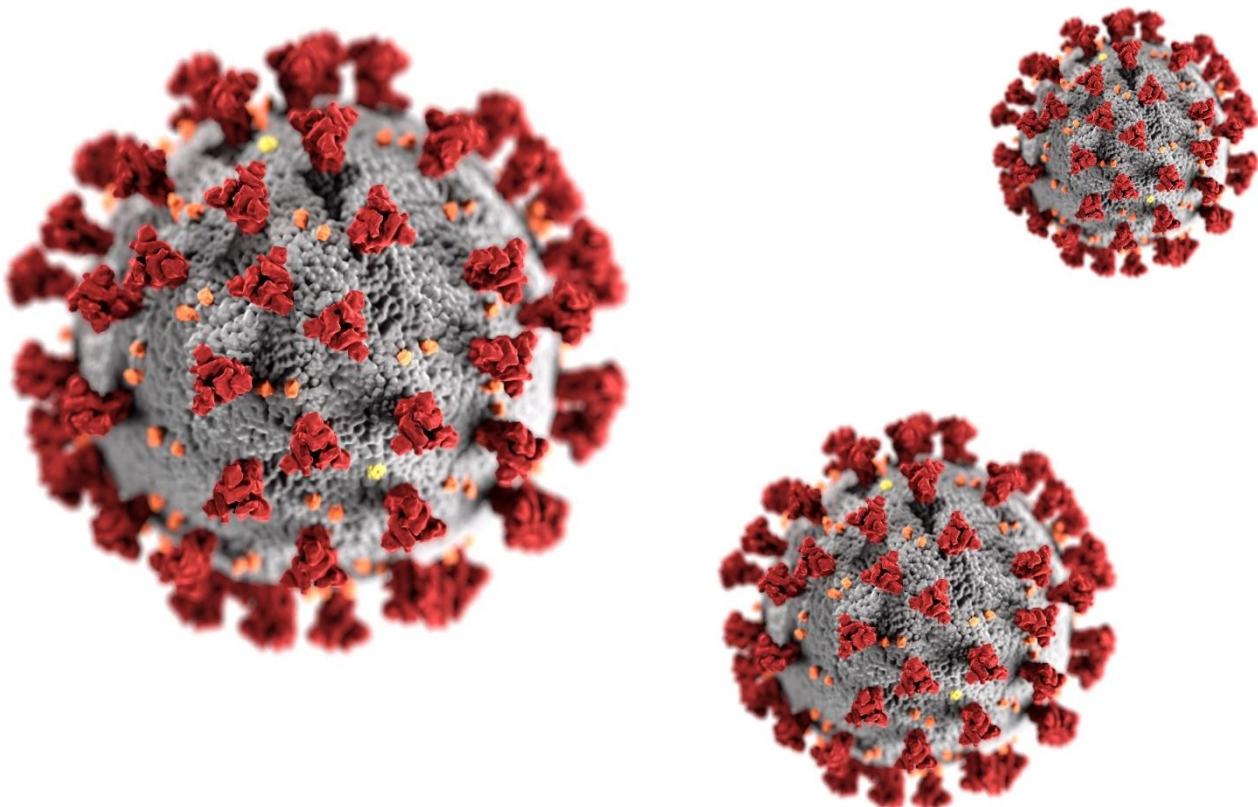


RESILIENT PUBLIC INVESTMENT

POST-COVID-19 PANDEMIC ECONOMIC RECOVERY
IN LATIN AMERICA

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ABBREVIATIONS

CAF	Development Bank of Latin America
CCA	Climate Change Adaptation
DRM	Disaster Risk Management
GDP	Gross Domestic Product
GIDRM	Global Initiative on Disaster Risk Management
IDB	Interamerican Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
PIP	Public Investment Project
PPP	Public-private Partnership
RID	Risk-informed Development
SNIP	<i>Sistemas Nacionales de Inversión Pública</i> National Public Investment System
WB	World Bank

DISCLAIMER

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INTRODUCTION

Starting in 2019, the COVID-19 pandemic generated a cascade of adverse effects for individuals, communities, and entire societies worldwide. The outbreak of the virus was an unprecedented challenge to the response capacities of governments across the globe. To date, countries are struggling with the consequences and repercussions of the pandemic, especially in social and economic terms. In Latin America and the Caribbean (LAC), many countries have implemented measures and adjustments through their National Public Investment Systems (SNIPs) to counter its effects, stimulate the economic recovery process, and create strategic mechanisms for building resilience in the medium- and long-term. This factsheet presents findings from an analysis of 14 Latin American countries (Chile, Costa Rica, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Mexico, Panama, Paraguay, Peru, Dominican Republic, Uruguay) to document the SNIPs' response to the pandemic, as well as to draw recommendations and lessons-learned for stimulating economic recovery in a resilient manner.

1. RESILIENCE OF PUBLIC INVESTMENTS

Public investment projects aim to promote and facilitate capacity-building (such as human capital development, innovation, research) and resilient

infrastructure (such as roads, public buildings, bridges) to support the production, access, and distribution of goods and services and to contribute to a country's development progress. However, development gains are fragile and threatened by new and emerging climate and disaster risks. If these risks are not sufficiently considered, public investment projects might not be sustainable, as disruptions in basic services and infrastructure due to hazards or disasters have long-term impacts on economic development. Apart from direct expenditures for emergency relief, rehabilitation, reconstruction, and the provision of other services, economic growth often drops in the wake of large-scale extreme events. The COVID-19 pandemic is an example of such an event impacting people and societies worldwide and oftentimes disrupting basic services or the access to critical infrastructure. Besides severely burdening the health sector, the pandemic triggered an economic crisis in many regions, prompting the countries to strengthen their methodological guidelines, tools and capacities to improve public resource allocation processes and incorporate DRM and CCA components into their decision-making. Similarly, **risk-informed development (RID)** calls for the consideration of risks in all development policy, planning, decision-making and budgeting to ensure more resilient and sustainable development progress.

What are SNIP?

“National Public Investment Systems (SNIP) are comprised of the set of state institutions that govern the public investment process in a country. These systems employ methodologies, standards and procedures which guide the formulation, execution, and evaluation of investment projects, and are key to enhancing the economic and social impact of public investment by improving the quality and efficiency of public spending.” (CEPAL, 2023)

Risk-informed development

RID is an **interdisciplinary, strategic, and flexible guiding principle for decision-making** that fosters a transition towards more resilient and sustainable development progress. RID recognizes that risks are systemic, interconnected, and influenced by our activities and choices. One crucial component of RID is **risk governance**, which involves integrating the consideration of short- and long-term disaster risks into decision-making and management processes across administrative levels, including critical infrastructure sectors, such as healthcare, transport, energy, or water. Good risk governance considers complex and changing risk landscapes, **underlying risk drivers**, and ensures that development and investment processes are designed flexible enough to adapt to

shifting requirements. This approach requires **coordinated, multilevel cooperation**, and must consider the vulnerabilities, exposure, and coping capacities of individuals, communities, and systems. Guided by the **leave-no-one-behind principle**, risk governance relies on the inclusion, representation, and participation of the individuals and communities particularly vulnerable to the impacts of extreme events and disasters.



WHAT IS RISK-INFORMED PUBLIC INVESTMENT?

Risk-informed public investment strives towards assessing possible known and unknown risks to which an infrastructure or service is exposed. All activities associated with reducing any type of risk in an investment project represent costs and benefits, which must be identified, measured, and valued.

There are three type of management that are essential for tackling risks in the public investment cycle.

- 1. Prospective management in the pre-investment phase** intervenes on future risks – risks that do not exist yet – in new investment projects, particularly in risk-prone areas. Prospective management should take place during the formulation of public investment projects, wherein risks are minimized and/or managed with standards, regulations and/or via territorial planning instruments.
- 2. Corrective management in the investment and operation phase** intervenes on existing risks in existing public investment projects. Considering that corrective management is being implemented in existing investment projects, it usually means incorporating DRM measures such as reinforcing constructions, protecting systems or transferring risk (e. g. insurance).
- 3. Reactive management in the investment and operation phase** intervenes on risks that have not been corrected or are residual. Commonly used in residual risk management are systems that aim at improving preparedness and response capacities, such as early warning systems, emergency planning, insurance solutions, and/or simulations and capacity building exercises.

2. POST-COVID ECONOMIC RECOVERY IN LATIN AMERICA

Context: Impact of COVID-19 in Latin America

Global economic performance slowed down considerably in 2020 and 2021 due to the COVID-19 pandemic, with significant direct and indirect impacts for key fiscal indicators in many countries, among others:

- **Lock- and shutdowns:** to control the spread of the virus, governments worldwide imposed restrictions in the movements of people and goods, which had a severe economic effect on fiscal revenues in many low- and middle-income countries.
- **Global setback in public investment programmes (PIPs) financing:** countries used direct funding to assist citizens, which results in significant reallocation and freezing of the funds for PIPs.
- **Limited fiscal space due to COVID-19 reactive measures** as a result of recurrent expenditures (on vaccines, public information campaigns and other emergency activities) related to the pandemic response, in combination with emergency spending and stimulus packages to absorb adverse impact of the pandemic and stimulate economic recovery.
- **Increased public debt vulnerability:** due to the pandemic response, many countries were forced to resort to increased borrowing to finance budget deficits. This led to a significant increase of public debt intensifying the risk of debt distress, mainly in the low- and middle-income countries.

In Latin American countries, which are mainly developing economies and emerging markets, the problems generated by the pandemic reshaped the way in which national resources were being used. Instead of allocating resources to economic and productive infrastructure as planned, resources had to be redirected mainly to the health sector and social protection to support the overwhelmed health systems as well as the most vulnerable population. In addition, some countries

(Honduras, Nicaragua and Colombia) faced extreme events and disasters due to the Hurricanes Iota and Eta in late 2020 and had to prioritize investing in physical infrastructure such as housing.

Public spending on social protection in Latin America showed a clear increase due to the measures adopted by the National Public Investment Systems to face COVID-19. Figure 1 shows the GDP performance in selected Latin American countries during the period 2017-2021, expressed as a percentage of growth. Most of the countries show a similar trend since 2017: first a steady increase, then a slight decrease of growth, followed by a sharp drop in growth from 2019 to 2020, mainly due to the contraction of the global and local economy, closure of businesses and resulting rise in unemployment. However, pandemic response and recovery measures implemented by each country contributed to an even higher GDP growth than before the pandemic.

Rethinking public investments in light of the COVID-19 pandemic: Examples from LAC

The pandemic and the policies implemented in response have increased the need for liquidity in the emergency phase across all LAC countries. The containment measures implemented, such as physical distancing and voluntary isolation, had a significant negative impact on the economic activities and productivity of the countries (ECLAC, 2021). Moreover, there has been pressure to increase public investments to accelerate economic recovery and boost employment. However, most LAC countries have limited financial leeway to increase such investments because of deteriorating fiscal balances and rising debt, which can average up to 70% of GDP in the region. This is why, diverse financing policies and measures have been introduced to compensate for this limitation.

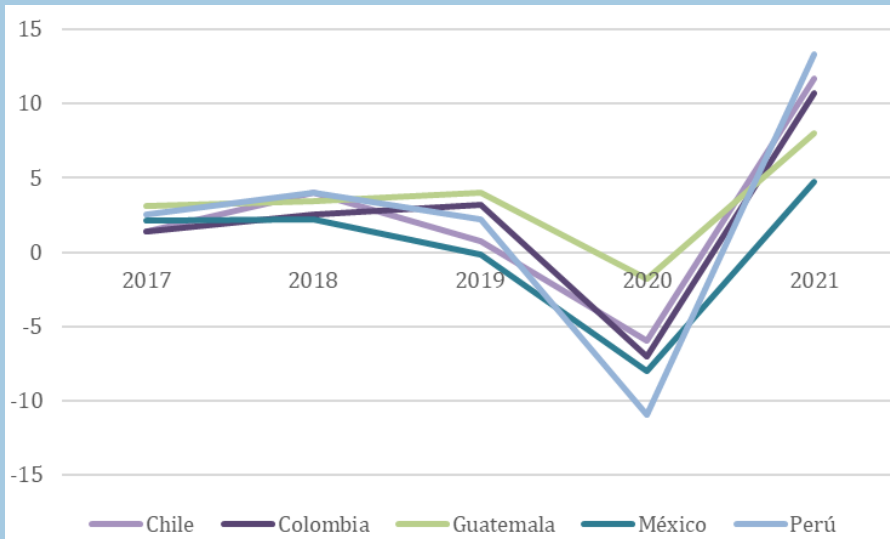


Figure 1. GDP performance of selected LAC countries, during the 2017-2021 period, shown as a percentage of GDP.

Source:
<https://datos.bancomundial.org/>

Amendments to the 2020 public investment budgets

Budget amendments allow for **flexibility in approved budgets**.¹ In response to the COVID-19 pandemic, budget amendments, commonly institutionalized through emergency laws, were drawn up to bolster funds to address the impacts of the pandemic.

- During lockdown, resources were reallocated to strengthen programs that support families.
- Contractual commitments for works and non-priority investment projects were put on hold and rescheduled to allow for the reallocation of funds to address priority shifts due to the pandemic.

- Relevant public finance institutions were authorized to reprogram and adjust resources to make savings in public spending. These policies were often aimed at reducing the budgets of non-financial public sector institutions allowing to channel more funds into the health emergency response. These measures excluded critical infrastructure sectors, such as health, energy, security and defense and projects aimed at economic recovery.

What is a budget amendment?

The term is commonly defined as “modifications to the functional, programmatic, administrative, and economic structures, budget schedules as well as increases and reductions in the expenditure budget or corresponding cash flows” (SHCP, n.d.).

¹ https://campus.cgr.go.cr/capacitacion/CV-FPP/L5T1DocumentosPresupuestarios/132_modificaciones_presupuestarias.html

Changes to SNIP components

Besides budget amendments, many countries made structural changes to public investments processes in response to the COVID-19 pandemic by modifying the components of their national public investment systems. The following SNIP components were adapted to respond to the crisis. The following exemplary measures were collected for some of the components by either one country or several:

Regulatory framework

Laws, regulations, decrees, administrative decisions, orders, etc.

- **Updating public investment regulations, instructions, and procedures** to simplify and speed up processes.
- Updating and implementing **technical standards for public investment**.
- **Provision of a regulatory framework for public investment initiatives** to ensure a timely response to the adverse effects of an emergency establishing response in two stages – emergency and reconstruction.
- Approving **regulatory packages to provide economic stimulus by optimising public investments**: Authorize the certification of civil servants and public employees directly involved in the phases of the investment cycle through a legislative decree to optimize the implementation of PIPs.

Human resources

Team of professionals responsible for managing SNIP processes

Training

Professionalisation of the team that operates the SNIP

- **Training and capacity building programmes** were introduced to **strengthen the capacities** of planners and evaluators linked to the SNIP processes.

Methodologies

Methodological developments for project identification, formulation and evaluation and prioritisation or decision-making mechanisms for the allocation of resources to investment projects

- **Strengthening the SNIP components** by issuing a methodology for risk analysis using a multi-hazard approach and probabilistic criteria in PIPs.
- **Publishing new methodological guides** for different project planning stages highlighting the relevance of DRM.
- **Developing terms of reference on the methodological framework** for estimating social costs, evaluating social and economic benefits of investment projects, conducting trainings on project formulation and evaluation, as well as on the use of project data bank tools.
- **Adopting additional methodological guidelines and tools to strengthen the investment cycle** by ensuring the sustainability of investments as well as guiding the calculation of social benefits and costs of investment projects.²

Processes and procedures

Set of activities and criteria used to manage the SNIP

- Steps were taken to **reduce the time from project presentation and registration in the investment project data bank to its approval**, as well as to **simplify registration and resource allocation processes**.

² Other tools adopted to strengthen the investment cycle include the General Methodological Guidelines for Ex Post Evaluation of Investments, the Guidelines for Short-Term Ex Post Evaluation, the Technical Note for the Identification and Estimation of Investment Project Maintenance Costs, the Technical Note for the Use of Social Costs in the Social Evaluation of Investment Projects and the Technical Note for the Use of the Social Cost of Carbon in the Social Evaluation of Investment Projects.

- Prioritized emergency response projects were exempted from the process of obtaining technical approval and instead used no-objection letters to initiate the resources management and allocation procedure.
- The institutions responsible for implementing public investment programmes and projects were instructed to **adjust the physical and financial planning** of their objectives, results, and targets. By adapting their budget, operational plan, annual procurement and contracting plan, the progress of projects under austerity measures and requirements for efficient resource use were improved.
- **Pre-investment funds were created to provide resources to government agencies** and entities subject to the SNIP's scope of action to enable them to conduct (pre-)feasibility and technical studies for projects registered in the SNIP. This mechanism contributes to improving the quality of investment projects and efficiency in their implementation.
- **A temporary code was created by SNIPs for projects in emergency situations due to disasters or human-induced extreme events.** In this category, minimal descriptive and strategic information was required to expedite the registration of projects aimed at addressing an emergency. To assist the institutions involved, technical advice throughout the process on rules and methodologies to ensure smooth implementation was provided.
- Additionally, a **rebalancing and realignment of investment projects with an unbalanced budget** was carried out.
- The **design of plans and programmes was specifically aimed at economic reactivation**, wherein public investment was one of the means to boost the economy and recover the jobs lost during the pandemic.

Project data bank and information systems for project management

Information platforms or software for the management of public investment administered by the SNIP

Sources of financing

Internal and external

- Introduction of **alternative financing sources** to meet the needs emerging due to and during the pandemic or concurrent crises, e.g.:
 - **Set up of an extraordinary support fund** financed with 0.7% of the GDP of the world's strongest economies providing resources to developing countries (loans of up to 3% of GDP) to address the socio-economic impacts of the pandemic on the economy and people.
 - **Funding from multilateral organizations** such as IMF, IDB, WB, CAF.
 - **Framework financing agreements with national governments** were signed such as the United States Development Finance Corporation.
 - **Fiscal waivers** to raise the limit on debt and budget deficit for the non-financial public sector.
 - **Accessing loans** for the development policies for resilience and sustainability and the remaining amount for emergency support to vulnerable populations affected, both with the objective of mitigating the economic and social impact of the COVID-19.
- **Creation of funds to address emergencies and to attract investment** focused on prevention, mitigation, and rehabilitation activities carried out by the national emergency systems, health insurances and unemployment insurances payments.
- **Various governments decided to freeze, reserve or release funds** to respond flexibly. The reactivation of contracted work, which had been interrupted due to the national emergencies triggered by COVID-19, took place gradually.

The diversity of approaches taken by the analysed countries highlights the importance of making a **context-specific and targeted portfolio of measures** for a successful economic recovery (c.f. table 1).

Adopted measures	Chile	Costa Rica	Colombia	Ecuador	El Salvador	Guatemala	Honduras	Nicaragua	Mexico	Panama	Paraguay	Peru	Dom. Republic	Uruguay
Amendments to the approved public investment budget during the pandemic	*				*	*	*	*		*	*			*
Changes in SNIP components, 2020 - 2023	*	*	*		*	*	*	*			*	*	*	
Public investment mechanisms to stimulate economic reactivation after the pandemic	*		*	*		*	*		*	*	*	*	*	*
Main expenditure items of the budget allocated to public investment during the pandemic			*	*		*	*	*			*	*	*	*
Change of public investment prioritization criteria	*				*	*	*	*	*	*	*			*
Diversifying internal and/or external sources of financing		*		*	*		*			*	*			*

Table 1. Overview of adopted measures in the 14 analyzed LAC states in relation to public investments in response to COVID-19.

3. RISK-INFORMED PUBLIC INVESTMENTS: MOVING FROM REACTIVE TO PROACTIVE APPROACHES TO SAFEGUARD RESILIENCE

In terms of adapting SNIP components, the LAC countries had been focusing on developing more **medium- and long-term structural strategies and mechanisms** rather than just responding to the situation caused by the pandemic. By strengthening methodological guidelines for the identification, formulation, and evaluation of investment projects, the countries have improved their processes for allocating public resources and incorporating DRM and CCA considerations into the SNIP components. Through **technical assistance and agreements with multilateral organizations**, SNIP tools could be improved from a structural perspective, instead of just responding to the

pandemic itself, which will allow a **better incorporation of disaster risk and climate change considerations in the long term**. Based on the LAC examples, post-emergency economic reactivation in low- and middle-income countries is fostered by **diversifying financing mechanisms and policies**, including internal and external sources of funding, by seeking external funding from multilateral organizations and developed economies, creating funds for emergency response, and forming public-private partnership to boost investments.

In 2020-2023, public investment projects in Latin America have been focused on road infrastructure, sanitation, housing, energy, and then education and health. However, the post-pandemic period showed a different trend: Economic recovery measures had a more comprehensive scope (c.f. figure 2), i.e., they should not only focus on

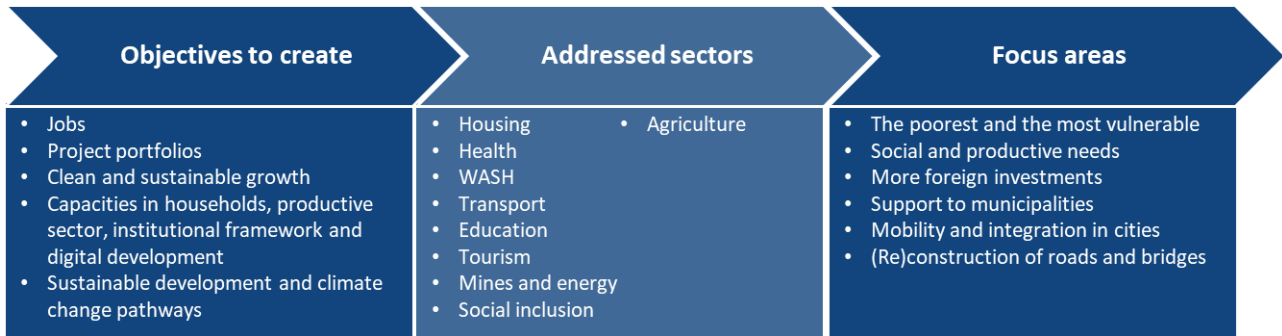


Figure 2: Scope of the post-pandemic public investment projects in Latin America.

the target objective, but also take into account the interconnections, strengths and vulnerabilities of the system, and foster multi-sectoral cooperation. This inclusive and proactive approach opens an opportunity for **institutionalizing risk-informed decision-making in the field of public investments**.

If climate and disaster risks are not sufficiently considered, public investment projects might not be sustainable in face of existing and future risks. Therefore, all activities associated with reducing any type of risk in an investment project are essential and represent both costs and benefits that must be identified, measured, and valued. This is why, public investments need to be redefined to become more risk-informed and facilitate achieving sustainable and resilient growth. Thus, the focus must shift to investment projects that demonstrate **higher social returns** through the implementation of appropriate management pro-

cesses and **rigorous ex-ante evaluations**. Especially, **investing in resilient infrastructure** emerges as a sensible option for post-pandemic recovery, as PIPs can boost job creation and promote private investment through transition mechanisms, i.e., private follow-on investments and Public-Private Partnerships (PPP). In addition, choosing more resilience-oriented projects that drive sustainable growth, could in turn be a highly potent way of addressing climate change effects. However, much depends on the capacities of SNIPs to achieve these objectives.

Risk-informed public investment assesses the extent of possible known and unknown risks to infrastructure or service and can thus be used to strengthen resilience, i.e., to prevent, prepare for and mitigate the effects of a crisis or a shock. Even if public investments entail purely reactive measures, they can become risk-informed if they consider the findings and previous experiences to be better prepared for the future.

Fundamental principles of resilient public investment

- **Develop a long-term risk-informed strategic vision for public investments and future development, with a strong focus on achieving synergies in the field of DRM and CCA.** The vision should ensure that development processes are designed flexible enough to adapt to shifting requirements and a changing risk landscape.
- **Strengthen coordination and multi-sector collaboration.** Partnership should be formed and nurtured between the responsible public investment ministry/body and sector ministries, such as the Ministry of Environment or the Ministry of Disaster (Risk) Management. This is especially relevant with regards to the investment and infrastructure policies, which should be coordinated across sectors and levels of government. These collaboration efforts can strengthen the consideration of climate change effects and disaster risks in public investments, and thus help prioritize resilient projects that promote both economic and sustainable growth.
- **Strategically manage existing public assets to extend their useful life.** Developing strategic public asset management systems considering existing and future climate and disaster risks can help to improve the performance of existing assets, postponing the need for infrastructure replacement and reducing pressure on investment decisions.
- **Use technical and transparent criteria to prioritize investments.** Especially in emergencies, it is essential to timely and efficiently estimate investment gaps and employ rigorous criteria in the ex-ante project evaluation to obtain results that facilitate economic recovery.
- **Develop and diversify methodologies for determining social profitability of an investment.** SNIPs should have a collection of methodologies, including general project evaluation tools, sector-specific methodologies, as well as detailed guidelines on the criteria used for evaluations.
- **Consider private participation to revive public investment.** Projects postponed due to the pandemic or new projects could be activated under this scheme, through PPP contracts or other similar modalities, given the lack of public resources.
- **Ensure transparent, systemic, and effective stakeholder participation.** Public investments processes should allow public scrutiny and active participation of a wide range of stakeholders besides the governmental actors, to ensure that the investments are meaningful, context-specific, and aligned with the long-term strategic vision of sustainable and risk-informed development.