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Transport: The Road to Latin American Sustainable Development

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Executive summary

- Latin America and the Caribbean (LAC) currently suffers a significant infrastructure gap compared to other world regions due to low levels of investment.
- Governments and other stakeholders are increasingly trying to adopt a sustainable approach to infrastructure development in response to the concerns raised over social and environmental impacts of infrastructure projects.
- Roads are predominantly used for transport in the region, but only 23% of roads are paved. The problem is different for railways, whose share of the transportation matrix is very limited, with LAC home to one of the "least extensive networks in the world," according to the IDB.
- LAC also has significant infrastructure gaps in urban mass transit, with just 10km of mass transit per 1m habitants. By way of comparison, Europe has 35 km/million.
- In many cities, authorities are trying to encourage people to leave their cars at home by improving public transportation, as well as walking and cycling infrastructure. One example is the recent wave of construction or expansion of metro systems.
- Across the region, there have been noteworthy efforts to increase the number of electric buses operating as part of a drive to cut greenhouse gas (GHG) emissions, however they still represent just 4.67% of buses running in the cities monitored by the E-Bus Radar monitoring platform, reflecting the vast potential for further growth in the sector.
- In general, awareness and implementation of Environment, Social, Governance (ESG) targets has been slower to develop in Latin America than in Europe, North America, or East Asia, but this is changing. Multinational companies bidding for overland transport infrastructure contracts do now need to be fully aware of labour, environmental, and human rights issues.
- Public-Private Partnerships (PPPs) have increased in popularity, with investment growing from US\$8bn in 2005 to US\$39bn in 2015, however PPPs still have to overcome their mixed reputation in the region. Further strengthening of ESG frameworks could encourage PPP deals, presenting a possible solution to the lack of public funding for infrastructure projects.
- Whatever the constraints, the overwhelming conclusion is that LAC needs a huge amount of investment in overland transport infrastructure in order to close the infrastructure gap, which means that there are huge opportunities available for investors, developers, and other suppliers.



Introduction

Overland transport infrastructure provides the physical structures and facilities to move people and goods on roads, railways, and urban mass transit.

Latin America and the Caribbean (LAC) currently suffers a significant infrastructure gap compared to other world regions due to low levels of investment, which is holding back development in the region. Poor transportation infrastructure makes it harder for people to access jobs and services, as well as hampering trade by increasing costs and hindering supply reliability.

This means there are plenty of opportunities for investment in the infrastructure that the region so badly needs, and there has been some progress in recent years. In 2022, Brazil began repaving the flood-prone BR-319 highway, which traverses the Amazon, and work continues on Mexico's Tren Maya railway, which aims to spur economic growth by connecting major cities and tourism spots. Larger still, the Bioceanic Corridor, a transcontinental road and railway link between the ports of Santos in

Brazil and Iquique in Chile, has brought a raft of South American governments together with the aim of improving connectivity.

However large infrastructure projects also raise concerns over their social and environmental impact. In response, governments and other stakeholders are increasingly trying to adopt a sustainable approach to infrastructure development, which aims to improve connectivity while working towards the United Nations (UN) Sustainable Development Goals (SDGs). Financing these projects remains an issue, but green financing and public-private partnerships (PPPs) could offer a solution.

Here we will examine the existing overland transport infrastructure gap in Latin America; why infrastructure matters for Latin America and the Caribbean (LAC)'s sustainable development; and the development and outlook for environmental, social and governance (ESG) and PPPs in the region.

Assessing Latin America's overland transportation infrastructure gap

Transport infrastructure massively [affects](#) development, both through facilitating the movement of goods to market and allowing people to access jobs or services such as healthcare. There are three main areas of overland transport infrastructure: roads, railways, and urban mass transit, which can include buses, light railways, and metro systems.

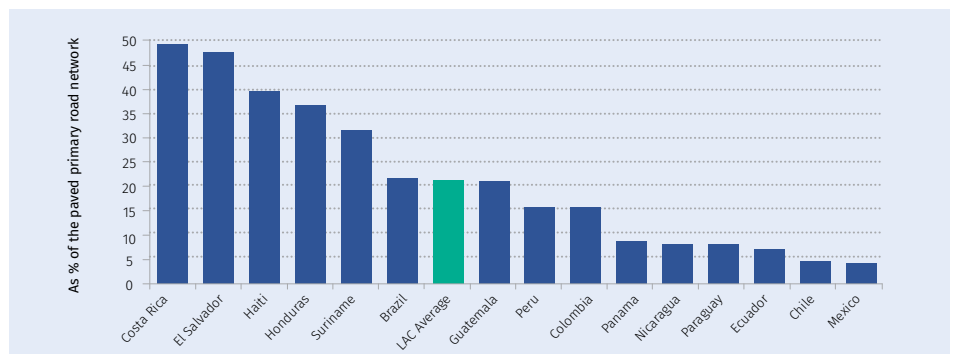
Transport in the region is predominantly road based, and [85%](#) of freight is shipped by road. However, investment in road infrastructure has lagged behind the growth in transportation activities and only 23% of roads are paved, resulting in longer travel times and higher costs. As shown in Figure 1 there are large discrepancies between countries such as Mexico, where around 50% of roads are paved, and Peru, which is comparable in size but has only paved less than 20% of its roads. As a region only Sub-Saharan Africa has a lower percentage of paved roads (14.5%) than LAC, with other world regions averaging 60%-80%.

Figure 1: Percentage of paved roads



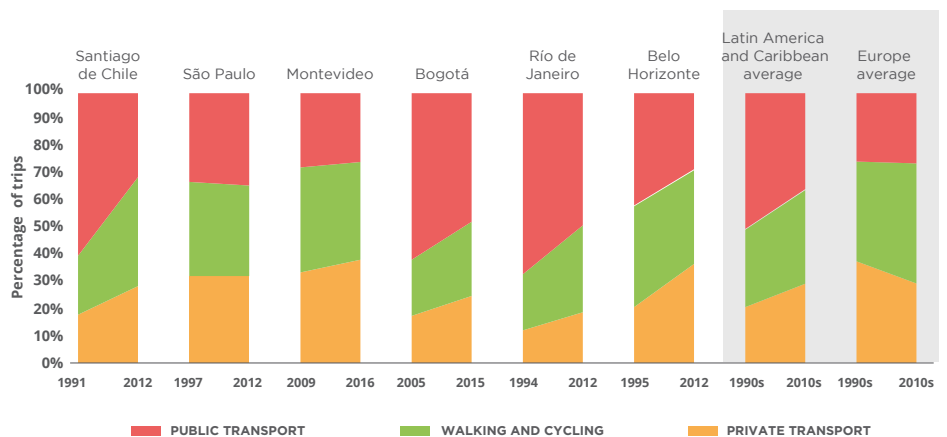
Source: IADB

Figure 2: Percentage of paved primary road network in bad condition



Source: IADB

Figure 3: Use of three transportation modes



Source: Cavallo, Powell, and Serebrisky, 2020.

Note: Comparisons among cities are limited by differences in methodologies and timing of surveys. Private transport includes cars and motorcycles. Cities included in the European average are Amsterdam, Berlin, Copenhagen, Hamburg, London, Munich, Paris, Stockholm, Vienna, and Zurich.



In addition, an important percentage of the road network that is paved is in bad condition, as shown in Figure 2.

As for railways, their share of the transportation matrix is [very limited](#), with LAC home to one of the “least extensive networks in the world,” according to the IDB. Passenger [railways](#) move only 38 million passengers per kilometre (pkm - the unit of measurement representing the transport of one passenger over one kilometre) per million people, compared to the global average of 484 million pkm per million people. In addition, the use of railways is concentrated in just a few countries, predominantly Brazil and Mexico. Railway networks have also suffered from a lack of coordination, with the use of multiple different gauges in Argentina, Brazil, Chile, and Peru [affecting](#) interoperability, according to a 2017 study. In Colombia, the use of narrow-gauge railways has saved money on construction costs but has limited performance, particularly in terms of lower operating speeds.

LAC also has significant infrastructure gaps in urban mass transit, with just [10km](#) of mass transit per 1m habitants, which for the most part is still provided by small informal operators such as combis. By way of comparison, Europe has 35 km/million. The continued reliance on [informal](#) providers goes to show that formal systems are not responding to the needs of the population, which is evidenced by declining use of public [transportation](#) from the 1990s to 2010s, boosting the use of private vehicles, as shown in Figure 3. In comparison, Europe saw private transport use decrease for the period, with a slight increase in public transport use and a large increase

in walking and cycling. In LAC, increased reliance on private vehicles coupled with inadequate road infrastructure has led to increased congestion and longer [commuting](#) times. Four LAC cities feature in a list of the world’s 10 most [congested](#), and a number of cities – including Bogotá, Medellín, Mexico City, Quito, and [Santiago](#) – have imposed licence plate restriction policies with the aim of reducing traffic.

Sustainable development and why is it important

Sustainable development is [defined](#) as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

More specifically, United Nations [says](#) that sustainable transport is “the provision of services and infrastructure for the mobility of people and goods – advancing economic and social development to benefit today’s and future generations – in a manner that is safe, affordable, accessible, efficient, and resilient, while minimizing carbon and other emissions and environmental impacts”. This means being able to improve connectivity without destroying important ecosystems or negatively affecting the lives of local populations.

According to consultancy firm [McKinsey](#), sustainability has four dimensions: environmental, social, institutional, and economic. This means that infrastructure must be resilient to climate change, socially inclusive, productive, flexible,

and technologically advanced in order to be sustainable. The firm also believes that these factors should be considered throughout the development process, from planning and design to procurement, construction, and operations.

Sustainability is at the heart of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs), which were adopted by United Nations member states in 2015. The aim is to [ensure](#) social progress, environmental balance, and environmental growth. In addition, countries have also committed to emissions targets designed to slow global warming under the Paris Climate Change Agreement. The transport sector is a key [part](#) of meeting these goals as it impacts multiple SDGs and is also a significant contributor to emissions.

How infrastructure spending can contribute to sustainable development

LAC countries need to spend on overland transport infrastructure, not only to improve connectivity and increase competitiveness but also to help them meet their commitments to the SDGs and the Paris Climate Change Agreement.

Sustainable transport is central to sustainable development [according](#) to the UN. The UN says: “Apart from providing services and infrastructure for the mobility of people and goods, sustainable transport is a cross-cutting accelerator, that can fast-track progress towards other crucial goals such as eradicating poverty in all its dimensions, reducing inequality, empowering women, and combatting climate change.”

Primarily, infrastructure investment can help to [achieve](#) SDG 9, which calls on nations to “build resilient infrastructure”. However it can also help to achieve SDG 1 (end poverty in all its forms everywhere); SDG 2 (end hunger, achieve food security and improved nutrition, and promote sustainable agriculture); SDG 11 (make cities and human settlements inclusive, safe, resilient, and sustainable); and SDG 13 (take urgent action to combat climate change and its impacts), as well as playing a role in other SDGs, as shown in Figure 4.

Figure 4: Transport-related SDGs and targets

GOAL	TARGETS
3 Ensure healthy lives and promote well-being for all at all ages.	3.6 By 2020, halve the number of global deaths and injuries from road traffic accidents. 3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.
7 Ensure access to affordable, reliable, sustainable and modern energy for all.	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix. 7.3 By 2030, double the global rate of improvement in energy efficiency.
9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
11 Make cities and human settlements inclusive, safe, resilient and sustainable.	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
12 Ensure sustainable consumption and production patterns.	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.
13 Take urgent action to combat climate change and its impact.	13.2 Integrate climate change measures into national policies, strategies and planning.
14 Conserve and sustainably use of oceans, seas and marine resources.	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.
17 Strengthen the means of implementation and revitalize the global partnership for sustainable development.	17.14 Enhance policy coherence for sustainable development.

And the best way to promote sustainability is to address the climate challenge, according to Augustina [Calatayud](#), lead transport specialist at the Inter-American Development Bank (IDB). “Climate change is one of the most pressing issues for us as Latin America is home to some of the most exposed and vulnerable countries when it comes to [this problem],” she says.

Six of the top 20 [countries](#) that suffer the highest climate risk relative to the value of their assets are in LAC (Suriname, Haiti, Nicaragua, Honduras, El Salvador, and Jamaica), and when climate-driven natural disasters hit the region, transport is most often the largest contributor to business losses. For example, when [Hurricanes Eta and Iota](#) hit Central America in November 2020, Nicaragua [estimated](#)



Trends in sustainable development of overland transportation

The need to invest in overland transport is evident throughout the region, and there have been some interesting developments in recent years.

One notable trend is the debate around applying a sustainable model to improving connectivity in isolated areas. One example in road building is Brazil's project to pave the flood-prone 540-mile-long BR-319 highway, which traverses the Amazon. Approved in [July 2022](#), the paving effort aims to allow road traffic to travel from Porto Velho to Manaus year-round, whereas before the road was impassable during the six-month rainy season. While some, such as former President Jair Bolsonaro, hailed the decision, others [warned](#) that the project [would](#) constitute "a social, economic and ecological disaster", citing the release of GHG emissions from deforestation along the newly accessible stretches of road.

In many cities, authorities are trying to encourage people to leave their cars at home by improving public transportation, as well as walking and cycling infrastructure. One example is the recent wave of construction or expansion of metro systems. The Quito metro is scheduled to start operations [imminently](#), while construction on Line 1 of Bogotá's system has begun and financing has been agreed for Line 2. Contracts have been [signed](#) for a US\$2.5bn fully automated line on the Santiago metro, and a third line of the Panama City metro is [scheduled](#) to start operations in 2026. Due to their size and complexity, metro systems commonly spark social [conflicts](#) over their [impact](#) on local communities, but they can be truly transformative in terms of productivity and quality of life for city residents.

Bogotá's metro is not the only transportation infrastructure investment under Mayor Claudia López. In June 2021, López decreed a new land use [plan](#) for Bogotá which includes plans for a total of five metro lines, new tram routes, cable cars, and improved walking and cycling infrastructure. And the city has been recognised internationally for its mobility plans, [winning](#) the Institute for Transportation and Development Policy (ITDP)

US\$361m in economic losses and damage to transport infrastructure. On average, 56% of losses after a natural disaster can be attributed to the effect on transport networks, the highest of any world region, and [investing](#) in high-quality paved roads and proper maintenance programmes can help to reduce climate risk.

Efforts should also be made to reduce greenhouse gas (GHG) [emissions](#). In LAC, the transport sector is responsible for 35% of GHG emissions from fuel combustion, compared to the global average of 22%. More worryingly, LAC's private vehicle fleet is increasing in size faster than any other world region, meaning emissions from the transport sector are rising faster than other sectors.

One way to cut emissions is to invest in more urban mass transit in order to reduce the use of private vehicles. Further gains can be made by cutting emissions from public transport as much as possible. While the introduction of emissions [standards](#) has gone some way to achieving this in certain areas, replacing old diesel buses with electric models is much more effective. And emissions can be cut still further if investments are made in production, storage, and distribution facilities for low-carbon alternative fuels such as green hydrogen and sustainable biofuels.

Another strategy is to promote a multimodal approach, for example connecting inter-city railway stations to key urban locations using the bus network. Walking and cycling should also be encouraged by building out protected cycle lanes, for example, or ensuring the provision of secure bike parking to encourage people to take more journeys on two wheels. These efforts require joined up policy making at various levels of the state.

Sustainable Transport Award in February 2022. The organisers hailed the creation of emergency bike lanes at the beginning of the Covid-19 pandemic; the deployment of traffic calming measures and speed management programmes; and the assembly of a fleet of electric buses.

Across the region, there have been noteworthy efforts to increase the number of electric buses operating as part of a drive to cut GHG emissions, with a total 4,128 electric buses in service as of February 2023, according to the [E-Bus Radar](#) monitoring platform. However, this represents just 4.67% of buses running in the cities monitored by the platform, reflecting the vast potential for further growth in the sector.

As for railways, there are significant efficiency and emissions advantages for shipping freight and passengers via [rail](#) compared to by roads, but high up-front costs have held back development. However in recent years a number of countries have stepped up efforts to invest in capacity after decades of [decline](#). In December 2020, Argentina [signed](#) four rail sector agreements with China worth US\$4.69bn, and in September 2021 Paraguay [signed](#) a memorandum of understanding with South Korea for the development of a 44km commuter railway linking Asunción and the town of Ypacaraí.

In Mexico, work continues on the 948-mile Tren Maya railway, which aims to spur economic growth by connecting major cities and tourism spots in the Yucatan peninsula. However, the project has sparked controversy due to accusations over a lack of [environmental](#) impact studies, and local

residents along the line have complained about a lack of consultation. There have also been a string of environmentally motivated [challenges](#) in the courts that have slowed construction.

President Andrés Manuel López Obrador has also [promoted](#) the Interoceanic Corridor (CIIT), a major logistical and industrial investment project that will link the Pacific seaport of Salina Cruz (Oaxaca state) with the port of Coatzacoalcos (Veracruz state) on Mexico’s Caribbean coast. Also known as the [Tehuantepec](#) isthmus rail corridor, the project aims to create a ‘dry canal’ that can rival the Panama Canal for interoceanic trade. While López Obrador claims that the two projects will boost the economy in some of Mexico’s less developed states, opposition to the initiatives has focused on how sustainable this expected development will be.

Case study: South America’s Bioceanic Corridor

Debates over sustainability dog large transport infrastructure projects throughout the region, as the perceived national interest comes into conflict with the concerns of local populations and conservation groups.

An important example of this tension is South America’s bi-oceanic corridor, which [aims](#) to link the port of Santos in Brazil with the ports of Iquique and Antofagasta in Chile with a new road and eventually a railway.

Figure 5: Bioceanic corridor map



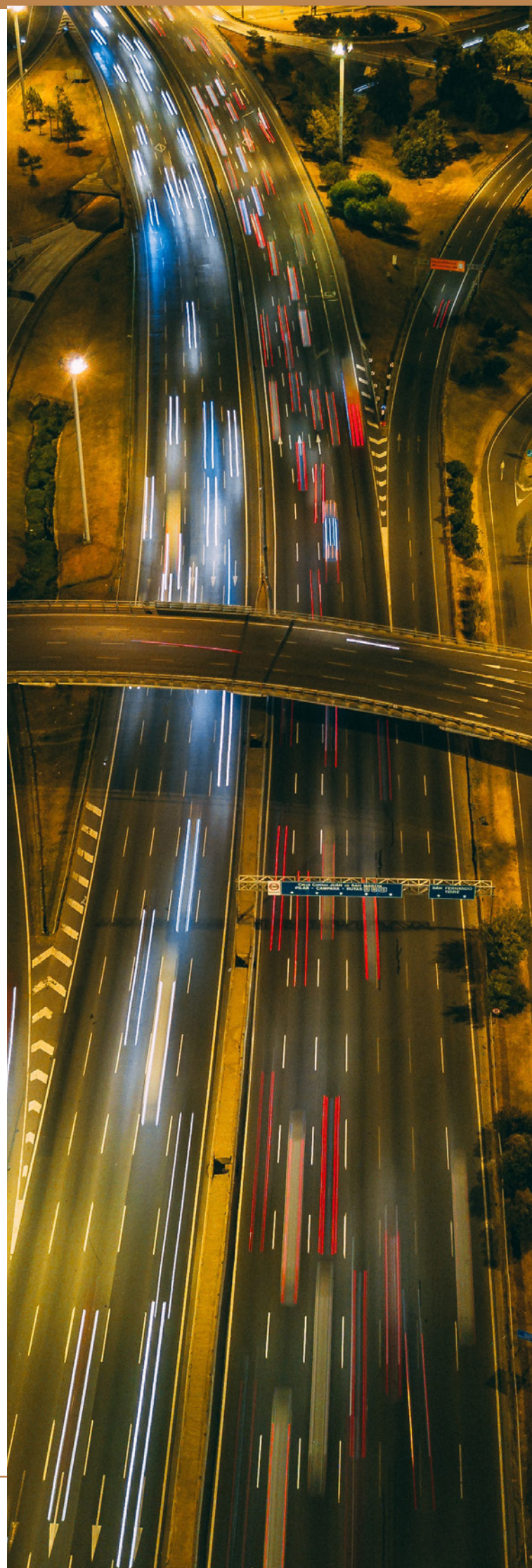
Source: IADB

The project has seen significant progress recently, with the inauguration of 276km of road between the city of Carmelo Peralta, in the department of Alto Paraguay on the border with Brazil, and Pozo Hondo in the department of Boquerón, on the border with Argentina, in February last year. Another significant development is the [construction](#) of a bridge between Carmelo Peralta in Paraguay and Porto Murtinho in Brazil.

Once complete, the road will [reportedly](#) enable 10 times more freight to move along the route, and make the journey in almost half the time as maritime shipping. Paraguay has been particularly proactive in developing the necessary infrastructure, with the aim of transforming the country into a logistical node in the middle of South America.

Of particular interest is enabling easier shipments from Masso Grosso do Sul state in Brazil, an agro-industrial powerhouse, to Asia, particularly China, which is the destination for around 40% of the state's exports. The benefits are huge in terms of shipping times. Ships from Brazilian ports take on average 62 days to reach Japan, but from Chilean ports the journey takes half the time. Other potential [benefits](#) include the generation of value chains between countries along the route, including in lithium and copper mining, as well as growth in the tourism sector. The potential of the project is underlined by [disquiet](#) among Bolivian businesspeople that the current route would exclude the landlocked country from a potential trade bonanza. In response, the country's public works ministry released a [statement](#) in June 2022 insisting that it would be involved in the scheme, and in February the government [dedicated](#) 18m bolivianos (US\$2.6m) for technical studies for railway lines from Bulo Bulu to Puerto Villarroel and Ivirgarzama to Villa Tunari, which it says will be part of the corridor.

However, while there is great excitement among businesspeople, there are concerns about the environmental and social impacts of the project. The route crosses the Gran Chaco, the second-largest forest in South America, as well as Brazil's Pantanal, the world's second-largest wetland. Conservation groups are [worried](#) about the impacts of greater human activity on these important ecosystems, which are home to threatened species such as jaguar. There are even greater worries





about the fate of indigenous populations such as the [Ayoreo](#), some of whom live in voluntary isolation. Communities around Carmelo Peralta are especially threatened due to the fast pace of development in the area, [according](#) to Paraguayan conservation organisation Iniciativa Amotocodie.

These concerns are receiving increasing attention, with a 2020 [report](#) from environmental NGO Earthsight revealing that European companies such as German automaker BMW had been using leather from cattle ranches that had illegally deforested an Ayoreo reserve. Companies looking to invest in, or source materials from, the newly accessible areas will have to carefully examine these impacts so as not to fall foul of ESG concerns.

ESG development and outlook

ESG is a set of standards used to [measure](#) impacts on society and the environment, as well as transparency in governance. For example, a company could introduce an ESG strategy to show that it is working to reduce business risk by implementing standards to meet future environmental legislation.

In general, awareness and implementation of ESG has been [slower](#) to develop in Latin America than in Europe, North America, or East Asia, but this is changing. Governments across the region have made varying degrees of progress in implementing legal frameworks on social issues, but multinational companies bidding for overland transport infrastructure contracts do need to be wary of labour, environmental, and human rights violations.

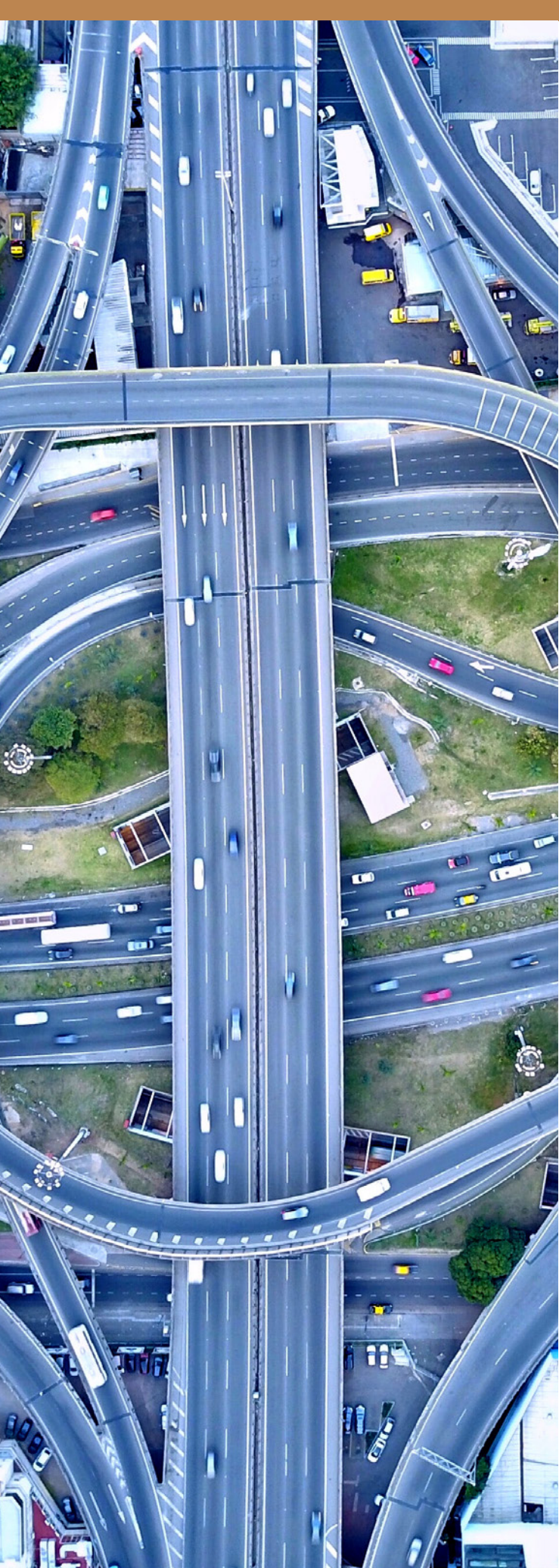
Countries including Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay are part of the Global Steering Group for Impact Investment (GSG), a UK-registered charity that encourages investment

in projects “to [solve](#) some of the world’s most pressing social and environmental challenges”. It encourages investment decisions that take into account ESG factors even where local legislation does not require them to. Another interesting initiative is the [UN Global Compact](#), which calls for private companies to adopt sustainable and socially-responsible policies. There are local networks in Argentina, Brazil, Colombia, and seven more LAC countries, as well as regional networks for the Caribbean and Central America & Dominican Republic.

Regional governments have also shown [increasing](#) interest in issuing sustainability-linked bonds. In September 2020, Mexico [issued](#) the world’s first Sovereign SDGs Bond in partnership with the UN Development Programme (UNDP), for a total US\$890m. Across the region, ESG debt issuance increased from US\$6.5bn in 2019 to US\$22bn in 2020 and US\$32bn in 2021. These bonds allow nations to secure credit in return for hitting goals such as reducing emissions.

One issue that has arisen is difficulty in [determining](#) and tracking ESG metrics over the life of a project. However as auditing services improve in the region, SDG-linked financing will become increasingly attractive to lenders, according to Fernando Rodriguez Marin, a partner at US law firm Bracewell who specialises in project finance. This growth [should](#) lead to a standardisation of classifications that in turn drives more investment as market perceptions improve.

SDG-linked bonds and loans could become hugely [important](#) in closing the LAC infrastructure gap as they encourage sustainable practices while allowing projects to remain commercially viable. This is particularly important at a time when the region is suffering from strong economic headwinds that are impacting the scope of public investment.



PPP development and outlook

Another solution to a paucity of public investment are PPPs. These contractual arrangements allow governments to fund overland transportation infrastructure projects through concession agreements with private investors, such as toll roads. In LAC's six largest economies, public investment in infrastructure fell from around 3.1% of GDP in the early 1980s to 0.8% of GDP from 1996–2001. This encouraged the use of PPPs, but poorly executed [projects](#), such as highway [concessions](#) in Mexico that went bankrupt, led to a backlash in the late 1990s. More recently, PPPs have [increased](#) in popularity, with investment growing from US\$8bn in 2005 to US\$39bn in 2015, as many countries improved relevant regulations and set up dedicated government agencies.

[Chile](#) has seen particular success in using PPPs, most often for road infrastructure projects, while [Colombia](#) has strengthened its regulatory framework by passing a Public-Private Partnerships Act and an Infrastructure Act. Public investment as a share of total [spending](#) on infrastructure has been falling as private involvement increases, and several [nations](#) have used PPPs for projects such as electrifying public transport fleets.

However the majority of infrastructure spending is still funded by the public sector, with only around 20% of [spending](#) funded by the private sector. LAC needs a huge amount of investment in overland transport infrastructure in order to close the infrastructure gap.

This means there are plenty of opportunities out there, but PPPs have to overcome their mixed reputation in the region.

While [studies](#) show that they are less likely to suffer cost overruns or construction delays than public works, they are also frequently subject to contract renegotiation and can incur higher social costs and lower levels of service in nations that do not have adequately developed institutions. "The success of PPP projects requires countries to have legal and public governance systems that can provide transparency and effectiveness; policies, programmes, and projects need to be implemented in an integrated and coordinated manner across different government ministries and institutions; the willingness and capacity of the private sector to assume the corresponding risks need to be nurtured – all of this in a stable political environment with a strong consensus among political leaders and interest groups on the importance of people-first PPPs," reads a [report](#) from the Economic Commission for Latin America and the Caribbean (Eclac).



Governments are wary of taking on too much [risk](#), especially in large scale projects, and in some countries institutions are not sufficiently developed enough to manage [risks](#) such as corruption, which has received a huge amount of attention in LAC since the Odebrecht scandal broke.

One way of mitigating this is through government-to-government (G2G) partnerships, such as the UK and Peru's [project](#) to implement flood prevention projects on the Piura river in northern Peru. As part of the partnership, a UK Delivery Team (UKDT), comprising British companies Mace, Arup, and Gleeds, provide technical assistance on the management, planning, monitoring, and control of projects, and knowledge transfer to local partners is key.

Conclusion

In conclusion, LAC suffers a significant transportation infrastructure gap due to a historic lack of investment, and it's holding back development. According to the IDB, LAC countries need to invest the equivalent of 1.37% of regional GDP, or US\$976.1bn, per year from 2019-2030 if they are to meet the SDGs by closing the infrastructure gap for all forms of transport. Roads, railways, and urban mass transit all need work, and there are opportunities for sustainable investment in transport infrastructure to help LAC countries achieve the SDGs, as well as hitting emissions targets. There are some significant projects underway, such as the paving of the BR-319 highway in Brazil, the Tren Maya in Mexico, and the Bioceanic Corridor in South America, but each of these projects has sparked environmental and social concerns.

ESG factors are increasingly important in LAC, even if the adoption of these standards has been slower than in other world regions. Further strengthening of ESG frameworks could encourage PPP deals, presenting a possible solution to the continued lack of public funding for infrastructure projects at a time of slow economic growth.

There are myriad opportunities for industry due to the fact that national budgets continue to be constrained due to economic headwinds. Governments across the region are keen to develop overland transport infrastructure in order to become part of global value chains, encouraging them to turn to the private sector to close funding gaps. Industry players should be encouraged by the number of tenders for transport projects, and there should be further opportunities as efforts to achieve the SDGs and climate goals intensify in coming years.

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