Development of Infrastructure in Latin America by SOEs

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I. 1930 to 1950: Developmental State

- **Import Substitution (ISI):** Central role in creating and managing essential infrastructure for economic growth.
- **State-Owned Companies:** Key industries such as transportation, energy, and telecommunications.
  - Mexico, Brazil, and Argentina: Established public companies responsible for building roads, railways, ports, and hydroelectric plants.
  - Petrobras (Brazil, 1953) and Pemex (Mexico, 1938) were key to energy, infrastructure, supporting industrialization.

II. 1960s-1970s: Expansion and Centralization of the State

- Consolidation of the Developmental State: SOEs built not only physical infrastructure but also institutional infrastructure such as telecommunications, airports, and urban transportation systems.
- Examples: In Chile and Colombia: subways, roads, and telecommunications networks were constructed under SOEs.
- Centralization of State Power: In Mexico:

-The Federal Electricity Commission (CFE) managed a significant portion of the national electrical grid.

-The Mexican Social Security Institute (IMSS) also developed health infrastructure during this period.

III. 1980s: Debt Crisis and State Retrenchment

- Decline in State Investment: The IMF and World Bank imposed structural adjustment policies.
- Privatization of Public Companies: State investment in infrastructure decreased significantly.

IV. 1990s: Privatization and Opening to Private Capital

- **Neoliberal Reforms:** Argentina, Brazil, Peru, and Mexico sold SOEs
- **Private Capital Entry:** Construction and operation of roads, ports, and other infrastructure were opened to private companies.
- **Challenges:** Private companies, attracted by the prospect of quick profits, often fell short of expectations in terms of coverage and efficiency, leading to higher tariffs in strategic sectors like transport and energy.

- **Guillermo Perry (Colombian Minister of Finance, 1994):** *He argued that state utility companies play an important role in developing the stock market. These companies should become mixed-ownership entities and be capable of competing with private firms. The government aims for public companies to modernize and expand with private sector resources without relying on external credit (concern about fiscal deficit).*

V. 2000 Onwards: PPP and the Role of SWF in development of infrastructure

- **Importance of Public-Private Collaboration:** Governments acknowledge the importance of public-private collaboration
- **PPP Models:** Enable risk-sharing between the private sector and the state, becoming key mechanisms for financing large infrastructure projects.
  - **Growing Demand:** As urbanization increases, so does the demand for infrastructure.
  - Examples:

-In Mexico, PPPs have supported projects from the Mexico City Airport to highways and transport systems.

-In Colombia, the fourth generation of concessions (4G) is one of Latin America's largest highway construction programs. Petrobras and Electrobras in Brazil have used PPPs for port and airport projects.

VI. State Investment Since 2000

Since the 2000s, Latin American states have returned to infrastructure investment, especially in strategic sectors like energy, transport, and telecommunications. Through PPPs, they have achieved larger investments without overburdening fiscal budgets.

- **Brazil's** Petrobras invested over $200 billion in energy infrastructure from 2003-2013.In 2020, **Mexico's** CFE planned an infrastructure investment of about $3.5 billion, **Chile** used sovereign wealth funds and PPPs, investing over $50 billion in infrastructure from 2010-2020.

PPP Successes	PPP Failures
• Colombia's 4G infrastructure program raised $25 billion for roads and highways.	• Colombia's Ruta del Sol II suffered from corruption-related delays.
• Peru secured over $30 billion for infrastructure projects between 2005-2015.	• Brazil's BR-163 required government intervention.
• Brazil's BR-101 highway concession.	• Chile’s Maipú Hospital faced delays and operational issues.

Drawbacks of PPPs: High user costs, reliance on the private sector reducing state control, corruption risks, and fiscal exposure.

VII. Costa Rica Case

The state-owned electricity sector in Costa Rica has resisted neoliberal reforms,

Decisions in the electricity sector directly affect competitiveness, social solidarity, regional development, environmental sustainability, and the role of regulation and the state in the economy.

Long tradition in Universal access to essential services like electricity, potable water, and telecommunications.

- **General Data:**

  -GDP: Approximately $70 billion

  -Fiscal Deficit (2023): 3,3% of GDP

  -Liabilities of Public Companies: 9% of GDP

  -Public Debt: 64% of GDP (internal: 48%; external sovereign: 16%)

VII.1 Main SOEs in Costa Rica

- Costa Rican Electricity Institute (ICE)
- Recope (Costa Rican Petroleum Refinery)
- AyA (Costa Rican Institute of Aqueducts and Sewers)
- Banco Nacional de Costa Rica (BNCR)
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VII.2 Current Challenges of SOEs in LA and in Costa Rica

- **Efficiency and Competitiveness**
- **Financial Sustainability:** budgetary pressures, and SOEs are no exception.
- **Resistance to Privatization:** Historically, there has been strong social and political resistance to privatizing SOEs.

  Despite neoliberal pressures in the 1990s and 2000s, Costa Rica has maintained many of its SOEs.

  Critics: some of these entities have become bureaucratic and need modernization
- **Transparency and Corruption:** Although the country has high democratic and governance standards, criticisms about the administration of some public companies
- **Energy Transition:** ICE has been a leader in the transition towards renewable energy. Costa Rica has achieved nearly complete renewable electrification, an extraordinary achievement for a developing country.
- **Gradual Reforms:** Rather than opting for full privatization, Costa Rica has pursued a strategy of gradual reforms to improve the efficiency of public companies. This includes technological modernization, improved corporate governance, and opening certain sectors to competition, as seen with telecommunications.

VII.3 Fiscal Risks (increased public spending)

Four specific risks:

- Financial
- Public-Private Partnerships
- SOEs
- Environmental Risks

Risks Associated to SOEs and PPPs:

- Fiscal impact: lender of last resort / or make transfers to SOEs, affects fiscal balances.

Fiscal deficit, public debt and the crowding out / High interest rates

- Additionally, a significant deterioration of large SOEs in the economy could affect the country's credit rating.

Paradox of Chinese SOEs Investment in Chile

A) The Chinese electric company State Grid Corporation has a majority control in the local electric company Transelec (a private company) in Chile.

However, the Constitution of Chile prevents the creation of SOEs to operate in the energy sector and others (subsidiary role rather than a producer role).

Pressure on tariff regulation for regulated services.
The main buyer of Chilean copper (copper exports account for 50% of the total).

B) Bankruptcy of the Huachipato steel complex.

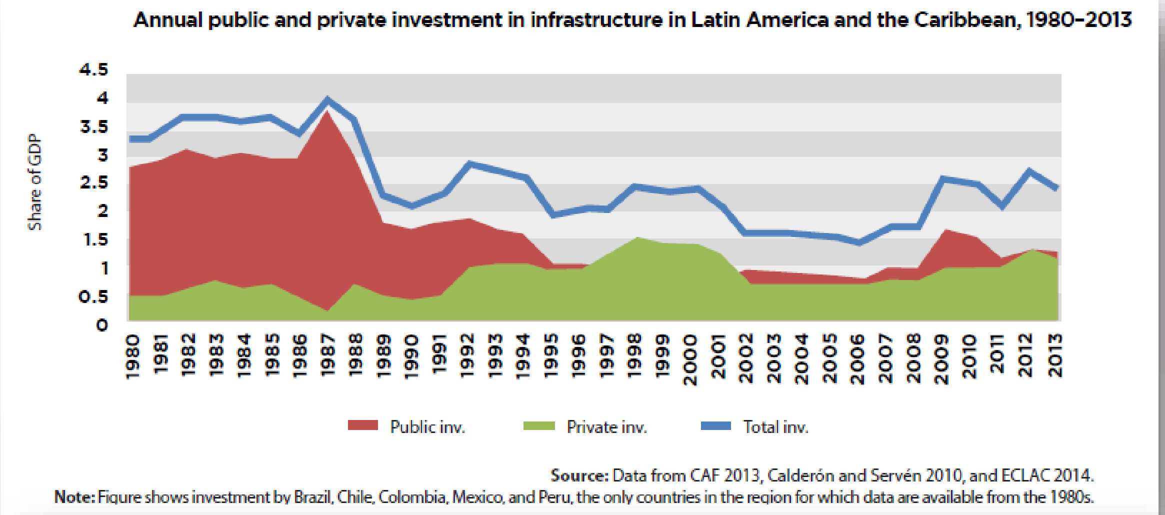
The price of Chinese steel is very low.

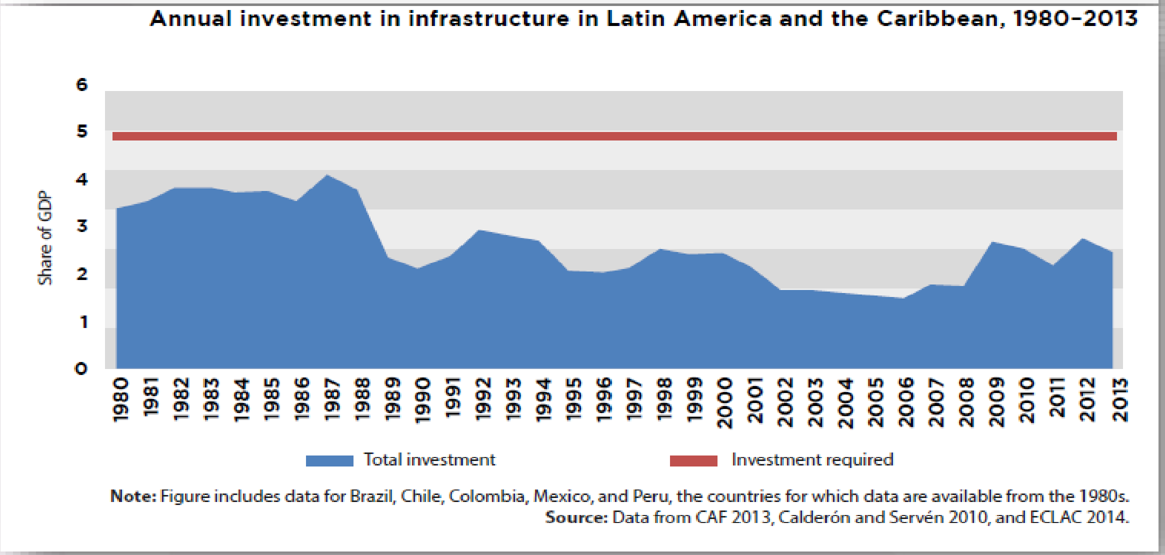
Loss of thousands of jobs and SMEs in the industrial zone of BioBio.

So far, the government's response lacks a clear industrial policy on this issue.

Final Remarks

- SOEs have been crucial for infrastructure development in LA
- Despite variations in investment models between state-led and private sector involvement, SOEs remain fundamental actors in strategic sectors like energy and transport.
- The main challenge for LA is to mobilize more resources for infrastructure in a context of fiscal limitations and to do so sustainably and equitably.
- SOEs, in collaboration with the private sector and sovereign wealth funds, will continue to play a key role in this process.
- GOVERNANCE is key to develop infrastructure and mitigate the fiscal deficits with SOEs and PPPs.





Data taken from IDB Publications

MUCHAS GRACIAS | THANK YOU VERY MUCH!