Domestic resource mobilization. Infrastructure

Setting the scene: Infrastructure patterns in emerging markets

Christian Daude and Ángel Melguizo
Americas Desk
OECD Development Centre

Development Finance Network (DeFiNe)
Annual Meeting
Paris, 10-12 October 2010
Main messages

• **Infrastructures are key for potential growth, development and stabilization policies** (e.g. G20 agenda)
  Growth and inequality gaps Asia-Latin America explained by infrastructure gaps – less spending, lower quality (Calderón and Servén, 2004b)

• **Emerging economies: significant infrastructure gaps**
  • Latin America lags behind Asia and emerging Europe
  • Significant differences across infrastructure types (basic, transport, energy and telecommunications) and countries
  • Fundamentals-observed levels (Balmaseda, Daude, Melguizo and Taft, 2010)

• **Policy response**
  • Building better institutions (quality of bureaucracy, fiscal position)
  • Improving regulation (in particular around public-private financing)
Setting priorities: infrastructure levels

Income and population matter – but so do demographic (age profile), social (urbanization) and economic (sector mix) variables.

Source: Balmaseda et al. (2010)
Empirical model (Balmaseda et al., 2010)

**Explanatory variables**
- Per capita income (level and squared)
- Socio-demographics (urbanization, density)
- Productive structure (services and industry vs. agriculture)

**Predicted infrastructure patterns** (Km/area, KW pc, pc lines)

**Observed levels** (Km/area, KW pc, pc lines)

‘Degree of achievement’ (Observed levels/Patterns)

Predicted infrastructure patterns (for country $i$, in time $t$) can be compared to actual levels, to estimate gaps and identify priorities.
Asian and Lat. Am. challenges concentrated in Transport and Energy infrastructure. In LAC, even the regional leader is below predicted levels.
The situation in telecommunication and basic infrastructure is more balanced. Some good practices may stem from LAC.
Lower public debt ratios are correlated with lower infrastructure gaps

- Fiscal consolidation have been traditionally based on investment cuts (Calderón and Serven, 2004a, Martner and Tromben, 2005 for LAC)
- Public borrowing costs reflect (perceptions of) debt sustainability
Results (gaps and bureaucracy): Public administration

Better institutions (quality of bureaucracy) are correlated with lower infrastructure gaps

- Need to have domestic resources and management capacity
- Governance, control of corruption, adequate regulation

Source: Balmaseda et al. (2010)
Domestic resource mobilization. Infrastructure

Setting the scene: Infrastructure patterns in emerging markets

Christian Daude and Ángel Melguizo
Americas Desk
OECD Development Centre

www.oecd.org/dev/americas

Development Finance Network (DeFiNe)
Annual Meeting
Paris, 10-12 October 2010