

## THE NEED TO ESTABLISH COMPREHENSIVE POLICIES FOR INFRASTRUCTURE, TRANSPORT AND LOGISTICS

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Regional authorities, international bodies, experts and academics are aware of the need to expand and upgrade existing infrastructure in Latin America and the Caribbean. This need is particularly acute in the many countries of the region where the inability of infrastructure to cope with future demand may pose serious constraints on future economic and social development.

High commodity prices on export markets have boosted fiscal revenues in many countries. For the first time in a number of years, States have had the necessary resources to repair or expand their infrastructure. Furthermore, the international banking sector and multilateral credit organizations are perfectly willing to finance infrastructure projects given their high return on investment and relatively low risk.

In spite of conditions that were unimaginable a few decades ago, it is certainly not easy to recognize the right time, or the best approach, for increasing a country's infrastructure stock. The main problem is to determine when a project has been properly appraised and is sufficiently well-defined and mature for implementation or presentation to potential backers; setting up and coordinating public bodies that are flexible and have highly trained staff are other major problems.

Whether infrastructure is provided directly by the State, indirectly through a contract awarded to the private sector, or via a public-private partnership, the State's active participation is vital for securing social returns on investments. Many projects present deficiencies at the planning stage, which sooner or later will reappear during implementation, thus reducing the synergy that can be created by appropriate infrastructure and economic activity. Often emphasis is mistakenly placed on economic variables, such as the quantity of investment, the project's bidding fee or the direct income that will be derived by the State, whereas the main concern of Governments should be the social or overall benefits that will be generated in the country's economy or that will help to enhance its competitiveness.

Numerous Governments have looked to the private sector for the necessary experience and efficiency in order to achieve a qualitative leap in infrastructure and improve competitiveness at the international level. However, when a project is poorly designed, if the invitation to tender is not well formulated or if the State institution concerned is out of step with the country's development strategy (if one exists), the participation of a private operator with international experience and leadership is not enough to ensure the project's success. There are also cases where lack of experience and institutional coordination by the State have allowed the private sector to challenge bidding processes and project supervision. This has often resulted in legal disputes, which not only paralyse the work being done on a project, with the consequent social cost, but also in some cases result in direct economic losses for the State.

When infrastructure is provided directly by the State, this may also lead to problems. Long-term projects may simply not be undertaken whether because of institutional weakness, because decision-makers fail to look beyond the next electoral exercise or for some other reason. In many cases, substantial amounts of windfall revenues are assigned to small, isolated projects that play little part in a national network. These are undertaken purely as a means of spending existing budgets and inaugurating public works of limited importance and which have little economic or social impact on the country.

### **Infrastructure and development**

In spite of the indisputable link between infrastructure and economic and social development, a large part of Latin America has fallen behind in the development of its infrastructure, restricting the prospects for long-term growth and the chances of poverty reduction. Moreover, even in those countries that have made more of an effort, the infrastructure is frequently disconnected from territorial and productive development. This is often reflected in the fact that infrastructure (or public works) is designed separately from the transport services that will eventually use it, involving different government ministries that lack functional coordination. It should come as no surprise, therefore, that certain public works policies fail to take into account the use for which the infrastructure is intended. Together with other factors, this means that the enormous investments paid for directly by the national budget (or indirectly as in the case of concessions) do not lead to the economic and social benefits envisioned at the start of such projects.

In order to attain economic and social development at the regional level, the Governments of Latin America and the Caribbean must improve and strengthen State institutions, as well as increase public-private coordination through up-to-date regulatory frameworks that strike a balance between planning, appraisal, capacity and investment maturities. The main focus of such regulatory frameworks should be not only financial considerations but also the comprehensive development of the economy in which the infrastructure is installed.

### **Towards comprehensive policies for infrastructure, transport and logistics**

Ideally, improvements to transport infrastructure projects or the development of new projects create the conditions for stronger economic and social development, although for this to happen, projects should form part of a comprehensive planning process where each different component plays its role fully. Public policies relating to infrastructure and transport have traditionally been considered separately, which has made it difficult to budget efficiently for the scarce public assets common to the two. Transport and related policies are often assessed and implemented on a unimodal basis, while logistics are frequently omitted at the planning stages for transport and infrastructure.

The Economic Commission for Latin America and the Caribbean (ECLAC) advocates a move from unimodal transport policies towards comprehensive policies that encompass infrastructure development, transport services, logistics, trade facilitation and transport, the overall objective being to further urban and social development. Furthermore, in those cases where the efficient functioning of a new project depends on public-sector participation and the allocation of public resources, the social evaluation of the project should include the whole country and not only the geographical area directly involved.

The planning and implementation of public policies, therefore, should be considered from the point of view of the competitiveness and productivity of the goods or services exported or imported by the country, and not on the basis of the mode of transport. This is why, instead of discussing maritime or rail transport policies, for example, a national transport policy should be established according to the productivity and competitiveness of the national economy. Ultimately, the State's main concern is that exports should be competitive on the international market, and how such products are actually transported is irrelevant for the country. With respect to imports or internally traded products, the focus needs to be on reducing the cost of transport and logistics and passing on those savings to the end-users, thus improving their purchasing power and standard of living.

Consequently, the focus of sectoral policies needs to be changed and directed towards comprehensive policies that cover the different areas and sectors that form part of the problem, incorporating not only economic factors but also social and environmental considerations. For this to happen, a genuine dialogue between the different actors involved is required. The sectoral focus has been unable to address the complex problems caused by negative externalities in the area of transport and infrastructure, such as pollution and road accidents, precisely because such problems require coordinated and multisectoral responses to deal with the different variants of the problem.

The harmonious development of a territory is not possible if the models designed for territorial development are not aligned with local strategies. If infrastructure expansion plans are implemented by central government without considering and integrating the actual needs of users and the productive communities where they reside, the investment will not yield the expected returns.

Dialogue on its own is not enough, however, for appropriate and timely actions are also required. Along with participatory planning which integrates and harmonizes different points of view, a development model is needed that transcends political cycles in order to focus on the economy's competitiveness and productivity, and where economic development should be as important as the social development of the country's citizens.

### **The rationale for having a comprehensive policy**

The first reason relates to the inherent nature of the three factors: (i) infrastructure is indivisible and, on that basis, its market characteristics rule out pricing based solely on supply and demand; (ii) the transport sector produces negative externalities such as pollution, congestion and accidents; (iii) logistics require the coordination of numerous entities and sectors, both public and private. These restrictions mean that the efficient provision of common goods requires active planning and regulation by the State; this is not incompatible with the participation of different types of public-private partnerships; indeed such partnerships may be enhanced by it.

In globalized economies, productivity and external competitiveness are conditioned by multiple, interrelated and mutually-dependent variables, requiring a joint and multidisciplinary analysis for planning, implementation and oversight of comprehensive solutions. Consequently, the components of economies (infrastructure, transport and logistics) should be analysed as a whole system and not as separate entities. This would logically involve important administrative and legal modifications.

As previously discussed, national policy should be designed using an integrated approach and viewed as the compilation of sectoral development plans. The planning and implementation of policies should therefore be carried out with due consideration for the competitiveness and productivity of the goods or services that are produced, consumed, exported or imported by the country, and not on the basis of the forms of transport used.

Lastly, infrastructure should be placed at the service of productive development and be designed to support existing or future centres of production. Consequently, national policy should encourage a process of continuous improvement that requires regular modifications as required by the internal and external environment where infrastructure is located.

### **How to implement a comprehensive policy**

A series of common elements can be identified from the analysis of case studies relating to successful developments in a number of countries (including Finland, France, Germany and the Republic of Korea) which, although reflecting different economic, social and cultural circumstances, provide real and specific options for the establishment of a comprehensive infrastructure, transport and logistics policy. The main conclusions regarding the strategic, administrative and legal issues involved are as follows:

#### **Strategic considerations**

- National policies should be designed comprehensively rather than as a compilation of sectoral development plans.
- Policies should be designed and implemented taking into account the competitiveness and productivity of the goods or services being exported or imported, rather than the transport systems used.
- The focus should be not so much on distribution logistics as on advanced logistics, which seeks to integrate production and facilitation as well as distribution.
- Policies should be planned and designed on the basis of cargo requirements and not of the forms of transport used.
- National infrastructure, transport and logistics policies must be regularly reviewed, modified and improved. In this process, the internal and external environment in which the infrastructure is located must be taken into account.

#### **Administrative considerations**

- A central agency should be established in order to direct development initiatives and implement comprehensive policies.
- Coherent strategic plans must be drawn up and coordinated by the different government departments and must be based on a shared vision of the future.
- Infrastructure should be placed at the service of productive development and be designed to support existing or future production centres; the political, human and social development of the territories where it is installed must be taken into consideration and promoted.
- Decision-making bodies should be set up, incorporating all the government ministries and institutions taking part in the process, but also including representatives from civil society, the private sector (the main cargo transport firms and users), the academic world and non-government organizations. The purpose is to further basic consensus, ensure that policies are of a strategic scope, and transcend political cycles.

### **Legal considerations**

- Legislation should be established that is clear, coherent and condensed in a single legal instrument, facilitating its implementation (*an all-inclusive policy*).
- Policies should ensure the coherence and consistency of national policies and strengthen the synergic effects.
- Legislation should be created to facilitate logistics and the transport of goods, and not on the basis of the form of transport used.
- Integrated logistics and multimodal transport, although they are not established by the mere existence of a law, require modern legal frameworks and flexible structures.

In view of the importance of comprehensive infrastructure, transport and logistics policies, ECLAC is now working on analytical background documents on relevant developments in different parts of the world and these will be published in the course of the coming months.