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**DOMESTIC RESOURCE MOBILISATION – PUBLIC FINANCE – PUBLIC EXPENDITURES – INFRASTRUCTURE**

# ABSTRACTS

## Infrastructure patterns in emerging markets: an empirical analysis

**Christian Daude and Angel Melguizo, OECD DEV**

We evaluate infrastructure stocks across countries and regions since the mid 80s and early 90s, with a focus on emerging economies and Latin America. Using panel data techniques, we estimate an infrastructure pattern that is the stock a country would have according to their income level, demographic factors and geography, had it invested at the global standard. The analysis covers telecommunications, electricity and transport infrastructure, for 60 countries from the OECD, Latin America, Asia and Eastern Europe. Our findings show significant intra-regional heterogeneity, but as a whole, Latin America and Asia are below their theoretical pattern for an aggregate measure of all infrastructures, while Eastern Europe is in a relatively good situation. Additionally, we explain these positions by public policies and institutions, especially fiscal position and governance.

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## Transport Infrastructure and Regional Integration: Southeast Asian Economic Outlook 2010

**Kiichiro Fukasaku and Kensuke Tanaka, OECD DEV**

The Southeast Asian Economic Outlook (SAEO) is the OECD's annual reference on Asia's economic growth, development and regional integration process. Each year, SAEO includes an in-depth analysis of an issue critical for Southeast Asian's growth. The SAEO 2010 has as its special focus transport infrastructure. The main findings are the following:

- *Transport infrastructure development is central to promoting ASEAN integration and reducing development gaps among and within its member states*

Transport infrastructure development involves not only investment in physical facilities but also improvements in 'soft' infrastructure comprising transport policies, regulations and procedures, and multilateral initiatives and agreements. Transport infrastructure is most developed in Singapore followed by the other ASEAN-6 countries and is significantly less developed in Cambodia, Laos and Myanmar.

- *Indonesia's transport infrastructure is less developed than that of other middle-income ASEAN members but a number of steps are being taken to improve the situation*

Indonesia's authorities have recently taken a number of important steps to promote more effective infrastructure development. These include regulatory reforms to encourage and better utilise private sector participation in infrastructure and a thorough overhaul of customs procedures to improve their efficiency, reduce delays, and combat corruption.

- *New financing methods can promote private infrastructure investment in Southeast Asia*

Individual governments do not have sufficient funds to meet such potential demand. Infrastructure investments are sometimes distorted by political power so much that efficiency is lost or allocation of public funds is regionally distorted. New financing methods that are already successful in some OECD counties, such as infrastructure revenue bond (IRB) can also be applied to the transport sector in ASEAN countries. This financing method is appropriate to support construction and maintenance of transport infrastructure in the form of public-private partnership (PPP), as the construction and operation of transport services can generate fee revenues from daily operations.

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**Road infrastructure: An obstacle for economic growth in Colombia**
**Mauricio Olivera, Fedesarrollo, Colombia**

This presentation explains why roads infrastructure is one of the main obstacles for economic growth in Colombia. In particular, the presentation compares electricity and water and sanitation coverage with roads infrastructure and shows how in the latter Colombia is behind developing countries especially in Latin America. The presentation explores two complementary hypotheses related to geography, institutions and political economy, and concludes with policy recommendations about reforming the regulatory system for investment and maintenance on road infrastructure.

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**Transmission and Distribution of Electricity in India - Regulation, Investment and Efficiency**
**Yoginder Alagh, IRMA, India**

This paper will start with the importance of investment in capacity and efficient working of transmission and distribution systems in developing economies with high growth of electricity demand. It will then describe reform processes as unbundling of transmission and distribution capacities from generation capacities. Alternative governance structures will be briefly explained. There will be a major emphasis on development of mechanisms of moving from State owned centralized planned and public sector owned electricity utility systems to public private partnership models for transmission and distribution. The need for transparency and different bidding procedures for the transition will be outlined with examples.

The need for overarching legislative back up to the process and the political interest groups which arise including the need to protect the interests of small consumers and backward regions in a public utility will be described. Examples of the political process of successful management of the newer legislation for PPPs will be described.

Regulatory mechanisms including the development of availability tariffs for inter regional transmission and time of the day and spatially differentiated pricing systems for distribution of energy in large federal countries will be described with examples generated from the literature generated by forward looking regulators and legal case literature. The resistance to such ‘efficient’ systems, both at the level of regulators finding cost plus systems more convenient as also possibly increasing their power, will be described and the ongoing nature of the problem shown. The importance of such systems for interregional grids across national borders and the superiority of rule based systems as compared to Bismarckian diplomatic negotiations will be described.

Problems of technical management of efficient transmission and distribution systems and in particular of integrating decentralized generation through mini hydel, wind or photovoltaic sustainable generation mechanisms with grids will be described. There will be a case study of captive and backup generation capacities with spot trading electricity markets through real time.

Financing systems, including viability gap funding in PPPs particularly when regional or equity considerations become important in politically acceptable solutions as also newer financial products for funding and risk mitigation will be outlined. In addition to the national level the integration of such systems with reform at the global level, including the OECD, G20 and others will be attempted.

Finally the need to improvise and integrate system designs with local practices, histories and management cultures, as emphasized in the literature by experts and scholars like Pierre Audinet and Joel Ruet will be stated and implications worked out. Collaboration at the bilateral and multilateral agency level, including at the electricity agency as also at the regional or interregional level will be detailed.

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**ICT in Africa**
**Ewan Sutherland, Telecommunications policy consultant, Brussels**

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**For-profit and non-profit components of PPS**
**Mustafizur Rahman and Debapriya Bhattacharya, CPD, Bangladesh**

We will argue that the second P of PPP stands for private sector and that should include conceptually both for-profit and non-profit components

There is a wide ranging experience in the developing countries where the government and non-profit private development sector (the other name for NGOs) has come together in providing health, sanitation, education and other related services to both rural and urban poor, addressing the problem of social exclusion. In these cases, NGOs not only has acted as delivery agent of the government fund, but also invested their own resources (often ODA sourced). Indeed, size of their operations often compares favourably with sectoral allocations of certain social sector ministries.

We have argued elsewhere that the ambit of PPP should not only include the non-profit sector, but should have earmarked joint investment provisions in the sectors where they have comparative advantage. This particular approach (very relevant for attaining the MDGs) would broaden the scope of fiscal legitimacy, as well as foreign aid effectiveness. Bangladesh is pretty rich in terms of operationalisation of this approach (often remaining outside the mainstream fiscal framework), while other countries in South Asia and Africa have also some successful experiences in this regard.

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**Travaux sur les infrastructures, et plus précisément les équipements sociaux**
**Abdallah Saaf, CERSS, Morocco**

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-Textes divers sur les équipements sociaux au Maroc
-La maison de l'élu, étude réalisée pour la région de Rabat
-La coopération décentralisée entre la France et le Maroc, consultation pour le ministère de l'Intérieur, Royaume du Maroc
-Direction de travaux universitaires de Doctorat, « la politique de santé au Maroc », « La politique hospitalière au Maroc », « La politique du sang »

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**TESEV Viewpoint on Social Infrastructure**
**Fikret Toksöz, TESEV, Turkey**

TESEV's work mostly focuses on non-technical aspects of infrastructure provision in Turkey. This means, TESEV is not working on financing of infrastructure, issues related to the rate of public investment, financial and regulatory elements, PPPs etc.

At TESEV we are mostly interested in the equity issues related to the provision of infrastructure services. The headings under which we analyze the equity issues are as follows:

- **Investment in Human Capital and Social Inclusion**: Social inclusion means taking necessary precautions against the risk of poverty for the most vulnerable segments of society. Under this heading TESEV is doing advocacy work at the most general level, that of Central Government Budget. TESEV pioneered in the creation of a Social Budget Monitoring Platform that focuses on the health, education, social aid components of the Central Budget each year and that prepares advocacy papers for each component to be addressed directly to MPs of The Planning and Budgeting Commission of Grand National Assembly.

- **Public Expenditure Tracking:** A healthy way of understanding whether governments are making the right amount of investments for the right places, one has to be able to see the spending figures spatially. This means, the connection between spending levels and socio-economic development of targets should be linked in an analytical way. For this purpose, TESEV developed two useful tools, public expenditure tracking and socio-economic development maps. TESEV designed **Socio-Economic Development Maps** in various pilot provinces which were calculated for every level of administration from the neighborhoods to provincial level. With an index that is composed of 6 indices and 76 variables, socio-economic development maps visually depict the variation in development levels, they provide invaluable guidance to local civic actors and local decision-makers in terms of setting priorities for infrastructure provision and designing appropriate policies. Nonetheless, in order to claim that the real needy have access to public services, it is mandatory that we know how the public monies are being spent. **Public Expenditure Analyses** have been developed for citizens to keep track of the public spending patterns on a provincial and district level. They can monitor how much and to which functions the public money is being spent. In this way, they can create pressure mechanisms on local authorities about their budgetary decisions.

- **Balanced Infrastructure Investment in Migrant Receiving Cities:** In Turkey, due to imbalanced economic growth, there is a huge influx of migrants into metropolitan regions. These migrants usually end up in the outskirts of their cities and in slum areas. Most of the basic services and facilities are agglomerated in the most developed central area. Strategic plans of Metropolitan Municipalities are not particularly sensitive to this problem either. For this reason, TESEV took part in various large scale projects that address the question of social and economic integration problems of slum areas in metropolitan cities in Turkey. These projects involved improving the Strategic Action Planning Capacity of Metropolitan Municipalities geared towards disadvantaged groups in migrant receiving cities. They also involved a “Social Measures” component that particularly dealt with designing appropriate social policies for the socially excluded segments.

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**Education infrastructure in Uganda**
**Lawrence Bategeka, EPRC, Uganda**

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**On governance challenges linked to water and sanitation infrastructure for social inclusion and poverty reduction**
**Aziza Akhmouch, OECD GOV**

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**Horizontal Water Programme**
**Céline Kauffmann, OECD DAF**

The background for my presentation is the Horizontal Water Programme in which DAF has been participating together with ENV, GOV, DCD and TAD for the past 4 years. In particular, the Water Programme looks at how to overcome financial and governance obstacles to the provision of safe, affordable and sustainable water and sanitation services. In this broad context, our contribution aims to support governments in mobilizing private sector finance and expertise for the development of water and sanitation infrastructure. In the first phase of the work, we have developed guidance, the OECD Checklist for Public Action, which aims to help governments assess the quality of their investment framework and facilitate a better understanding of the opportunities and risks associated with involving the private sector in the development and management of water infrastructure. We are now working with a number of governments (Russia, Egypt Lebanon and soon Mexico) to help them implement and monitor the policy recommendations contained within the Checklist for Public Action.

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**Fiscal Space and Policy Responses in Latin America**
**José Fanelli, MERCONET, Argentina**

The main purpose of the project was to analyze the factors that constrain the authorities' ability to implement adequate fiscal policies in the case of LA. To this purpose, the project utilizes the notion of fiscal space, which was developed by Merconet and ECLAC in previous projects. This notion takes into account the structural specificities of the public sector in Latin America concerning not only resource and debt-access constraints but also macro, structural and institutional factors. The issues emphasized are: the high level of macro volatility in LA, the variable size of the public sector across countries, the importance of fiscal federalism, and the influence of trade-specialization patterns on the budget via fiscal revenues from natural resources and subsidies to energy imports.

The project analyzes these issues in the case of four Latin American countries: Argentina, Brazil, Chile and El Salvador. The case studies were selected so as to compare the importance of the factors constraining the fiscal space in different national contexts. The studies were expected to illuminate some issues that tend to be ignored in the econometric studies that analyze counter-cyclical policies, fiscal rules and debt sustainability based on data corresponding only to central governments.

El Salvador was selected because it is an energy importing small public sector economy; Argentina and Brazil are economies with a sizable public sector in which fiscal federalism places severe constraints on the fiscal space; Argentina's fiscal revenues are associated with natural resources. Chile, in turn, has managed to develop credible fiscal rules, despite the fact that fiscal revenues depends heavily on natural resources although the country is more centralized and, consequently, fiscal federalism is less important than in Argentina and Brazil.

The central hypotheses of the project were: First, the authorities' ability to implement counter-cyclical policies and to ensure the sustainability of the public debt depends on the available fiscal space; second, the size of the fiscal space is determined by a specific and identifiable context-dependent set of macro, institutional, and structural restrictions; and third, the lack of fiscal space may crowd out expenditures which are key to development –particularly public investment– and can harm growth by fuelling volatility.

The case studies provided a rich set of conclusions and policy lessons concerning the constraints that limit the size of the fiscal space and the interactions between policy rules, volatility, and the external shocks that are relevant to LA.

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**Public sector capacity and infrastructure projects**
**Claire Charbit, OECD GOV**

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**Budgetary execution for infrastructure projects**
**Sara Fyson, OECD DCD and Laura Recuero-Vitro, OECD DEV**

Infrastructure programs in Latin American and African countries suffer both from over spending and from underspending, hence from too little or too much regulation. These infrastructure programs suffer from budget unpredictability due to the dependence on natural resources and donor funds.

Budgetary institutions in Latin America, characterised by being hierarchical and rigid, lead to better fiscal outcomes but also to under spending. Having multi-year appropriations for projects and allowing funds to be carried over into the next year can soften under spending. In contrast, OECD countries do engage on these practices with more collegial and flexible budgetary institutions. They rarely suffer from under-spending with some exceptions such as the execution of EU structural funds.

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**Building a tool kit for choosing public policies in LDCs in the allocation of public investment to services and infrastructure projects**
**Lichia Saner-Yiu and Raymond Saner, CSEND, Switzerland**

Managing a country's investment portfolio has traditionally been the prerogative of the Ministry of Finance. However, evidence shows that centralised decision making processes often fail to deliver the desired outcome. On the other hand, fragmented approaches to managing public finances are also known to generate unintended negative consequences, ranging from delays, overspending, to downright waste and public discontent.

This paper aims to address the effectiveness issue of budgetary allocation and suggests a policy making tool kit. This tool kit consists of three essential alignment mechanisms, namely: a) inter-ministerial coordination, b) stakeholder consultation and c) monitoring through information systems for more effective management of infrastructure projects. Adoption of this tool kit requires capacity development of the Ministry of Finance and other leading agencies. Such development efforts need investment in system reform which will improve the budget allocation process while at the same time offering support for eventual governance reforms that a country might also want to undertake at the same time.

a) Coherence between national development policy and sectoral policies needs to be strengthened through effective inter-ministerial coordination mechanism. The quality of policy making for infrastructure investment (PMII) determines whether such investment can actually support country development strategies and generate favourable investment and trade conditions leading to positive impact on employment and other social benefits for the total population.

b) Similarly, inclusive policy consultation mechanisms will improve the relevance and ownership of the infrastructure investment allowing several hierarchical levels of a government to partake in the formulation of policy while at the same time becoming involved in the implementation stage of the process. Similarly, beneficiaries of such infrastructure investment, such as health and education facilities, roads, electricity, and water treatment facilities could inform the policy makers of the intensity and patterns of such infrastructure needs and also participate in the monitoring of the project implementation and maintenance after completion.

c) Evidence based monitoring system will provide sound and strong feedback signals for an ongoing process concerning the policy choices made, in addition to the overview of progress and trouble shooting. Equally important, an IT based monitoring information system could support institutional learning for higher quality policy making in the future and strengthen the governance capacity of the public administration as a whole.

This paper concludes with the observation that policy leadership requires political will. However, as such political will is often inadequate but along is also insufficient to achieve broad development impact. What often is missing is the alignment between different sectoral priorities and the real needs of the citizens. The proposed three prone tool-kit is meant to close the government-citizen divide, sector-sector divide, and vision-practice divide through more effective inter-ministerial coordination, vertical consultation and evidence based monitoring platform. Dialogue as the basis for corrective measures and coherence should be conducted throughout the whole life span of the policy negotiation and implementation processes for major investment projects.

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**Development and Financing Public Investment through Public-Private Partnerships**
**Pablo Souto, CEF, Argentina**

One of the main challenges for public policy in Argentina is to promote investment in the area of economic infrastructure and public services, which will expand existing capacity and reduce operating costs for the private sector. The current system for developing public investment and infrastructure faces the need for: i) alternative sources of budget funding, given that the public budget is constrained by current expenditures; ii) improving the efficiency of mechanisms for design and implementation; and iii) increasing the levels of investment taking its composition into consideration. The analysis of the possibilities offered by Public Private Partnerships (PPP) may be a policy objective for overcoming the aforementioned restrictions.

The objective of PPP is to outsource the production of a good or the provision of a service that would be traditionally provided by the public sector. Under this partnership, the goal is to spread the risks inherent to a project in an optimal fashion between the parties involved, by: i) previously defining by contract the final cost of the investment and of the operation of investment associated with delivering the service, ii) increasing the "value for money" linked to public sector spending; and iii) ensuring better service.

The form of PPP of global interest is that which includes contracts of Design-Build-Finance-Operate (DBFO). The basic concept of this scheme is the distribution of roles and responsibilities between the private and public sectors in order to achieve adequate efficiency and quality in the delivery of a service to civil society. During the period of development, the private sector is responsible for designing and constructing the asset, financing the work, maintaining the asset and providing the services derived from it, without the public sector abandoning its responsibility for the general provision of that service (education, medical care, etc.).

It is necessary to clarify that a PPP scheme is only an option for implementing infrastructure projects and is not an appropriate solution in all cases. It is necessary to consider a series of economic, financial and legal factors that determine the advisability of implementing this arrangement: i) laws and legal frameworks that help or hinder the development of PPP and ii) the possibilities offered by the capital market. These aspects are developed in this paper.

We provide a diagnostic summary of issues that address the implementation of PPPs along with a set of recommendations for correcting and/or preventing existing or potential problems, promoting the development of this system for financing and implementing public infrastructure projects in our country.

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**Infrastructure financing challenge in Africa: A sub-national perspective**
**François Yatta, LEDNA, Niger**

The African continent is currently faced with rapid urbanization rates (3.2% per year on average for the period of 2005-2010, UNFPA 2007). However, the development of large metropolises and medium-sized cities is accompanied, to varying degrees, by serious service deficits and slum expansion. In 2007 the United Nations estimated that 72% of the urban population of sub-Saharan Africa lives in slums (ibid). Improving the quality of life for these populations, and specifically improving access to basic services is indispensable to ensure economic development and to reinforce social and political stability. These challenges must be met by local authorities, working in conjunction with central governments across Africa.

To respond to this challenge, local authorities need appropriate and sufficient resources. However, in spite of the innovations introduced in terms of local resources mobilization, one must admit that in general the share of local authorities' own resources in local budgets still remains low. In most countries, the narrowness of the local tax base calculation does not offer the opportunity to give sufficient resources to meet the local infrastructure challenge. Transfers from central governments to local governments are currently suffering, in most countries, from an incomplete fiscal transition. Custom duties are on the decline in most African countries, driven by regional integration and globalization. Governments are hesitant to share their resources, all the more so since they currently do not have a replacement tax that is as easy to collect and which has the same returns as customs duties. Delegating some local public services to private operators is a first method that many local authorities are currently using to respond to the challenges of urban growth. This approach is particularly useful for the commercial services, where the income from their operation generally justifies the investment.

The presentation will principally highlight on another method test by African countries, which is specialized financial institutions. As in other continents over a century ago, the need also arose for the establishment of financial intermediaries to collect and manage funds for local authorities. At the beginning, these funds have mixed resources: from public resources that central governments transfer to local authorities, they move gradually to resources coming from international cooperation, both bilateral and multilateral; some of them also draw their resources from financial markets and lend to local authorities in the same way as a classic bank. Thus specialized institutions for local governments borrowing were set up with legal status and financial autonomy. This concept of "municipal funds" uses a wide range of instruments. The functions are also diverse and varied, ranging from their essential role of borrowing and institutional support.

All figures and projections show that the tremendous need for infrastructures and facilities in African local authorities is obvious, and cannot be met only with the mobilization of local authorities' savings, public-private partnerships (PPPs) or even with central governments resources. It is necessary that local authorities have access to loans and financial markets to meet the challenges raised by the continent's rapid urban growth. These specialized financial institutions, by playing the role of financial intermediary's vis-à-vis financial markets, are part of a sustainable solution for financing the huge infrastructure challenge in Africa.

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**PPP in infrastructure: opportunities and challenges with special reference to Sri Lanka**
**Saman Kelegama, IPS, Sri Lanka**

The presentation highlights the problems of infrastructure funding in recent years in developing countries like Sri Lanka which are facing limited fiscal policy space. The presentation highlights the importance of private public partnerships (PPPs) in this context and some of the cases where PPP have been applied. The achievements and failures in these PPP projects are then highlighted. Based on the experience, a number of pre-conditions that have to be met for effective operation of PPPs and for them to produce positive results are elaborated: viz., regulatory institutions to ensure that the investors interests and consumers interests are effectively addressed, public sector capacity to ensure that the process is well managed, private sector sophistication (if local) to minimize risks, transparency in the process to minimize rent seeking, and sophistications in the financial market to provide a stable financing environment. Some developing countries have effectively faced these challenges but countries like Sri Lanka have some distance to go before getting these pre-conditions in place. Until such time, delays and various challenges will be encountered in the process of implementing PPPs.

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**How to unleash Thailand's Investment Potentials with Public-Private Partnership**
**Somchai Jitsuchon, TDRI, Thailand**

Thai economy is perhaps at a precarious point where she can either takes off along with other Asian countries or remains in subdue economic growth as she has been in the past 13 years since the Asian financial crisis in 1997. With capital inflows rushing to Asian countries including Thailand, as part of automatic correction to global economic imbalance that caused the global financial crisis, Thailand needs to make the most use of these inflows to enhance the country's long-term growth potential, through effective investment. The task is to channel the inflows into real investment in infrastructures and economic sectors that are lagging behind other sectors (e.g. service sectors) instead of mainly portfolio investments that are ready to leave if economic fundamentals change. Studies show that public investment has a strong crowding-in effect on overall investment, and is hence a strong candidate to lead the investment into the right direction. Unfortunately, Thai public sector is heavily constrained by its structural weakness as government revenue increase at slower rate than current expenditure, together with rising public debts and government's plan to launch a comprehensive universal welfare system before 2017. Investment by public sector alone is therefore unlikely to have much role to play in the near future despite the country's high need, and PPP undoubtedly provide a way out of this dilemma situation.

What I would like to discuss about is the potential of PPP in Thailand, especially in relation to the enhancing of Thailand's long-term competitiveness. I will cover three sub-topics. First is Thailand's experience with PPP (how successful it is, what are the lessons learned?). Then I will discuss the current obstacles of PPP, especially the legal and political aspects. Last, I will make some preliminary proposal on how to implement PPP that would provide both short-term and longer-term solution.

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