

**IMMEDIATE  
ATTENTION**

EB/CW/DC/94/12

December 22, 1994

To: Members of the Committee of the Whole  
for the Development Committee

From: The Secretary

Subject: Development Committee - Draft Provisional Agenda, and Draft  
Outline of Issues Paper - Financing of Infrastructure in  
Developing Countries

Attached are a draft provisional agenda for the meeting of the Development Committee to be held on April 27, 1995 and a draft outline of the issues paper for the main agenda topic, "Financing of Infrastructure in Developing Countries," which has been prepared by the World Bank staff in consultation with the Fund staff.

As the agenda for the Spring 1995 meeting was set by the Development Committee at its meeting in Madrid, and as the topic of the paper is of particular interest to the Bank, it is not proposed to bring these documents to the Committee's agenda unless a member of the Committee so requests by the close of business on Tuesday, January 10, 1995. Ms. Puckahtikom (ext. 38780) is available to answer any questions about these documents.

Directors will wish to be aware that, in response to a request by the Development Committee to examine proposals that would address the "special needs and problems of the poorest, most indebted countries...", a joint paper by the Fund and Bank staff relating to multilateral debt is being prepared for Board discussion in early 1995. The Managing Director, jointly with the President of the World Bank, intends to report to members of the Development Committee on this subject at the April 1995 meeting.

Att: (2)

Other Distribution:  
Members of the Executive Board  
Development Committee Secretariat

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DRAFT  
December 15, 1994

NOTICE OF MEETING

The 50th meeting of the Development Committee will be held on Thursday, April 27, 1995, commencing at 9.00 a.m. in the Meeting Hall of the International Monetary Fund, Washington, DC.

PROVISIONAL AGENDA 1/

1. Financing of Infrastructure in Developing Countries 2/
2. Other Business

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1/ In addition to the issues paper shown below, there will be a report by the President of the World Bank to the Development Committee and a statement by the Managing Director of the IMF on the World Economic Situation and Economic Trends in Developing Countries.

2/ Issues paper, prepared by the World Bank in consultation with the Fund staff, as requested in the October 1994 Communique. See also [references to supplementary papers to be added when exact titles are known].



## DEVELOPMENT COMMITTEE - April 1995

### The Financing of Infrastructure in Developing Countries

Outline for a paper prepared by staff of the World Bank Group  
in consultation with staff of the Fund [12/08 draft]

#### 1. Infrastructure's linkages to development.

- a. Summary of infrastructure's role in the economy and its impacts on growth, poverty alleviation, and the environment. Size of sector, annual investment, and current mix and sources of private and public investment finance.
- c. Past infrastructure expansion is impressive, but many people remain unserved.
- d. Links to development hinge on the ability to sustain services that satisfy user demand.

#### 2. Improving Infrastructure's contribution to development.

- a. Infrastructure's contribution to development has been impeded by inefficient operation and inadequate maintenance, financial inefficiency, and unresponsiveness to users. Sub-sector performance is not closely related to income level.
- b. Improved performance can be achieved by applying commercial principles, increasing competition, and involving users.
- c. The scope for reform is widening because of new technology, growing experience with alternative forms of service provision, and new views of the role of the public and private sectors.
- d. Options for reform include: a commercialized/corporatized public sector; private operation with public ownership; or private operation and ownership. Greater private sector involvement produces greater efficiency gains. Approaches will vary by sub-sector and country conditions.
- e. Donors need to give more emphasis to improving performance relative to expanding facilities, reduce the level of fully and partially tied aid, and strengthen aid coordination.
- f. The payoff from improved efficiency, estimated to be \$55 billion per year from only four sub-sectors, will release resources to finance new investment.

#### 3. Price reform

- a. Infrastructure services are often subsidized from general revenues, creating a large drain on fiscal resources.
- b. Financial autonomy—on the basis of prices that cover the cost of efficient service—is needed to improve performance.
- c. The payoff from pricing reform, estimated to be \$123 billion per year from only three sub-sectors, can reduce the claim on public sector funds.
- d. Pricing reform will also increase end user efficiency, reduce waste, alleviate some environmental impacts, and help finance needed investment.

#### 4. Reform and the poor; social equity issues and subsidies

- a. Incidence of existing subsidies rarely favors the poor.
- b. Because subsidies/transfers limit investment and service expansion, they undermine operators' incentives to serve users.
- c. Evidence of the poor's willingness to pay for alternative services.
- d. Some types of subsidies are often justified on equity grounds or to reflect externalities; features of well-designed subsidy policies/targeted services.

#### 5. Private financing

- a. **Benefits of private infrastructure finance.**  
 Private financing can provide needed additional capital, lock-in commercial incentives, improve construction and operating efficiency, widen risk-sharing, and introduce innovative service provision.  
*Privatization can stimulate domestic capital market development and improve access to international capital markets.*
- b. **Trends in private domestic and international infrastructure finance.**  
 Current magnitudes, patterns, and growth of private infrastructure finance.  
*Current magnitude of privatization of infrastructure enterprises.*  
 Private finance is concentrated in a few countries, but its use is spreading; limits faced by non-creditworthy countries.  
 Constraints on foreign finance; need for domestic private finance.
- c. **Private capital mobilization**  
 Nonrecourse and limited recourse financing.  
 Corporate and balance sheet financing--the link back to price reform.  
 Need for appropriate risk sharing.  
 Ways of mobilizing capital: e.g., syndications, infrastructure investment funds, provisions to attract institutional investors, need to avoid inappropriate incentives.

#### 6. The role of the public sector

- a. **Creating an enabling environment for the private sector:**  
*Macroeconomic stability.*  
 Adequate framework for business practices.  
 Choice of market structure, pursuit of competitive solutions, and economic regulation when competition is weak.  
 Environmental regulation.
- b. **Facilitating the growth of private infrastructure finance; need for caution with government guarantees.**
- c. **Continued public role in financing will vary by sector and by country access to private funds; cross-reference social equity issues in (4) above.**
- d. **Decentralization—applicability varies by sector and activity.**

## 7. Role for the Bank Group and Fund

- a. Roles of the Bank Group and the Fund in fashioning a suitable policy framework.
  - Economic stability is important for long gestation projects.
  - Maintenance is critical, even during adjustment, although new investment may be reduced.
  - Sound structural policies (exchange and trade, financial systems, factor and goods markets) are important in establishing an enabling environment.
- b. Bank Group objectives and instruments.
  - Bank Group members have common overall objectives in infrastructure, but utilize different yet complementary instruments.
  - Bank/IDA: For sub-sectors where commercial provision is most straight forward (e.g., telecommunications, power), Bank/IDA lending will facilitate the transition to greater private sector provision, increased competition, and a reduced government role in management and ownership, with appropriate regulation.
  - For other sub-sectors, Bank/IDA lending will support sector reform involving the application of commercial principles (including tariff reform), broadened competition where feasible and appropriate, and the involvement of users.
  - Brief description of purposes and conditions for expanded guarantee program.
  - IFC: Support private finance through individual transactions, participate in mobilization funds, mobilize new sources of capital, advise on privatization, develop local capital markets, FIAS technical assistance.
  - MIGA: Description of guarantee programs (mainly of equity investments).

Suggested Annex: Executive Summary of the World Development Report 1994.

