

**OECD Development Centre
Development Finance Network (DeFiNe)
Annual Assembly**

**10-11-12 October 2010
OECD, Paris
Conference Centre CC5**

10 October 2010: Welcome Dinner ([Bouillon Racine](#), 3, rue Racine – Paris 75006, by invitation)
11 October 2010: Workshop on Domestic Resource Mobilisation (Public Expenditures - Infrastructure)
12 October 2010: Morning - DeFiNe Management Meeting
Afternoon - African Economic Outlook Expert Meeting (South-South Cooperation)

DOMESTIC RESOURCE MOBILISATION – PUBLIC FINANCE – PUBLIC EXPENDITURES – INFRASTRUCTURE

BACKGROUND

The OECD Global Forum on Development (GFD) is an annual event organised by the OECD Development Centre (DEV) and the OECD Development Co-operation Directorate (DCD), in collaboration with a relevant non development cluster Directorate. It is aimed to improve dialogue between the OECD and non-member governments, as well as a variety of private sector and civil society actors. The Forum is currently devoted to a critical analysis of public instruments for Domestic Resource Mobilisation (DRM) – public revenues and public spending.

The theme of Domestic Resource Mobilisation has gained importance in the aftermath of the recent economic crisis, when - as a result - both external resource flows (for example ODA, FDI, remittances) to and domestic revenues in the developing world have become threatened. Concerning the public finance dimension, a need to create more predictability in public revenue generation and to promote better management of public spending became apparent.

Moreover, the topic has been given momentum by a number of political initiatives that have put development finance on the international agenda - most importantly the G20 process which the OECD has helped shape and hopes to actively contribute to. In particular, the G20 Development Working Group has outlined seven pillars which will form a basis of a multi-year G20 Development Action Plan. Domestic Resource Mobilisation takes a central place in it.

Public Revenues – Taxation

Public revenue generation through better tax policy and administration enters in the Governance Pillar (VII) of the G20 Development Action Plan. The last GFD plenary¹, prepared in collaboration with the OECD Centre for Tax Policy and Administration (CTPA), focused precisely on public revenues and was entitled “The Taxation Challenge”. It discussed both the international actions to counter tax avoidance and evasion, and local and regional solutions to tax generation. Fiscal legitimacy, as well as poverty and inequality reduction, was debated in this context. With the surrounding events, the Forum led to the establishing of the OECD Task Force on Tax and Development. DeFiNe helped determine the content of the last Forum during a brainstorming session held in September 2009.

¹ It was held on 28th January 2010.

Public Expenditures – Infrastructure

DeFiNe is invited to help determine the content of the forthcoming Forum on Public Expenditures. The G20 Development Working Group has identified that gaps in infrastructure constitute a major obstacle to growth, while resilient growth is a necessary factor in achieving poverty reduction and closing development gaps. Infrastructure Pillar (I) of the G20 Development Action Plan offers a ground to explore how efficient and effective public spending on infrastructure could boost growth, achieve long lasting development and enhance the revenue raising potential in the developing world in the years to come².

In fact there is a vital link between public spending and revenue collection in the form of fiscal legitimacy in public policy, and the resulting social contract between the government and taxpayers. The transparency of government spending and better assessment of public expenditures are key to establishing this link, as taxpayers do care how their contributions are utilised. Distributional considerations are also central. Next to tax policy, public spending - including on infrastructure - may lead to fairer social outcomes, strengthening the state's fiscal legitimacy, the society's tax compliance and democratisation in general.

INFRASTRUCTURE

Public spending and investment in infrastructure is a key factor for long-term economic growth, as the future of any economy depends on the extent and efficiency of its transport network, the access to energy, the availability of advanced telecommunications, as well as the presence of adequate water, sanitation, health and education facilities.

In this meeting, we will dialogue and explore ways to improve the effectiveness of public expenditures on infrastructure (i) across sectors, (ii) through budgetary execution, and (iii) as a catalyst for private investment. We will aim to identify challenges and success stories, share regional experiences and discuss how the OECD could potentially contribute to and foster development in the areas of infrastructure spending.

The recent economic crisis has revealed that the internal capacity of financing may be higher in some developing countries than in the OECD, as some of the former weathered the global financial crisis well. Hence there might be grounds for the enhancement of public sector capacities in order to:

- optimally allocate government budget, by improving public policy and investment choices;
- deal with private investors and set up functioning and mutually beneficial project finance schemes.

² In the new Programme of Work (2011-12), the Development Centre will study various aspects of infrastructure financing both at the regional level (through the African Economic Outlook 2011 and 2012, the Latin American Economic Outlook 2011, the South-east Asian Economic Outlook 2010, 2011 and 2012) and globally (the Perspectives on Global Development 2012). Human Resource Development Pillar (II) of the G20 Development Action Plan, on the other hand, offers a space to explore public spending on education. Education was studied by the Latin Economic Outlook 2010, and will be taken up again in 2012. The Perspectives on Global Development 2011 will more broadly discuss Social Cohesion in the developing world.

In the longer run, these actions would:

- reinforce the social contract between tax payers and governments;
- increase private investment in the developing world, bringing positive spillovers to a number of sectors.

Why public spending and investment in infrastructure?

Domestic public investment plays an essential role in infrastructure financing when local conditions, such as **demand and supply constraints or high risk perception**, prevent the country from accessing private and foreign sources of financing, despite a fundamentally favourable investment framework.

Public investment is needed in the absence of private flows to support **high-cost but low-return infrastructure**, as a means to achieving economic growth through market integration and enhanced service delivery.

There might be cases of **market failure**, whereby the allocation of infrastructure goods and services by the market is not efficient, justifying government intervention. Public policy can then address and correct the causes of market failure, by providing necessary incentives for private investment. In some cases, however, public investment might remain the only alternative to deliver infrastructure services.

Public service delivery fosters **fiscal legitimacy**. The ultimate goal of fiscal revenue is to provide the society with basic facilities, security, education and health. How taxes are spent promotes the accountability of government to tax-paying citizens. Issues that merit attention are, for example, service coverage in urban versus rural areas or the distributional aspects of public expenditure.

Challenges in public spending on infrastructure

In this meeting we would like to focus on a systemic assessment of infrastructure policy processes as a whole, from planning through spending to delivery, and an overall coordination between the different steps of infrastructure projects. It would be worthwhile to draw lessons as to which are the most difficult steps or bottlenecks. We are particularly interested to zoom onto budget execution, which is a considerable problem in many developing countries, yet receives relatively little attention.

Among others, we would like to explore the following:

- Mechanisms to identify infrastructure needs and priorities (local and regional), linked to comparative advantages;
- Regulatory options, including enabling legislation and environment for creation of PPPs;
- Budget execution and public procurement processes;
- Monitoring schemes for implementation;
- Building incentives and sanctions in budget execution;

- Assessing policy impacts, such as incentives for service delivery by contractors;
- Utilising private capital more effectively to better leverage public capital, accounting for the legacy of the credit crunch;
- Assessing the role of multilateral development banks and other international organizations, and their lending conditions;
- Governance setting, including the relationship between central and local government, public and private authorities.

Brainstorming – further questions

In view of the abovementioned challenges, we invite the participants in the Assembly to freely brainstorm and consider the following dilemmas (the list is by no means exhaustive and is open to suggestions):

- Meeting specific infrastructure needs in landlocked countries, e.g. LDCs, as well as regional and cross-border infrastructure shortages;
- Should the economies raise the rate of public investment, even if this means a deterioration of public finances?
- International comparisons regarding the provision of infrastructure? How emerging countries/regions rank in this respect?
- What financial and regulatory elements are required for participation by new actors in the financing of infrastructure? Case studies across regions?
- What design for projects of public-private investment?
- Risk mitigation considerations, e.g. guarantees for investment, creation of regional banks and capital markets to improve efficiency, creation of the conditions that attract long-term investment;
- What role of pension and insurance funds as long horizon investors in local currency?
- What role for Sovereign Wealth Funds (SWF)?
- Recognising the prevalence of South-South cooperation and New Partners.

What role for the OECD, G20 and international co-operation?

Is there a tangible role that the international institutions, such as the OECD, could play in enhancing the quality of public spending on infrastructure in the developing world? Would the following be useful?

- Building a tool kit to help developing countries in the choice of public policies and in the allocation of public investment to services and infrastructure projects, promoting peer learning and supporting improvements in investment programs;
- Building on the OECD programmes for example in (i) regional policies (Public Governance and Territorial Development Directorate), (ii) health (Employment, Labour and Social Affairs Directorate), (iii) transport (Science, Technology and Industry Directorate), (iv) regional outlooks (the OECD Development Centre), (v) Latin American and Caribbean (LAC) Fiscal Initiative (pan-OECD); (vi) Tax Force on Tax and Development (pan-OECD);
- Using the existing and new networks, for example (i) LAC Fiscal Network, (ii) Africa Fiscal Network, to identify feasible policy options and investment priorities reflecting the comparative advantage, and the demands and needs of citizens;
- Extending the frameworks to standards adapted to developing countries for (i) performance-based budgeting, (ii) public procurement processes, (iii) regulating investments, including PPPs, (iv) monitoring implementation and assessing impacts, (v) building incentives/sanctions for expenditures, (vi) mobilisation of public and private savings, (vii) guarantees for investment and PPPs.

TENTATIVE PROGRAMME (* to be confirmed)

Background papers and presentations will become available via the site www.oecd.org/dev/define after the seminar.

Monday, 11 October 2010

Domestic Resource Mobilisation – Public Finance – Public Expenditures (Infrastructure)

8.30-9.00 Arrival and Registration

9.00-9.10 Welcome

Mario Pezzini, Director, OECD DEV (5 min)
Regis Avanthay, Head of Partnerships and Networks, OECD DEV (5 min)

MORNING: INFRASTRUCTURE FOR DEVELOPMENT

9.10-9.30 Setting the scene

Infrastructure patterns in emerging markets (DEV's Americas Team) (10 min)

Christian Daude and Angel Melguizo, OECD DEV

Infrastructure and regional integration (DEV's Southeast Asia Team) (10 min)

Kiichiro Fukasaku and Kensuke Tanaka, OECD DEV

9.30-11.00 Session 1: Infrastructure for competitiveness (transport, energy, communication) - *Slides*

Chair: Jeff Dayton-Johnson, OECD, Head of Americas, OECD DEV

Road infrastructure: An obstacle for economic growth in Colombia (10 min)

Mauricio Oliviera, Fedesarrollo, Colombia

Transmission and distribution of electricity in India - Regulation, investment and efficiency (10 min)

Yoginder Alagh, IRMA, India

ICT in Africa (10 min)

Ewan Sutherland, Telecommunications policy consultant, Brussels*

Floor Discussion

11.00-11.15 Coffee

11.15-12.45 Session 2: Infrastructure for social inclusion (water, sanitation, health, education) – Panel

Moderator: Henri Bernard Solignac-Lecomte, Head of EMEA, OECD DEV

Mustafizur Rahman and Debapriya Bhattacharya, CPD, Bangladesh

Abdellah Saaf, CERSS, Morocco

Fikret Toksöz, TESEV, Turkey

Lawrence Bategeka, EPRC, Uganda

Aziza Akhmouch, OECD GOV

Celine Kauffmann, OECD DAF

Floor Discussion

13.45-14.00 Lunch (Marshall Room, Chateau)

AFTERNOON: BUILDING PUBLIC SECTOR CAPACITY FOR INFRASTRUCTURE DEVELOPMENT

14.00-14.15 Setting the scene

Fiscal space and policy responses (5min)

José Fanelli, MERCUNET, Argentina

Public sector capacity and PPPs (5 min)

Ian Hawkesworth, OECD GOV

14.15-15.45 Session 3: Budgetary execution for infrastructure projects - Brainstorming

Chair: Johannes Jutting, Head of Poverty Reduction, OECD DEV

Public sector capacity and infrastructure projects (10 min)

Claire Charbit, OECD GOV

Budgetary execution for infrastructure projects (10 min)

Sara Fyson, OECD DCD and Laura Recuero-Vitro, OECD DEV

Building a tool kit for choosing public policies in LDCs in the allocation of public investment to services and infrastructure projects (10 min)

Lichia Saner-Yiu, CSEND, Switzerland

Floor Discussion

15.45-16.00 Coffee

16.00-17.45 Session 4: Enabling environment for private sector involvement in infrastructure development (PPP, SWF, public procurement, regulation) - slides

Chair: Helmut Reisen, Head of Research, OECD DEV

PPP in Argentina	(10 min)
Pablo Souto, CEF, Argentina	
Infrastructure financing challenge in Africa: A subnational perspective	(10 min)
François Yatta, LEDNA, Niger	
PPP in Sri Lanka – Challenges and opportunities	(10 min)
Saman Kelegama, IPS, Sri Lanka	
PPP in Thailand	(10min)
Somchai Jitsuchon, TDRI, Thailand	
Discussion	(10min)
Martin Grandes, UCA, Argentina	

Floor Discussion

17.45-18.00 Conclusions

Summarising the messages from the Day

Burcu Hacibedel, OECD DEV

Goodbye

Regis Avanthay and Anna Batyra, OECD DEV

Tuesday, 12 October

Morning - DeFiNe Management Meeting

8.30-9.00 Arrival and Registration

9.00-9.30 Part 1: Welcome and Introduction

9.30-10.30 Part 2: Towards two-way cooperation (Chaired by Regis Avanthay, OECD DEV)

9.35-9.50 Mustafizur Rahman and Deb Bhattacharya, CPD, Bangladesh – Dhaka Dialogue,
24-26 November

10.30-11.00 Coffee

11.00-12.30 Part 2: Network's governance (Chaired by Anna Batyra, OECD DEV)

Afternoon - African Economic Outlook Expert Meeting

12.30-14.00 Lunch

14.00-18.00 Africa's Emerging Economic Partnerships