Invest in Central America?

Innovative private sectors can foster growth in the Region

That is an encouraging sign. Frankly, no amount of state stimulus or international aid will be enough to meaningfully tackle poverty. What the region needs is vibrant, innovative private sectors that can foster the type of sustainable, long-term growth that has transformed countries from South Korea to Chile. The IFC, a member of the World Bank Group, has seen first-hand the transformative power of private enterprise in Central America. Last year, we invested more than $1 billion in the region, focusing on firms that create jobs, promote inclusion, help small businesses, promote women empowerment, support sustainable agribusinesses, and address critical infrastructure needs for the region.

One of our recent investees is a privately owned power plant in El Salvador that will provide electricity to one-third of the country. But to have more success stories like these, we must remove a host of barriers which prevent local companies from expanding and multinational corporations from investing in Central America.

Difficult times, clear paths

There is a laundry list of reasons for those subpar showings. Red tape, including onerous processes for starting a business, discourages many entrepreneurs. Instability and lack of appropriate regulations make multi-national corporations hesitant to invest in these countries. Expensive and unreliable electricity thwarts industry. The need to develop vocational skills, and high levels of insecurity often weighs on businesses, and in some countries, it is considered the single-greatest obstacle to commerce. Moreover, and as demonstrated recently, the landfall of hurricanes Eta and Iota showed the vulnerability of the region to climate shocks and the need to increase their resilience to these events.

As difficult as times have been, there is a clear path forward. Investments in priority areas like renewable energy, sustainable agriculture, housing, and financial inclusion are already underway and will be key to advancing the development of the northern countries in Central America in the coming years.

The keys to success

Moving forward, focusing investments in key sectors, and dismantling major barriers in the region should remain on the forefront of the region's development agenda:

Firstly, Countries can ramp up vocational training and better-align their post-secondary education systems with the job market. Secondly, states need to attract private capital and expertise to help them transition to a clean, reliable, and resilient energy matrix. Public-private partnerships (PPPs) are still relatively new in Central America, but in many parts of the world they are the foundation of the power sector—and they allow governments to direct their finite resources to other areas.

Some Central American countries remain among the most vulnerable countries to extreme weather events. Displacement, agricultural degradation, and property damage as a result of recent events have led to even greater insecurity in the region and has further stunted its economic growth. This reinforces the importance to strengthen their climate resilience and transition to low-carbon economies. IFC studies show that there are profitable investment opportunities in the region in terms of sustainable construction, energy efficiency, renewable energy, transportation, and sustainable agriculture.

Lastly, development in the region remains contingent on its capacity to improve access to credit. Major gaps persist among the most vulnerable yet most important entrepreneurial demographics: SMEs, agricultural workers, and women. Regulatory reforms like the ones mentioned earlier, with strong coalition between the public and private sector can open up investment opportunities in a host of long-establish sectors emerging industries, creating the stable, well-paying jobs so many people are yearning for.