The sectors span physical and social infrastructure, corporate industries, financial development and inclusion, and cross-cutting issues such as climate change, gender, and institutions. The individual development gap estimates are first aggregated into relevant development dimensions within each sector, and then grouped into an overall sector score. For example, the Telecommunications sector comprises three dimensions: Access, Quality, and Digital Adoption. Access includes variables such as the number of fixed broadband subscriptions per 100 people in the country. Quality includes indicators such as 4G network coverage, and Digital Adoption uses indicators such as the percentage of households that make digital payments.

**METHODOLOGY**

The general approach of the development gaps diagnostic tool is to compare the level of achievement measured by an economic or social indicator compared to a calculated “norm” appropriate for the country. For example, to assess the financial development of a country, one common yardstick is the level of domestic credit relative to per capita gross domestic product (GDP). Typically, the wealthier the country, the healthier its credit market.

This scenario is illustrated in Figure 1, where each dot represents a country, with the IDB Group’s borrowing member countries labeled in red.

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For example, the estimated development gap for Trinidad and Tobago (TTO) for this particular indicator is represented by the distance between its observed value and the prediction line (the “norm”) given its income per-capita (shown with the arrow). While many advanced economies achieve levels of domestic credit to GDP close to 100% (or above), the calculated norm for Trinidad and Tobago is about 75%. Rather than comparing to the level prevailing in advanced economies, the development gap for this indicator for Trinidad and Tobago will be a function of the difference between its actual domestic credit to GDP value versus its predicted norm of 75%.

Regional gaps are derived from the simple average of the countries in each region. Both Transport and Education stand out for having fairly large deficits in all regions. In Transport, the quality of roads and railroads, logistics performance, and the burden of customs procedures are the areas where most regions are lagging relative to expected values, with particularly large negative gaps for Andean countries. In Education, challenges are mainly linked to the quality of (rather than access to) education, with the largest gap observed in Central American countries.

Figure 3 shows that the corporate sectors are generally underperforming. In Agribusiness, the indicators along the dimension of Sustainability bring down the overall index for regions with large gaps (CAN and CSC). In Manufacturing, there is a systematic lag across regions in the economic complexity of their productive structure, suggesting that these countries produce less knowledge-intensive goods and services, using simpler, rather than more complex, networks. Similarly, other areas with deficits are research and development expenditures (as % of GDP) and the proportion of high-tech exports.

On the other hand, for some regions, better measures for CO2 emissions from manufacturing and export diversification partially offset underperforming indicators. Digital adoption is an area where the region is markedly behind. For example, for the use of digital payments, most LAC economies fall below the level predicted by their per capita GDP, suggesting systematic deficits in this area.

Similarly, financial development is behind in all regions, although the banking sector in the Caribbean is more advanced than what its income per capita level would suggest (orange bars in Figure 4). The deficits are pronounced both in terms of the depth and efficiency of financial institutions and capital markets. Countries also have significant gaps in terms of financial inclusion (blue bars in Figure 4), namely access to financial services and credit for households and small and medium enterprises.

CONCLUSION
This new framework for the Development Gaps approach helps identify the most glaring deficits in a country or region from “10,000 feet above”. Four of the main development areas where LAC systematically underperforms versus expectations based on countries’ per capita GDP are: economic complexity, transport infrastructure, financial inclusion, and education quality. While this approach does not provide an automatic decision rule, it can help inform decision making for IDB Invest, other MDBs, and investors seeking SDG-related opportunities by highlighting the areas where deeper analysis and more targeted development efforts may be most promising.