

**REGIONAL PUBLIC GOODS**  
**Promoting Regional Solutions for Regional Problems**

**Conceptual Framework of the RPG Program**

**An Abstract**

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## Introduction

On March 22, 2004, the Bank's Board of Executive Directors approved the Regional Public Goods (RPG) Program. Under the Program, non-reimbursable resources of up to \$10 million per year are available to finance projects that support the development of RPGs in Latin America and the Caribbean.

The premise behind the Bank's support for RPGs is that many opportunities or problems shared by countries in the region can be dealt with more effectively at a regional level through international cooperation in the production of public goods. The production of RPGs, however, is often unrealized because of the difficulty in obtaining financial and institutional support for a regional effort. Countries are concerned about the possibility of "free-riders"<sup>1</sup>, i.e. a situation, in which they may be subsidizing countries that benefit from the RPG but do not share in the cost of producing the good. This concern requires the intervention of a regional organization to foster dialogue and collective action among countries, and to fund the early stages necessary for the production of an RPG.

The Bank is uniquely positioned to contribute to the conditions for the emergence of regional public goods. The unique role of the Bank derives from the relationships nurtured over a forty-year history, resulting in trust between the Bank and borrowing countries, as well as from extensive experience in supporting regional cooperation activities. These and other assets allow the Bank to promote the processes and to support the institutions required for the production of regional public goods.

## Definition of "Regional Public Good"

Under the Program, an RPG is any good, commodity, service, system of rules or policy regime that is public in nature and that generates shared benefits for the participating countries and whose production is a result of **collective action** by the participating countries.

## The importance of collective action

The program requires that countries (a minimum of three) produce the RPG collectively. In order to establish if an RPG will be or is being produced collectively, it is important to identify the nature of the issue and the form of production of the RPG.

- a) *Nature of the problem or opportunity.*
  - Transnational issues: These are issues that produce cross-border spillovers and therefore have a very direct impact on the national policy-making process of the countries involved. Examples could be the contamination of a river that flows through a group of countries; the transmission of communicable diseases; the contagion of a financial crisis; or missed trade opportunities.

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<sup>1</sup> Expression commonly used to describe individuals who enjoy the benefits of a public good without paying for it.

- Sum of national common problems or opportunities: These are issues that are experienced similarly and simultaneously in a series of countries, but that *per se* do not prompt cross-border spillovers and therefore have no neighborhood effects. In these cases, it is the RPG itself that gives rise to desirable cross-border externalities and incentives for collective action. In other words, **countries cooperate to obtain benefits that they cannot achieve individually or to reach the benefits in a more efficient way**. Countries may face challenges in areas that are of national nature and competence (such as scientific research or education) that could be carried out more efficiently through cooperation, by for example, sharing and jointly producing information or pooling limited human and financial resources.
- b) *Forms of producing an RPG*. RPG may be produced in different ways with varying degrees of cooperation.
- **Weakest link**: Under this form of production, the public good can only be produced, if every country contributes. Moreover, the RPG will only be produced to the extent that the country with the least resources and weakest institutional capacity contributes. An example of a “weakest link” RPG is the eradication or control of a contagious (human or animal) disease. In the case of “weakest link” RPGs, collective action is indispensable to produce the good. It is the form of supply that complies most forcefully with the Program’s concept of collective action.
  - **Summation**: In the case of summation RPGs, participating countries’ contributions are added up to yield greater benefits to every one of them. RPGs in the education area usually are produced by means of *summation* (so are all of the Program’s education projects) or “*best shot*” (not eligible under the RPG Program - see below). An example for a summation RPG in education is the Program’s project on interconnection of education portals in Latin America: the more quality information is uploaded into the regional network, the more countries are poised to benefit.
  - “**Best shot**”: a country with the capacity and sufficient national incentives produces a public good and provides it unilaterally to other countries. Most “best shot” RPGs concern the creation and transfer of knowledge by one country. These goods are not eligible under the Program as there is no collective action among the participating countries.<sup>2</sup>

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<sup>2</sup> The IDB has another instrument to promote these goods: the Regional Technical Cooperation Program. Although its resources are scarce, the RTC Program provides grants to support the dissemination of “best shot” public goods from one country to others in the region.

### **The Bank's role in promoting RPGs**

Under the Program, financing should target the initial stage of the processes for generating regional public goods in the Bank's borrowing member countries. What is meant by "initial stage"?

The role of the Bank in the promotion of RPGs is to correct disincentives that prevent the RPG from emerging or progressing toward the stage of production, principally:

- a) *Lack of coordination*: Frequently, RPGs may not materialize because coordination requires initiative and leadership; often no country wants to step forward and spear-head multi-country negotiations, particularly if there is no institutional framework that facilitates a dialogue on regional issues.
- b) *Adversity to risk*: If objectives, benefits and cost implications of regional cooperation are not clear, countries usually do not feel compelled to risk investment in human and financial resources.
- c) *Free-rider syndrome*: The supply of a good that will not only benefit the provider country but also others, entails the possibility that any one country may prefer to wait for the other to produce the good and free-ride on those efforts.

Given these disincentives, the Bank is willing to help the countries move the RPG beyond the obstacles that have prevented cooperation, up to point where benefits materialize (or at least become evident) and the process gains momentum.