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By Martin Spicer

Thank you very much for inviting me to speak with you. It is a pleasure to be here and be part of this discussion of the future of Latin America with a group of companies focused on business in Latin America. Christian's presentation on the macroeconomic outlook for the region makes it clear that more than ever, Latin America needs relationships with companies like all of yours to continue to develop, create opportunities, and build on the gains in living standards achieved over the past decade.

My remarks will focus on how Latin America can foster greater productivity required to strengthen economic growth and make it more sustainable. Latin America lags wealthier nations in economic output and income per person, simply because its workers are not as productive as those in developed economies. According to OECD data, average annual productivity growth between 2003 and 2013 was only a fraction of a percent in Mexico, less than two percent in Brazil, and just slightly over two percent in Colombia. These rates may be on par with developed economies like Germany and the U.S., but compares with 7 percent in India and almost 10 percent in China.

I am the head of Manufacturing, Agribusiness and Services at International Finance Corporation, the part of the World Bank Group which invests in the private sector to promote development. We have two clear goals: Eliminate Poverty and Boost Shared Prosperity. We understand that sustainable economic growth, with the benefits shared broadly across the population, is the only way to achieve these goals.

Today, I am going to discuss areas of investment that I believe hold the potential to put Latin America back on a strong growth path and continue the income gains that have swelled the ranks of the middle classes. Certainly infrastructure is a critical need in the region. Transport connectivity between countries remains an important issue. Clean energy also an area where there is vast need for investment capital. For example, Mexico has made progress in developing wind power.

My talk will focus on the importance of investing in human capital, which can be even more scarce than investment capital for development.

Much of this investment will have to come from the private sector. Governments are under tremendous pressure amid budget constraints following years of high commodity prices and export revenues. Today more people are middle class than living in poverty. These new middle classes have elevated expectations for access to goods and services. So governments increasingly understand that they will need to work with the private sector to deliver services traditionally provided by the public sector as well as functions, like job creation, that we associate with the private sector. For example, private health and education sectors have grown rapidly across Latin America in recent years and will continue to do so.

A skilled workforce, ready for the demands of a 21st century economy, requires investment in education at all levels. World Bank enterprise studies find that some of the most attractive and highly skilled jobs remain unfilled for long periods. This is consistent with Manpower surveys that show employers cite skills shortages as a very serious business constraint. Latin America has largely reached universal access to basic education, but quality remains a serious problem. A recent World Bank study shows that low average teacher quality and management make Latin American students lose the equivalent of one full day of class every week. Rote learning is common and drop-out rates are high.

For university and vocational training, barriers to accessing quality education are even greater. Entrance exams to prestigious public university programs restrict enrollment to the best prepared students, giving a competitive edge to students from wealthier backgrounds with access to better quality secondary education. This aggravates inequality which we all know is very high in the region.

Private providers are stepping up with scalable models that can complement public provision. Much of Latin America's gains in tertiary enrollment in recent years have come through private universities and vocational schools, including institutions which tend to serve a disproportionate number of low-income students.

In Chile for example, enrollment in higher education grew from 175,000 students in 1983 to 1.2 million in 2015, with nearly one million students becoming the first in their families to obtain access to tertiary education. Most of this growth was enrollment in private institutions. In Brazil, the government has created a very supportive regulatory environment for private education and there too, much of the growth in access to higher education has come from private institutions. With the opening up of Argentina, we expect to see growth of private health and education. In fact, in May IFC financed expansion of Universidad del Salvador, a private university in Buenos Aires.

Opportunities for investment in the health sector are much, much greater as older populations increasingly demand more complex health services required to address diseases like cancer, heart disease and diabetes.

The health and education industries, like many others, are rapidly changing under the influence of disruptive technologies. Online education platforms, such as IFC client Coursera, and distance learning platforms are bringing global industry experts to students in remote places and working adults with little time for commuting. E-medicine, such as imaging—x-rays and MRI scans—are making it possible for specialized health professionals to serve patients from a distance. Alliar, an IFC client and diagnostics provider in Brazil is a great example of how digital technology can reduce costs and improve productivity.
All of its operations are digitized. Radiologists no longer need to travel to multiple clinics.

This has tripled the number of patients Alliar's radiologists can serve. The company pioneered the world's first MRI "Command Center" in which its most experienced technicians remotely operate scanners in different cities. The technicians can operate multiple scanners at the same time, greatly expanding the number of people who can receive needed testing.

In other industries, advances in renewables technologies are bringing new access to energy and shifting the region's energy mix to support a more sustainable economy. The rapidly developing field of genomics is revolutionizing agribusiness in areas such as seed production and climate friendly agriculture.

Embracing and adapting new technologies and process improvements can help put the region back on a strong growth path. This will require a better trained and educated workforce, capable of using new technologies and innovative processes.

These new times for Latin America are challenging. But in the long-run, it could also be a turning point for more sustainable, broad-based growth that benefits more people. The commodity boom years brought in revenues. However, productivity growth barely grew fast enough to keep pace with developed economies. This is a political opportunity for policy-makers to create a more conducive environment for productivity-enhancing public and private investment in human capital, infrastructure and utilization of disruptive technologies.

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