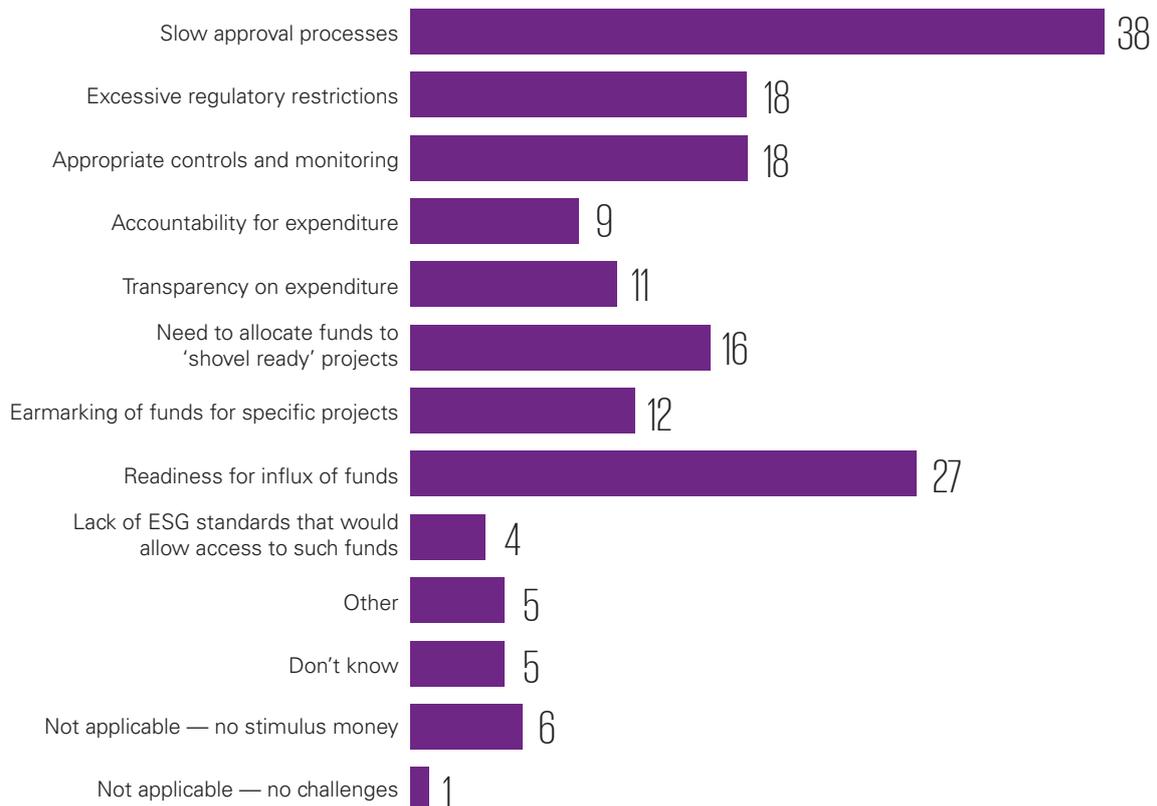
Q2. Thinking specifically about the country within which you are located, what are the greatest barriers to working effectively with the private sector in infrastructure (e.g., designing, building, financing and operating)? (Select up to three)



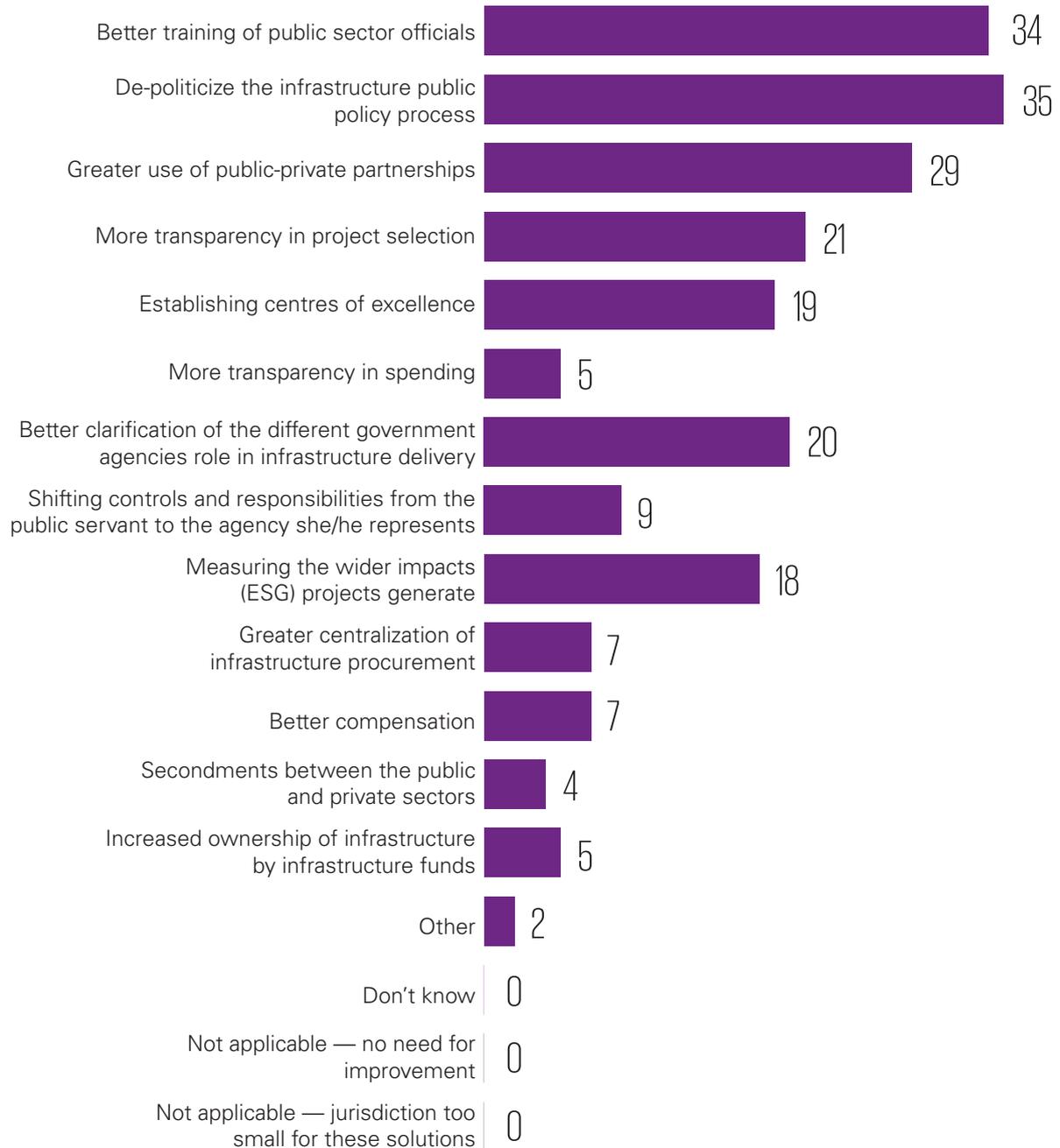
Q3. Thinking specifically about the country within which you are located, do you think that governmental effectiveness is an impediment to the effective delivery of required infrastructure (evaluate from 1 to 5 where 1 is a major impediment and 5 it is not an impediment)?



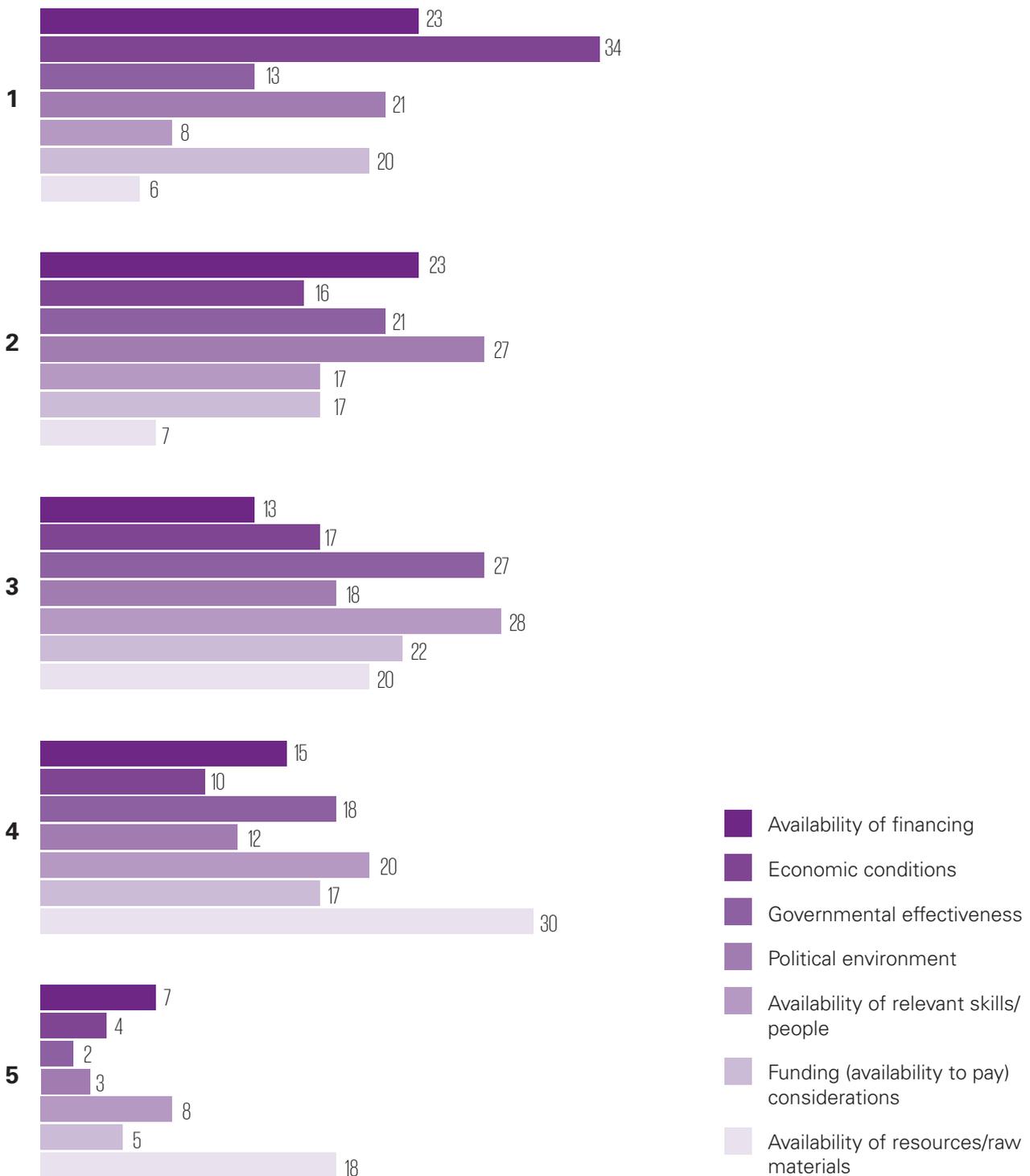
Q4. Thinking specifically about the country within which you are located, what do you see as the greatest challenge in spending the available stimulus money effectively? (Select up to three)



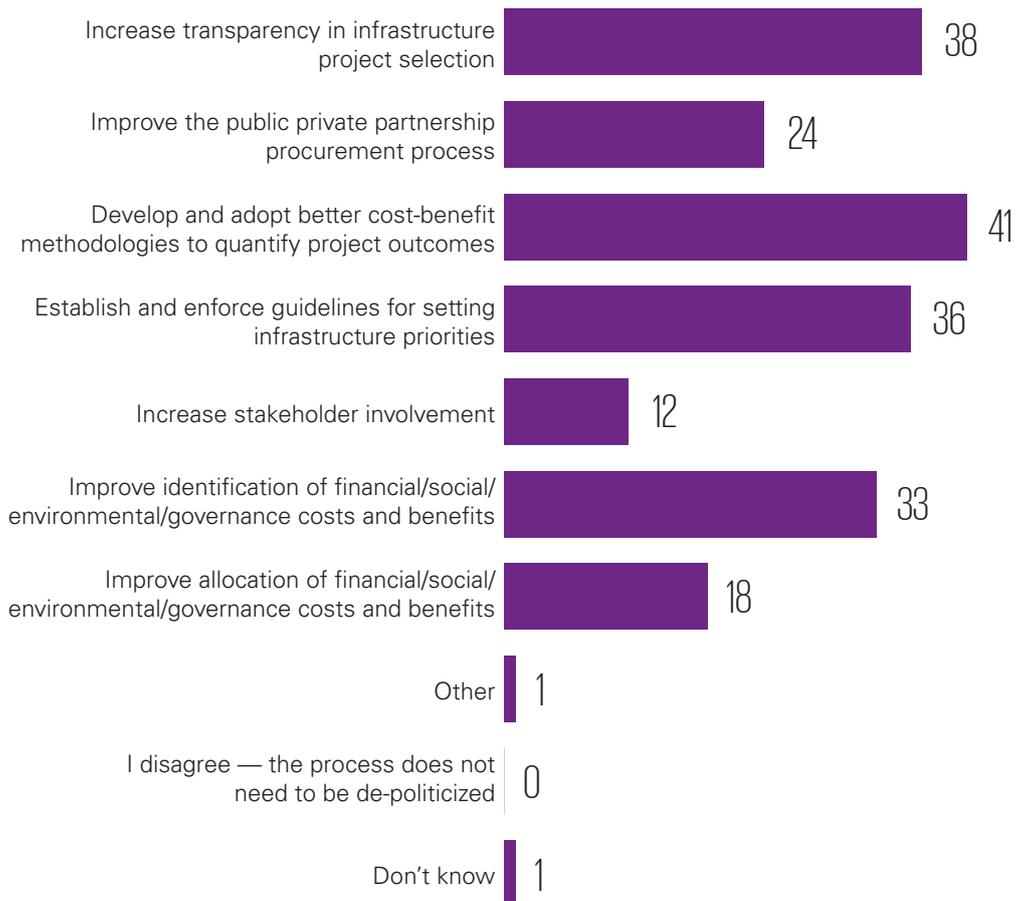
Q5. Which of the following factors would likely produce the greatest improvement in infrastructure development in the jurisdiction for which you work? (Select up to three)



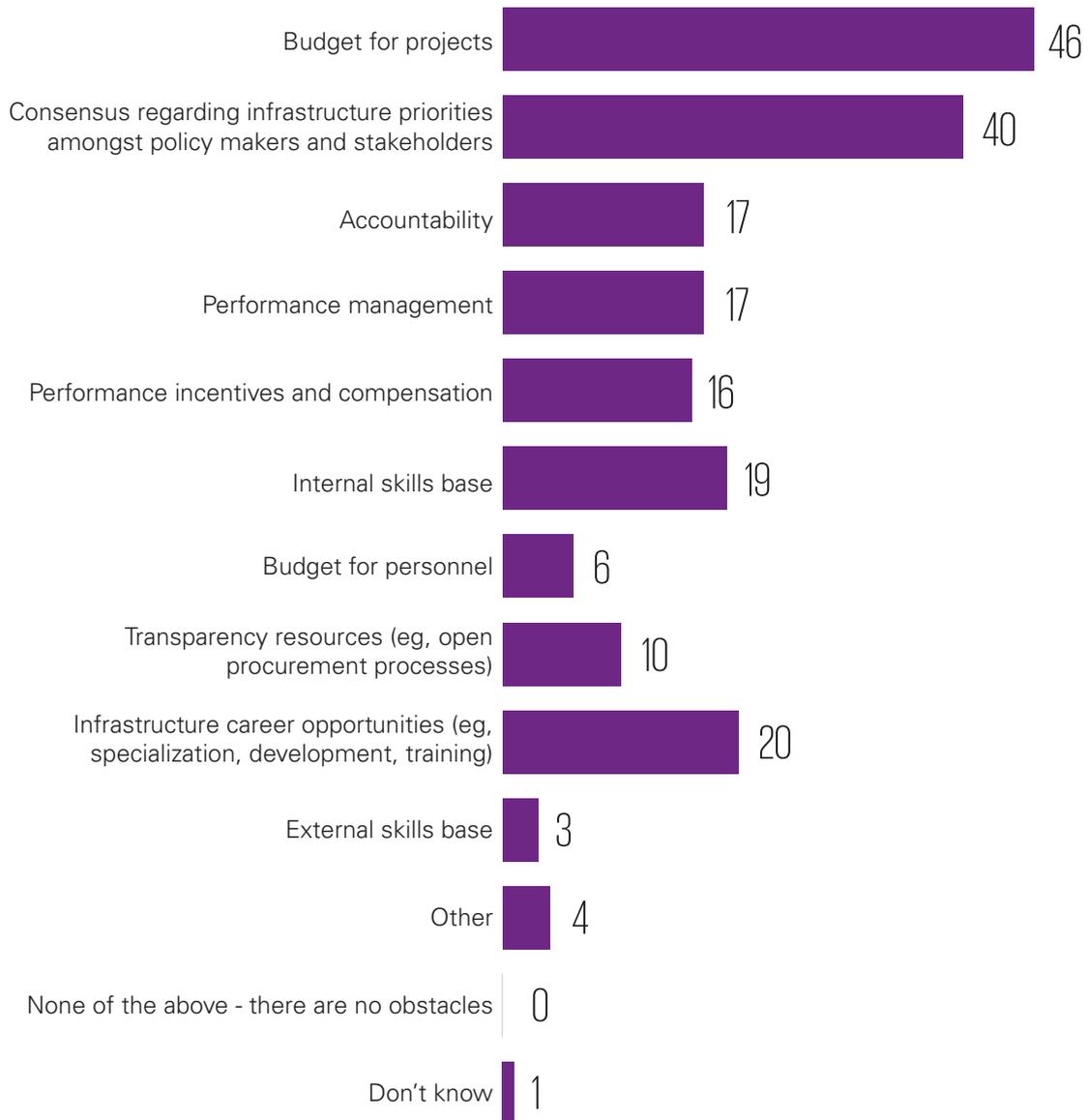
Q6. Thinking specifically about the jurisdiction for which you work, how concerned are you that the following factors will inhibit your organization's ability to provide the relevant infrastructure that would support the long-term growth of the economy in that jurisdiction? (1 = very concerned and 5 = not at all concerned)



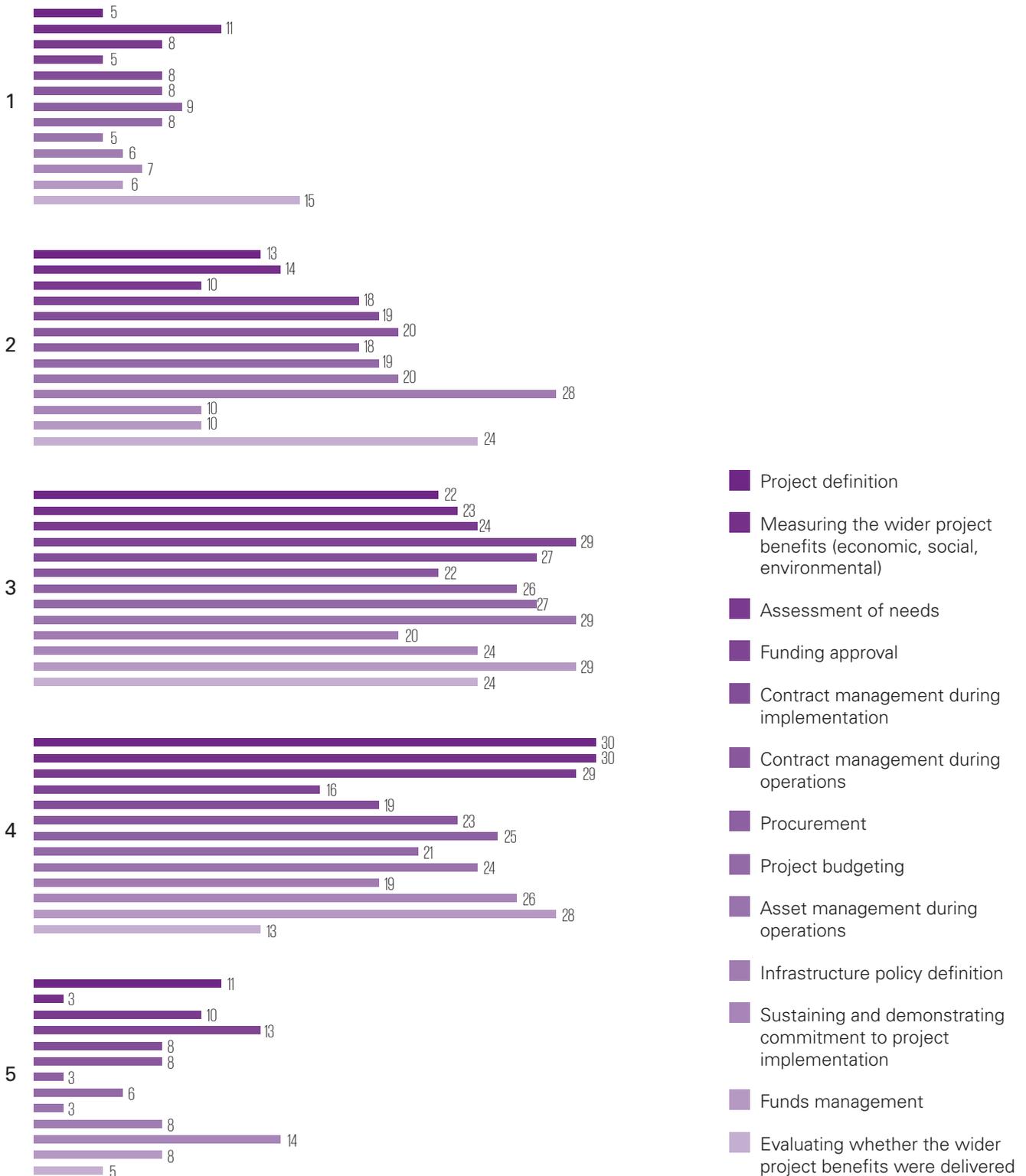
Q7. Thinking about the jurisdiction for which you work, what are the most effective ways to de-politicize infrastructure project prioritization? (Select up to three)



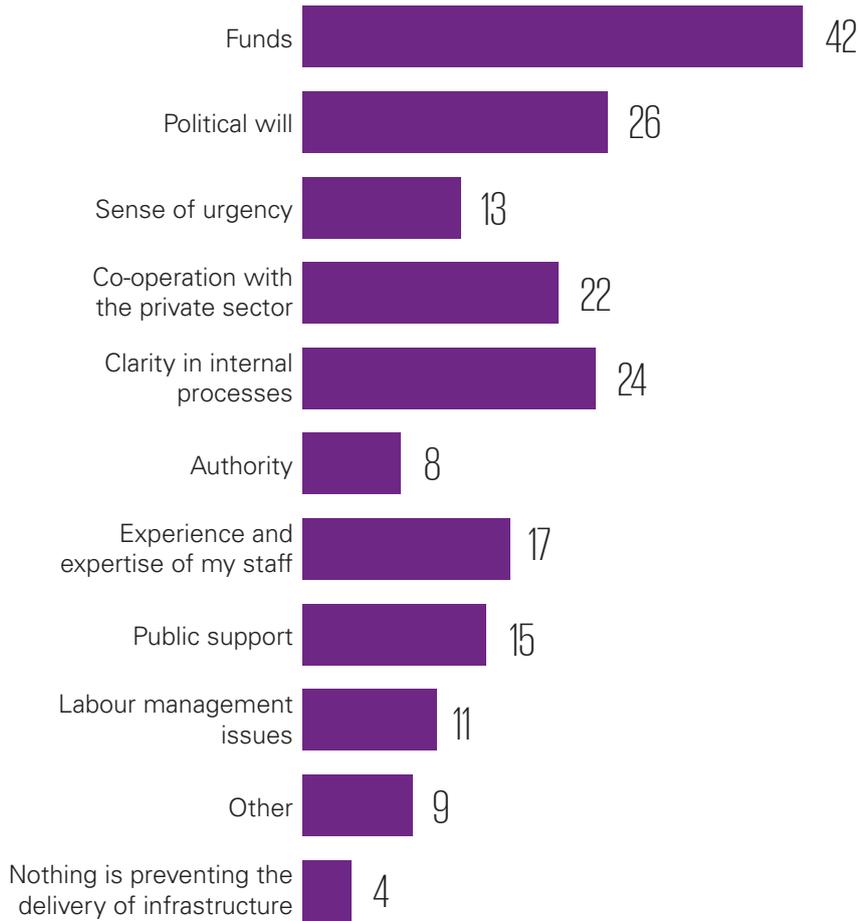
Q8 Thinking about the jurisdiction for which you work, what are the greatest obstacles to the effectiveness of public sector management involved with infrastructure? (Select to three)



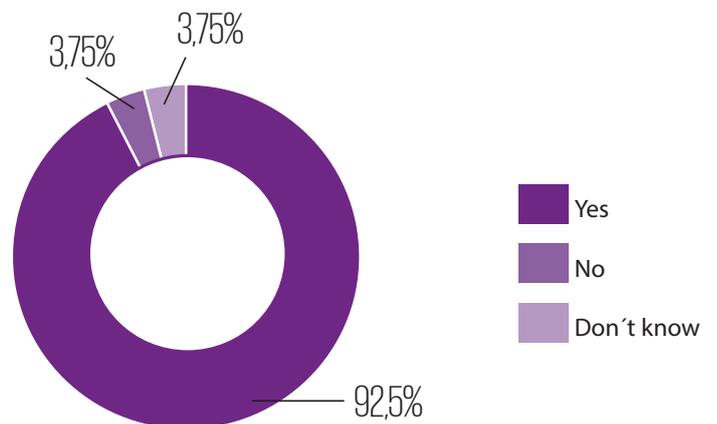
Q9. In your view, how effective are the following processes in your organization regarding infrastructure? (1 = not at all effective and 5 = very effective)



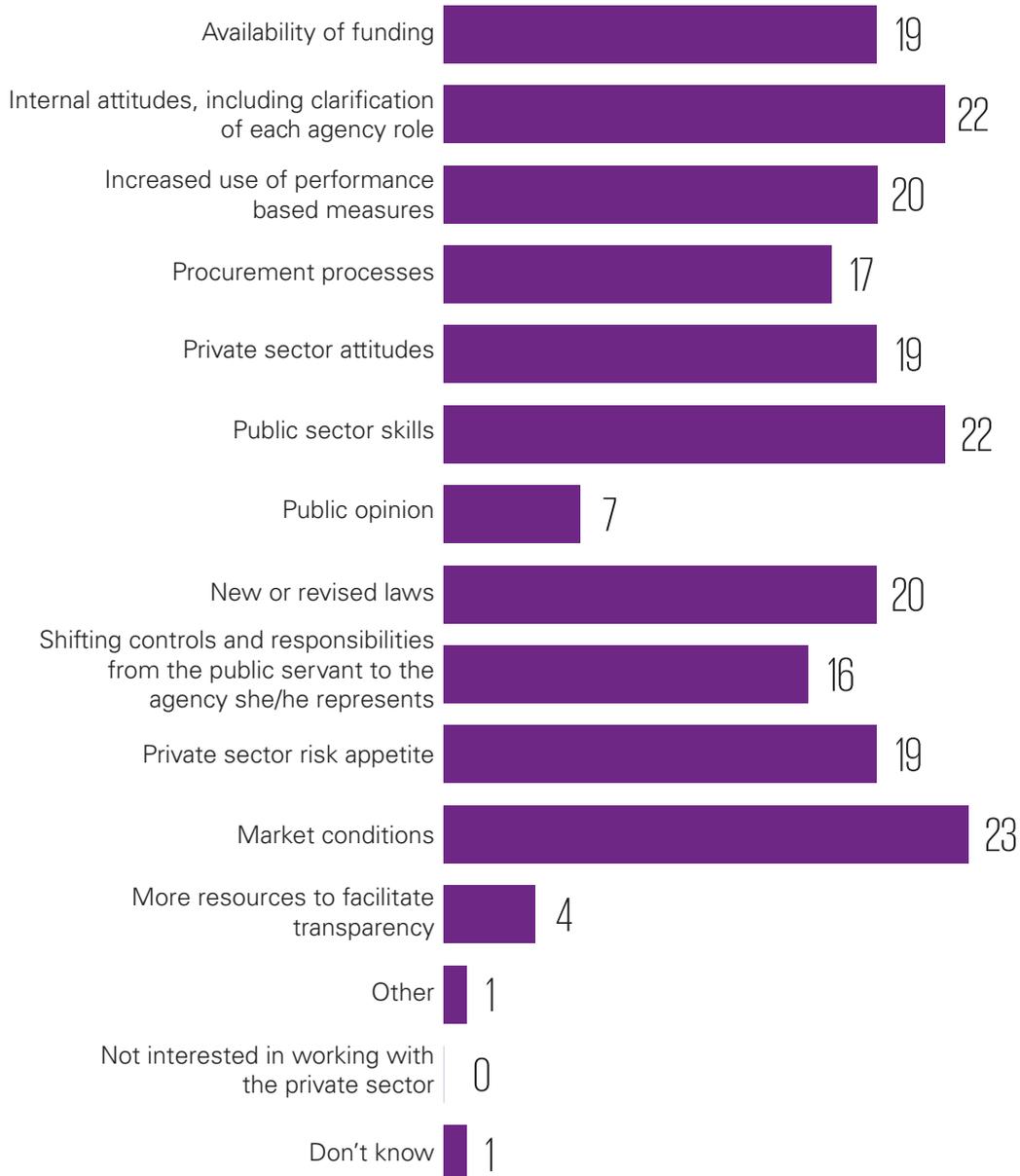
**Q10. Thinking specifically about your organization, what is preventing it from delivering infrastructure more effectively?
Lack of: (Select up to three)**



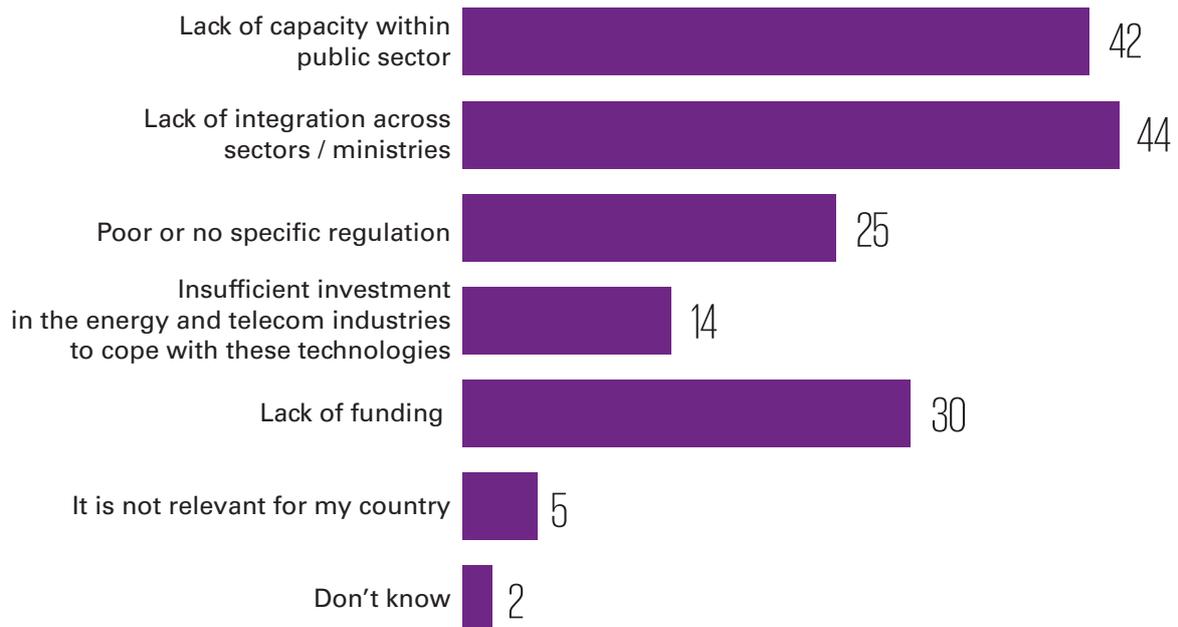
Q11. Thinking specifically about your organization, do you think the private sector can help it to deliver infrastructure more effectively? (yes, no, don't know)



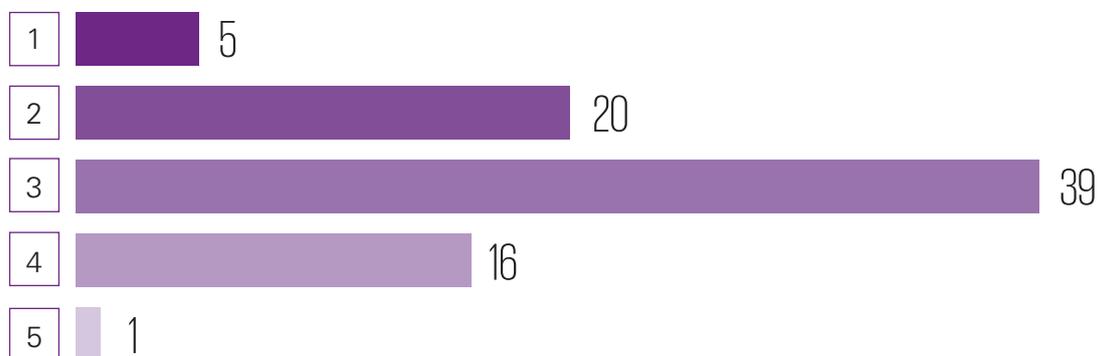
Q12. Thinking specifically about your organization, what would need to change in order for it to work more closely with the private sector? (Select up to three)

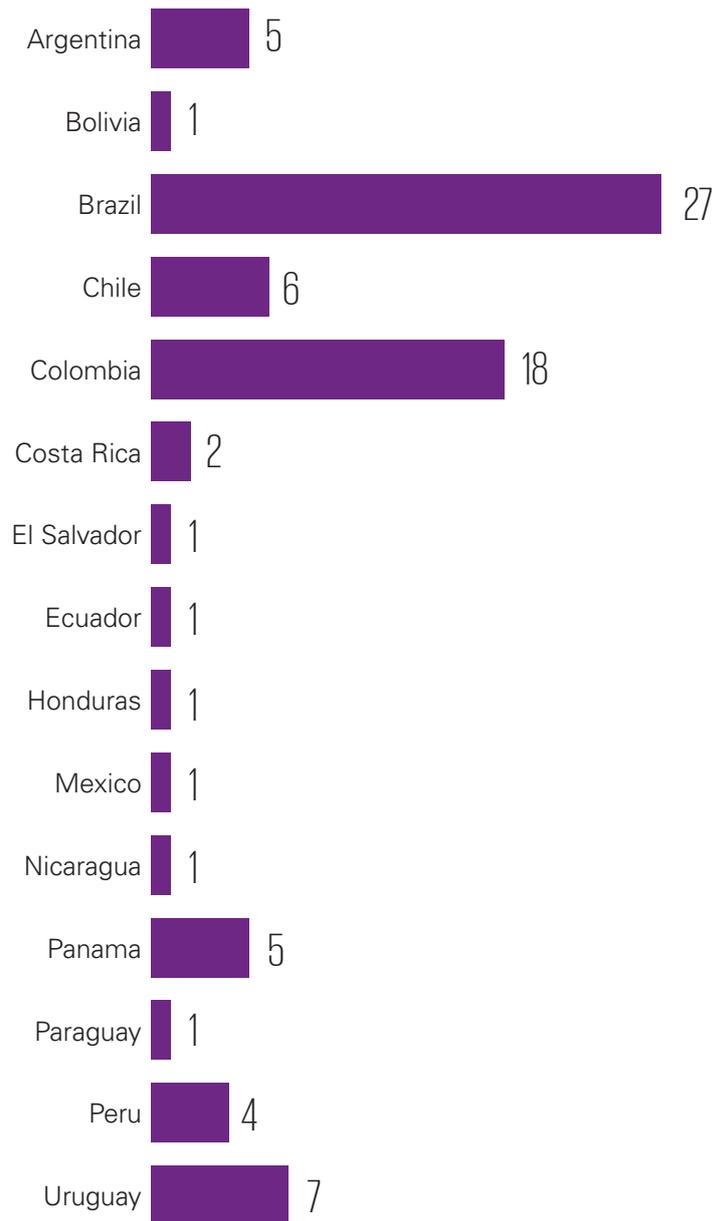


Q13. What are the biggest challenges for your country to start to incorporate technology in infrastructure planning, delivery and management?

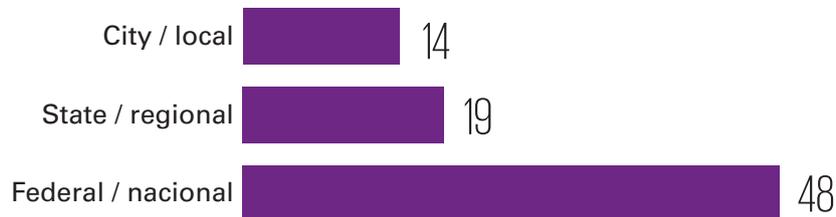


Q14. How effective is your country in managing its infrastructure assets (1 = not at all effective and 5 = very effective)

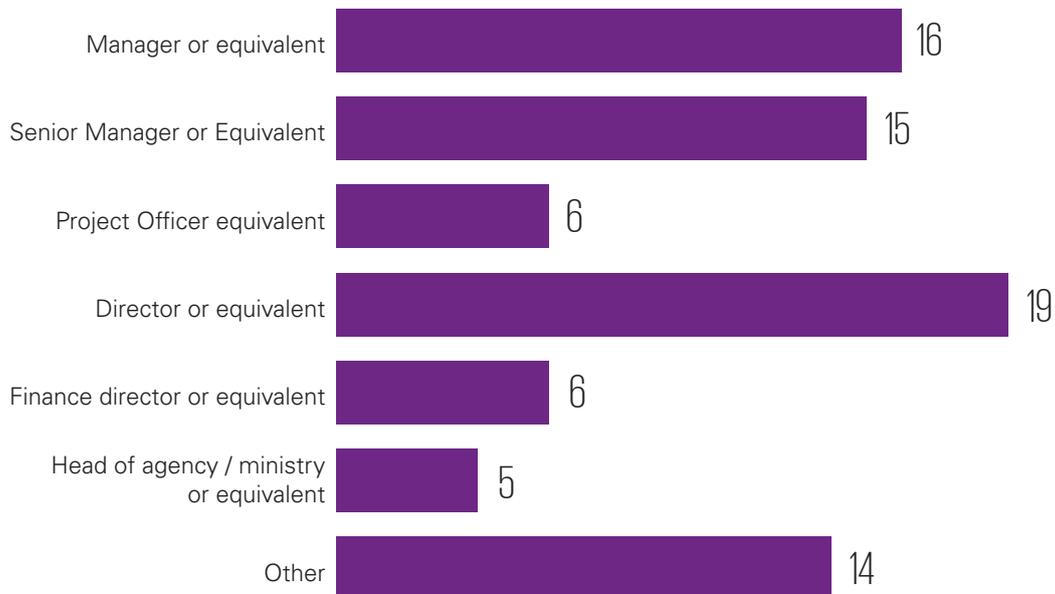


Q15. In Which Country in LatAm Are You Personally Based or you are focusing your work?

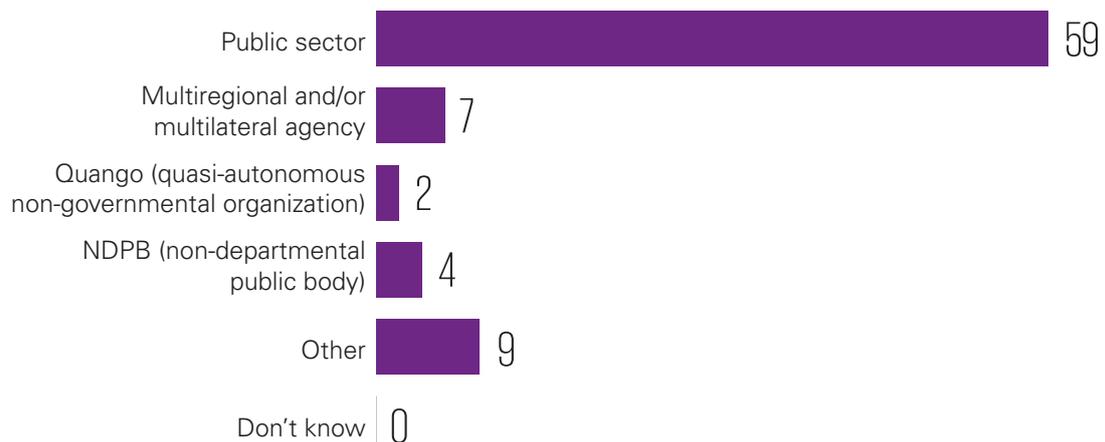
Q16. At which level of government does your organization operate?



Q17. Which of the following best describes your title?



Q18. Which of the following best describes your organization?



Our Infrastructure Team

Fernando Faria

Head of Infrastructure - Latin America
Tel: +55 11 97460 4187
fernandofaria@kpmg.com.br

Claudio Graeff

Head of Infrastructure Asset
Delivery - Latin America
Tel: +55 11 94550 3892
claudiograeff@kpmg.com.br

Eduardo Redes

Head of Infrastructure
Investments - Latin America
Tel: +55 11 99219 7824
eduardoredes@kpmg.com.br

Georges Almeida

Head of Infrastructure
Strategy - Latin America
Tel: +55 21 2207 9621
georgesalmeida@kpmg.com.br

Marco Quadros

Head of Infrastructure Tax -
Latin America
Tel: +55 11 3940 7428
marcoquadros@kpmg.com.br

Ignacio Garcia de Presno

Mexico and Central America
Tel: +52 5552468372
igarciadepresno@kpmg.com.mx

Magdalena Perutti

Uruguay
Tel: +59 829024546
magdalenaperutti@kpmg.com

Paulo Coimbra

Brazil
Tel: +55 21 2207 9465
pgcoimbra@kpmg.com.br

David Villalba

Colombia
Tel: +57 16188000
dvillalba@kpmg.com

Rodolfo Echeverria

Chile
Tel: +56 227981000
rodolfoecheverria@kpmg.com

Magdalena Bunikowska

Peru
Tel: +51 16113000
mbunikowska@kpmg.com

Jose Felix Magana

Panama
Tel: +50 72080700
josemagana@kpmg.com.ar

Martin Lopardo

Argentina
Tel: +54 91132103288
mlopardo@kpmg.com.ar



#KPMGTransforma



Baixar o APP
KPMG South America

kpmg.com.br



/kpmgbrasil

© 2021 KPMG Consultoria Ltda., a Brazilian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Brazil.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained here in is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.